

# Ryanair case study essay sample

[Transportation](#), [Airlines](#)



### *Airline Industry Dynamics*

Airline industry is one of the profitable industries which is characterized by rapid technological and marketing changes, and competitive environment. Marketing strategies employed by airline companies include a wide variety of techniques aimed to deliver customer satisfaction and safety. New product and services development, technological changes mark the main strategic activities in this market segment. At the end of XX century, many airline companies have been able to fly into more countries and offer lower ticket prices to passengers. Ownership of many airline companies is shifting from government to private hands. Also, the carriers are rushing to form strategic alliances as the race of industry globalization increases. Nowadays budget airline industry is characterised by intense competition levels. The main world's airline companies include Lufthansa, British Airways, Virgin Express, Hapag Lloyd Express, Germanwings and Air Berlin, Alitalia, BMIbaby, KLM, RyanAir and its direct competitor EasyJet.

### *Current Position of Ryanair Holdings Plc*

In spite of the fact that recent years airline industry is faced decline caused by terrorists attacks and low profitability, Ryanair remains one of the most successful European carriers and an excellent example of a company able to compete in spite of unfavorable market conditions. For instance, “ Ryanair has become the first European low fares airline to carry more than 2 million passengers in one month, with 2.04 million carried in July, 2003 (Business Directory Profile, 2006). Ryanair Holdings Plc is a low-cost carrier with annual profit about £320 m. Ryanair “ the fast-growing low fares airline based at

Stansted, posted a 17% rise in first half pre-tax profits to £42. 9m, from £36. 5m” in 2005 (Business Directory Profile, 2006). Ryanair Holdings Plc provides a transportation service on over 100 routes . According to data announced October 4, 2005 the fleet of the company includes 9 Boeing 737-200A and 83 Boeing 737-800 aircraft. “ Ryanair Holdings offers approximately 600 scheduled short-haul flights per day that serve 107 locations in Europe, including 24 locations in the United Kingdom and Ireland” (Ryanair Holdings plc (RYAAY). Yahoo Finance, 2006).

### *Organization’s Strategic Position*

The macro environment affects not only an organization in an industry, but also the whole industry itself. PESTanalysis helps to determine the main factors of the market changes from the standpoint of a proposition and competition.

<i>Political</i>	<i>Economic</i>	<i>Social/ demographic</i>	<i>Technological</i>
EU trade regulation(protecti st laws);	High record of airline industry growth;	Lifestyle changes (involve aging of population);	Technology transfer; Information technology and
Employment law; Government policies;	Interest rates and low inflation rates;	Life style and values are similar across European	Internet(94 % f sales);
EU political east- enlargement provides	Taxation;	countries.	Innovation in production

access;

Advanced country                      Stable economic  
    development of the                      technologies.  
laws;    region.

Trade union policies.

PEST helps to analyze external drivers that have a great impact on organizational success of Ryanair. Strong legislation and stable economic situation in the region allows Ryanair to sustain competitive market position. In spite of the fact that European Commission has the main influence on airline industry, new rules accepted by EU Commission do not prevent Ryanair from rapid growth. Also, trade union policies pursued by pilots suggest a heavier burden for Ryanair. The events of September 11 have not had a great impact on Ryanair: " Operating only in Europe (where traveler paranoia is considerably less), Ryanair hasn't been affected" (Ryanair focuses on the future, n. d.). Socio-demographic situation in the region is stable, but the main weakness is that the nations getting older and more and more people prefer to use cheaper ways of travel.

Their target market is validated. The changes in the environment are changed the demand, but they do not have a significant influence on customers' purchasing power. Technological factors are dominant for Ryanair. For instance, in 1998 Ryanair bought 45 newest Boeing aircrafts. Also, its fleet grew from 22 aircraft in 1999 to 54 in 2003. Innovation in production technologies and computerized system of services is the main advantage of Ryanair. Ryanair obtain a strong market position because the technological advances maximizes security of customers and fasten the

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process of informational interchange. Intranets allow to react faster delivering customer satisfaction. Ryanair has to spend its own resources in order to meet the requirements focusing on technological efforts, security (McDonald, Christopher, 2003; Ryanair, Home, 2006).

## SWOT

The micro environment comprises the industry in which the business competes. Ryanair operates on the dynamic market where the main objective is to maintain the high level of service quality and develop strategies to improve their services. The purpose of a airline industry is to get and keep a customer. Market is usually affected by the factors in this environment often and it may be able to have an influence upon it.

<b>Strengths</b>	<b>Weaknesses</b>
Strong	Service
Brand	Marketing
Equity	Lack of
Financial	Flexibility and
Success	Business Focus
Creativity	Difficult
Online	Differentiation
sales	(focus on price and convenience);

Recruitment

Difficulties

Seasonality

**Opportunities**

Favourable Economic  
position

Opportunities from  
the Regional Market

Reduced aircraft  
prices

**Threats**

Expansion

Difficulties

Growing and

Fierce

Competition

Economic

Downturns

Low growth rate in

future

Taking into account the factor mentioned above it is possible to say that Ryanair obtain a competitive position on the market. Ryanair operates on the dynamic market where the main objective is to maintain the high level of service quality and develop strategies to improve their services. The purpose of every carrier is to get and keep a customer. The opportunities include high potential to growth and profitability of the company, professional management team able to assess and develop marketing strategy for future.

The main threats are raising costs wages and transfer fees (bank interest charges, policing equipment), authority refusing planning permissions; possible substitution, new market entry, high fuel prices. Weaknesses can prevent Ryanair from rapid growth. They involve: the decrease in price level, obligatory compensation for cancelled flights, seasonality. The main threat to Ryanair is that “ The largest market is not interested in flying for the lowest price but in the optimal balance between service and price” (Ottink, 2006). Nevertheless, strong position of Ryanair will help the company to compete on the market and find new market niches in future (Binggli, Pompeo, 2002).

*Porter's 5 P's (Forces)* (Porter, 1985)

Supplier Power

Threat of Forward Integration

Impact of inputs on cost  
differentiation

Barriers to Entry

Economies of  
scales

EU policy

Brand Identity

Cost Advantage  
(no-frills)

RIVALRY

Large number of competitors

High fixed costs

Diversity between competitors

Threats of Substitutes

Switching costs

Buyers are apt to use  
low cost transport  
services (car, train)

### Buyers Power

Volume of buyers

Strong brand image

Substitute services

Price sensitivity

Service differentiation

This model shows that new entrants to an industry raise the level of competition, thereby reducing its attractiveness. Ryanair has competitors, but they do not have a great influence on the company's revenue. The presence of substitute services like trains, ships or automobiles transportation can lower service attractiveness and profitability as well as the price levels. The events of 11/09 and recent crashes of Boeing planes occurred this year reduce the attractiveness of airline services. Many potential passengers prefer to use alternative transport even if it takes more time to get to the place of destination. In this case the bargaining power of customers is not crucial.

The ultimate aim of customers is to pay the lowest possible price to obtain the services that they require. A source of customers power is the willingness and ability to achieve backward integration. Supplier power in the airline industry is the converse of buyer power (Sorensen, 2004). Suppliers have enough leverage over industry firms, and raise prices high enough to significantly influence the profitability of their organizational customers. The high fuel prices become a real danger for airline industry's profitability. The



rivalry between existing competitors is strong. For substitution of service within airline industry, switching costs are very low. For indirect substitutes (those provided by other industries), there are likely to be higher actual or perceived switching costs. (European Low Cost (No-Frills) Airline Industry, n. d.; de Groote, 2006)

### *Strategic Position*

Ryanair is an expert and leader because its marketing challenge is to position service offerings as the high quality, high value-add alternative. Rivalry is fierce because there are several market leaders including Ryanair. In general, Ryanair is well-positioned to take on this important leadership role. It has the resources and certainly has the technological capability. Clearly, some companies in the same industry are more successful than others, lending support to the view that competitive advantage is largely internally developed.

The first group of competitors includes local companies; the second group involves international companies and international competition, and the third one is global competition: Lufthansa, British Airways, KLM, Virgin Express, Hapag Lloyd Express, Germanwings and Air Berlin, Southwest Airlines, BMIbaby, EasyJet. In this case, Ryanair develops successful multidimensional strategy to cover three competitive segments: local (national), and international. This strategy involves brand positioning, market segmentation, and strategic alliances. New Ryanair competitors may find it difficult to gain access to delivering products, which will make it difficult to provide their service to customers or obtain the inputs required or find

markets for their outputs. The nature of competition for Ryanair does not differ from other industries.

5 Generic Strategies created by M. Porter it is a useful tool to analyze competitive advantage of Ryanair. This framework is based on two types of sources of competitive advantage: low-cost and differentiation. Combination of these two forces with the scope of the target market served yields four generic strategies: cost leadership, product differentiation, cost focus and focused differentiation.

**Advantage**

		Lower cost	Differentiation
	Broad target	Cost leadership	Differentiation
Competitive			Focused
scope	Narrow Target	<b>Cost focus</b>	Differentiation

Ryanair follows cost focus competitive strategy focusing on a particular geographic market. This helps Ryanair to serve only this niche, to the exclusion of others. The cost focus strategy is effective because focuses its efforts Ryanair is better able to serve its narrow strategic target more efficiently than can its competition. The aim of the company is to maintain the level of service and product quality and develop strategies to improve their product/services. Recent years, Ryanair is affected by different factors of environment which have a great influence upon it, for this reason it needs new product line, Ryanair, to attract new customers and compete on the

global scale. Ryanair creates a low cost product for specific target market (Ottink, 2006; Ryanair. Home, 2006).

### Core Competencies

In 1990, core competences or distinctive capabilities were developed by G. Hamel and C. K. Prahalad. They were those who gave a detailed analysis of this phenomenon. The approach is ‘inside-out’, suggesting that businesses seeking competitive advantage must first examine and develop their own distinctive resources, capabilities and competences before exploiting them in their environment. Core competence must provide potential access to a wide variety of markets, make a significant contribution to the perceived customer benefits of the end product, and be difficult for competitors to imitate.

#### Core Competencies

1. A strong leadership in low cost airline industry
  2. Strong brand proposition focused on a particular customer group
  3. High Quality service at low price
1. Competitively unique: difficult to imitate (high quality and low price) ( Ryanair, Home).

Ryanair builds leadership in four fundamental competencies. In the long run, it will derive its competitiveness from its ability to bring high-quality, low-cost products to market faster than its competitors. To do this, Ryanair must be viewed as a portfolio of competencies rather than a portfolio of businesses (Ryanair. Business Directory Profile, 2006 ). The concept of distinctive competencies challenges Ryanair’s executives to rethink the

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concept of the corporation itself. It also redefines the task of management as building both competencies and the administrative means for assembling resources spread across multiple businesses (Ryanair Holdings plc, 2006).

Ryanair increase value by finding ways to cut costs and prices. Customers buy products not for their features, but taking into account perceived value it delivers. Ryanair uses different features and functions that focus consumers attention on design. Also, some customers of Ryanair Similarly, potential customers buy products considering a product's perceived price.

Considerably low cost and high quality of goods help Ryanair to add perceived customer value. Also, strong brand image and publicity support the goals of the company in this field. The remarkable feature of Ryanair is that it offers a combination of high quality product, distribution and promotion benefits and the lower prices than competitors.

### Value Chain

Ryanair takes advantage aims to be a cornerstone in the community creating a neighborhood atmosphere where customers feel comfortable and become instant regulars. Added value is influenced by knowledge, relationship selling and history of Ryanair. Many companies have a very low level of service quality, that is why the next strategic movement will be towards maintaining customers satisfaction and increasing customers loyalty. The key factors for future competitive success is care more about reliable service and confidence than about the lowest price (Johnson, Scholes, 1998; Marks, 2005).

## Conclusion and Perspectives

In general, the outlook of the airline industry does not present Ryanair airlines with attractive perspectives for profitability. Bankruptcy of several carriers, tight competition and high fuel costs suggest that profitability of the industry is problematic. In spite these facts, strategic analysis shows that Ryanair is one of the most successful low cost carriers today.

Bear in mind the models and analysis it is evident that strategy of Ryanair includes the determination of the basic short-term goals concerns the conceptualization of coherent and attainable strategic objectives. It obtains strong market position, and the adoption of courses of action is an urgent need for Ryanair in near future. The company's allocation of resources refers to the fact that there is likely to be a cost associated with the actions required to achieve the objectives. The ability of Ryanair to use its resources and capabilities to develop a competitive advantage through distinctive competencies shows that it is able to sustain competitive position. New technology and innovations make Ryanair core competency the main sources for added value.

Ryanair is an expert and leader in Airlines. Its marketing challenge is to position service offerings as the high quality, high value-add alternative. Opportunities and Strengths of Ryanair help the company to compete on the volatile market. The intensity of rivalry between competitors in an industry is fierce.

Another important feature of Ryanair is the non-price competition which takes form of branding and service innovation. The inverse relationship between profit margins or returns and the intensity of competition: as the intensity of competition goes up, margins and returns are driven down. Ryanair target is on average as dependent on reliable information technology as any other businesses. They care more about reliable service and confidence than about the lowest price. They don't want to rely solely on their own expertise, so they choose instead to deal with us with our promise of service and support when needed. Ryanair business processes will help to satisfy requirements of different clients. It will help to meet the needs of a particular customer and providespecific personal service for every supplier and customer.

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