

Ryanair's internal environment

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



1. Introduction

The main purpose of the essay is to concentrate on the key essentials in Ryanair's internal environment according to the case study 'Ryanair low-fare model company'. By identifying those elements and critically analyzing their effect on the company's strategy, the paper will focus on how these factors form the organization strategic capabilities and are used to gain competitive advantage. Using the resource-based view firstly introduced by B. Wernerfelt (1984) it discusses how Ryanair benefits from their capabilities to offer a lower cost product. Both hypothesis and references will be applied for better understanding of the topic.

2. Ryanair's core competences

In line with Michael Porter's theory there are three major strategies that companies can use to achieve competitive advantage - cost leadership, differentiation and focus. Ryanair has chosen the first approach as it seeks to be the lowest cost producer in Europe by selling standardized, mass products.

The concept of how to design a future strategic development on the basis of unique resources and competences is used by Ryanair effectively. The company controls that by allocating, organizing and stimulating those resources to decrease costs and respectively price. Such internal operations, which aggressively follow the strategy of reducing costs, lead to competitive advantage and serve as basis of Ryanair success.

Ryanair's ambition is to be the European leading low-fare airline operator and it maintains that by constant enhancements and expanding in the low-

fares service. The company aims to engender high passenger traffic by offering the lowest costs. This is achieved by focusing on operating effectiveness and cut costs.

However, there are several key factors in the company's strategy that are of a vital importance for sustaining competitive advantage over its competitors. All together they play as key strategic capabilities for influencing and driving the cost efficiency which is essential for Ryanair's operating strategy.

3. Key Factors for achieving competitive advantage

3. 1 Ryanair's Approach. Ryanair's company culture is about offering a low fare product which exerts a pull on fare-aware customers and is on the basis of one-way trip - an advantage as many of their competitors do not use this approach. By maximizing the production capacity as a tangible physical resource Ryanair is able to manage the cost more effectively.

3. 2 Route policy. Ryanair's route policy is concentrated in point-to-point service, short-haul routes, and using uncongested landing fields around major cities and travel destinations. Choosing such short-haul routes gives advantage to Ryanair to offer their clientele frequent service. By that tool the company can operate as a " non-frill" carrier suggesting that people expect frills attached only when they use longer flights. Ryanair is able to offer direct routes (point-to-point) and by that the company cut costs from servicing the travelers and transferring the baggage. The choice of secondary uncongested airports gives an advantage in a manner of more on-time departures, fewer delays, handling costs. It gives them an edge in front of the other competitors and is a key aspect of maximizing its productivity. It

is a part of the product/process design as Ryanair seeks to maximize their aircrafts utilization. This leads to influencing the costs in different parts of the value chain.

3. 3 Passenger Service. Customer service is a part of the value chain in a company and is considered as a primary activity.

In proportion to the theory Ryanair's strategy is to satisfy their customers by service performance which is better than that delivered by its rivals in the low-cost/fare sector.

The company is using sector benchmarking to identify its advantages over the competitors. The final " package of services" underpins those advantages and allows the company to grow as no one in the branch is able to compete on that level. Ryanair manages that package by focusing completely on the execution of services and choosing secondary airports. The company is taking an advantage of the situation regarding the numerous fuel surcharges and is ahead of its competitors as their management succeed in captivating the additional fuel surcharges through mixture of cost cutbacks and further increasing the efficiency. As many companies cannot compete on that altitude they exit the sector and the passenger flow is transformed to Ryanair. This gives them the prospect to expand and enhance their productivity.

3. 4 Ancillary Revenues. ' Core competences may become embedded in an organization's culture'. Ancillary services that include non-flight services such as in-flight sales, accommodation services, insurances, car rentals,

excess charges, commissions, etc. has become a significant element in Ryanair's culture. This is an example of how the company's management can actually stretch its strategic capabilities when they spot a prospect to design new service out of the existing capabilities. According to Hamel and Prahalad (1990) those stretching of competences can be used as a basis for related diversifications. Ryanair offers a range of ancillary services that are connected with the company's main passenger service. By providing such services the company seeks to enhance its sales and in that order to cut the unit cost. According to the case study one of those services is the so called in flight mobile phone service which allows people to use mobile phones while they are on the aircraft. The idea is not well-accepted among customers but it is just one of those initiatives that support the Ryanair's strategy. As Michael O'Leary declared ' If you want a quiet flight, use another airline. Ryanair is noisy, full and we are always trying to sell you something.

Another matter of observation is how the company uses the internet to build its brand name. Ryanair is declared as owner of the largest travel website in Europe and fifth recognized brand on Google. As Furlong. S (2006) suggests, the company possesses the ability to renovate its web traffic into e-commerce and advertising revenues. By building a strong brand image as an intangible asset it expands its competitive advantages. J. B. Barney (2001) implies that the most valuable sources of achieving a competitive advantage are the intangible assets and competences entrenched in the company's culture and is much harder for competitors to try to imitate them. Ryanair has put the theory into practice and therefore they successfully exploit the World Wide Web to build strong image and promote its products.

3. 5 Low Operating Costs. Ryanair's approach is to reduce operating costs in order to be the lowest cost operator in Europe. Ryanair is focused on reduction and control of the crucial expenses that are important for managing an airline company:

1. Fleet Costs. Identifying the Ryanair's aircraft fleet as a physical asset and an unique resource is important in order to understand Ryanair's policy which is devoted to keeping the aircraft maintenance costs as low as possible. This is achieved by reducing the fleet's average age and by maintaining the fleet in the best cost efficient way. As an element of the core competences company performs different activities as checking the aircraft, own routine aircraft repair, aircraft return to Ryanair bases each evening, plus certain aircraft examinations. All these actions lead to benefits for the organization that can be used to gain competitive advantage over the rivals. New aircrafts are more environmental friendly and this helps the company's to build an image but moreover it reduces the fuel costs as the new machines' fuel consumption is much lower. It also gives the advantage of a larger seat capacity which can take full advantage of the productivity by managing capacity-fill. A good illustration is the technology development, as a support activity in the value chain within the company that Ryanair undertakes when providing the winglet modification program. This program allows the aircraft to consume even less fuel and contributes to the cost efficiency. Another important issue is that by purchasing aircrafts from one and the same manufacturer the company is given an opportunity to reduce the costs

associated to the training of the personnel, purchase of new parts and repair. It also allows the company to design more flexible schedules for crews and equipment.

2. **Passanger Service Costs.** Another dimension of the process design as a source of cost efficiency is the customer service costs. Ryanair try to save costs and improve speed by different measures such as web-based check-in, priority boarding and charging bags. This actually reduces costs on facilities, staff and it saves time. By developing aspects such as their internet booking page and reservation center, Ryanair manages to eliminate commissions obtained by the travel agent and be more competitive following its business low-cost model.
3. **Airport Access Fees.** According to the case study Ryanair's airport, handling and route charges are increased as a result of the company's expansion in the number of sectors flown. The company focus is on stable increase in passenger flow, keeping the level of increase higher than the raise in airport charges. Ryanair is making an attempt to control airport service and access charges by choosing airports that can offer Ryanair competitive cost conditions. As Ryanair maintains a huge volume of customer traffic it is given the opportunity to bargain specific contracts with such airports so to lower the airport charges. By such operations the company is gaining competitive advantage over its rivals who generally operate on congested airports. Their aggressive approach against charges and conditions at some airports is also an important tool to protect their business model of low-fares as they are expected to serve as many customers as they can carry. The reason is

that Ryanair cannot afford repeated passenger and flights delay which is caused by understaffing at such airports.

4. **Personnel Productivity.** Ryanair thrives constantly to improve the productivity of its personnel. The company manages the work-force by different approaches including commissions for on-board sales and payments on the basis of flying hours. They manage to achieve such productivity by recruiting, rewarding and training its personnel. According to Porter (1985) such human resource management acts as a support activity for the efficiency of the primary activities in the value chain. By managing their skills and knowledge and rewarding their work Ryanair can contribute from the maximized productivity of their labor force. The increasing fuel costs drives the company to take measures in order to keep the fares low. Such measure is the launched program for piloting training by which pilots gain knowledge how to fly the aircraft with minimum fuel consumption and it respectively leads to cutting in fuel costs. This can be identified as a dynamic capability. As suggested by David Teece (1997) this is considered as ability to renew the company's strategic capabilities in order to meet the demands of the ever changing environment. By such trainings the organization is developing its core competences which can lead to competitive advantage.

3. 6 Michael O'Leary

Praised by present and former staff for his ability to lead the company, Michael O'Leary, is strongly identified by his dynamic decisions and arrogant statements. As proposed before and from Barney's (2001) theory it is the

nature of the intangible unique resources to be inimitable and for that reason to serve as a basis of gaining competitive advantage. Ryanair is strongly recognized by their intellectual capital represented by its Chief Executive. Ryanair strategy owes a lot credits to him as the company's success is due to his aggressive approach. It is essential to understand that more often it is an unique intangible resource or embedded in the culture activity or linkages of activities that really matter to achieve competitive advantage. Ryanair is the European leading low-cost model airline because of his talented manager. The company is marked by his actions and the success is due to his unique characteristics as a personality. Therefore it is impossible for the competitors to imitate that resource which in the end conducts advantage for Ryanair and differentiate the company from its rivals. Ryanair has benefited from his leadership since the foundation of the company as he has used the so called ' first-mover advantage". O'Leary's Ryanair is designed as the first European low-cost operator adopting the model of Southwest Airlines - the world major low-cost company. By using this source of cost efficiency the corporation is moving down the experience curve and is actually able to absorb that experience and turn it into reduction of the cost base (Johnson, G., Scholes, K. and Whittington, R., 2008). Another issue when managing company's strategic capabilities is the option those capabilities to be renewed and recreated. The ability to manage and control those processes is known as a dynamic capability. Such capabilities are the mergers and acquisitions, by which the company can gain new skills and knowledge as well as new customers. The case shows how the idea of Michael O'Leary to merge his company to a rival one has never become

reality as his views obviously are directed to external development of company's capabilities.

4. Conclusion. The assignment has explained the central importance of managing the company's internal environment by numerous measures and operations. Using the resource-based view the project was undertaken in order to identify the key factors in a company (Ryanair) that have an impact on the organization's strategy. By analyzing those elements the paper has shown how managing those factors can contribute to the company to achieve competitive advantage over the rivals and continue to grow. As Ryanair has adopted the low-cost business model their actions and functions are strongly connected to the reducing costs as the company thrives to offer the lowest, in meaning of price, product.

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