

# [Ryanair airline](https://assignbuster.com/ryanair-airline/)

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### 1. INTRODUCTION

Ryanair is an Irish airline competing in European low cost short haul airline industry. They are one of the key players within this market with the jersey of cost leadership and a vision of flying at the cheapest rates to any of their destination. ‘ if you find it cheaper elsewhere, we will give you a refund’-Micheal O’Leary, They are perhaps the most profitable.

This report undertakes a detailed strategic analysis of Ryanair against the backdrop of an evolving global airline sector impacted considerably by the financial and economic markets’ crisis. It looks at Ryanair’s current strategy and who and how of the management of that strategy. It identifies how the business functions impacts on the carrier’s customer relations and leaderships with regard to being a cost leader.

It also attempts to give a brief evaluation of Ryanair’s financial structure as well as an environmental analysis of the European airline short haul industry and how this affects Ryanair.

### 2. STRATEGIC POSITION.

This is shown using tools like:

* PESTLE analysis for the macroenvorit,
* Porter’s five forces for the industry structure
* Resources and capabilities. Opportunities and threats of the SWOT analysis developed by Albert Humphrey for the analysis of Ryanair’s external factors

### 2. 1PESTLE Analysis

Quite a number of these factors can be discussed but has been written in this paper in an order of priority.

|  |  |
| --- | --- |
| PESTLE Factors  | Comments  |
| Political  | EU directives prohibit direct subsidies by governments to their airlines as they work to establish a level-playing field among the region’s airlines (Charalambous, 2009). This approach was driven by political developments, as various countries were willing to have a level-playing field across the European Union, not only in the airline sector but also in other various and relevant sectors in their countries.  |
| Economic  | The global airline sector is currently experiencing downfall in passenger travel and have seen falling revenues and also compounded by passengers making bookings at the last minutes for their travel and falling ticket values (Walters, 2009). For the consumer, the economic downturn has impacted the spending of individuals and families, and this has reflected in the lower airline travel being done by consumers (Blake, 2009).  |
| Socio-cultural  | Consumers attitudes towards travel has changed largely in recent times as the high cost of travel compared to other modes of transportation has made consumers more observant and aware not only of other transport alternatives but results in consumers demanding lower cost of travel from airlines. (Flanagan, 2008). This trend was aggravated by the financial and economic downturn which has made consumers manage their finances more closely given the uncertainties that the environment holds. Consumers will be expected to continue to pursue this trend as poorer economic outlook continues in the near future. But, a significant improvement in the confidence in the markets will lead consumers back to utilising airline travel again.  |
| Technological  | There have been technological developments in the airlines sector particularly those relating to improved fuel efficiencies of airlines (Harvey, 2008). In as much as they may be considerably costly at the time of investing or replacing, they are expected to generate substantial cost improvements that would be worth it These improvements, though beneficial would not be considered priorities in the current environment where considerable numbers of airlines are struggling to meet their passenger forecasts and revenue targets, and are posting large losses in their financial results.  |
| Legal  | The directives mentioned in the political factor will be implemented in this factor in specific countries across the European Union to ensure that it is strictly adhered to by each of the members  |
| Environmental  | These issues have been a key focus for the global airline sector in recent years as there has been increased demand for airlines to do their share in lowering the impact of the use of airplanes on the environment and the carbon footprint (Harvey, 2008). Ryanair has been one of the targeted airlines basically because of the large number of flights that it makes every day. This is due to their business model which calls for having their planes in the air for most of the time. This can be in contrast to the goals of environmental awareness for Ryanair to minimise the impact of the carbon footprint on the environment. In as much as environmental issues are important in the airline sector, this may take a back seat as other stakeholders will focus on more pressing issues including the viability of the airlines.  |

This analysis showed that there are a number of developments impacting the airline industry globally and also some others affecting the European airline industry specifically.

### 2. 2INDUSTRY STRUCTURE

The Michael Porter’s Five Forces of competition will be used to analyse the European short haul airline industry. This analysis shows as well the changing influences in the sector with the key developments leading to actions for each factor that were deemed unthinkable only a few months ago.

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| --- | --- |
| Five Forces  | Comments  |
| Entry Barriers  | The major barriers to entry include the large capital and relationships across the global airline sector to develop the network plan (Ionides, 2008). I could argue that the entry barriers actually just became even stronger with the poor performance of the sector due to the economic climate and the challenging periods that the players in the sector are facing.  |
|  |  |
| Buyer Power  | The key buyers are the individual consumers and also the travel agencies. Across these groups of buyers, the power would seem to have increased relative to previous situations. The key reason for this is the decreased demand from these groups of buyers (McCartney, 2009A; McCartney, 2009B). Based on this, the buyer power has increased, as much lower prices will be in demand versus previous years.  |
| Supplier Power  | Supplier power has decreased relative to the influence of the other factors. For example, airlines have been willing to reduce the work force considerably as a result of the falling passenger figures. Nevertheless, research has shown that the airlines which work closely with its workers (e. g. Lufthansa) perform better versus its competitors which have a relatively adversarial approach to the management of its work force (e. g. British Airways) and thus have an advantage (Creedy, 2009A). It is interesting to that in this time of hardship for various stakeholders in the global airline sector, it seems that different parties are working closely with each other for the sake of survival  |
| Threat of Substitutes  | There is an increased threat of substitutes. These come from (1) alternative modes of transportation, and (2) alternative activities resulting in lower airline travel. The alternative modes of transportation can only affect destinations where alternative modes of transportation exist and also where it does not become too stressful or inconvenient for the traveller e. g, between the UK and continental Europe. Across these region, alternatives modes of transportation exist, and travel time is not too excessive to make it unacceptable (Anselmo, 2008A). The alternative activities that result in lower demand for airline travel include people and families deciding to travel to destinations that do not require air travel. In the UK, a large number of families have opted to stay within the UK instead of travelling to continental Europe for holidays and weekends (Dick, 2009).  |
| Industry Rivalry  | The industry is expected to continue to see increased rivalry as the competitors try to capture the increasingly limited number of passengers. (Betts, 2008). Rivalry is driven by the decreased demand for travel which led some airlines to lower prices and now compete almost directly with the low-cost carriers such as Ryanair.  |

The competitive position is seen to be high and will continue to do so as the players have put in their investments for the planes and infrastructure and would not manage these differently in order to drive returns.

### 2. 3 Value networks and business partners

As for the value chain of Ryanair, their relationships with suppliers provide it with the merit to deliver its low-cost strategy. Key suppliers include amongst others:

* its work force delivering the services to its customers: working intentionally within the guidelines of Ryanair to deliver its low-cost model to the consumers.
* the airports in which Ryanair operates in: the government airports work closely with Ryanair in ensuring an agreement that benefits both Ryanair and also the local community where Ryanair lands in.
* the supplier of its airplanes and other equipment : the supplier of its airplanes and equipment work with Ryanair to customise their fleet for Ryanair to provide their basic low-cost service model to travellers.

### 3. RESOURCES AND CAPABILITIES

### 3. 1Strategic capabilities

Their major capability is their ability to manage their

### low-cost business model

and continue to operate within the parameters set by this model (Wallace, 2009).. Within the context of decreased demand for travel by consumers, its low-cost model has positioned the business extremely well. Ryanair has an advantage over other airlines which are only now adapting to a lower-cost model to match the requirements of the sector due to customers demand and what they are willing to pay for.

As part of the low-cost business model, Ryanair relies on a strong, talented and efficient work force that delivers the services promised to customers within the cost model of Ryanair. This is an area that cannot allow for copying the low-cost model of Ryanair, particularly as personnel cost is significant in the airline sector together with fuel cost.

### 3. 2 Key success factors

The critical success factors for Ryanair have been their:

* ability to deliver their low-cost business model,
* capability to work with and coordinate closely with their suppliers through their talented work force
* ability to remain consistent to their stated business model and strategy.
* external recognitions

In delivering this model, Ryanair maintained their approach even in the face of rising fuel costs (Ryanair, 2009). The recent year has shown how Ryanair manages their business with their consumers. They manage their cost base well amidst looking for alternative revenue sources to be able to generate additional revenues to offset increased costs from the impact of the oil prices.

In working with their suppliers, Ryanair showed that the way to excel in the sector is to ensure that suppliers are also reaping the benefits of doing business with Ryanair (Wallace, 2009). There is a two-way relationship.

Whether the current environment remains or the outlook becomes more favourable, Ryanair is positioned to capture the large part of the consumer demand for air travel to their destinations

The success of Ryanair can also be seen from external recognitions. In December 2008, Ryanair was included in the list of Britain’s Most Admired Companies (BMAC), the first time it had been included in the list (Management Today, 2008). Over the past years, Ryanair’s CEO, Michael O’Leary, has been included in the list of the 30 Most Respected CEOs of Barron’s, a global list of CEOs noted for “ doing outstanding jobs of keeping their companies out of trouble and on course through conservative financial management, a strong focus on the customer and relentless innovation” (Barron’s, 2009).

### 4. IMPLICATIONS OF STRATEGIC POSITIONING

Dennis Foster (2006) stated in his lecture on Managing Strategic Change thatchange is a ‘ people based process’. This means that both staff and customers will have implications on Ryanair’s strategic positioning and any changes they make to it. As supported in the leadership section of the report there is a good workingatmosphere and relationship between O’Leary and his employees.

Cavendish (2006) argues that ‘ Ryanair’s revenues last year apparently included almost two million flights that were booked by passengers who never showed up’. While this is good for Ryanair from a financial point of view, it does not reflect good will on them from a customer relations aspect and could affect their position and strategy. Ryanair’s recent trouble profit wise certainly would have had implications ontheir strategic positioning as they would have had to re-evaluate their strategy.

The following table indicates the themes across the relevant strength and weaknesses derived from their core competencies factors in looking out for Ryan airs resources and capabilities

|  |  |
| --- | --- |
| SWOT Factors  | Comments  |
| Strengths  | Ryanair’s business model is their major strength. In the current environment where travellers are searching for the lowest cost alternative to travel, Ryanair continues to provide customers with airline travel as an alternative that is worth considering (Moorcroft, 2009). Quite unusually, the current economic crisis has also helped Ryanair increase their market share in the sector as customers have moved to lower-cost airlines to manage their various costs of travel and this has helped fuel the continued growth of Ryanair despite the crisis, and has also helped position Ryanair to continue to see strategic growth initiatives in the sector (Brothers, 2008; Creedy, 2009B). Ryanair has developed strong relationships with various stakeholders. They are aware of the importance of working with their stakeholders to deliver the necessary services to consumers (McDonald, 2007). This is a key strength of Ryanair.  |
| Weaknesses  | Ryanair is largely a European airline even though it has the largest number of flights internationally among the world’s global airlines (Done, 2009). Thus, its revenues are undiversified in terms of regions, and thus any impact on the European airline market has a significant impact on the performance considerably and much more relative to other airlines which have geographically diverse revenue sources.  |

The above strength and weaknesses showed that there are a considerable number of opportunities available for Ryanair. However; this would have to be carefully looked into given the significance of existing threats in the sector.

### 5. STRATEGIC CHOICE

In an industry where news of poor performances has been seen largely on the front page of newspapers since the start of the financial and economic markets’ crisis, the performance of Ryanair has been a tremendous positive news to the industry as it has faced the challenges brought on by the crisis. Ryanair continues to benefit from the crisis as the consumers switch to lower cost travel alternatives (Milmo, 2008).

However, the lower revenues generated and the falling number of passengers has still impacted the business as Ryanair announced losses for the first time since 1997, and expect that there may be further challenges in the near future (Bhargava, 2008). In a recent announcement of results, “ Ryanair, Europe’s largest low fare airlines today, announced a Q3 loss of EUR102m, (compared to a profit of EUR35m in last year’s Q3), as average fares fell by 9% to EUR34, fuel costs rose by 71% to EUR328m, revenues rose by 6% to EUR604. 5m, as traffic grew 13% to 14m, as more consumers switch to Ryanair’s low fares from high fare competitors” (RNS, 2009).

Ryanair’s strong position in the industry has allowed it to pursue inorganic activities despite the financial and economic markets’ crisis and even in the face of a challenging environment for the airline industry. While most of the players in this sector will likely pursue the lowering of costs to managing its operations, Ryanair continues to surprise analysts and investors alike.

Ryanair continues to pursue its interest in Aer Lingus. A key reason for the interest of Ryanair in Aer Lingus is that it owns a substantial part(29%) of the airline and is concerned about the poor performance of the airline and the impact it has on the value of Ryanair’s shareholdings (Hancock, 2008).

In as much as these opportunities exist for Ryanair. The global airline industry is currently facing a large number of threats that may be hindrances to achieving these opportunities. Some of which are the fluctuating US$ exchange rate and the fuel prices. These threats have prevented airlines from realising a stable stream of earnings in recent periods with a considerable amount of time being spent on management, with some pursuing to hedge, the changing value of the US$ and also the volatile oil and fuel prices (Anselmo, 2008B). Another threat is the continued recession seen in the major economies which is still playing an impact on the reduced travel of airline passengers with substitutes for air travel seeing increased volumes.

### 6. STRATEGIC DECISION AND RECOMMENDED STRATEGY

Goingforward, Ryanair can continue to be positioned as a niche cost leader in the global airline sector by pursuing the opportunities that currently exist and also addressing the weaknesses that exist within the firm. By so doing, Ryanair will be able to capture the demand from consumers of low-cost travel and also position it to weather any further difficulties in the market that may be limited only to specific regions in which Ryanair operates in. For low-cost carriers in particular, a key threat is the potential move of full-service airlines into the business model of carriers such as Ryanair and easy Jet given the demand of passengers for lower-cost travel (Furlonger, 2009). This will only increase the competition in the sector overall and, in particular, in the low-cost segment of the market.

Ryanair’s Innovativeness has ensured its sustainability and will carry

them forward into the future.

To recommend any major changes would be to predict how the airline industry will change which ultimately cannot be foreseen. However, the following decisions can be considered

* the advent of new routes will bring more customers, from both departure points.
* a subtle shift in their strategy could be appropriate. For example offering drinks vouchers onboard for the customer’s next flight might entice more people back

### CRITICAL REFLECTION

If there is anything i gained on this course. It is the fact that it not clear cut, but contains a number of complementary and opposing schools of thought. In the paper above, i will like to reflect particularly on the limitation of most of the theories i learnt.

Although, they are seen as the bedrock of strategic planning. Not much emphasis is laid on the leadership, culture, power and politics in the process of strategy formulation in developing and evaluating organizational strategies. As seen in the strategic audit of Ryanair using at least 6models of strategic theories and i can count how many times the power and politics were mentioned in as much as Michael O’Leary was mentioned. The emphasis in strategic planning models is more on the environment , profits and losses , customers, competitors and growth.

Even though SP involves all business functions in an organisation, i can say that it is done from the top. As a matter of fact, most decisions made are from the top. I wonder why there is then little emphasis on the power and politics within Ryanair.

Should the present CEO be replaced, what will the future hold for this company. This will happen eventually as retirement will come some day. I wonder what the power play is like in this organisation. I know the destinations that the carrier flies to, I know the strengths and weaknesses, i also have a clear idea of its competitors, customers, and suppliers. But there was no model allowing me to spend time looking into politics in Ryanair, What if the strategic recommendations i made will be affected by politics within the organisation, maybe based on the personal interest of key members on the board of ryanair.

The present CEO wasn’t even looked into with such details but for his fame in the face of the media, maybe there was nothing that focuses on him.

In the nearest future, businesses will be all about people and there will be great pressure on models like PESTLE, SWOT, and the likes. The 7s’ framework by Mckinsey could be an alternative or better still a key tool at that time because it focuses on the people and their processes. A critical insight into people in an organisation will give room for the study of the politics and power play within a well structured organisation.