The macro environment of ryanair

Environment, Air

The purpose of this analysis on the Ryanair case study is to evaluate the Macro environment and the industry analysis and the internal factors that will help Ryanair to succeed within the environment which they are operating. The analysis is divided into three major components, focusing on the internal and external environments and capping off the analysis by our recommendations.

For the analysis on the macro environment and industry analysis, I will be using important models such as the Pestel analysis which describes the external factors affecting the business in the future in the airline industry. Also models such as Porter's five forces model will be used to explain the factors in the industry and the way in which firms compete and how it affects the profitability of the company. The concept of strategic groups will also be used to help explain Ryanair's main competitors and how they influence their present strategy.

Analysis on the internal environment mainly focuses on the resources and capabilities of the company. We look in depth to analyse the potential competitive advantages the company may posses through its internal strengths. This analysis includes a SWOT analysis which gives a clear cut idea of the organization and the strategic capabilities and potential threats. We also use the VRINE model to analyse the resources and capabilities and base our judgment on its result as to whether they provide a competitive edge for the company.

My recommendations will be based on Management theories and models to explain the future strategies and to present strategic choices and areas for improving strategy implementation for the senior management team of Ryan air.

2. Introduction

The Airline industry remains as a fast and growing industry. It facilitates economic growth, world trade, international investment and tourism and is therefore central to the globalization taking place in many other industries. This case study focuses on Ryanair, the first budget airline no-frills carrier in Europe, founded by the Ryan family in 1985 to provide scheduled passenger airline services between Ireland and the UK. The case study delivers and interesting insight about Ryan air's growth, the risks and challenges it faced and about its competitors and the future strategies for succession and growth.

According to the case study by the end of 1990, the company had flown through a great deal of turbulence, disposing of five chief executives, and accumulating losses of IR£20m. Its fight to survive in the early 1990's saw the airline successfully restyle itself to become Europe's first low fares, no frills carrier, built on the model of southwest airlines. A new management team was brought in headed by Michael O'Leary who made major changes to the airline. Michael O'Leary had launched a £1. 48bn bid for Irish rival, Aer lingus, but the Aer lingus and its board later on rejected the Ryanair approach because according to them Ryanair had acted in a hostile anticompetitive manner.

Ryanair does not publish a formal vision or mission statement. However, their general direction is to simply continue to be the largest low cost leader in the European airline industry and to carry 50 million passengers by 2009. Implementing this vision is a function of many individual tactics, including an absolute dedication to low cost performance in every element of the value chain, quick gate turnarounds, non-union operations, performance-based incentive compensation plans, standardization on one type of aircraft, and flying (in most cases) to secondary airports, which provides significant savings for Ryanair.

Strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage. (Hubbard, Rice, Beamish, 2008)

The long Term purpose and positioning of Ryanair’s objective is to firmly establish itself as Europe’s leading low-fares airline through continued improvements and expanded offerings of service. I have conducted a strategic analysis of the macro and internal environment and industry analysis and recommended new strategic initiatives to improve.

3. External environment analysis

The macro-environment describes all factors which influence the company as a whole but are out of their direct control including wider social, political and economic factors (Hooley, Saunders, Piercy, 2004). It would be well suited to conduct a PESTEL analysis to identify and examine the external factors which lie beyond the company boundaries.

3. 1 PESTEL analysis

We investigate five factors in the PESTEL analysis. The Pestel framework categorises environmental influences into six main types: political, economic, social, technological, environmental and legal. These factors are not independent of each other; many are linked. For example, technology developments change the way that people work, their living standards and their lifestyles. As any of these factors change it affects the competitive environment in which organizations operate. (Gerry; Scholes; Kevan, 2005)

Political environment

Health and safety regulations are becoming strictly important especially after 9/11 attacks, according to the case study in August 2006 UK authorities imposed severe security measures at all airports. Ryanair had to cancel 279 flights in the days immediately following the incident and refunded e2. 7m in fares to approximately 40, 000 passengers. Ryanair is estimated to have suffered a loss of e1. 9m in reduced bookings.

On February 2005, a new EU regulation was introduced. It intended to reduce the inconvenience caused to air passengers by delays, cancellations and denied boarding by offering a refund or rerouting and free care for passengers. Based on the average distance of its flights for Ryanair, the compensation costs would likely fall into the e250 category.

Ryanair is facing rising trade-union pressure in Europe. Some of the countries in Europe have formed a trade-union among each others, thus it gives the pressure for Ryanair to do business in these countries.

Economic environment

The fuel price instability is a major economic concern for airlines. Hedging deals will push airline companies towards the risks of exchange rate fluctuations. This too poses a major economic concern for Ryanair. According to the case study Ryanair was vulnerable to rising fuel prices in 2005 due to its low fare policy. Its fuel costs represented 35% of operating costs in 2006, compared with 27% the year before. Ryanair had not edged early so it was paying from $70-74 per barrel up to march 2007.

In 2006, airport and handling charges increased by 21%, slower than the expansion in passenger numbers. Route charges also increased by 21% because of an increase in the number of sectors flown and an 8% increase in average sector length as Ryanair flew into new EU states. These figures could be explained by an increase in the average price level. Inflations rate in EU is 1. 7(NA, euro area annual inflation down 2006). Inflation rates can cause production costs and airline fares to increase. However, the relatively stable inflation rate is a good sign for the future of Ryanair and the economy as a whole.

It was noted that the unemployment rate was slashed to 8. 7% (NA, unemployment in Europe 2006). Such data provides a positive indication on the excelling economy in Europe. This will obviously influence Ryanair’s decision making on various matters. A stable economy is a base for growth and perhaps could be one of the motives for Ryanair to consider the takeover of the Irish airliner “ Aer lingus”.

Socio-cultural environment

The increasing travelling lifestyles will affect the business of Ryan Air. For e. g. educational trips, backpack and family trips, business trips. People opt to use budget airlines for short haul flights because it's extremely cheap, saves time especially for business dealings. This has turned into a social trend.

After the terrorist attacks People looked for alternative ways to travel, for example train services, ferry services which were safer than air travel. Air travel has not only been more cumbersome, but it has also been rather negatively impacted on a more financial aspect, especially for budget airlines.

People have a very poor opinion on budget airlines. Such stereotyping has posed a major concern for airlines such as Ryanair. The restriction on luggage, flight delays and cancellations and overall inefficiency has fuelled tension between management and passengers. According to the case study Ryanair charged a man with cerebral palsy e18 to use a wheel chair, many customers thought Ryanair was being unethical by doing so.

Technological environment

Ryanair keeps aircraft maintenance costs low, using their Boeing 737 planes. Ryanair replaced its fleet of old aircraft with new more environmentally-friendly aircrafts and reducing the average fleet age to 2. 4 years. Ryanair uses a winglet modification programme on the fleet providing better aircraft performance. New aircrafts produce 50% less emissions, 45% less fuel burn and 45% lower noise emissions per seat. Therefore it is obvious that it is necessary for Ryanair to invest in proper technology and keep its technology up to date in order to remain competitive.

Environmental factor

Every government is concerned about global warming and the green house gas effect from carbon emissions. Airline industry is responsible for 2. 6% of carbon emissions. Airlines are looking for noise reduction methods to prevent noise pollution. It is clear that the environment is a major concern to companies operating in the aviation industry. This could also have a financial impact due to heavy penalties and sanctions. Also the political impact would be considerable due to heavy lobbying by environmentalists.

Legal environment

Getting illegal subsidies from the airports is a crime in Europe. Therefore legal means of getting such advantageous port subsidies will be sort after, in order to remain competitive.

Allegations of misleading articles on Airlines will also lead to legal action. According to the case, UK authorities denied allegations of Ryanair publishing such articles on channel four. Such legal action would be financially detrimental to a budget airline. It was also mentioned previously that environmental concerns and breaches of stipulated emission charges may also result in legal action.

3. 2 Porter's five forces model

Porter's five forces model examines five forces that influence or determine the structure of industries, and hence the average profitability or attractiveness of those industries. For each of the five forces, Porter identified sets of factors that would determine the presence and power of the forces in a particular industry environment.(reference)

Threat of New Entrants- Low

When focusing on factors such as economies of scale, technological innovations, government polices and capital requirements, High competition, It is not easy to enter into the airline industry. Ryanair has a strong identity in the airline industry and according to the case study Ryanair claims to be the number one for punctuality among other European airlines, It is difficult for new entrants to enter into the industry and to compete with these famous airlines. So therefore the amount of companies entering into the airline industry is low.

Bargaining power of suppliers- High

Ryanair is a low budget airline and they have to deal with the giants in the industry. Dealing with suppliers of aircrafts and suppliers of fuel and other essentials, it is hard for Ryanair to conduct negotiations. According to the case study Ryanair’s aircraft supplier is Boeing, which is a far larger player is the airline industry. So therefore it is possible to state that bargaining power of suppliers is high.

Bargaining power of buyers.-High

New consumers from the European state members are growing because of their interest to fly from one destination to another using a low budget airline, so considering the time and the speed most of the consumers choose air travel. According to the case study Ryanair in 2006 introduced web-based check in and priority boarding. Ryanair does have to keep their prices competitive in relation to the industry level.

Threat of Substitutes- High/ Medium

There are many other budget airlines and also main carriers offering new low air fares which could be directly substituted. There are also substitutes for air travel such as travel by train, or by using ferry services or boat services. If it is a Family trip consumers might choose train or ferry services because it's safer and if they want to travel to more destinations, but for business dealings people use air travel because it's less time consuming and low price, comparatively trains in continental Europe are very expensive. Therefore overall it is possible to state that there is in fact a very real threat of substitutes for Ryanair.

Competitive Rivalry- High

Due to deregulation and increase in rivalry and because of increasing competition on more routes the power of buyers increases. Airlines try to counter increasing rivalry by formulating different strategic alliances even by merging with other airlines for example Air France- KLM. According to the case study Ryanair had launched a bid for its Irish rival, Aer Lingus so by combining purchasing power to reduce its operating costs and to form lower fares. These airlines introduces various prices, flyer programmes, discounts, perks to grab the attention of the consumers and to increase customer loyalty

3. 3 Strategy Grouping

Ryanair’s strategy and its Strategic groups

The former Ryanair CEO PJ McGoldrick stated that the future for Ryanair is for a limited niche airline operating out of Ireland primarily to London. (www. ryanair. com/doc/investor/Strategy. pdf). This statement states that the firm chooses a specific segment of the industry to focus its strategy exclusively. The targeted segment can be a particular buyer group, a segment of the product line, or a geographical market. According to Porter, M. E. (1980), this strategy is based on the assumption that “ the firm is therefore able to serve its narrow strategic target more effectively and efficiently than competitors who are competing more broadly”. The firm achieves a competitive advantage through differentiation focus or through a cost focus.

The key elements of Ryanair’s strategies are its low fares to generate demand, to deliver the best customer service performance in its peer group. Ryanair’s commitment to safety is a primary priority of the Company and its management. These are some of the main strategies of Ryanair.

A Strategy group includes the rival competitors with similar competitive strategies and positions in the market. These competitors will sell in the same product line, same price and quality using identical technology. (Thompson A, Strickland, 2001)

Easy jet and other low budget airlines competes for the same customer base by using some what similar pricing strategies and technology, for example using Boeing aircrafts for fuel efficiency and by offering similar in-flight services online checking services. The closer strategic groups get the competitive rivalry among firms' increases. (www. ryanair. com/doc/investor/Strategy. pdf)

4. Internal environment analysis

In this section, we mainly focus on the unique and necessary resources and of course the company's core competencies. These are the factors which continually drives the competitive edge of the company.

4. 1 VRINE model

It is understood that, as part of the internal environment of a company, the most important factors are its resources and capabilities. This model helps us to categorise the available resources and/or capabilities according to the valuableness, rarity, inimitability, non-substitutability and exploitability. ((Hubbard, Rice, Beamish, 2008)

Valuable

It is vital to figure out whether the resources or capabilities allow the firm to meet market demand or protect the firm from market uncertainty. This is what is measured by value of resources or capabilities. Ryanair is able to benefit through both tangible resources such as aircrafts and intangible resources such as intellectual property such as the award for worlds most profitable Airline. Such capabilities as online booking and point to point routing has also helped add substantial value to the service they offer.

Rarity

It is important to know whether these resources are widely possessed by competitors or scarce relative to demand. For certain physical resources such as aircrafts, it’s obvious that they are widely possessed by Ryanair’s competitors. Even capabilities such as online bookings and online checking-in are widely used by competitors such as BA and Lufthansa. On the other hand, certain resources such as the awards Ryanair possesses are scarce and therefore will add unique value.

Inimitability and non-substitutability

The model also looks into extent which competitors can substitute or imitate resources and capabilities. It is important that resources or capabilities be inimitable and non-substitutable for it to give a valued competitive advantage. Ryanairs’ core competences of no frills strategy, low cost and rout policy strategy are all rather mimic-able. However, aircrafts are possibly a non-substitutable resource. It is not possible to substitute this resource without leaving the aviation industry altogether. Human resources are also not inimitable, as competitive airlines have the same roles of personnel.

Exploitability

It is important that the resources and capabilities are exploitable. The model basically focuses on whether the company is able to use its capabilities and exploit its resources to directly influence its profitability through stimulating its competitive edge.

4. 2 Value chain analysis

The value chain describes the activities within and around an organization which together create a product or service. It is the cost of these value activities and the value that they deliver that determines whether or not best value products or services are developed. The concept was used and developed by Michael Porter in relation to competitive strategy. (Johnson G; Scholes K,; Whittington R, 2005)

Primary activities are directly concerned with the creation or delivery of a product or service. On the other hand, support activities help to improve the effectiveness or efficiency of primary activities. (Johnson G; Scholes K,; Whittington R, 2005)

Our main concern is whether the company uses its capabilities and resources efficiently in order to add value to the service. The most important driver with regard to Ryanair is the potential cost advantage which seeks to eliminate unnecessary costs and minimise over all costs from those activities which add value to the service. Such cost reductions will allow the company to be more competitive.

The company could also focus on its core competencies and thereby provide a better, more differentiated service to its customers. This too adds value as customers would gain a greater benefit.

Technology is probably the most potent factor in the aviation industry. The value addition through advances in technology is remarkable. Therefore it is important to renew and update technology in order to both minimise costs and also to increase the benefits linked to it, thereby creating greater value.

4. 3 SWOT analysis

Strengths:

Ryanair has developed a recognised brand name throughout the years, and it holds reputation as the biggest budget airline in Europe.

Ryanair offers ticket booking over the internet- cost effective for its customers and eliminates the need of travel agents.

Ryanair offers better low prices than its competitors. And they offer onboard entertainment and finds revenue from those sales.

Ryanair gets publicity because of its CEO Michael O'Leary and his controversial issues.

Ryanair's policy of fleet commonality to keep staff training and aircraft maintenance costs low by using Boeing 737 planes.

High service performance on punctuality and seating space was regarded as largely average as was on-board catering, high rate of flight completion builds the good image of the company.

Weaknesses

Bad publicity on the poor treatment of customers, Training policies, aircraft hygiene, and poor staff morale.

Restricted expansion possibility because it's a niche market

Currency fluctuations made fuel costs either costly or unpredictable for Ryanair.

Customers were unhappy because Ryanair was too cost conscious, imposed a wheelchair levy on every passenger ticket, increased insurance fee.

Outsourced services outside Ireland may decrease employee commitments.

Opportunities

EU enlargement will open up new destinations to travel.

Economic slowdown actually helps Ryanair- changes in corporate culture, ‘ steals’ customers from traditional carriers as they seek lower fares.

Potential opportunities to capture the market share.

Launching 138 new planes to attract various types of consumers, ranging from families to businessmen to increase cash revenues. And will allow Ryanair to double in size to 80 million passengers per annum by 2012.

Threats

Dependence on oil markets and on economic cycle: Fuel costs depend on the oil market.

Increasing competition on low fare rates by other budget airlines.

Changing EU government regulations.

Increase in air traffic control charges due to increasing aircrafts. According to the case study In November 2006 traffic grew by 23%t as total revenues rose by 33 % to e 1. 256bn. Ancillary revenues rose by 33 %. Unit costs increased by 7. 5 %. Despite 42 % higher fuel costs of e337m, Ryanair after tax margin for the half-year rose by 1 point to 26 %.

5. Recommendation

Ryanair should focus on new opportunities in order to boost its current market position. They could possibly provide packages for tourists for different destinations which could open up better market potential.

Another main point that Ryanair should focus on is to manage human resource more efficiently, according the case study some of its cabin crew were caught napping o the job as they had a pressurised work schedules.

Ryan air could also boost its market share by providing better conditions for passengers by reasonably increasing luggage allowances and cutting off wheel chair costs and to build customer relationships and loyalty.

It is also recommended that Michael O' Leary and other future CEO's should have a more professional outlook towards the business this will directly impact the company and its public image. Michael O'Leary once dressed up like pope to promote ticket offers; this will have a negative impact on the company's image.

Ryanair's business strategy should focus on its niche, they should mainly target short haul routes rather than competing with dominant established airlines such British airways by focussing on the niche Ryanair will be able to gain a competitive advantage over its rivals.

Ryanair should give greater consideration to the economic climate and situation, mainly focussing on oil prices and other economic factors, Ryanair should hedge against adverse economic changes to minimise its risk from unforeseen changes in the economy.

Refinancing aircrafts is an important strategy which Ryanair should focus on. Although the European airline industry is growing Ryanair should control its costs and control its risky investments for example the investment decision to acquire “ Air lingus”.

6. Conclusion

The analysis on Ryanair explains the environmental characteristics by exploring internal and external environment by using theoretical models. I have recommended new strategic initiatives and areas for improving strategy implementation for the senior management team of Ryanair so that it can gain a competitive advantage over the other competitive airlines like easy jet, Lufthansa, Aer lingus.

Ryanair is Europe’s first low budget airline and it has the potential to succeed in the environment they are currently in order to achieve their objective more effectively, strategic planning must be done concerning Ryanair’s history and future trends and technology of the airline industry.