

Establishment of the ryanair airline company

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



According to the case study it is stated that Ryanair was established in 1985. It started as a full service airline and after going through some turbulence the company appointed a new CEO, Mr. Michael O'Leary in 1990, who transformed the company into a low fares, no-frills airline, by following the standards set by southwest airlines. Ryanair holdings operate as the first of all founded low cost passenger airline in Europe. Credit can be given to Mr. O'Leary for having a vision that led to the success of the company. His incredible leadership style is discussed further in this report.

In this analysis, we are looking to identify what strategies are being used by Ryanair and how it is being implemented. We will be looking into how the structure of the company and also the systems within the organisation influences the implementation process. We will also be considering the impact of leadership on the success of strategy implementation.

2. Performance of Ryanair

As for the current performance of Ryanair and its future potential, the case study clearly highlights a strong performance background of Ryanair. It says that Ryanair is considering the acquisition of its Irish rival Aer Lingus. This gives a hint on the financial strength of Ryanair. This is further evident as Ryanair's offer included a 27% premium over the floatation price of Aer Lingus.

Ryanair's earnings strength is evident by analysing the adjusted earnings per share increase from €35. 28cents in March 2005 to €42. 67cents in September 2006. It was announced at the AGM in 2006 that Ryanair had delivered 12% increase in net profit despite a 74% increase in fuel costs.

This clearly shows that Ryanair has seen a higher growth in its earnings relative to the growth of its most potent expenses. In November 2006, the airline announced record half-year profits of €329m and total revenue had grown by 33% to €1. 256bn. Therefore it is very clear that Ryanair's current performance is considerably strong and its growth potential is rather high.

3. Current status of Ryanair at a glance

Before we conduct an analysis of the strategy implementation of Ryanair, we need to consider the current status of the company. Identifying the business strategy of the company is important in order to identify the long-term purpose and position of the company within the industry. We will look to answer 5 key questions to gain a clear view of the company's current strategic status. (Hubbard, Rice, Beamish, 2008)

a. Does the organisation plan to grow?

The case study clearly indicates that the company has a growth strategy on its agenda. The proposition to acquire its Irish rival Aer Lingus shows how Ryanair plans to grow inorganically. It is also mentioned that Ryanair intends to initiate additional routes to other locations and to increase the frequency of existing services. Therefore, growth is a rather transparent business strategy of Ryanair.

b. What products and services does it plan to produce/provide?

Apart from the main service of low-fares air transport, Ryanair also provides various ancillary services ranging from in-flight sale of beverages and merchandise to internet related services. They also provide services on

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travel insurance, car rental services and even accommodation information. (Ryanair Annual Report, 2009)

c. What customer and geographical markets does it plan to service?

Ryanair looks to cater to all types of passengers ranging from tourists to business travellers. Its main focus is on frequent point-to-point flights on short haul routes. As for the geographical market, Ryanair caters specially to the European segment.

d. What generic strategy does it plan to follow?

Taking into account Ryanair's market scope and its low-cost competitive advantage, it is reasonable to state that Ryanair follows a generic strategy of cost focus. This will be further analysed as we progress through the report.

e. What position does it plan to hold in the future?

The company stands for one seldom purpose, which is to provide no-frills, low-cost passenger services. Its vision clearly shows that Ryanair intends to be the world's highest profit, low-cost airline. Its future plans to be an industry leader in the budget aviation industry is prominent in all aspects of its business. (Ryanair Annual Report, 2009)

4. Strategy implementation at Ryanair

4.1 The 7-S framework

In this analysis we will be using the 7-S framework to identify and understand the importance of change. This model basically proposes that organisational effectiveness comes from the interaction of structure,

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strategy, systems, style, staff, skills, superordinate goals and perhaps most importantly, change requires attention to the interconnectedness of all these variables. (Palmer, 2009)

Therefore in order to understand how strategy implementation works, we need to understand each of the factors and how they relate to each other. Refer to exhibit 1. In doing so, we will seek to answer the 4 critical questions.

4. 2 Ryanair's Current strategy (Refer Appendix 2)

Based on Porter's three generic strategies, it is clear to us that Ryanair uses a "cost focus" strategy. We will begin our analysis by justifying why this is the most suitable strategy chosen. (Hubbard, Rice, Beamish, 2008)

Ryanair's competitive advantage is its low cost strategy rather than differentiation. It is obvious that Ryanair does not charge a premium on its pricing as it is a budget airline. Its main focus is to offer reduced airfares. Since Ryanair focuses on the budget segment of the aviation market, it is reasonable to assume that the company faces a rather narrow market scope. Compared with the industry as a whole, Ryanair does not differentiate its services and does not charge premium pricing and at the same time it caters to a narrow market audience. Taking this into account it is possible to state that Ryanair's main strategy is that of cost focus. This is clearly evident though out the case study as it states that Ryanair's objective was not to give its customers luxury services but to establish an airline serving a class of flyers who looked for functional and efficient services. Ryanair did not plan

to satisfy all segments of the market, and thereby its operational policies and procedures supported Ryanair's strategy of cost focus.

In order to justify Ryanair's cost focus strategy, we will use the value chain analysis to identify the key value drivers and observe how Ryanair opts to reduce costs in each.

4. 3 Justification of Strategy using The Value chain analysis

Value chain analysis can be illustrated to describe all activities that make up economic performance and performances of the firm and it highlights activities required to create value for customer of a given product or service. Value chain analysis can be defined as " examination of an enterprise to ascertain how much and at which stage value is added to its goods or services" (Business dictionary, 2009).

The value chain analysis separates the key value drivers as primary and support activities. (Refer to Appendix 3). Inbound and outbound logistics is a primary value driver for Ryanair. (Viljoen & Dann, 2003). Inbound Logistics of Quality Training on flight staff and crew including the pilots, and low cost suppliers of fuel and oils and service material and secondary airport agreements again have enabled Ryan Air to reduce costs. The case states that Ryanair has aimed to reduce its fuel costs by adding winglet modification programmes on the fleet which provided better improved aircraft performance and a 2% reduction in fleet fuel consumption.

Human resource management can be classified as a supporting activity. This includes staffing costs and training costs. It also should be noted that

maintenance is also a key supporting function. According to the case study Ryanair followed its strategy of fleet commonality in order to keep aircraft maintenance and staff training costs low as possible by using Boeing 737 planes. The standardization approach is a key feature that kept the airline costs low, thus allowing the firm to offer low fares for its passengers.

With the marketing and sales of Ryanair done privately inside the company itself low cost of service and better methods of maintaining budgets have helped Ryan Air be a true master in cutting costs while maintaining quality.

In 2006 Ryanair introduced cost cutting methods for passenger check-in by the introduction of the web based checking system which saved costs for Ryanair on check-in staff and crew. This too helps make Ryanair's primary function of sales and services to be more cost efficient.

Infrastructure is also an important supporting activity. In this case Ryanair's airport bases will provide the basic infrastructure. The case clearly states that Ryanair has point to point routes that reduce airport charges by avoiding busy congested prime airports and thus it reduces airport costs by choosing regional and secondary airport destinations, for example Ryanair uses Frankfurt Hahn which is 124 kilometres away from Frankfurt. All this clearly shows that Ryanair's main competitive advantage is on low costs.

The above value analysis shows how Ryanair has effectively sorted to cut costs in its key value drivers. With reference to exhibit 2, it is relatively clear that low cost strategy combined with the focus on a narrow market scope will lead to a cost focus strategy rather than a cost leadership strategy.

5. Structure and Systems and their effect on strategy implementation

5.1 Structure of Ryanair

Structure refers to the formal organisational design. It is important for an organisation to have a good structure as it will help to assist with the organisations functions. There are 5 traditional organisational structures. (Johnson, Scholes, Whittington, 2005)

As referred to on Appendix 4, it is clear throughout the case that Ryanair comprises of a traditional functional structure with the functional heads reporting directly to the CEO. The relatively flat organisational structure and decentralized decision-making authority makes the Ryanair's business functions more efficient. The time lag involved in the decision making process is probably limited. Most importantly functional heads and business units will have much greater control and thus will hold responsibility for the smooth running of their departments. Since responsibility is divided, it is easier to measure the depth of implementation throughout those sections. Formal channels also help carry out the message of change more effectively.

However, it should be noted that in the company's endeavour to cut-costs they have opt to outsource services ranging from catering to cabin crew to wheelchair use. Such outsourcing will lead to a structural change in the organisation. Therefore the network structure will be a better fit with the company's activities. What is of concern is, such a structure is rather unstable and therefore will have a drastic effect on the overall implementation process (Business Post, 2006).

It should be noted that the informal structure of an organisation, although not as important as the formal structure, is critical to the smooth running of the later. According to the research done by Machado & Burns (1998), the informal structures exist to resolve problems on incongruence in organisations. We can use the congruence model to identify the importance of the informal structure of an organisation. Refer to Appendix 5.

5. 2 Congruence Model

David Nadler and Michael Tushman developed an open systems model based on the proposition that the effectiveness of an organisation is determined by the consistency between the various elements that comprise the organisation. (Palmer, 2009). What is important to observe in this model is that it sees the organisation under four main components: task, individuals, formal organisational arrangements and informal organisation. This model clearly identifies the importance of the informal arrangements and its impact on the formal structure. Informal social organisation helps to stabilise social order. It thereby helps to maintain hierarchy and social bonds within the organisation. Heterogeneous organisations such as Ryanair can use such informal arrangements to encourage creativity, reflectivity and innovation. Perhaps the most important role of such informal structures is to reduce network tension.

5. 3 Systems at Ryanair

Inadequacy or inefficiency of organisational systems can also limit the success of any implementation of strategy. Ryanair uses integrated operating systems to ensure quality services and maximum efficiency. For

example, Ryanair introduced web-based check-in which saved costs on check-in staff and airport facilities and also time.

The information system is as vital to Ryanair as any other. They use such systems to manage information and for the development and utilisation of knowledge. As an example we can consider Ryanair's website. It contains information on flights, bookings, car rental services and travel insurance, etc. Such information systems will also be used to collect data for performance measures. This is a vital aspect in strategic implementation as it is important for rewards to follow positive change. This thereby sheds light to the importance of a good reward system. For example the case states that remuneration packages included a share option scheme. Such schemes will help motivate staff and crew.

The highly competitive nature of the business makes benchmarking vital. Benchmarking compares organisational success at different operational levels. It is important that the company knows where it is heading. Therefore control systems can be used to compare estimated and actual outcomes to see how well the company has performed relative to the control system. Of course comparing how the company is performing as apposed to its main rivals will also be of interest. This is probably where the success of positive strategic implementation can be seen. Even though it is an ongoing process, it will surely give an indication where the company is heading.

6. Leadership at Ryanair (skills / staff/ style / goals)

“ The no-frills airline is run by a no-frills man”. This clearly shows that Michael O’Leary is not a typical CEO. His style of brash leadership and

fearless approach has transformed Ryanair into a bigger and better airline. (Dalby. D, 2005). Leadership is the most key feature in implementing change. Therefore we will conduct an analysis on the effect of leadership on strategic implementation of Ryanair.

There is a considerably large school of study on the topic of leadership and most importantly there are many definitions which entail similar essences. Kotter argues that leadership is about setting overall direction and motivating people, whereas Senge sees a leader as a coach who guides and facilitates. However, the definition given by Mintzberg is probably the most comprehensive as he states that leadership is an integrated job of action management, people management and information management. (Hubbard, Rice, Beamish, 2008).

There is little doubt that O'Leary has the necessary skills to lead Ryanair into a new era of aviation history. This is evident as O'Leary was credited for single-handedly transforming European air transport. " O'Leary was awarded the European Businessman of the year award by fortune magazine in 2004". (Dalby. D, 2005) He possesses the skills to inspire people and therefore they will easily buy-into his vision. This enthusiasm and energy of O'Leary will help strengthen the strategy implementation effectively.

As for leadership styles, there is no perfect style which fits all. Contextual leadership is consistent with this trend of thought. (Hubbard, Rice, Beamish, 2008). Leadership will have to vary depending on the circumstances of the organisation. After O'Leary became the CEO of Ryanair, he transformed the company from a full service conventional airline which was at that time

(1990) going through a turbulent period, into a low fares, no frills carrier which is Europe's lowest cost carrier. Therefore, inline with the context we can state that O'Leary was a transformational leader.

O'Leary developed a vision that made people/staff follow him with enthusiasm and energy. The staff knew and felt the passion and commitment behind O'Leary. This helped to anchor the strategy further and therefore implementation was made easier as the driving force was strong. The next step that he took was to take every opportunity that will help to convince others to join him and to build trust among the people. This was the birth of a coalition to get the implementation process up and running.

Another quality seen in transformational leaders' is their visibility to the public. They show their attitudes and actions freely. They continue to motivate and rally their followers by being energetic and enthusiastic (Viljoen & Dann, 2003). Michael O'Leary's publicity seeking behaviour is evident in the case as once he declared war on easy jet when wearing an army uniform driving up in a tank to easy jet's head quarters. This type of charismatic behaviour makes O'Leary a leader who has the power to persuade others by example and it is reasonable to assume that he has a strong sense of coerciveness.

Further more, it is possible to state that O'Leary has the ability to persuade his staff mainly because they consider him to be a hero. Being a figure to look-up to has made O'Leary a leader to be inspired by. Max Webber (1947) has identified this style as Charismatic leadership style. Michael O'Leary shows classic charismatic signs as followers are promoted based on personal

charisma they exhibit. Since the staff will follow every word of O'Leary, the message of change will sink in rather rapidly. This is a positive factor for implementation as the process will be much stronger as the coalition of change will more willingly back a charismatic leader such as O'Leary. However, such charismatic leaders can tend to believe more in themselves than in their teams, and this creates a risk of a collapse of the organisation. Webber believes this is due to the link between the leaders' charisma and the organisations going concern.

7. Recommendations to improve strategy implementation

In our analysis of strategy and how it is implemented, we will look into the ways in which most companies fail such implementation endeavours and thereby come up with suitable recommendations tailored for the case of Ryanair. We will greatly consider the analysis done by John Kotter, and identify the steps of a successful implementation. (Kotter, 2009).

Kotter's analysis clearly highlights that the process of change goes through a series of phases and in most cases requires a considerable amount of time. He argues that most implementations fail due to such steps in the implementation process being skipped or not under taken. (Kotter, 2009). It is necessary to align all elements in order to facilitate implementation (Refer to Appendix 6). Firstly it is necessary to establish a great sense of urgency. The upper management or in this case the CEO, needs to communicate the message of change broadly and dramatically. This force should have enough momentum to see the implementation process through. Ryanair's flat organisational structure will help with this endeavour. Ryanair could

emphasise more on the threat of rivalry in the industry and of course its need to minimise costs. This being the main strategy, they need to highlight its importance.

Secondly, the CEO alone cannot make such a strategy work properly. He needs to have a strong enough guiding coalition to support him on his strategy implementation. In this case, the CEO and the top management and also the general staff needs to come together to join in on the commitment for the implementation of this strategy. Again, the momentum of the change process will greatly depend on the strength of the coalition.

Kotter also explains the importance of a formal vision. Where the company wants to be or classified in the future is a great driving force. (Kotter, 2009). This vision needs to be clear and communicated throughout the organisation. A clear vision which provides direction on how to achieve the main strategy of the company, while enabling the birth of sub-strategies to reach that ultimate goal, will guide the coalition through to the final stages of implementing its strategy. Ryanair's cost focus strategy is derived through its vision to be the worlds cheapest budget airline. This goal will be undercut by the competition it faces. This is perhaps the reason for its sub-strategy of growth.

It should be noted that there maybe resistance to change through many sources. It is just as important to remove such obstacles to implementation in order to ensure the clear running of the process. The culture of Ryanair has been in toe with the cost fucus function. Therefore it is reasonable to say that there would be limited or even no resistance to it stemming from the

culture. However, there may be pockets of resistance to the inorganic growth strategy that they are using. In other words, the takeover proposition could potentially involve a change in the culture itself. This could lead to heavy resistance and perhaps de-motivate the staff and management. What is most concerning is that, this could possibly drive away the attention from the main strategy of cost focus. The CEO needs to look into such possibilities and cut-off such pockets of resistance through ensuring and constant communication with the lower spectrum of the organisation.

It should be noted that a full implementation of a strategy will take some time. It is vital that short-term achievements are rewarded accordingly without hampering the long-term view. This is where the reward systems and control systems come in. It is vital that performance appraisal takes place as the coalition will dry out on motivation otherwise. However, declaring victory too early may put the whole strategy implementation process in jeopardy. This is why it is important to keep focus on the long-term perspectives.

Finally, it is important for Ryanair to anchor its strategic change on to its culture. It is believed that the cost focus strategy has been a main strategy throughout the company's life and therefore it has become the basis of its corporate culture. Any variations away from the main focus will be uncharted territory and therefore will need an altering of status-quo.

8. Conclusion

In conclusion, we have identified Ryanair's main strategy of cost focus and also its sub-strategies. We have understood that the strategy

implementation needs to be catered through right round the organisation as seen in the 7-S's model, for implementation to be successful. We have seen how Ryanair seeks to reduce costs in every value driving factor and we have observed how this has rippled through to the core structure of the company. The functional structure plays an important part in the implementation process and will directly impact its success. The systems used will have a key role in managing the tasks of implementation while the importance of leadership to govern the whole process is critically identified.

We could state that the strategy implementation of Ryanair has been done methodically. The strategy of cost focus has been successfully integrated to its structure, and the control systems and reward systems and others have facilitated a clear implementation process. Of course Michael O'Leary's leadership has had a considerable impact on the success of implementation, without which there is no doubt the outcome will not be as successful. However, there is some thought about the validity of the strategy in modern times.

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Appendix

Appendix 1

Exhibit 1: 7's Framework- Source: Palmer, Ian. (2009), Managing organizational change: a multiple perspectives approach. McGraw-Hill Irwin, 2nd edition.

Appendix 2

Competitive Advantage

Low Cost

Differentiation

Competitive

Scope

Large

Scope

Cost leadership

Differentiation

Narrow

Scope

Cost focus

Focused differentiation

Exhibit 2: Porter's generic strategies-Source: Porter, (2008),

<http://www.biocrawler.com/w/images/e/e3/PorterGenericStrategies.png>

Porter's Generic Competitive strategies

Cost Leadership

The companies that follow a cost leadership strategy attempts to become the lowest- cost produces in an industry. When competing products that are undifferentiated and when those products have a standardized market price the firm with the lowest costs would definitely earn the highest profits in that particular industry. Companies that follow cost leadership emphasis mainly on cost reduction methods in every activity in the value chain.

One of the main problems facing this strategy is that price is the most easily emulated of all corporate strategies. Successful long term competitive advantage is primarily based on strategies that are difficult to imitate.

Viljoen and Dann, 2003,

Source: Viljoen, J. & Dann, S. 4th edition (2003). Strategic Management, Frenchs Forest, New South Wales: Pearson Education Pty Ltd.

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Differentiation Strategy

According to this strategy a company seeks to offer a unique /different product or service in the industry in order to produce a product which is highly valued and perceive as valuable in the industry by its buyers. There are ways in which companies can differentiate a product by the design, the brand name, features, technology, customer service etc. According to Porter “ any of the value activities can be potential sources of uniqueness”. (Viljoen and Dann, 2003)

Source: Viljoen, J. & Dann, S. 4th edition (2003). Strategic Management, Frenchs Forest, New South Wales: Pearson Education Pty Ltd.

Cost Focus strategy

This strategy suggests that the company chooses an exact segment of the industry to mainly focus on its strategy exclusively. A product line, a particular buyer group, or a geographical market can be the targeted segment therefore firms can produce specialized products focusing on a specific niche in the market. A firm can make use of the differentiation approach or the cost leadership strategy with regard for the cost focus strategy. (Viljoen and Dann, 2003)

Source: Viljoen, J. & Dann, S. 4th edition (2003). Strategic Management, Frenchs Forest, New South Wales: Pearson Education Pty Ltd.

Appendix 3

Exhibit 3: Value chain analysis of Ryanair- Source: Analysis of Ryanair's competitive advantages, (2002),

<http://www.authorstream.com/Presentation/aSGuest18828-190181-new-ryanair-business-finance-ppt-powerpoint/>

Appendix 4

Functional Structure

Source: Beamish, Hubbard R. (2008), Strategic Management, 3rd Edition, Pearson Education Australia, Prentice Hall.

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Geographical Structure

Source: Beamish, Hubbard R. (2008), Strategic Management, 3rd Edition, Pearson Education Australia, Prentice Hall.

Product/Service Structure

Source: Beamish, Hubbard R. (2008), Strategic Management, 3rd Edition, Pearson Education Australia, Prentice Hall.

Business unit Structure

Source: Beamish, Hubbard R. (2008), Strategic Management, 3rd Edition, Pearson Education Australia, Prentice Hall.

Matrix Structure

Source: Beamish, Hubbard R. (2008), Strategic Management, 3rd Edition, Pearson Education Australia, Prentice Hall.

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Appendix 5

Exhibit 5: Nadler and Tushman's Congruence Model,-Source: Nadler, Tushman, (2003),

http://www.oliverwyman.com/ow/pdf_files/Congruence_Model_INS.pdf

Appendix 6

Exhibit 6: The whining wheel Framework- Source: Beamish, Hubbard R. (2008), Strategic Management, 3rd Edition, Pearson Education Australia, Prentice Hall.

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