

Strategy – ryanair

Business



Global MBA Strategic Management Formative Assignment - Dec 2011

Z0928183 INTRODUCTION Ryanair was founded in 1985 with only two aircrafts and a single Dublin-London route .

By 2010 Ryanair had transformed itself into Europe's leading low cost airlines with 232 aircrafts flying to 153 destination. Ryan Air's strategic objective has been to offer the lowest possible air fare to its passengers and strive towards becoming europe No. 1 Low Cost airlines. In this paper we will explore and analyze Ryanair's competitive position, strategic capabilities and sustainability of its strategies. COMPETITIVE POSITION PORTER'S FIVE FORCES FRAMEWORK; Threat of New Entrants: LOW High entry barrier due to large capital requirement, longer procurement and marketing period.

Restricted airport slots availability. Threat of Substitutes: MEDIUM Threat of alternative mode of transportation like high-speed train and ferries within Europe. Customers can easily switch to driving. Buyer's Bargaining Power: MEDIUM Customers are price sensitive. No customer loyalty as customers can easily switch to another airline offering lower price Supplier's Bargaining Power : HIGH Entire fleet is made up of Boeing aircrafts. Fuel prices are fluctuating. Regional Airports can increase the fees. Internal Rivalry : HIGH Highly competitive Low Cost market with Easyjet, Aer Lingus, etc. Easy to imitate the Low Cost model by a Full Service airline. PESTEL ANALYSIS; Political: HIGH Political stability within europe but risk of tighter regulations.

Airport Security restriction and enhanced passenger screening measures.

Risk of labour law changes. Airport subsidies dependent on regional/local

government. Economical: HIGH Eurozone financial crisis, economic downturn. Rising and uncertainty in fuel cost.

Falling US Dollar. Social Cultural: LOW Change in consumer travel lifestyle and demographics. Customer environmental awareness. Increase in discretionary income, making air travel popular. Business travelers forced to fly in Low-cost airlines due to slowdown. Technological: LOW Increase in aircraft R&D resulting in newer fuel efficient and quieter aircrafts.

Internet technology helps to lower operational costs and create new business opportunities within the airline industry . Technological growth in the cheaper high-speed trains, ferries services. Environmental: LOW Laws to curb Carbon footprint and global warming concerns. Airport curfew regulations for controlling noise pollution. Legal: MEDIUM Potential lawsuits against the legality of subsidies received from regional airport governments. Allegation on misleading advertisements.

Potential lawsuits on passenger discriminations (fat tax, wheelchair fees). SWOT ANALYSIS; Strength: Strong Brand Recognition as a low cost leader. Cost conscious corporate culture with innovative cost reductions. Flight punctuality due to operational efficiency. First mover advantage and high experience curve. Modern and uniform fleet of aircraft.

Happy Employees Weakness: Negative publicity Poor customer service, so customers are coming to Ryanair only for the value for money. Does not fly to major airports. Regional airports limits passenger market. Threats: Full Service airline can easily start a low cost spin-off. Substitute mode of transportation like Cars, Trains & Ferries.

<https://assignbuster.com/strategy-ryanair/>

Pressure to unionize. Fuel Price fluctuations. Opportunities: Expanding tourism industry. Eastern european expansion. Gain further market share by introducing medium haul destinations in eastern europe.

From the PESTEL and Porter's Five Forces analysis, it is evident that Ryan Air is operating in a highly competitive and unfavorable business environment. The biggest macro environment threat facing Ryanair is the political environment and fluctuations in fuel prices, both of which are not in Ryanair's control. From the SWOT analysis, Ryanair strength is being the leader in low cost airline industry. However this cost leadership has come at the expense of customer service. Ryanair should improve its customer service to build customer loyalty. Ryanair faces threats from competitors and substitutes mode of transportation, but should seize opportunities in the eastern European expansion.

STRATEGIC CAPABILITIES Strategic Capabilities and Competitive Analysis; Resources | Competencies | Threshold Capabilities | Aircrafts Employees Financial resources | Point-to-point short haul flights Flying to secondary airports Online booking system with www.ryanair.com | Competitive Advantage | Unique Resources Management and leadership of Micheal O'Leary. " Ryanair" Brand name | Unique(Core) competencies Innovative cost cutting Alternative revenue generation | Ryanair's Strategic Capabilities and Competitive advantage can be attributed to its Unique Resources and its Unique(Core) Competencies; Management and Leadership: Michael O'Leary, the CEO of Ryanair is instrumental in the Low Cost Strategy of Ryanair. Some of the most creative cost cutting methods implemented in Ryanair came directly from him.

<https://assignbuster.com/strategy-ryanair/>

He has been effective in exploiting and managing the core competencies of Ryanair. By developing the human and Social capital overtime, the cost cutting culture is embedded throughout the organization. Ryanair brand : Ryanair has built a strong brand based on cost. The Ryanair brand sends a simple, consistent and compelling message, i. e low cost.

Innovative cost cutting method: The heart of Ryanair's strategy involves reduce cost at wherever possible and pass the savings to the customer with low ticket prices. All the activities in its operations are designed to increase efficiency and reduce costs. To achieve this Ryanair had to continuously come up with very Innovative Cost reduction methods across each and every stages of its supply chain. For example by offering a very few services at the airport, like limited airport check-in facilities or removal of baggage transfer, Ryan Air doesn't have to have personnel in these areas. Lower customer service cost and elimination of ticket agent fees by high utilization of internet to sell tickets.

Ryan Air uses only single type of aircraft, Boeing 737. By having a uniform fleet, it has helped to lower its maintenance costs and time. This reduces cost in maintaining only fewer inventory of aircraft maintenance parts and training of maintenance engineers. Also engineers have become experts in this aircraft and contribute towards innovation on aircraft efficiency. Having fleet commonality helps with quick and flexible cabin crew and pilot assignments. Ryanair flies offers only point-to-point route and flies to less expensive secondary airports which charges lower airport fees.

Since these airports are not very congested, Ryanair can attain fewer delays and higher turnaround times. Ryanair employs a non unionized workforce. Ryanair employees are tied to performance related salary model which forces high productivity among employees. Alternative revenue generation/Ancillary Revenue: Ryanair's ultimate goal is to offer free flights by generating revenue through other means. It has constantly been creative in finding new sources of revenue onboard their flights.

Some examples of this are inflight advertisements, on-board shopping and gambling, pay-per-view television. All the flight attendants get commission on the items they sell onboard. Customer amenities like food and beverages, airport checkin, baggage checkin and any other additional passenger service is charged higher than normal. RyanAir currently generates non-air revenue from third party service providers like car rental, hotel reservation, travel insurance, ground and rail transportation which it sells on its website.

SUSTAINABILITY OF STRATEGY A corporate strategy is sustainable as long its competitive advantage is maintained.

Ryanair will undoubtedly face challenges in the future, however its strategy is sustainable because of its unique resources of ' Ryanair Brand', ' Cost Conscious Management ' and its core competency of ' Innovative cost cutting strategy'. RyanAir's goal is to offer the lowest ticket price and establish itself as a leader in the European low cost airline market by focussing on cost cutting and achieving operational efficiency. Ryanair's corporate policies are all based on cost cutting. Irrespective of whether Michael O'Leary stays or not, the low cost culture is deeply embedded throughout Ryanair's organization and this culture is sustainable. Ryanair's <https://assignbuster.com/strategy-ryanair/>

management and employees have continuously come up with creative and innovative ideas to cut cost throughout its value chain. Also, throughout the years Ryanair has built up a huge low cost operations experience curve which will help it sustain in the future.

Ryanair brand is synonymous with low cost airline. The Ryan Air brand along with its market dominance gives it a huge bargaining power that will help it to sustain its low cost operations. Ryanair has been the most profitable airline and is financially stable to counteract any uncertainty. Now that Ryanair is a leader in low cost airlines industry, it can benefit from economies of scale, corporate infrastructure to achieve lower costs and higher profits. REFERENCES About Us. (2011), Available at: <http://www.ryanair.com/en/about> , [Accessed on 11 November 2011]. Johnson, G. , Scholes, K. ; Whittington, R. , (2008), Exploring Corporate Strategy, Eight Edition. Prentice-Hall.