

Ryanair

Environment, Air



Assessment of Ryan's launch strategy One possible reason why Ryan chose to enter the Dublin-London route is because the route was reputed to be quite lucrative for both Air Lingua and BAA. It is easy to see why this route is lucrative because the least expensive fare for both carriers were priced at £100 but operating expenses per passenger was only £55.1. Ryan's publicized fare of only £100 will help it to attract more passengers than both carriers given that it cost only half the fare of both carriers and there is low switching costs for passengers to switch from both carriers to Ryan.

However, this does not mean that Ryan will be able to earn above-average returns because Ryan only charges £100 per passenger yet average operating cost per passenger is £55.1 so the operating costs far exceeds her revenue. It is possible that Ryan is able to price so low because she enjoys a much lower operating cost given her competitive advantage compared to her rivals. However, exhibit 4 shows that aircraft operating leases is only a mere £4.4 per passenger so Ryan's competitive advantage of leasing aircraft at low cost does not give her a significant cost advantage over her rivals.

For Ryan to make above-average returns, she has to significantly reduce expenses for fuel and staff but oil prices is beyond her control as it is controlled by OPEC. While it is possible that Ryan has a much lower staff expense compared to her rivals given that she only has one airplane servicing the new route, exhibit 3 shows that staff productivity for BAA has been rising steadily over the last 5 years from 1983 to 1985. As such, staff expense for BAA has been steadily decreasing so it is unlikely that Ryan enjoys such a cost advantage over BAA.

Summary of assessment Ryan's launch strategy is not profitable given that her revenue will not be able to cover her operating costs. Moreover, her competitive advantage of leasing aircraft at low cost does not give her a cost advantage over her rivals because aircraft operating leases is not a significant component of total operating costs and it is likely that her rivals also enjoy the same advantage given that they are national carriers so they are able to exert influence over the suppliers to reduce cost.

Since it is likely that Ryan will make below-average returns or at best average returns, I do not recommend that Ryan should enter this market. AAA)

Assessment of the Dublin-London route The Dublin-London route was reputed to be quite lucrative for Aer Lingus. However, switching costs for passengers is low because they can easily switch airlines for the lowest cost airline. If Aer Lingus do not respond to Ryan's launch strategy, they would lose tenet market share AT ten Dull-London route Decrease passengers will switch to Ryan and this is one of the few routes that is still profitable for Aer Lingus compared to its trans-Atlantic route. Aer Lingus's Response Flights of Aer Lingus on the Dublin-London route were estimated to be 60-70% full. This means there is unused capacity on their flights. Moreover, the existing flights have already incurred sunk costs such as aircraft operating leases, fuel and oil and other costs. If Aer Lingus were to match Ryan's price, they can fill up the unused capacity without substantially increasing the sunk cost. Therefore, Aer Lingus should match Ryan's price to protect their market share of the Dublin-London route and also because they do not incur significant additional costs in doing so. B) Bag's competitive advantage BAA

is a market leader in the airline industry. It operates one of the world's most extensive airline route networks and no airline carried more international passengers. In addition, it provides its own passenger and ground services in the United Kingdom and it performs most of its own maintenance at Heathrow so it has significant control over its operating costs. BAA's response Since BAA has large control over its operating cost compared to Ryan's competitive advantage of leasing aircraft at low price, it is likely that BAA enjoys lower operating costs than Ryan.

Moreover, if BAA were to match Ryan's price and suffer losses since average cost per passenger of £100 far exceeds the fare of £50, it would still be able to sustain the losses longer than Ryan because the Dublin-London route is only one out of the 145 destinations that it serves. BAA could match Ryan's price until Ryan closes because it cannot sustain anymore losses before increasing its fare again to restore profitability to the Dublin-London route.

Moreover, similar to Air Lingua, BAA has unused capacity on its Dublin-London flights and it has already incurred sunk costs, such as maintenance and leasing, when operating these flights. By matching Ryan's price, BAA is able to fill up the unused capacity without substantially increasing its sunk costs. Therefore, BAA should match Ryan's price because it can outlast Ryan if it were to suffer losses on the Dublin-London route given its far greater financial strength and it also does not incur any significant additional costs in doing so.