

# Competitive advantage of easyjet and ryanair

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



## Competitive advantage

The UK/European tourism and airline industries are expected to expand, mainly in response to the improvement in the global economy as well as the favorable oil prices that have seen operating costs fall (MarketLine, 2015b). In 2014, airlines in Europe generated \$185, 119. 3 million in revenues, representing a 2. 3% growth since 2013, and the revenues were expected to post a CAGR of 3. 5% between 2014 and 2018, reach an estimated \$212, 375. 2 million in revenues. Similarly, the United Nations World Tourism Organization (2014) expects that international tourism expanded by 3-4% in 2015, with Europe posting a nearly similar, if not a higher growth. The reduction in oil prices, and the expectation that the prices will remain low should cut the cost of travel and bolster the passenger volume, which should in turn have a positive impact on the financial performance of both EasyJet and Ryanair. The expansion in airline passenger numbers is already evident. In the UK, which is one of the largest markets for both EasyJet and Ryanair, the UK saw 228. 4 million flying passengers. Heathrow received 72. 3 million travellers, while Gatwick and London City Airports received more than 35. 4 million and 3. 4 million travellers, respectively. Luton, Stansted, Edinburgh, Glasgow, Birmingham and Manchester Airports received 17. 8 million, 9. 8 million, 7. 4 million, 9. 4 million, and 20. 7 million travellers, respectively, while other UK airports saw 42. 8 million passengers go through them. The proposed project will see EasyJet expand its operations across other airports in the UK, to capitalize on the increasing potential for the air travel and tourism industry in the country (BDO, 2014).

EasyJet and Ryanair are two of the leading players in this industry, and thus the positive outlook for the industry should translate into faster growth, increased profitability, and potentially better solvency. While EasyJet appears to struggle relative to Ryanair, in terms of liquidity and profitability, the performance for both these companies is acceptably good, and they should use it to achieve even better results. EasyJet's low debt relative to Ryanair for instance, means that it has opportunities to increase its debt, to invest in revenue-generating assets, and thus better capitalize on the emergent opportunities in the industry. Many airlines in Europe are hampered by the lack of geographical diversification, and while EasyJet is easily one of the most diversified airlines in terms of destinations, possible borrowing to add on the existing routes (by acquiring or leasing more aircraft) should enhance its competitiveness in the face of the expected expansion of the industry. It is clear that EasyJet already recognizes advantage. In 2015, for instance, the company launched three more routes from the UK to Greece, Croatia and Italy, besides the earlier forays into Tunisia, Gibraltar, Bristol and Newcastle. Ryanair has also been increasing its routes, but it has been markedly less aggressive (MarketLine, 2015a; MarketLine, 2015b).

However, there are even more urgent issues that could be addressed by EasyJet as well as Ryanair to bolster their competitiveness. Unfortunately, EasyJet's relatively poor liquidity and profitability ratios may haunt it. The airline industry struggles with mounting costs due to regulations and airport fees, and for low cost carriers, the focus on passenger volumes means that they incur more costs compared to premium carriers. EasyJet, for instance, operates up to three times the routes than Ryanair, despite them having

almost the same fleet and full time employee size. Currently, the UK imposes a tax of 13 per passenger and similar taxes exist in nearly all the major markets, besides increasing airport access fees and aircraft storage charges. The higher costs would mean that increased volume of operations comes at a higher cost, and EasyJet would suffer more of the two aircrafts (MarketLine, 2015b).

### Budgeting & budgeting techniques

While the two airlines may need to expand in order to take advantage of the growth in the industry, it is critical that they do not invest in too many assets and take on too much debt to achieve the same, because this could become burdensome when the industry takes a downturn, which is expected. In fact, the success of any airline across the world is dependent on their ability to deal with severe changes in demand, cost, and other adverse changes in the operational environment. This, in turn, means that they have to ensure high asset efficiency (e. g. fleet flexibility), keep a robust capital structure to invest, maintain sufficient liquidity to smooth out the shocks, and at the same time, keep shareholders happy by maintaining higher returns. This would be impossible to achieve without careful budgeting, and effective use of different budgeting techniques (Wheelen, Hunger, Wheelen, & Hoffman, 2013). In fact, the budgeting problem is not unique to these two companies. More than 50% of new business ventures in the UK fail within five years after their inception. The barriers to growth and causes of ultimate failure include stern competition, regulatory burdens, inadequate government support, high energy costs, burdensome taxation, inability to access funding from the

formal financial sector and/or capital markets, excessive red tape, high costs of running businesses, and perhaps most importantly, cash flow problems (Anderson, 2014).

Budgeting processes are an essential component of the managerial control systems, not least because it offers systems for planning, communication, authorization, motivation, performance measurement, decision-making, and coordination, which should in turn ensure that resources are utilized efficiently, and the venture is profitable (Anderson, 2014; Yip & Hult, 2011). Multiple tools and concepts for allocating resources have been developed, and while each of these techniques is imperfect, they are immensely helpful. The traditional budgeting technique that could be employed by EasyJet and Ryanair is incremental budgeting. By this technique, the firms current performance or the present periods accounting year is assumed to be the base, after which incremental costs are added to the new period of budgeting. According to Peterson & Fabozzi (2004), one of the most important hallmarks of this method is negotiation/compromise as against rational decision-making. The process is straightforward. It commences with the company deciding on what it should term as committed expenditure, followed by marginal adjustments to reflect expenditures that cannot be avoided (Northern Ireland Assembly, 2010). These are then aggregated to create a budget. Incremental budgeting is easily understandable, cheap, allows the companys management to focus on other strategic issues, and is particularly best suited for projects whose outputs are difficult to quantify, such as EasyJets new investments.

However, the backward-looking nature of incremental budgeting means that there is a low emphasis on future operational issues and needs. This method also constrains overall performance overview, is blind to operational slacks, and tends to be reactive (Keller, 2008).

Unlike the incremental approach, zero-based budgeting assumes that all costs have a zero base because no expenditures are brought forward to the current periods, which necessitates that everything included in the budget for every period must be justified. This is the purest form of operating budgets that assumes the firm is beginning afresh. EasyJet will have to consider all expenses and alternative ways of reducing costs, before deciding on the best option for the company. Further, performance measures will be set. This method is adaptive to the changing circumstances, actively draws on the input of the operational managers as against simply handing down a ready budget, and can result in a more efficient resource allocation.

However, this method results in considerable time wastages, requires that EasyJet's operational managers have the required financial skills to facilitate the budgeting process. Zero-based budget could be helpful for EasyJet's new expansion projects, but incremental budgeting may be more helpful in the implementation of sub-projects (Northern Ireland Assembly, 2010; Peterson & Fabozzi, 2004).

Other budgeting techniques that could be used by the company include flexed budgeting, priority-based budgeting, decision-conferencing, planning programming budgeting system, performance-based budgeting, participatory budgeting, and resource-restricted budgeting. Oftentimes,

EasyJet will be forced to make budgets in uncertain circumstances, in which case, it will have to use rolling budgets, contingency budgets, flexible budgets, and activity-based budgets, among others (Northern Ireland Assembly, 2010).

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