

Analysing the business model of ryanair commerce essay

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



The Ryanair business model is based on a low fares strategy which comprises the following key strategies. Ryanair's strategy was to offer cheap fares in order to capitalize on the market, in order to follow its low cost strategy. Ryanair offered fares which were almost 20 percent lower than the cheapest fare of its competitors. With this quest its initial fare was set at 99 Pounds for a return ticket. This launch fare of 99 pounds was less than half the price of the British Airways/Aer Lingus lowest return fare of £ 209.

Ryanair also focused on standardization and in order to achieve this Ryanair flew a fleet comprising only of Boeing 737s which simplifies the costs of maintenance of the planes, also the bulk purchases of spares and other aircraft components also meant economies of scale. This effort also saved the cost incurred in training requirements of Pilot and cabin crew as they have to learn to operate a single type of plane. Apart from this Ryanair made a major portion of its profits by flying to secondary airports which were outside the main city rather than the major airports.

Secondary Airport usage:

The benefits of using the secondary airports which were located outside the cities were a major contribution to Ryanair's profit; apart from this the strategy of secondary airport brought the following advantages:

The charges for landing on a secondary airport were relatively lower than landing on any other major airport.

The turnaround time for the planes is the "time required for the plane after landing, to be ready for its next flight" was very less when compared to the

turnaround time for the planes from any major airport. It used to take approximately 25 minutes for the Ryanair's planes for turnaround which helped in an average of 9 trips per day as against the average 6 of larger airlines making its assets more productive and efficient. Ryanair flew its planes for an average of 11 hours per day compared to 7 hours of British Airways and Ryanair's pilots put in 900 hours a year which is 50 percent more than a BA Pilot.

For the airports which normally witnessed very little or no traffic, the Ryanair was able to negotiate favorable 15-20 year deals on landing fees and other agreements in return for bringing in passengers. For an instance Brussels South Charleroi Airport (BSCA) offered Ryanair a good deal of 15 years for operating a certain number of flights because it felt that the presence of Ryanair could substantially grow its non-aeronautical revenues and even attract other airlines to the airport. The airport also cited the case of coach shuttle from airport to Brussels city which turned profitable since the introduction of parking charges. As per the sources it is been found that BSCA's arrangement with Ryanair is for very low handling and landing charges starting at 1 Euro per passenger, which went up to 1.3 in the later years.

The airport fee charged by the Ryanair as negotiated was as little as \$ 1.5 per passenger when compared to major hubs which charge up to an average of \$15 to \$ 22 per passenger.

Cost of Employee's:

The cost incurred by Ryanair for its staff and crew members was very low. Ryanair increased the productivity per employee and hired fewer employees per plane as compared to other airlines. This helped them with their decision to fly short and medium haul point-to-point flights which involves smaller number of personnel than it would have required if it adopted the more complicated hub-and-spoke system. This avoided the need for any kind of transfer of baggage of people from one plane to other plane and thus keeping the operations simple and inexpensive. Ryanair's simple service model required only two flight attendants per flight when compared to five attendants in any other major carrier which make Ryanair's revenue per employee to approximately 40 percent higher than that of other airlines.

Online services for tickets booking:

Majority of tickets for Ryanair is booked online through its website Ryanair.com which is tied up with hotel chains, car-rental companies, life insurers, and mobile-phone companies. With the launch of online booking services, almost 95 percent of bookings were done online making the ticket booking process much easier and keeping transaction costs low. These benefits, approximately \$ 6 million a year on an average, which was ultimately passed on to the consumer in the form of lower ticket prices. Also, online bookings make fewer bookings over the telephone and through agents and this make Ryanair to cut agent commission from 7.5 percent to 5 percent. Overall the operating costs of Ryanair was very low, the \$50 average cost of a Ryanair

ticket could be broken down into approximately \$35 operating costs and \$15 profit.

Extra Sources of Income:

Additional revenues were made by Ryanair through the sale of food and drinks aboard. Unlike southwest, which served drinks and light snacks, Ryanair even charged for water on the flights and there were no complimentary drinks, catering or in-flight entertainment. Ryanair also partnered and entered into agreement with hotels and car rental companies so that it could earn commissions by selling these products to passengers. Baggage check-in was offered for free. Passengers were charged according to the amount of baggage they carried/needed which was up to three checked bags per person, which makes the total weight not to exceed 33 pounds. Also the passenger can bring food and drinks onboard.

In-Flight mobile phone service:

Ryanair also planned to test its in-flight mobile phone service on 25 planes with a view to charging passengers to make calls and send text messages, with all these add-ons the profit rose 54 percent and accounted for more than 16 percent of total revenues and were targeted to grow to 20 percent.

Q. 2 what are the main features of Ryanair's strategy? How would you assess Ryanair's resources and capabilities against its competitors? What is Ryanair's core competence?

In June 2007 IATA (International Air Transport Association) in its 2006 world airline passenger statistics gave Ryanair World No. 1 ranking in carrying

more international passenger than any other airline by simply offering the lowest fares and the best customer service. As per the comment of one of the Ryanair's executive " 10 years ago most of the other airlines on this IATA ranking carried ten times more passengers than Ryanair, today Ryanair carries more international passengers than anyone else in the world. This growth has been delivered by giving passengers exactly what they want; the lowest fares, the best punctuality, the youngest aircraft and no fuel surcharges guaranteed.

These ranking was achieved by Ryanair based on the strategy they made and followed.

At the initial stage of the airline the Ryanair experienced some problems with its cost structure, but Ryanair's different marketing strategy make them able to survive through that situation against their competitors and gain a strong position in the airline market. As per the IATA it is regarded as the most punctual airline between Dublin and London. And it is only because of their strategies that they are known as the second largest airline in United Kingdom and Europe's largest low-fares airline having a network of over 57 routes in 11 countries and served by a fleet of 31 Boeing 737-200 and 800 aircraft and with over 1400 staffs and personnel.

The company's continuous quest and concentration on driving own its costs to offer the lowest fares possible and remain for point-to-point , short haul flights helped it to position itself in the marketplace. The primary aim of Ryanair was to meet the basic need of the consumer, which is nothing but

travelling at the lowest price. In order to achieve these targets and aim Ryanair followed certain critical factors which can be called as its critical strategies, which are as follows.

The strategy focus on having the lowest prices

Being reliable within the marketplace

Comfort and service with frequency

The first strategy of Ryanair was to focus on having the lowest prices, as done by most of the low-cost companies Ryanair always concentrate on this critical factor of lowest prices. Even though Ryanair does not provide any compliments or extras, entertainment on its flight like flight meals, videos, advanced seat assignment, free drinks but it still prioritizes the key features for any airlines which remain important to its target market. Such features include frequent departures, advance reservations, baggage handling and consistent on-time services.

Cost Reduction strategy:

To remain in the market and to achieve its goal of having a competitive position in the airline market, Ryanair uses the strategy of cost reduction. Such strategy of cost reduction depends on key aspects such as type of fleet and their resemblance, charges of airports used for landing and takes out and route policies, contracting out services, cost of staff and productivity and marketing costs.

For the fleet resemblance strategy the company used only one kind of plane which limits the cost for staff training, maintenance services and spares and facility in obtaining spares, facility in scheduling aircraft and crew assignment, and the aircraft which Ryanair purchased was a Boeing 737.

The next critical factor under the cost reduction strategy of Ryanair is charges of airport used and route policies. For this purpose Ryanair made a very beneficial strategy of dealing with secondary and regional airports, where the traffic is not jammed and fees incomparably lower. Since Ryanair, is a true windfall for such airports, the airline company has a bargaining power which enables it getting favorable access fees. In addition Ryanair offers only a point-to-point service, thus, it has no cost concerning connecting passengers. Apart from this the company pays special focus to on-time departures because it means maximizing the aircraft usage.

The next factor under the cost reduction strategy of Ryanair is contracting out services. In this manner, aircraft handling, ticketing and other functions are contracted out by Ryanair to third parties. In addition, in order to limit their expenses engine and heavy maintenance are also contracted out whereas the staff of Ryanair carries out routine maintenance.

Managing staff costs and productivity is another factor used for reducing the cost for Ryanair. In this manner, the company pays its staff on modest salary but has set up a performance related pay structure which urges employees to maximize the number of sectors flown daily. This way, Ryanair both controls productivity and keeps staff costs down. Lastly, managing marketing

costs in another factor that makes the company reduce its costs. Ryanair advertises mainly on its website with its “ Logo Ryanair. com, the Low-fare Airline”. In addition, it also advertises in national and regional Irish and U. K newspaper, on radio and television.

Ryanair’s resources and capabilities against its competitors:

In the year 1990 i. e after three years in operation, despite the increase in volume of number of passengers Ryanair accumulated £ 20 million in losses owing to rapid growth in aircraft, routes and intense price competition with Aer Lingus and British Airways. Ryanair then went through a substantial restructuring. The Ryan family invested a further £20 million in the company. Ryanair was re-launched under a new management as Europe’s first low fares airline adopting the Southwest Airlines low fares model. Free drinks and expensive meals were scrapped on board. With these changes the lowest fares were reduced from £99 to just £59 return.

This made one of its strongest capabilities of lowest fare when compared to other airlines like British airways and Aer Lingus. With continued restructuring cutting back fleet and routes from 19 to just 6 routes, and increasing frequencies and lowering fares. Passengers responded to Ryanair’s lower fares and high frequency services, in spite of reduction in routes. These restructuring caused an increase of traffic up to over 45% and in August 1992, Ryanair was able to carry over 100, 000 passengers in one month for the first time in its history.

In 2005 Ryanair had a total of 15 bases throughout Europe including 5 new bases, at Liverpool John Lennon airport, Shannon in the west of Ireland, Pisa, Nottingham East Midlands and Cork. It also retired its remaining 737-200 aircraft and replaced them with brand new Boeing 737-800s, thus making it the airline with the youngest fleet in the world with an average aircraft age of just two years.

In 2006, Ryanair carried a record 42.5 million passengers in the year and became the world's first airline to carry more than 4 million international passengers in one month. Ryanair announced plans for onboard mobile phone use across its entire fleet which no other airlines did before this. It also launched its web check-in service, giving passengers the opportunity to check-in online. Another differentiating factor of Ryanair is, till date it remains the only airline to guarantee "no fuel surcharges ever" prompting even more passengers to flock to its lowest fares service on more than 606 low fare routes across 27 countries.

Ryanair believed its cost focus strategy would help it to capitalize on the market by offering cheap fares. It offered fares that were almost 20 percent lower than the cheapest fare of its competitors. For example, its initial fare was set at 99 pounds for a return ticket. The launch fare of £99 was less than the half the price of the British Airways/Aer Lingus lowest return fare of £209. Both British Airways and Aer Lingus had to slash their high prices in response to Ryanair's, thus starting a new trend of low-cost fares.

Using secondary airports reduced the turnaround time for the Ryanair's plane to approximately 25 minutes. Which make them to make nine trips per day on an average against the average 6 of other larger airlines making its assets more productive and efficient? Ryanair flew its planes for an average 11 hours per day compared to 7 hours of British Airways.

Ryanair also made additional revenues through the sale of food and drinks aboard. Unlike Southwest, which served drinks and light snacks, Ryanair even charged for water on the flights.

Core competence:

The core competencies of Ryanair was its strategies which included using only one type of Fleet, Point-to-point Flight, Using Secondary airports and no fuel surcharge ever.

Ryanair take in order to revive/sustain its competitive advantage?

Outcomes of the case study and proposed Steps:

The case study shows the problems and issues being faced by Ryanair.

Although it has got very good strategies with respect to market competition it still got some serious problems related to customer handling, providing quality service and target market.

In order to revive/sustain its competitive advantage Ryanair has to follow the total quality management. The company can use this for solving its major problems and issues especially internal and external customers and to cope with marketing environment.

The industrial competition at the airline industry level worldwide is at brisk, making companies in this field across the globe search for extensive strategic management procedures that would keep them in on the business world. The tasks of making, implementing and execution followed by continuous monitoring of the company strategies are the roots and foundation of managing any business enterprise. The strategies made by a company acts like a plan management and is used to judge out the market position of any company, carry out its routine operations, attract stake holders to invest along with customers, compete with their competitors and achieve the organizational objectives. Thus, TQM (Total quality management) as a strategy is certainly appropriate for such situation.

Total Quality Management is a philosophy of management that is driven by the constant attainment of customer satisfaction through the continuous improvement of all organizational processes (Robbins, 1998). It is a management philosophy that seeks to integrate all organizational functions such as marketing, finance, design, engineering, production, customer service, and others to focus on meeting customer needs and organizational objectives (Hashmi, 2000).

It is known that every organization's primary purpose is to stay in business, so that it can promote the stability of the community, generate products and services that are useful to customers, and provide setting for the satisfaction and growth of organization members. From this perspective, it can be said that TQM strategy for achieving its normative outcomes is rooted in four

interlocked assumptions: quality, people, organizations, and the role of the senior management (Wageman, 1995).

Total Quality Management is a planned procedure for satisfying internal and external customers and suppliers by integrating the business environment, continuous improvement, and come through with advancement, growth, and safeguarding the cycles while changing organisational culture. Furthermore, TQM is an array of management system throughout the organisation, geared to ensure that the organisation to continuously attain or surpass customer requirements. TQM places strong focus on process measurement and controls as means of continuous improvement (McNamara, 1999). Moreover, Total Quality Management is infinitely variable and adaptable. Although originally applied to manufacturing operations, and over the years only used in that area, TQM is now being recognised as a standard management instrument, just as applicable in service and public sector organisations like the airlines industries (Hashmi, 2004).

The Total Quality Management (TQM) philosophy of management is customer-oriented. Hence, the airline operations must be developed in order to steadily deal with the improvement of their operation through the ongoing participation of all employees in problem solving efforts across functional and hierarchical boundaries. TQM incorporates the concepts of service quality, process management, quality assertion, and quality perfection. Consequently, the airline company must be able to control all transformation processes with regards to their operations and services to better satisfy customer needs in the most economical way.

In order to apply the TQM to Ryanair especially to be used in its airline operations and services, the management of the airline company must be able to accept the whole concept of the improvement, which means that all the people of the airline company must agree that there is a need for a total transformation especially for the quality of operations and services that the industry will be offered. Furthermore, the management should be willing to participate to all the improvement, value each and every ones opinion in order to achieve total quality management and provide a total quality operations and services to satisfy their customers. Managers and experts disagree about how to effectively implement Total Quality Management to their organisations.

Eventually, customer satisfaction has always been regarded as the driving force behind quality improvement; others suggest quality management is achieved by internal productivity or cost improvement programs. In other applications, Total Quality Management is regarded as a technique to introduce the context of participative type of management (Schlenker, 1998). Thus, the management should be more straightforward to provide the potential role of applying the Total Quality Management to their operations and services.

In addition, since Total quality management is based on internal or self-control, which is embedded in every element of the work system (technology and people), the employees or the people behind the operation and services being offered to the passengers and customers of the airline must be able to determine the problems beforehand, to anticipate its occurrences.

Pushing problem solving and decision-making down in the Ryanair especially to their operations and services may allow people who do the work to both assess and take remedial action in order to deliver an operation or service that meets the needs of their customer. In applying total quality management to airline operations, they must be able to combine it with the core strategy of the industries; this does not mean that such airline companies must have total changes. It is important that in application of the Total Quality Management to the Ryanair operations and services they must also consider that an appropriate strategy should be used in order to employ a total quality operations and services that would satisfy all clients and customers.

Other factors that can improve the business situation of Ryanair is its merger with Aer Lingus, as cited from the table of list of approved and prohibited mergers by the European Union in the airline industry, over a period of 18 years there is only one merger which is been prohibited which is between Ryanair and Aer Lingus in the year 2007. Special concentration and careful strategic approach is needed in solving this critical problem associated with the merger plan.

From the comparative performance data of some major European low fares airlines Ryanair has the most number of countries, destinations and routes and also the largest number of daily flights with a very good load factor of 82 %; this can be further increased with careful monitoring of customer requirement.