

# Low budget airlines | analysis

Environment, Air



Ryan Air Europe's first low budgeted airline. Ryan air was founded in 1985 by the Ryan family head by Tony Ryan. To provide scheduled passenger airline services between Ireland and the UK. Ryan Air Europe first Low-Fares, No-Frills carrier, offer a point to point service to customer that was the first European low-cost Airline in Airline Industry.

Ryan Air was a full service conventional airline, with two classes of seating, leasing three different types of Aircraft. Ryan air Airlines is based on the model of southwest airlines. A new management team, led by Michael O'Leary. In 1997 company was floated in an IPO on the Dublin Stock Exchange and on NASDAQ. (Gerry Johnson, et al, 2008)

#### **Mission statement of Ryan Air:**

Ryan air will become Europe's most money-making airlines through its motto " Low-cost- carrier, no- frills services in all market which Ryan air operates.

#### **Ryan air Objectives:**

To establish Ryan air as Europe's leading Low-Cost airline through continued improvement and offering of low cost budget price.

#### **Ryanair Business Model**

Ryanair business model is based on Southwest Airlines, the highly successful Texas based operator. However, Ryanair was impacted by the financial difficulties in 1990 which required a complete restructure and new business model is formed. In 1991, CEO Michael O'Leary visited US Southwest Airline and extracted their new strategy and business model from Southwest's Low Cost leadership model. Ryanair's Low Cost leadership model encompasses a single passenger class, a single type of airplane, a simple fare scheme,

unreserved seating, flying to secondary airports, fast turnaround times, no “free” amenities, minimum baggage allowance, employees working in multiple roles, and generation of ancillary revenue( Baker, 2006).

### **Analysis strengthen and weakness of Ryanair**

#### **Strength:**

Strategy of Ryan air is Marketing- strong branding and reputation of product. Ryanair’s aggressive pricing strategy makes them different from other Airline companies in Europe. Low costing of tickets due to airport operator deals. A biggest advantage of Ryanair is Reputation as “ First Biggest Budget Airline in Europe’s”. Main strength given to Ryanair by media through free footage to people from various Controversial issues created in flight and due to the tough decision made by chief executive Michael O’Leary. Ryanair collects enormous profit from Ancillary revenues from on-board and online gambling, an in-flight mobile phone service, including non-flight scheduled services and also from Ryanair’s website. On time delivery which help customer to reach at their target. In future Ryanair planning to purchase new aircraft with huge capacity for sitting which will generates lots of income as well as new routes for reaching destination much quicker. Ryanair control the fuel and noise emission by purchasing new Environmentally-friendly aircraft. (Sascha Mayer, 2007). If any delays due to climatic condition or technical quandary, then Ryan air Customer Service Desk (CSD) prompt refund is provided to customer.

#### **Weakness**

Employee relations: Ryan air’s relationship with employee is Fraught. Extra work load for Pilots. Also provide poor working condition for staff. For

example: Banned from charging of mobile phones at work place. Ryan air has been involved in number of labour union disputes.

Lack of scales: The Company is small in sizes compared to its competitors. Its competitors, such as British Airways, Lufthansa, Virgin Airlines all these Airlines are large in size and enjoy competitive advantages in financial, technical better human resources. As it was low fare Airlines in-flight Entertainment facilities were not available to passengers.

Prone to bad press: Relationship with media is always dreadful for Ryan air. Even it may be the incident of staff sleeping in the air craft or forcing pilots to sign new deal in order to fly new air craft. Every time Ryan air is on head line of media.

Blocking Finance: In increasing their passenger Ryan air has block lots of money in purchasing new Boeing in next six year.

Long Routes: Instead of main airports choosing Secondary and Regional airports destinations for short haul which much more far-off from passenger's destination. For examples, Ryanair uses Frankfurt Hahn, 123 kilometres from Frankfurt; Torp, 100

**Kilometres from Oslo; and Charleroi, 60 kilometres from Brussels.**

Customer service: Services provide to customer by Ryan air cabin crew were not satisfactory. Even breathing spaces for leg were narrow down.

## **STRATEGICS CAPABILITY OF RYANAIR**

Every company must have adequacy and suitability of the resources and competences for survive and prosper in the market. Henceforth Resources

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and competences are essential for any organisation. Initially Ryan air started their operations with a team of 25 and a single 15-seat Bandeirante Turbo-prop, flying between Waterford and London (Box. T, et al 2007). In 1986, Ryan air received permission from the Regulatory Authorities to begin flying four flights a day on the Dublin-London route with two 46-seat BAE748 turbo-props, by the end of 1989 Ryan air had six BAC-111 jets and three ATR 42 turbos (Box. T, et al 2007). Now Ryan air is giant player in Budgeted Airlines in Europe with 100 new Boeing 737-800 which flew out 18 European base. According to Ryan Air Chief Executive Officer Michael O'Leary organisation as place the order of 200 newest Boeing by end of 2009 and required the aircraft delivery by 2012 (Robert 2009). Boeing 737 planes used frequently which were replaced with new aircraft, more environmentally- friendly aircraft. It's reduced the average age of fleet by 2. 4 years. Newer aircraft does not require more crew member.

Before 2006 capacity of staff were around 700, in fiscal 2006, employee tally rise by further 700 to 3500 people from different nationalities. Cabin crew were given commission from on board sales i. e. Euro49, 612 which is higher figure than any other leading airlines. Due to a low-cost HR strategy, which includes low costs via wage minimization, union avoidance and employee control, had contributed to making the company highly profitable. In addition, both strategies are similar in that they also include achieving low total costs by increasing operational productivity (Zagelmeyer. S, 2009).

**Core Competence:** A corporate strategies are made with lots of research and development of product and services in today's world. Ryan air have made

strategic decisions based on increasing their competitive edge, the main one reason involved in attracting customers at both ends of their routes (Haberberg and Rieple 2001). In Ryan air case company focal point is on providing low cost, efficient, frequent connections and subsequently offering no other frills or supporting services on their flights, due to this outcome, Ryan air has no need for the numerous subsidiaries that Aer Lingus own (Peter Kangis, M. Dolores O'Reilly, 2003). The performance reliability of Ryan air is high for the reason that customer product quality and the airports served, airline product is not delayed because of point to point services due to this check-in is much quicker and less complex than an interline one as well as boarding is quicker because seat choice is greater for earlier passengers at the departure gate for the reason that it operates from lesser-used non-hub airports the airline encounters less airport congestion than airlines serving major hubs (Barrett S. D. 2004).

### **Ryanair Financial Analysis**

During the period of 2004 through present, Ryanair has experienced significant growth in sales revenues and net income. Since 2004, sales revenue has grown at a yearly average of 32%, highlighted by a 41% growth from 2006 - 2007. Net income has experienced a yearly average growth rate of 25%, highlighted by a 51% growth from 2006 - 2007. While sales revenue continued to increase from 2007 - 2008, with 33% growth, net income was down from \$563M to \$559M. This decrease in profits was largely due to the 50% increase in fuel prices during the year. The growth experienced by Ryanair in sales revenue and net income during the period of 2004 - 2008 (AOL Finance 2008)

### **Portfolio Analysis by BCG Matrix**

Portfolio of any business is important in order to analyse its market shares and where the business is standing. It can achieve through the BCG Matrix. In Ryanair case, as per the above diagram of BCG (Boston Consulting Group) matrix Ryanair comes under the cash cow. Cash cow is that section of BCG matrix where market share of any business is high and their growing maturity is low in market. Ryanair being a low-fare airlines in European market have captures the entire market in budgeted airlines. Ryanair have outstanding market share and generate a lot of revenue for the company as well as for investor, but they cannot expand their business. Ryanair is domestic flight within the European territory and accumulate high revenue but cannot expand their airline business from European market due to low cost strategies and short haul. They extract profit from the market and investing as little cash as possible.

### **Critical success factors of Ryanair:**

#### **Success of any organisation depend upon various factors such as**

Brand: Brand of Ryanair has been cultivated through constantly providing the same product services to customer. Ryanair brand has been built through their strategies i. e. low budgeted airline in Europe with no frills and sell product on board.

Most important part in creating the Ryanair brand is played by the CEO Michael O'Leary and international media. Michael hard-hitting decision, autocratic behaviour against employee and competitors and controversial statement- " if you want a quiet flight, use another airline. Ryanair is noisy full and always try to sell something ob board. Media always providing free

footage to viewer about the incident in flight for example: Ryanair aircraft unhygienic and poor staff morale and cabin crew sleeping on the job. All these incidents have helped the Ryanair to build its brand image in the world market.

Location: Ryanair being a low-cost airline, airports used by the Ryanair for landing aircraft were secondary and regional airport destinations. For example, Ryanair uses Frankfurt Hahn, 123 kilometres from Frankfurt. During the second half of fiscal 2007 Ryanair faces various challenges related to extra capacity and new routes and locations.

Speed: Ryanair started with fewer flights with the low cost airlines strategies and through these strategies they started capturing the market at a greater speed. Became the world's most profitable airline in Europe. During March 2006 other airlines started charging for check-in bags due to this passengers were carrying fewer bags probably zero check-in bags which reduced the cost and enhanced the speed of aircraft.

Technology: Ryanair incorporated its own travel website, [www.ryanair.com](http://www.ryanair.com), for direct sales of tickets over the Internet to avoid fees and commissions associated with travel agents and reservation systems. Ryanair has steadily achieved the most environmentally-friendly and sustainable by investing in the latest aircraft and technology which reduced 50 per cent less emissions, 45 per cent less fuel burn and 45 per cent lower noise emissions. Ryanair's grown-up Boeing 737-800 aircraft has been replaced with new aircraft which are more environmentally-friendly reducing the average age of fleet to 2.5 years.



Fuel Emissions: International airlines have been responsible for emitting 2.5%- 3% anthropogenic carbon dioxide (CO<sub>2</sub>), International Civil Aviation made regulation to reduce the CO<sub>2</sub>(Scheelhaase J. D, Grimme W. G, 2007). Due to new technology aircraft of Ryanair has reduce fuel emission by 50%.

Noise: Ryanair minimised noise pollution through modern technology aircraft and new modified winglet.

Waste: All International Airlines generates significant amount of waste material through food, packaging, and newspaper distribution. All these item are available free in international airline. Ryanair a low-cost airline with no-frills due to these reason Ryanair is free of from waste.

Management Quality: Ryanair management qualities from the success point of view were efficient to carry out the productivity in the organisation, due to the leadership Quality of Michael O'Leary. From employee's view management were autocratic. Management behaviour towards staff was not acceptable.

Thus critical factors such as Brand, Technology and Management Quality play important role in performance of business activity, if any of these factors fail, success fails.

### **Benchmarking Approach of Ryanair:**

A set of information has been developed by separate indices of benchmarking for different business model. In Ryanair case, Profitability of Ryanair signifies the overall achievement of the business, collection of ancillary revenue from flight is much more than the any other international

flight by selling various goods and services on flight. Distribution strategies of Ryanair: The proportion of sale made by Ryanair is through online reservation system and even they promote the Ryanair through web page. Ryanair has set up the four benchmarks which its competitor cannot match their strategies with Ryanair strategies- firstly airport cost per passenger is calculated, secondly they land on secondary and regional airport which offer lower landing fees, thirdly the weighted average number of full service carriers at the airports served and lastly Ryanair has created the monopoly in budgeted airline (Mason k. J, Morrison W. G, 2009). All this factors make the Ryanair airlines are best- in- class benchmarking in Europe's airlines.

### **Leadership of Ryanair:**

In today's Airlines business leadership and culture is essential in achieving strong business operation. In Ryanair case, Ryanair was struggling to survive in early 1990 but then after new CEO Michael O'Leary. O'Leary changed the design of Ryanair in the model of southwest airlines i. e. a low cost airline this strategy worked for Ryanair. Being transformation leadership his clear vision and empowerment are often observed as important element that has changed the view point of Ryanair. In 2006 Ryanair airline received " WORLD MOST FAVOURITE AIRLINE". Michael O'Leary has served Ryanair for 20 year and makes Ryanair most profitable airline in 2006. In 2005 he was 18th among the World's Most Respected Business Leader in financial times. Ryanair comprising over 25 different nationalities this shows culture of Ryanair is diversifying.

## CONCLUSION

On the intact Ryanair seem to be following a strategy which works for them. They are obviously aware of their business environment and understand the importance of monitoring it as they took advantage of the opening in the market when they restyled themselves over a decade ago. However they need to be aware that this environment is constantly shifting and evolving and therefore maintaining a close eye on it and being ready to adapt to any changes should be a fundamental part of their strategy.

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