

# Ryanair airline

[Environment](#), [Air](#)



## **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.

<b>PESTLE Factors</b>	<b>Comments</b>
Political	<p>EU directives prohibit direct subsidies by government s to their airlines as they work to establish a level-playing field among the region's airlines (Charalambous, 2009). This approach was driven</p>

by political  
developmen  
ts, 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

experiencin

g downfall

in

passenger

travel and

have seen

falling

revenues

and also

compounde

d 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  
transportati  
on 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.

The  
directives  
mentioned  
in the  
political  
factor will  
be  
implemente

Legal

d in this  
factor in  
specific  
countries  
across the  
European  
Union to  
ensure that  
it is strictly  
adhered to  
by each of  
the  
members

Environme These

ntal 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 environment

al  
awareness  
for Ryanair  
to minimise  
the impact  
of the  
carbon  
footprint on  
the  
environment

.

In as much  
as  
environment  
al issues are  
important in  
the airline  
sector, this  
may take a  
back seat as  
other  
stakeholder  
s 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.

<b>Five Forces</b>	<b>Comments</b>
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 The key buyers  
Power 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 Supplier power

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 increased

Substitutes 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 The industry is

Rivalry 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**

#### **3.1 Strategic 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 that change 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 working atmosphere 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 on their 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 air's resources and capabilities

<b>SWOT Factors</b>	<b>Comments</b>
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Strengths	Ryanair's business model is their major strength. In the current environment where
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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.

Weaknes Ryanair is  
ses 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  
geographicall  
y 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**

Going forward, 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 is 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 6 models 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.