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Instructor’s Manual 368 © PearsonEducationLimited 2005 CASE TEACHING NOTES Ryanair – The Low-Fares Airline Eleanor O’Higgins 1.

Introduction Ryanair was the first budget airline in Europe, modelled after the successful US carrier, Southwest Airlines. The case offers students the opportunity to evaluate the strategy of Ryanair against the backdrop of the European airline industry and the burgeoning budget sector. Business students at all levels enjoy this case and relate to it, since air travel is an activity virtually everyone has experienced and we all have war stories to tell about the various airlines with which we have travelled. The Ryanair case has been used successfully with students from Ireland and other European countries, as well as with North American and Asian students. The case would suit all levels of business students, from a capstone undergraduate course on strategy, to post work experience MBA and executive education programme participants. It has been used effectively with all these types of groups. The case consists of: • a description of the challenges besetting Ryanair in 2004; • a history of Ryanair and its principal characters; • an outline of Ryanair’s robust performance in the period preceding the 2004 difficulties; Ryanair’s operations as a budget airline; • a description of Ryanair’s battleground, the European airline industry, as the competitive landscape continues to change; • a profile of Michael O’Leary, Ryanair’s ebullient CEO.

2. Position of the case The case is a comprehensive one and would be well placed towards the end of a course on strategic management. At this stage, students will have learned something of the economic, organisational and human context of strategy. The case concentrates on how to analyse industry environments, and internal resources/capabilities of companies and Instructor’s Manual 369 Pearson Education Limited 2005 their connection to the concept of sustainable competitive advantage. In sum, the Ryanair case illuminates how a strategy that is grounded in the best deployment of assets/resources/competences, and adding perceived value to customers, delivers sustainable strategic advantage. But the case also illustrates the difficulties and obstacles that stand in the way of achieving and retaining such advantage. Important strands in contemporary thinking about strategy are brought together – the ‘ positioning’ approach of Michael Porter, 1 and the ‘ resource based’ view of Jay Barney.

It delineates the issues of balancing cost containment, pricing and customer expectations. Those participants with work experience can engage more with the internal management aspects of the case, e. g. leadership, culture, the human resources issues. Suggestions are also given in this Teaching Note for using more advanced analytical techniques, such as scenario analysis. The case can also be used for a continuous assessment assignment, either by group or individually, and for acase studyexamination. Previous versions have been used in these ways.

The case relates to all chapters of Exploring Corporate Strategy, but most specifically to Chapters 2, 3, 4, 5, 7, 10 and 11. 3. Learning objectives The overarching teaching objective is a comprehensive strategic analysis and evaluation of a business enterprise which includes: • an in-depth environmental analysis (Chapter 2); • an all-inclusive integrated understanding of the functioning of a company – its human and technical operations, leadership, customer relationships, financial structure, etc. (Chapters 3, 4 and 9); • the implications of the internal functioning to create viable strategic positioning (Chapters 3, 5, 7, 9 and 10); paradoxically, how the process of sustaining competitive advantage is a dynamic one, requiring constant adjustment, alongside external and internal monitoring (Chapter 11). 4. Teaching process The case breaks down into two inter-related parts that can be organised into two sessions. The first session (1? to 2 hours) could cover an environmental and European airline industry analysis, with implications for the budget sector and Ryanair in particular.

Armed with the industry analyses, students can do some preparation between Instructor’s Manual 370 © Pearson Education Limited 2005 essions, either individually, or in groups, to deal with an evaluation of Ryanair itself, the subject matter for the second session (approximately 2? hours). 5. Questions for discussion The crux of the case is to evaluate Ryanair’s strategy, having analysed the competitive arena in which Ryanair operates and its own particular mix of resources and operations. This entails an assessment of the sustainability of Ryanair’s strategy. The issues in the case can be broken down by addressing the following list of questions which follow a natural sequence that can generally be applied to the strategic evaluation of most companies. First class session: 1. Analyse the European airline industry, with implications for the budget sector, and especially Ryanair.

Second class session: 2. Evaluate Ryanair’s strengths and weaknesses. 3. Is Ryanair’s strategy sustainable? 4. Would you recommend any changes to Ryanair’s approach? 5. Evaluate the strategic leadership of Michael O’Leary. 6.

Case analysis 6. 1 Analysis of the European airline industry, emphasis on budget sector (Refer to Chapter 2 in Exploring Corporate Strategy. )The best way to approach this question is to go from the broadest unit of analysis to the narrowest: (a) analysis of the whole European airline industry, through to the budget sector, (b) mapping strategic groups in the budget sector, and (c) an examination of individual competitors, to ascertain whether there are any that pose a special threat to Ryanair. (a) Porter’s ‘ Five Forces’ model This can be used to analyse industry structure as a good starting point, because it easily incorporates the external influences (PEST) and criteria for success that face airlines in Europe, as well as specifically those in the budget sector. Instructor’s Manual 371 © Pearson Education Limited 2005 (i) Competitive rivalry General: • Increasing rivalry, due to deregulation, more competitors on more routes creating overcapacity, growing power of buyers. • Rivalry, along with non-viable cost structures have ruined some national carriers, e. g.

Swissair, Sabena (Belgium) and others, e. g. Deutsche BA. • Consolidation and rationalisation • Airlines try to counter increasing rivalry by forming strategic alliances; • Mergers & acquisitions, e. g. Air France-KLM. • Attempts by airlines to increase customerloyaltythrough frequent flyer programmes, various perks to regular customers.

Mainstream airlines vying for premium business passengers by offering enhanced services, comfort, etc. • Economic downturn in US and overcapacity on North Atlantic routes forces carriers to concentrate rivalry and price-cutting on intra-European and especially North Atlantic routes. Budget: • Increasing number of rivals entering sector; as more rivals develop route systems budget airlines will find themselves competing head-to-head on the same routes. • Mainstream airlines trying to recapture customers from budget airlines by ultracheap fares on short-haul intra-European flights, e. . Aer Lingus in effect becoming a budget airline. • Cost is critical to enable carriers to compete with lowest fares.

• Potential trend among some competitors to add some ‘ frills’ and flexibility, e. g. Virgin Express adds ‘ comfort’, easyJet adds flexibility. • Some differentiation based on main airport locations, but more expensive for carriers • Capacity utilisation (load factor) especially critical in low margin industry ? increased rivalry. Instructor’s Manual 372 © Pearson Education Limited 2005 Ryanair perspective – intense and increasing competitive rivalry (ii) Threat of entryGeneral: • EU deregulation has removed barriers to entry for airlines based in Europe. • New entrants into different EU national markets can be other existing EU based airlines or newly established airlines taking advantage of deregulation. • Airlines from 10 new EU member states can now gain access.

Some already competing strongly, e. g. , from Hungary and Poland. • Newly established airlines or established airlines on new routes might have to be prepared to losemoneyfor a period of time ? requires strong financial backing. Scarcity of landing slots, and reserved slots for national carriers, serves as barrier to entry at certain airports, e. g. British Airways slots at Heathrow, Air France at De Gaulle.

Budget: • Perceived customer demand attracting new entrants to budget sector. • Established airlines can enter budget from different market bases, e. g. mainstream airlines go ‘ downmarket’ like Aer Lingus, or set up separate budget subsidiary, as Lufthansa has done with Germanwings. Or charter airlines can enter by moving into low fare scheduled services. Ryanair perspective – moderate threat of entry (iii) Power of suppliersGeneral: • Aircraft suppliers – oversupply of aircraft and fierce rivalry between Airbus and Boeing. • Stronger airlines, larger orders get better deals.

• Route cutbacks since 2001 by mainstream airlines have released almost-new second-hand aircraft on to the market, reducing aircraft suppliers’ power. Instructor’s Manual 373 © Pearson Education Limited 2005 • Fuel suppliers – depends on supply, and subject to fluctuations. Oil is a finite commodity. In 2004, oil prices rose sharply because of uncertainty about supplies from Nigeria, Russia and Iraq, three of the world’s top producers. Airports – range from primary to secondary; primary have greater power, but generally power of airports increasing as air traffic in Europe is increasing. • Airport services suppliers – bigger demand for such services thanks to deregulation, growth and outsourcing, but EU legislation ensures competition, reducing power of suppliers. Budget: • Aircraft suppliers – hegemony of Boeing in budget sector broken by Airbus giving Boeing less power.

• Larger orders get better deals like Ryanair deals. • Fuel – as in general case, but budget airlines have less capacity to pass on fuel cost rises to price-conscious passengers. Airports – smaller secondary airports want business from budget airlines, offering good deals – but subject to EU constraints – but demand on secondary airports increasing, e. g. popularity of Stansted – removal of intra-European duty free a bigger blow to revenue of smaller airports, used by budget carriers, without compensating extra-EU traffic; therefore, more likely to increase prices to airlines to compensate for loss of duty free revenue. • Airport service suppliers – as in general case, but budget airlines more likely to outsource. Ryanair perspective – low to medium power of suppliers (iv) Power of buyersGeneral: • 75 million new consumers from 10 new EU member states.

• Passengers have more choice and access to information via the Internet – although this can be confusing re special deals hedged with conditions and limited seats availability. Instructor’s Manual 374 © Pearson Education Limited 2005 • Distribution – power of travel agents decreasing vis-a-vis airlines; passengers can shop for flights on the Internet; also, trend to direct booking; travel agents try to win back business by offering ‘ complete travel solutions’ to customers. Budget: • Budget airline fares appeal to price-conscious travellers. Increasing numbers of value-conscious business travellers use budget airlines – especially valued for flight frequencies on routes and punctuality.• Distribution – direct Internet booking very convenient for simple point-to-point travel typical of budget airlines, and cost effective for airlines; network bookings less suitable for ‘ complete travel solutions’ offered by travel agents. • New competitors in budget segment increase buyer power and force down prices. Ryanair perspective – strong power of buyers (v) Threat of substitutes General: • Fast rail and cross water tunnels and bridges enable faster and more convenient land travel.

Price of rail substitute is important. • European mainland vacationers often use cars. Budget: • Rail and road more likely to be viable substitutes for the shorter journeys typical of budget airlines. • More difficult for rail prices to compete with low budget airline fares for priceconscious travellers’ business. Ryanair perspective – fairly low threat of substitutes (b) Competitive groupings within the budget sector Having identified the challenges facing the budget sector of the European airline industry, it would be helpful to examine whether the sector can be broken down into subgroups with similar competitive postures. This exercise could help to identify those Instructor’s Manual 375 © Pearson Education Limited 2005 rivals who are most threatening to Ryanair. A strategic group map is an effective technique for identifying the relative strategic positioning of competitors.

Chapter 3 of Exploring Corporate Strategy delineates how to draw and interpret strategic group maps. Firstly, students should identify the various key factors that discriminate among the competitors in the budget sector. These could include: xtent of route system, geographic markets served, average flight frequencies on routes served, extent of added frills, profitability, p/e ratios, ownership by another airline, use of strategic alliances, capital structure, capacity utilisation, etc. In addition to some information contained in the case, (especially Case Exhibits 1, 6, 7 and 8) the most up-to-date information on competitors can be obtained by students as part of the exercise of constructing the group maps, by visiting the websites of the various competitors. The most relevant rivals of interest are easyJet, Virgin Express, bmibaby, flybe, MyTravelLite, Germanwings, Aer Lingus. Students can develop a number of strategic group maps using all or some of the dimensions suggested above, and/or others they identify themselves, two at a time. By piecing together the different implications from the different maps, this will lead to a rich understanding of competition within the budget sector.

An example of a strategic map is given in Teaching Note Exhibit 1. The dimensions used are (i) extent of route system and (ii) customer service perceptions (see Exhibits 4 and 5 in the case). The proportions of the circles reflect the relativities in market share. Students could be asked to draw some conclusions from Exhibit 1. Several useful observations about Ryanair’s positioning can be elicited from studying the map. Firstly, Ryanair is obviously the largest in terms of market share, and has the most developed route system. It is definitively positioned as offering the most perceived basic of services.

Its nearest rival, easyJet, does not have the extensive route system of Ryanair, and is not perceived as quite as basic. The lower part of the map shows new, as yet small, entrants that fall into two types. One is following the basic model of Ryanair. The question is whether these new entrants can ever get to the critical mass to compete with Ryanair and beat Ryanair at its own game, if they encounter Ryanair head-to-head on the same routes. How can they outlast Ryanair in a price war? The other group in the lower part of the map is adding customer ‘ frills’ and uses main airports, exemplified by flybe. The latter type may be trying to compete in what is perceived as an attractive gap between premium priced business class services and the most basic budget airlines, appealing to the price-conscious business traveller. The issue for the members of this cluster is their ability to organise the provision of added services and convenient airports without compromising the quintessential combination of cost effective operations typical of Ryanair.

So, instead of capturing a lucrative strategic space, they could find that they are losing out to the mainstream carriers at the Instructor’s Manual 376 © Pearson Education Limited 2005 top end and the budget carriers at the lower end. If this lucrative segment exists, the successful competitors will have to be able to provide for it at the lowest cost in the segment, i. . an effective ‘ best cost provider’ strategy. 3 Many previous incumbents of this niche (Debonair, Go, KLMuk/Buzz) have disappeared and Virgin Express is struggling. This suggests that in the budget airline sector, a best-cost producer strategy may not be viable. The map indicates that easyJet is definitely Ryanair’s closest competitor.

However, should Ryanair be worried about the likes of Aer Lingus, a mainstream airline that is capturing budget-conscious travellers and still making a profit? Is it possible that mainstream airlines like Aer Lingus can cross subsidise their budget operations from other longer-haul route profits? As indicated above, further maps can be constructed to complement the one in Teaching Note Exhibit 1, to provide a comprehensive picture of the competitive strategic space of Ryanair. (c) Evaluating selected individual competitors The next stage in industry analysis is the evaluation of those competitors that compete in the same arena as Ryanair. This evaluation helps to predict the actions of individual competitors and the impact of those actions on Ryanair. Again, the websites of the individual competitors detailed above should be sourced. Aer Lingus: • legacy rival of Ryanair, full service Irish national carrier, 100% government owned, but government hoping to sell off; subject of MBO bid in July 2004; • traditionally high cost, almost completely unionised; • reinvigorated after near bankruptcy in 2001/02; recovery thanks to cutting one-third of staff and severe cost-cutting plan; • styled as a no-frills low-fares airline on many European routes, although still uses seat assignments, primary airports; a direct competitor to Ryanair on some routes out of Dublin and out of the UK, London generically; • member of One World strategic alliance; • North Atlantic routes very important. Instructor’s Manual 377 © Pearson Education Limited 2005 easyJet: • most direct rival to Ryanair; inherited slots at Stansted from Go, rivals Ryanair on value-for-money image; • stabilising after aggressive growth spurt, including digesting Go; • better customer satisfaction and load factor than Ryanair, but poorer punctuality record; • shaky profit record ? less deep pockets than Ryanair for price war. Virgin Express: • generally loss-making, no clear strategy; • past best cost provider strategy (legroom, pampering, primary airports, etc.

) seems to be failing, because not taking in high yields ? high break-even load factor; • seeking expedient takeover by SN Brussels Airlines, as Richard Branson’s interest and attention directed elsewhere; • leases most of its aircraft, may be expensive, creating low operating margin; cannot take advantage of fluctuations in supply of aircraft? • diminished threat to Ryanair. 6. 2 Evaluate Ryanair’s strengths and weaknesses Refer especially to Chapters 3 and 5 in Exploring Corporate Strategy. ) (a) Strengths This question can be approached by listing Ryanair’s strengths in relation to competitors, and evaluating whether any of the strengths are sources of sustainable competitive advantage. To fulfil this criterion, they should (1) offer superior customer value, (2) be rare and (3) not be easily imitable by competitors. 4 • Ryanair first budget airline in Europe, market leader with first mover advantage. • Most developed route system with frequent departures on many routes and reasonable punctuality ? re-empting potential competitors on the same routes, unless they can offer better value than Ryanair through lower prices (which requires them to have lower costs or take the pain of losses – e.

g. withdrawal of Go from Dublin-Scottish routes in 2001) and /or extra services (but customers must consider these worth paying for). • Customers happy with value for money proposition of Ryanair. Instructor’s Manual 378 © Pearson Education Limited 2005 • Pursuing clear strategy, efficient and effective low cost operator (Case Exhibit 6); activities fit together to create low cost ? ifficult to undercut Ryanair on cost, and therefore on price (but see weaknesses for some cost vulnerabilities). Low and reducing break-even load factor, easily cleared, reduces financial risk. Similarly, average length of passenger haul is moving in the right direction, as is number of employees per aircraft ? reducing cost per Available Seat Mile (ASM) and Revenue Seat Mile (RSM) ? good operating profit up to fiscal 2004 ? healthy balance sheet and war chest. • Ryanair is creative and resourceful in constantly finding new sources of revenue – e.

g. outside plane sponsorship, on board entertainment and sales. Leadership – Michael O’Leary and management team are determined competitors. (See discussion on question 5 re strategic leadership issue, below. ) (b) Weaknesses In an inverse way, Ryanair’s weaknesses can be listed and assessed to see whether any of them create critical vulnerabilities that impair Ryanair’s positioning and viability. • Cost structure – aircraft utilisation in question with lower number of hours per day than easyJet; also, older aircraft entail higher fuel and maintenance costs; currency fluctuations make fuel costs unpredictable. • Overly cost conscious? Could be irritating to passengers.

Note that customers are very dissatisfied with Ryanair, other than value for money. This suggests that low fares are the only factor that attracts customers to Ryanair. Previously relatively high customer satisfaction rating of Buzz appears to have been obliterated rather than leveraged in the way Buzz has been subsumed into Ryanair. • Very vulnerable to financial market sentiment and high expectations, so profit warning was disastrous for share price. Also, majority free floating shares could result in over 50% ownership outside EU ? loss of airline licence. Staff issues – EU legislation regarding compulsory trade unions, alongside history of industrial relations problems; question marks over staff commitment and loyalty. • Outsourced services outside Ireland may mitigate against employee commitment and intense company knowledge necessary to create adequate customer service.

• Reputation – Ryanair has antagonised many constituencies (trade unions, competitors, Aer Rianta, some politicians, officials and journalists) whose support might have been useful in certain situations, e. g. the EU decision about Charleroi, the court decision on wheelchairs, etc. Instructor’s Manual 79 © Pearson Education Limited 2005 • Much antagonism against Ryanair is really directed against Michael O’Leary personally. Is his personal ‘ in-your-face’ style a double-edged sword? (See discussion on question 5, below. ) 6. 3 Is Ryanair’s strategy sustainable? (Refer to Chapters 3, 5 and 7 in Exploring Corporate Strategy.

) On the ‘ strategy clock’ (Chapter 5), Ryanair is firmly in the ‘ no frills’ #1 position, highly dependent on charging low prices. The question is whether Ryanair’s formula enables the airline to continue in its leadership position of the budget sector of the European airline industry. It can be addressed by evaluating: • how the strategy meets customer expectations compared to competitors, and • how efficiently Ryanair is delivering the strategy in comparison with competitors. Combining these two evaluations against the background of the challenges in the analysis of the budget sector industry will give students some insights about how sustainable Ryanair’s strategy really is. 5 Teaching Note Exhibit 2(a) is a diagrammatic representation of how perceived customer value interacts with efficiency to produce sustainability. (a) Customer viewpoint Ryanair has succeeded in penetrating Irish, UK and mainland Europe markets. Surveys suggest low customer expectations of service, but the fact that Ryanair gets them to their destinations, sometimes for nothing other than taxes, appeals to customers.

• Previous recessions have demonstrated the robustness of the budget sector. Once people have traded down, or experienced very low fares, they are reluctant to pay higher ones again, even after economic conditions have improved. • Some of Ryanair’s cost cutting efforts might put off some passengers (e. g. roposal for carry-on luggage only, flight ‘ consolidations’, which can be annoying and inconvenient, especially for business travellers). These adverse effects are less likely to occur with passengers who would not travel at all unless they could travel for the ‘ price of a pair of jeans’ (to quote easyJet), or those who would endure these inconveniences for very low fares. This means that Ryanair will have to keep offering aggressively low fares to this segment.

• Competition in the budget sector is intensifying. In particular, easyJet is an aggressive competitor on many of the same routes as Ryanair. It may appeal to those customers who consider Ryanair’s product to be too basic, as may some new entrants who offer a less basic product, such as flybe. However, the question is Instructor’s Manual 380 © Pearson Education Limited 2005 whether the less basic service can be operated at low enough costs to charge low fares and still make a profit. Also, Ryanair seems better on punctuality than easyJet. (b) Producer/efficiency viewpoint • Ryanair has put all the pieces within its control in place to run a budget airline, as demonstrated by its low break-even load factor. However, certain cost advantages which Ryanair now enjoys could disappear: – Favourable treatment by airports and service suppliers.

Due to EU moves against anti-competitiveness, Ryanair will no longer be able to avail of discounts, grants, etc. , relative to competitors. As airports like Stansted, one of Ryanair’s mainstays, become more popular with budget and even mainstream airlines, Ryanair’s airport and associated charges are bound to go up. It is hardly realistic for Ryanair to pull out of a hub like Stansted or Dublin, as the airline had threatened to do if charges rise. – Staff costs. EU legislation curtailing working hours and making worker participation compulsory could simultaneously curtail worker flexibility and raise staff costs. Share options for staff could also lose their attraction relative to a wage rise, given the drop in the share price.

• While the above factors could eat into Ryanair’s profits, still other issues can prove differentially disadvantageous for Ryanair against some of its rivals, since its advantage is overwhelmingly dependent on low fares, in turn dependent on low costs. For instance, a rise in fuel charges would adversely affect Ryanair more than its competitors due to its older aircraft. The latter factor also increases maintenance costs and entails capital expenditure for refitting, etc. (c) Sustainability Ryanair is probably in Quadrant 2 of Exhibit 2 in terms of sustainability. While it gets a high vote on value for money, doubts over customer satisfaction as compared to other airlines suggest that it could not be placed in the high category on perceived customer value delivery. Although customers rate the components of the Ryanair experience poorly, the carrier comes out quite well in the proportion of passengers who would definitely or probably recommend the airline to a friend. Ryanair aims to offer customers a reliable short-haul air service at low fares and succeeds in this ambition.

Now the question is whether this ambition still serves the company well, as it might be vulnerable to attack from competitors which offer a more satisfactory experience. (The issue of strategic purposes in Chapter 5 can be applied regarding the issue of company vision and mission. ) Its current mission means that Ryanair must compete mainly on price to keep its price-sensitive customers and attract new ones. How equipped is Ryanair to do this? It depends on keeping down costs. On this front Ryanair knows no equal, and seems well protected in the short term. This is demonstrated in its low and declining break-even load factor, considerably lower than Instructor’s Manual 381 © Pearson Education Limited 2005 easyJet. However, section (b), above, suggests that Ryanair could have some difficulty holding down its costs in the longer term, and there may be some practical floor to this anyway.

However, maybe this is unlikely to affect it severely in the shorter term, with its commanding lead in the budget sector. Also, as predicted by Michael O’Leary himself, Ryanair will find itself in vicious price wars on a number of fronts, even if no one airline has the wherewithal to defeat the Irish carrier on its own. Price wars could badly affect profits. This could deplete Ryanair’s erstwhile robustness and have a further negative effect on its share price. Ryanair’s free seat giveaways are interesting. While they do fill empty seats, it is questionable as to whether they create long-term loyal customers, if the experience itself isn’t so great. However, free seats are a way of diverting passengers away from competitors who cannot afford to emulate the giveaway tactic.

This might deter potential entrants and drive out those competitors who decide to engage in war with Ryanair on the basis of price – unless those competitors have pockets as deep as Ryanair, or lower costs, or can add more service features without sacrificing cost. At the moment, there is no one around who can achieve any of these feats. So, while Ryanair might be sacrificing short-term revenue with the giveaway tactic, it is a way of ensuring its long-term supremacy. Another alternative for Ryanair is to attempt a move into the highest sustainable category (Teaching Note Exhibit 2(b)). It could shy away from competing so exclusively on price and try to add some more value to its customer offerings. However, it is constrained on the cost and logistics side from augmenting perks and services to customers. Ryanair would need to be careful that added services would not compromise its definitive positioning as a budget airline by raising its costs for value that is not perceived by customers.

There are definitely some moves that are out of the question, e. g. moving to larger central airports. The Which? survey offers some ideas of how Ryanair can improve the customer experience without incurring huge costs. These have to do with cabin crew, check-in staff, cleanliness and toilets. This might bring it closer to its role model, Southwest Airlines. The above is a suggested answer on the sustainability question.

Students themselves can develop more optimistic or pessimistic scenarios, e. g. who survives an early price war versus a later one (when more of Ryanair’s ivals might have had a chance to gain viability), etc. 6 Another way of provoking students to address the issue of sustainability is to ask students if they would buy shares in Ryanair. Why, or why not? If yes, how long and under what conditions would they hold on to them? 6. 4 Would you recommend any changes to Ryanair’s approach? (Refer especially to Chapters 3, 5, 7 and 10 of Exploring Corporate Strategy. ) Instructor’s Manual 382 © Pearson Education Limited 2005 Students can offer their own recommendations, but certain ones emerge from the analysis so far.

If Ryanair wants to play the role of ‘ low-fares policeman’ in Europe, it has to assume superiority on the critical cost factors within its management’s control. So far, Ryanair has successfully pursued its cost leadership model. Certain moves have decreased costs and boosted revenue simultaneously, e. g. the www. Ryanair. com website.

Although touting its on-time performance record, it is unclear whether its punctuality performance is accurately perceived and appreciated in the marketplace. Additional sources of revenue should continue to be sought, again without compromising the low-cost model. Simultaneously, Ryanair has to continue aggressively to pre-empt competitors entering its routes. It has to anticipate its competitors’ growth patterns and destabilise them. Currently, the carrier has the deep pockets to wage a price war against any existing and potential airline competitors. The battle with Go on the Dublin-Scotland routes is relevant in this regard. Students can analyse this intriguing situation – the first all-out price war between two budget carriers in Europe on Ryanair’s own turf.

Was being established already on the route an advantage to Ryanair? Which of the two carriers had the resources and capabilities to win this war? What are the longer-term implications for Ryanair of winning or losing? What would students anticipate? What would they recommend from the Ryanair perspective? How many price wars on how many fronts can Ryanair afford to fight? Maybe one competitor alone cannot defeat Ryanair, but many simultaneous competitors might succeed. Scenario analysis would be useful here, drawing a series of strategic maps involving different combinations of erstwhile and potential competitors. Ryanair needs to understand its clientele, especially its new clientele, as it rolls out routes and opens up hubs in mainland Europe. What are its expectations, apart from the low-fares aspect? Is outsourcing services a limiting factor? How can this be addressed without compromising costs, especially in the high wage, less flexible work environments of mainland EU? Teaching Note Exhibit 2(b) describes a possible direction to enhance Ryanair’s sustainability. Ryanair has to seriously consider whether and how it should get involved in the 10 new EU member countries. On the one hand, these present an opportunity, since, by and large, airline markets have been highly regulated and fares very high, so there is probably pent-up demand for low fares; easyJet is already entering these markets. However, Ryanair is already suffering from overly rapid growth, so can it sustain yet more growth? Can it afford to stand by? Again, scenario analysis would be helpful here.

Ryanair could consider closing down some of its shakier routes and transfering the aircraft to the new member states. Another sensitive area is that of staff loyalty and relations. A high positive on this front could give Ryanair an unassailable competitive advantage as it opens up new routes, pre-empting its rivals as they struggle to become established – but this is not easily accomplished. Students might have some of their own suggestions here, especially those with work experience to draw on. Instructor’s Manual 383 © Pearson Education Limited 2005 Students should also be encouraged to entertain other possibilities, e. g. should Ryanair enter any strategic alliances or interlining arrangements? Southwest does not do this, and it does not seem to make logistic sense on a point-to-point route system.

But, are there any circumstances where it would make sense for Ryanair? Should Ryanair try to grow by means of acquisition, as it did with Buzz? By what criteria? Should Ryanair consider longer-range routes? Here again, scenario building could be a helpful tool in trying out different ranges of strategic moves, depending on an array of scenarios. 6. 5 Evaluate the strategic leadership of Michael O’Leary Is Michael O’Leary an asset or a liability to Ryanair? The case suggests that he is both. Students could debate the pros and cons of Michael O’Leary’s continued leadership of the company. The characteristics that have driven the company forward – his enthusiasm and energy, his strategic insight, his determination and mission orientation – can be carried too far. Is it all part of an integrated inseparable whole, so do you have to take the good with the bad? Is this where we may enter the realm of Sidney Finkelstein’sfailurewarning signs, when you have too much of a good thing? In fact, some schools of thought would value Michael O’Leary’s relentless energy and his thriving onadversity. It shows a lack of complacency – quite the opposite of what Finkelstein points out as a danger signal.

The capacity to irritate may bring about conflict and change. Also, in Michael O’Leary’s favour, as Ryanair’s largest single shareholder, he literally ‘ puts his money where his mouth is’. Another way of looking at Michael O’Leary’s leadership is whether he was the right person for the job during the change era, but does the company now require more of a ‘ manager’ than a ‘ leader’ during a consolidation era? In other words, this is a ‘ horses for courses’ approach to the evaluation of O’Leary’s leadership. One may ask whether and/or for how much longer Michael O’Leary wants to stay in the job. Will he get bored and retire to his cattle farm, currently his hobby? There is a suggestion that he would not be happy to preside over a static comfortable situation. Or, would he be headhunted by another airline or by another business altogether? Students might consider whether they would headhunt Michael O’Leary, and why or why not. Chapter 10 discusses types of leaders, i.

e. transformational versus transactional and types of leadership emphases and approaches. It is an interesting exercise to see how students would categorise Michael O’Leary. Perhaps what emerges is that he is difficult to categorise. What does this imply? Notes and Relevant Reading Material 1. It is likely that students will be familiar with Porter’s views on strategic positioning. These views are well summarised and illustrated in the following article: Porter, M.

E. ‘ What is strategy? ’, HarvardBusiness Review. November–December, 1996, pp 61–78. The article also contains a relevant description of Southwest Airlines. Instructor’s Manual 384 © Pearson Education Limited 2005 . In the ‘ resource based view of the firm’, Barney maintains that the achievement of a sustainable strategy is dependent on the unique internal capabilities and resources applied by an enterprise. The following reading delineates his approach: Barney, J.

B. ‘ Looking inside for competitive advantage’, Academy of Management Executive, 9, 1995, pp 49–61. 3. A ‘ best cost’ provider strategy is a synthesis of Porter’s cost leadership and differentiation strategies. It aims to have the lowest costs in a particular segment of the market where it is providing more than the basic product/service. Thus, it is able to supply superior value to customers when it adds attributes that customers want, but the best cost provider is able to produce these attributes at the keenest price.