

Marketing evaluation of ryanair marketing essay

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



INTRODUCTION

As Michael O' Leary the Ryanair chief executive boasted about his airline becoming the biggest in Europe on Stansted Airport, there sat a bunch of agitated passengers frustrated by the delay of the Ryanair flight to Cork. One such agitated passenger approached the CEO and narrated his misery long and loud, claiming that Ryanair clearly was unsure when its passengers were to actually reach their destination. The famous CEO calmly inquired how often this gentleman visited his family in cork. The man replied every few months followed by which O' Leary continued to ask about how often he would visit them prior to Ryanair's inception. The man after a brief pause said once a year or maybe lesser. O' Leary then declared " this is what I have done for you and you are here complaining about a delay?" (Creaton, 2007)

Ryanair commonly known as the airline people love to hate, has revolutionized the world of air travel. It will carry you across Europe for as little as a penny but make you pay for the water you drink, the bag you carry or the wheelchair you have to use. Like O'Leary says, " if you cant find a cheap deal with Ryanair you're a moron". ' Doing a Ryanair' is clearly the new ' it' thing across Europe.

Ryanair was established in 1985. It came in at a time when the major regional routes where dominated by British Airways and Aer Lingus. The company at this time operated a lone route from Waterford airport to London Gatwick carrying over 5000 passengers (www.ryanair.com). The company

continued its expansion over the next three years with over 15 aircrafts and over 600, 000 passengers.

In the early 1990's in order to give the airline a new dimension, Ryanair adopted holistically the Southwest Airlines low cost approach under a new management. By the mid 90s, Ryanair became so popular that it eventually overtook British Airways and Aer Lingus as the largest passenger airline on the Dublin- London route(the biggest international scheduled route in Europe) (www. ryanair. com).

At the end of the 20th century, the company began intensive widespread expansion, starting up new European routes with even cheaper fares. The company also increased its fleet with the Boeing 737-800 series. The company now had about 5. 3 million passengers (www. ryanair. com)

Ryanair started the 21st century by establishing what it called “ Europe’s largest booking website”. It also expanded its continental bases to Frankfurt Hahn and Brussels Charleroi international airport.

Ryan air’s reputation grew as its passenger base increased. Its prices also found ways of remaining cheaper than competition. A fact, which coupled with the recent economic recession, sky rocketed its customer base.

Ryanair Passenger Growth in Millions

PASSENGER

GROWTH

YEAR

Source: www.fame.com

The graph above represents the passenger growth in the past 12 years, it clearly shows that Ryanair's strategies and low costs are attracting an increasing number of passengers every year. Currently Ryanair is the leading low cost airline in Europe. It has over 181 aircrafts and its passenger base is over 60 Million.

ORGANISATION ORIENTATION

An organization's orientation can be expressed as the mode of operations it follows and what the business focuses on. Businesses operate in a certain way because of the outputs or profits they expect to realize. According to Adcock, (2001) organizations adapt various stages of orientation in the marketing environment based upon what they find is necessary to achieving their stated objective.

Market orientation can be described as ways and means of achieving improved performance in business by continuously assessing customer needs and demands and therefore carrying out activities associated with satisfying these needs and demands.

The entire principal of market orientation can be summed in " how close to the customer should a company aim to be?"(Baines et all 2008)

An organization may concentrate on product orientation, production orientation or sales orientation it may also combine two or three concepts in order to achieve its goals.

Product Orientation:

Organizations with the product orientation believe that the interest of the customer is in the quality of a product and that of a higher quality. Such companies also believe that their products are superior to that of their competitors and this therefore will attract customers. Hence product oriented company's focus on the product and not the customer's needs.

Sales Orientation:

This is an organization orientation that focuses on making large volumes of sales by engaging in promotional activities such as advertising, sales promotion, direct marketing etc. An organization following a sales orientation brief considers that consumer needs have to be encouraged and consumers need to be convinced into purchasing of goods and services. A sales oriented organization emphasizes on selling.

Production Orientation:

According to Brassington & Pettitt (2006), production orientation lays much importance on making products that are affordable and available. It is assumed that the market is very price-sensitive and would naturally go after a cheaper product. Production oriented organizations emphasize on making inexpensive and easily affordable products. They work under the assumption that the cheaper the product the more demand there will be for it. According to production oriented organizations customers choose between competing products on the basis of price.

According to Jobber (2010), production orientation is represented by an inward looking stance that can easily arise given that many employees spend their working day at the point of production.

The business operations of Ryanair prove it to be a production-oriented organization. Ryanair is a very cost-focused company. It lays emphasis on the providing services at the cheapest prices and for such a business to make profit out of these low prices, its operations are carried out at low costs on almost all of its resources. It aims to reduce cost of production to the bare minimum.

Ryanair took after the Southwest Airlines business model, where the airline operated no-frills, low fare business in the late 1980s but Ryanair's cost cutting strategy have been more severe than that of southwest airlines.

Michael O' Leary famously quotes Ryanair to give you the cheapest airfare, a safe and normally on time flight. If a plane is cancelled or a flight delayed Ryanair does not put you up in a hotel overnight or give you a voucher to a restaurant. Nor does it offer free food or drink on board, any luggage apart from carry on luggage is chargeable and if you want to use a wheelchair you pay for it. You even pay a transaction fees to make a payment for the ticket you have bought. (Creton 2007) One would think these measures would turn customers away but this is exactly why Ryanair is the airline people love to hate. It follows a complete production oriented philosophy; the aim of the game is to offer the cheapest prices one way or the other.

A production-oriented organization believes that the low prices it offers will automatically kill competition and attract customers to use the organizations products and services. This is the precise concept Ryanair functions upon, it offers the cheapest fares with absolutely no frills. Ryanair not only offers cheap prices as compared to its competition but also competes with substitute services for air travel like rail and road. One of Ryanair's advertisements famously points out " it's amazing what lengths people would go to, to fly cheaper than Ryanair". Ryanair takes advantage of the fact that customers would go to any extent to reduce the monetary burden of travelling upon them. It directly passes on the benefits it gains from the passengers back to its passengers. This can be understood by a simple example wherein the airline discourages check in baggage, this helps eliminate the costs of handlers. This benefit is then directly passed on to the customers in the form of cheaper tickets. If a passenger chooses to carry check in baggage then the passenger simply pays an extra charge for it. Hence the cost is not born by all. By following the production orientation Ryanair achieves its set objectives of earning profits. It produces its services at the minimum possible costs and further sells the same services at the most minimum possible costs.

COMPETITIVE ADVANTAGE OF RYANAIR

According to Baines et al (2008: 196) " Competitive advantage is achieved when an organization has an edge over its competitors when attracting buyers." Competition is the base of any strong modern market. Every company tries to find a place for itself as opposed to their rivals. Some company's successfully do so whilst others fail. In order to successfully find a

place amongst the top contenders of the market a company has to create its own competitive advantage. This can be achieved through either high product differentiation or through delivering the lowest cost to the customer

Based on the regulation in the airline industry in Europe, Ryanair was established as a low cost airline (Miller et al 1997: 50-51). This strategy of low pricing was done to attract customers as well as gain a substantial market share. The entire concept of Ryanair to the consumers is associated with the lowest price. Ryanair's sole focus and market capitalization is based on targeting customers with the lowest possible price. Over the years this strategy has enabled the company to position itself as a "cost leader".

Competitive Base

(Porter, 1985)

Cost Leadership

It can be observed that Ryanair operates on the cost leadership strategy. This is done by keeping operating costs to the minimum and passing on the benefits to the consumers. By doing so the airline earns itself a larger consumer base and customer loyalty.

Porter's 5 forces of competitive advantage (Porter 1990) have further been used to analyze how this strategy of low costs has contributed to Ryanair's success in spite of competition.

The 5 forces to be analyzed are:

a) Rivalry amongst existing players

b) Threat of substitutes

c) Bargaining power of suppliers

d) Bargaining power of buyers

e) Entry of competitors

a) Rivalry amongst existing players – The extent of rivalry among existing players in an industry has a significant effect on the competition. In the case of Ryanair the rivalry amongst existing players is high. Ryanair and Easy Jet were the first airlines to adopt the Southwest business model therefore challenging existing players like British Airways, Lufthansa etc (David Gillen & Lall 2004: 41-50). The low pricing of fares by Ryanair stimulated a move by British airways to offer same low costs to customers by cutting down its prices to short haul destinations by 50% (Jobber 2010). Ryanair still had better strategies in place to manage its costs such as acquisition of cheap aircrafts bought at second hand value and maintained the cheap rates to service more routes, operation from secondary airports, no free food and drinks onboard, etc. British airways retaliated to this strategy by providing full services to customers such as free foods and drinks onboard, low competitive fares and free check-in of baggage in order to attract new and existing customers (Barrett 2001). But their cost strategy could not beat that of Ryanair. As per O' Leary the number of passengers Ryanair carried in 2009 was thrice that of British Airways. (<http://news.bbc.co.uk/panorama>)

However, the threat of competitive rivalry is important and high for the industry because fierce competition can lead to a decline in sales. (Sean Brophy and Dominic St. George 2003)

b) Threat of Substitutes - Substitutes to air travel in Europe are road, rail or sea. Rail travel, which is a greater threat due to easy accessibility as well as availability of terminal points, offers a longer distance to respective destinations of customers. Ryanair, taking into consideration that rail will be a threat reduced its fares to the extent that the rail system can only compete marginally. For instance going by train from London to Dublin costs about £30. 50 (www.seat61.com/ireland) while the same journey costs about £10 or less with Ryan air (www.ryanair.com) with customers rest assured that they will get to their destination in much lesser time. Car travel on the other hand is a lesser substitute due to hassles involved. Hence the threat of substitutes to Ryanair is relatively low.

c) Bargaining Power of Buyers - The degree to which consumers influence demand is referred to as bargaining power (Jobber 2010). Ryanair offers its customers low budget travelling, increasing the interest of customer's to travel at low rates. Price elasticity of demand illustrates that a reduction in price leads to an increase in demand. Therefore, it is an important factor to consider (Sean Brophy & Dominic St. George 2003).

Ryan air has effectively used this strategy to increase its customer base. Also the effect of internet booking can also be seen here as customers are able to compare prices with other competitors and note any discrepancies.

Therefore, Ryanair will have to maintain its low fares policy to continue to be

ahead in the industry. The bargaining power of buyers is high for Ryanair to achieve a competitive advantage in the industry.

d) Bargaining Power of Suppliers – Suppliers are those that provide materials to an industry. The major suppliers of Ryanair are Boeing and Airbus as well as its fuel suppliers. Since 1994, Ryanair has maintained a healthy relationship with Boeing as it operates a fleet of 210 new Boeing 737-800 aircraft with orders for a further 102 new aircraft to be delivered over the next 2.5 years. (RyanAir.com). Boeing also maintains these airplanes as well as trains Ryanair's crews. However, Ryanair fuel supplies as well as those of other airlines are controlled by the world trade, with the Middle-East having market dominance.

e) Threat of Entry – The effect of new entrants into an industry will result in increased competition within the industry, having a negative resultant effect on the returns in the industry. Certain barriers can be put in place to inhibit new entrants. Increases in profit attract new entrants while falling prices deter them. Since the final stage of deregulation in the airline industry in 1997 (Miller et al (1997: 50-51), high start-up costs have deterred new entrants. Notwithstanding, new entrants also offering low cost flying such as Flybe, Bmibaby and Jet2 in the UK as well as Hapag-Lloyd Express, Goodjet and Hallas have found their way into the industry. However, over the years Ryanair has built for itself a high brand identity, which has kept it at the zenith in the airline industry (Jobber 2010). The threat of new entrants to Ryanair is low.

Sustainable competitive advantage of Ryanair

Porter (1980; 1985) identified 3 strategies that can sustain a business in spite of competition. Based on these 3 theories the sustainable competitive advantage of Ryanair has been analyzed. They are:

a) Cost Leadership – This strategy is best achieved by offering the lowest cost in an industry. Ryanair has maintained cost leadership by being the largest low cost airline in Europe in spite of competitors. The airline has been able to sustain this through the use of cheap aircrafts such as Boeing 737 resulting into cheap maintenance services, providing no food or drinks on board, secondary airports are leaving customers with no choice but to use its car hire facilities; customers also pay baggage check-in fees etc in this costs are passed down to its customers. Ryanair's staffs are rewarded based on performance which reduces labour costs. Lesser costs are being incurred from marketing, as advertising is done in newspapers, on company's website and on television rather than using travel agents. This has increased Ryanair's customer base to more than 35 million shifting the attention of consumers from its major competitor (EasyJet) to itself (Box et al, 2007).

b) Differentiation – In spite of its low price, Ryanair has not withdrawn differential advantage (value) from its customers. Ryanair has introduced this value to its customers in order to distinguish itself from its other competitors. The value added is its no frills low prices as well as the creation of new routes for short haul, point to point travelling within Europe through the acquisition of more airplanes to service these routes effectively, fast turn-around time, internet booking has also given it a brand identity that

would remain for as long as customers continue to get more value and competitors do not imitate (www. ryanair. com).

c) Focus - Since inception Ryanair's main focus or target market has been the price sensitive customer, an area it considered least competitive at the time and has identified itself with this market segment rather than giving full attention to the overall market. Although, the short fall of this is that customers preferences may change and others may likely imitate, therefore, long-term sustainability of these competitive advantages require adequate blending of the firm's resources/capabilities with the changes in customer value and needs, as well as the presence of isolating mechanisms in the industry/market environment to enhance the firm's competitiveness in the long-run. (Rajaram et al, 2000)

Marketing Mix

Marketing mix is essentially the effective combination of the four main elements of marketing; product, price, place and promotion commonly known as the 4P's. The 4P's are exploited and used in a manner such that the needs of the customers are satisfied in the best possible manner while optimum income is generated.

Groucutt (2005) sees the marketing mix as the foundation of the marketing principle itself. The effective combination of these elements is what determines the success of a company's marketing campaign and strategies.

In essence the marketing mix is a consistent and integrated process aimed at attracting new and potential customers, retaining current ones, and creating a lasting brand loyalty. The process in itself is tied around the

<https://assignbuster.com/marketing-evaluation-of-ryanair-marketing-essay/>

satisfaction of customer's needs and wants. In other words, marketing mix is the means by which marketing ideas and strategies of an organization are achieved (Brassington and Pettitt 2006).

Ryanair as a successful business enterprise also embraces the concept of marketing mix. Although Ryanair's marketing mix can be said to be quite unconventional (Malighetti. et al 2010), it embodies the four elements of a marketing mix holistically.

AN EFFECTIVE MARKETING MIX

Product Mix

The first element in the marketing mix is the product. It is the core element of a company because it determines what the company is going to offer and the achievement of company objectives such as maximization of profit. A product decision is among the first decisions an organization makes in order to develop a marketing mix (Hollensen 2001).

In essence the product is the “heart of the marketing exchange” (Brassington and Pettitt 2006). If the product does not tie in with the other three elements of the mix, the whole process becomes void. So in order to have an effective marketing mix, the product must be tailored to a particular want or need of customers, as well as their satisfaction.

According to Jobber 2009, branding is the process of differentiating company's products from its competition. It entails highlighting the features of the product and centering on its benefits. In order for a product to be successful in a certain market it must attain a certain level of brand equity.

This brand equity can be sourced through, brand awareness, patents, brand associations and channel relationships.

The product Ryanair offers is its low cost, no frills airline. These two particular characteristics have helped define Ryanair as an “ all hands on deck” airline.

“ The great journeys of exploration by Marco Polo, Columbus and Livingstone share something in common with a short hop on Ryanair for a boozy weekend in Dublin.....” (Cadler. s 2006).

The above quotation illustrates the dynamics of Ryanair. Ryanair is reputed to have the fastest turn around rate in Europe. Their no frill, low cost approach has helped define it as a strong brand.

Ryanair’s product positioning

Positioning can be described as the strategies and vantage points through which an organization intends to place itself in a particular competitive market. Jobber (2010) sees it as a process of creating and maintaining a distinctive place in the market for an organization.

Ryan Air positions itself in the market as a low cost, no frills airline carrier. It achieves this through the following ways, which will be explained using the 4Cs (clarity, credibility, consistency and competitiveness) positioning framework.

Clarity

Positioning must be clear in terms of its vantage or selling point. When a positioning idea is complicated it is most times not remembered (Jobber

2010). Ryanair's marketing slogans such as " Ryanair. Fly cheaper" and " The Low Fares Airline" show that Ryanair's selling point is positioned on its low fares.

Consistency

On an average, individuals are exposed to thousands of messages daily. So in order for an organization to get a foothold on the market, they have to be consistent with their messages. Since the early 90's when Ryan Air fully adopted Southwestern Airlines low cost strategy, they have been consistent with their low fares approach. They are always in the lookout for substitution strategies in cost that will enable them further reduce their prices.

Credibility

According to Jobber (2010), the " differential advantage" a company has chosen must in consumers mind, be credible. Ryan Air's positions itself as low cost, no frills airline. Over the years it has lived up to this and in Europe, it is reputed to be the biggest low cost airline carrier.

Competitiveness

An organization should offer unique quality to its products that distinguishes it from competition. Ryan Air's uniqueness is that it offers unbeatable fares hence killing competition.

Market Segmentation

Ryan air has two major markets, which have two major segments:

1. Domestic/UK market: a) Business travellers
- b) Leisure travellers

2. European market: a) Business travelers

b) Leisure travelers

Ryan air's primary target clientele are the leisure travelers who plan their vacations and dates in advance so as to take advantage of cheap early booking rates. The business travelers generally form a part of the higher class of payments since their bookings are made much closer to travel dates and results in higher revenue's for the airline.

Ryanair product lifecycle

Product life cycle of a company is a theory that infers that products are like humans, they have a life, and this life goes through a cycle; birth, growth, maturity and inevitably death(Brassington and Pettitt 2006).

There are four stages in a products life cycle. They are:

1. Introduction

2. Growth

3. Maturity

4. Decline

Introduction Stage

This is essentially the beginning of a products life as it is being launched into the market. According to Thomas (1991), at the introductory stage, sales are slow as demand develops. Here the goal is to create awareness and get a piece of the market share.

Ryanair first entered the European air travel industry in 1985, with focus on the Ireland-England market. By 1986, it began to threaten the existing aviation superpowers on the same route, Aer Lingus and British Airways.

Before the introduction of Ryanair to the Ireland-England market, the market seemed to already be in a mature, stretched stage, with over 500000 passengers a year. To effectively penetrate the market and gain a market share, the company adopted a low cost strategy. At that time, their round trips cost about £99, while those of Aer Lingus and British airways cost twice as much at £209. By 1987, Ryanair expanded its routes exponentially and its low fare strategy enabled it to position itself effectively.

Growth stage

This stage is characterized by rapid increase in sales (Brassington and Pettitt 2006). This is because of the awareness created in the introduction stage. According to Jobber (2010) the focus of the growth stage is the retention of customers.

Ryanair's Growth stage was characterized by an increase in customer base and profit. From the turn of the 21st century Ryanair has continually made exponential profits that were envied by other industry heavy weights.

Source: www.fame.com

Maturity Stage

This stage is characterized by stability in sales. A company in this stage intensifies promotional activities in order to maintain their market share. Ryanair from 2006-2008 experienced a level of stability in revenue and

customer base. The increase in customer base over these three years was only 15% (Ryanair. com).

Decline stage

This is a stage characterized by a sharp decrease in sales. According to Jobber (2010), the focus in this stage is to “ increase marketing productivity rather than holding or building sales.”

For most companies in the industry, the recession that hit the last few years affected their sales and profit levels. However, Ryanair’s strategies of cutting cost and low fares were very suitable for the economic condition and therefore they were patronized by customers also affected by the credit crunch.

Price Mix

Price is an essential element of the marketing mix (Straight and Level: Practical Airline Economics) as it’s the only element that generates revenue. Therefore, it requires strategy to effect price so that customers will not be undercharged leading to loss of margin or overcharged leading to loss of sales (Jobber, 2010).

Ryanair has identified itself as a low price airline, since inception and has risen to be the lowest in terms of fares among airlines that service routes within Europe. This arouses questions as to how possible is it for Ryanair to sustain its low pricing strategy. In executing this strategy, Ryanair has identified its target market which happened to be price sensitive customers and added a differential advantage (value) to suite this market as the case is in positioning strategy (a marketing oriented strategy) involving the

combination of these two factors for a new product to be well positioned in the market. This gave birth to the low pricing strategy (Jobber, 2010).

Furthermore, Pricing should not be done in isolation without considering other elements of the marketing mix, therefore, proper blending of price with all the other elements of the marketing mix is necessary to arrive at a reasonable price. This concept is known as Launch Strategy (Jobber, 2010). For Ryanair, price is well blended with promotion giving rise to what is known as Rapid Penetration Strategy. This gave birth to the low pricing strategy of Ryanair.

Ryanair successfully uses a rapid penetration pricing strategy, where low prices are combined with decent promotional expenditure. This strategy has enabled it to penetrate and dominate the market as it is explained in price elasticity of demand (which relates elasticity with price), that low prices increases the demand for a product or service while promotion creates awareness of its product to its target market which comprises mostly of price-sensitive customers. Lawton (2002) made it clear that fares of no frills carriers like Ryanair were 40-60% lower than that of their full service competitors for example British Airways. Ryanair has therefore become renowned for stimulating the market through its low fares which gave rise to the term “ Ryan air effect” (Lawton 2002). In other words, by influencing demand, revenue is driven (Straight and Level: Practical Airline Economics). Although with this strategy Ryanair may likely increase its price after it has gained a substantial market share.

Secondly, Ryanair discovered that in order for its Rapid Penetration Strategy to be effective, the airline must have to increase its output to reduce its costs. The experience curve effect shows that cost reduces by 20% if production is doubled (Jobber, 2010). As a result of this, more airplanes were acquired at cheap rates to service more routes within Europe. According to global airlines, price elasticity is the very key, as a fall in price will lead to an increase in total revenue. Although the flaw of this is that all seats must be fully allocated without any left vacant as this might result into a loss.

Consequently, Price may not necessary drive both revenues and costs meaning that a pricing strategy that maximizes revenue may not have such large impact on profit (Straight and Level: Practical Airline Economics).

Ryanair, in order to hold up this strategy and not run at a loss introduced some income streams. The company has deals with Hertz car rental, a number of hotel businesses, phone cards and bus tickets by taking commission on ancillary revenue. About 16% of its profit is made this way. This keeps costs lower (www.ryanair.com).

Ryanair embarked on this pricing strategy to create a barrier of entry into the industry by new competitors as high prices attract new entrants reflecting an increase in profit margin but low prices deters them especially in cases where start-up costs are high as it is seen in the airline industry.

Predatory pricing is another form of pricing strategy that Ryanair adopts. Predatory pricing describes a situation where a company or an organization offers the lowest possible price in order to eliminate competition with the intention to increase its price when competition is completely eliminated

(Global Airlines). Therefore, the intention of predatory pricing is to drive competitors from the market and to open up the opportunity for prices to be raised and profits to be earned (Straight and Level: Practical Airline Economics). In other words, the objective of Predatory Pricing may be to deter new entry into the market, as they would be discouraged that profitability will be reduced if they settle for a high price. Ryanair offers the lowest possible price indicating a clear case of predation

The Organization for Economic Co-operation and Development (1988) pointed out a flaw in predatory pricing arguing that when an airline operates in different cities, it is mostly likely that predatory pricing in one market can be financed by cross-subsidizing out of revenues earned in other markets as well as Attorney General John Nannes who tried to argue that predatory pricing leads to high profits in low cost airlines because if a company acquires a reputation for aggressive cost-cutting in one market, it can deter other low-cost carriers from taking on the airline elsewhere.

Place Mix

“ Place includes company activity that makes the product available to the target customer” (Kotler, 2009)

Distribution or place is where the producer transfers an optimum amount of goods to majority of the target market, either to individual or business users. The distribution can happen in different ways, supplying a product or training servicing or Internet services. Irrespective of the modes the marketing strategy has a direct affect on the distribution channels. (Baines, Fill and Page, 2008)