The strategic management of ryan air

Environment, Air

A Jenoir management consultant is providing consultant service for strategic management of the companies. Senior management team of Ryan air details on the contracts signed with Jenoir management consulting company for get the consulting service in strategic management of the Ryan air's future. As a result of this we carried out a strategic analysis in terms of the environment, industry and also regarding the internal performance of Ryan air.

The aim of this report is to provide consulting services to Ryan air for its strategic management in the future. This report will focus on:

The strategic analysis of the Macro Environment taking into account the PESTEL factors which will draw out the opportunities and threats,

Industry analysis using the Porters Five Forces Model and a Strategic Group Model and

Internal analysis drawing out the resources and capabilities and the VRIO using the Value-Chain Model for Ryan air.

Thereafter, recommendations will be given as to how Ryan air can improve which will be continued in the second part of this report. Hence, this report will show how Ryan air can perform better in the long run by identifying the key strategic issues.

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1. 0 INTRODUCTION

The present business world is highly complex, competitive and fast changing. Ryan air started in year 1985 with only 57 staff members and with one 15 seated turboprop plane from the south of east of Ireland to London Gatwick which carried 5000 passengers on one route. Ryan air was the first budget airline in Europe and also more successful low cost airline in Europe. Ryan air's competitive advantage is its ability to grow and outperform others as it is Europe’s first low-fares, no-frills carrier and in spite of economic instability there has been a growth in profits. (Ryan air 2006)

According to Viljoen and Dann (2003)strategic management is defined as “ the process of identifying, choosing and implementing activities that will improve the long run performance of an organisation by setting directions and by creating on going compatibility.

Currently in 2006 European air line industry facing a backdrop and the burgeoning budget sector. In order to analyse Ryan air’s strategic will be focus on External, Internal environment and Industry.

External environment will be analysing the factors in the macro environment which influence future industry growth and development, factors affecting current and future profitability, position of competitors and strategic groups within the industry, to gain the driving forces of the industry, dynamics and finally to understand international competitiveness.

Further more this analysis focus on how Ryan air wants to create value for customers, its customer value and competitive advantage, its activity value chain, customer value the value proposition and determining the business model to deliver the value position, short term and long term focus and sustainability and methodology of analysing business strategy.

In final this analysis will focuses on Ryan air’s current strategic management views and how it can benefit by using strategic management theories and the means by which the organisational efficiencies of Ryan air would be improved and recommend to management team of Ryan air for improving strategy implementation.

2. 0 CRITICAL ISSUES

2. 1 Company Background

Ryan air started in year 1985 with only 57 staff members and with one 15 seated turboprop plane from the south of east of Ireland to London Gatwick which carried 5000 passengers on one route. Ryan air was the first budget airline in Europe and also more successful low cost airline in Europe. Ryan air's competitive advantage is its ability to grow and outperform others as it is Europe's first low-fares, no-frills carrier and in spite of economic instability there has been a growth in profits.

In identifying the current business strategy we would be analysing the vision, mission and objectives of Ryan air. The mission of the Ryan air is to become Europe largely gainful low fare by rolling out proven low cost no frills in all markets in which we operate to the benefits of passengers, people and share holders. (Ryan air Report, 2007) Ryan air's social responsibility is providing good service to the passengers.

The vision is " to firmly establish itself as Europe's lading low fares scheduled passenger airline through continued improvement and expanded offerings of its low fare service" (Ryan air Report 2007). Ryan air's objectives are 40 percentage increase the market share within the low fare airline sector, in 2012 double the annual passenger transportation to eighty million and to quadruple Ryan air's annual profit up to 1, 230 billion.

2. 2 Core Problem

Ryan air being one of the leading budget air lines in Europe, which is currently facing crisis. Though they were performing well during the last few years, currently European air line industry facing a backdrop and the burgeoning budget sector. Therefore it is necessary for Ryan air to consider the causes of the crisis and necessary action well on time. Due to this reason Jenoir management consultants will be analysing the external, internal and industry, whether Ryan air could over come this barrier.

3. 0 ANALYSIS (MODELS / THEORY USED)

3. 1 EXTERNAL ANALYSIS

3. 1. 1 PESTEL ANALSIS

Pestle analysis is important for identify Ryan air's strategies through macro external factors. These factors are in the airline industry to understand Ryan air's future external threats and opportunities.

(Refer Appendix 1)

Political and Legal

Security solution is the current move of government about airline industry, which will increase the cost of service. Governments can take an action if there will be any dispute in business deals from Ryan air with Airport. The Ryan air must also adapt its strategies to suit the government legislations and policies and must give more attention to the political of the country where they operate. Ryanair have been involved in various legal disputes with governments both in Ireland and the EU regarding their business deals with airports and airline regulating bodies.

Economic Factors

Global Economic recession in 2001-2003 had adversely affected many countries and in had collapse the financial strategies of the company. Due to the recession the income level of the people has come down due to that most people are postponing or cancelling their air travel.

Socio cultural Factors

After the September 11th incident in USA air travel as become a high risk in business in air line industry. More security measures are taken and the passengers are facing difficulties. This has become a huge threat to air line industry.

Technological- Ryan air's website is the largest travel website in Europe and this could help them to increase e-commerce and advertising revenue. Their in flight internet gambling, satellite television and web-based check-in is an added advantage for Ryan air.

Environmental Factor: The notion that the world is ' becoming smaller' and a move towards eco friendly environment by controlling noise levels and green-house carbon emissions.

3. 1. 2 Porter's Diamond Model of Ryan air

Porter's diamond model for Ryan air is stated in appendix 2 respectively.

3. 2 INDUSTRY ANALYSIS

3. 2. 1PORTER'S FIVE FORCES ANALYSIS OF RYAN AIR

Bargaining Power of Supplier

Ryan air's main aircraft supplier is Boeing and other one is Airbus. Switching cost will be high when change the aircraft. Fuel prices will affect Ryan air's cost directly, so they are highly dependent the fuel prices and also it is very big threat of their strongest side. Generally regional airports have little bargaining power if they are heavily dependant on one airline but day by day their bargaining power increasing because of the competition between low cost airlines. Besides of those regional airports, bigger airports have very huge bargaining power. (Refer Appendix 3)

Bargaining Power of Customers

Ryan air is the low cost airline for all Europe destinations and customers are especially in recession times highly price sensitive. It is very easy to change their airline and it is In this customer's knowledge about the cost of service is high and there is no customer loyalty for Ryan air. Even though there is no customer loyalty, bargaining power of customers is low. Ryan air is the cheapest airline for all Europe destinations and customers are especially in recession times highly price sensitive.

Threat of New Entrants

There are lots of barriers to entry and it is very risk to be new in airline industry. The capital that will invest in this sector is very high. It is also hard to take a place current competition and also hard to find suitable airports for the flights.

Threat of Substitutes

There is not any brand loyalty of customers and Ryan air preferred customer relationship is not close relationship. If their customers find better way to travel they will not feel any hesitation to chose it. So the threat of direct and indirect substitutes is very high and the most important point is there are no switching costs for the customers.

Competitive Rivalry

The market is highly competitive. Most of Ryan air's cost advantages can be imitative immediately. In Europe it seems like there is an agreement between Ryan air and Easy jet about not to compete head to head. However if any company does decide to compete on the same basis as Ryan air it will be highly critical for Ryan air.

3. 2. 2 Strategic Groups

Strategic Groups have been defined by Finlay (2000) as groups of business that are likely to respond similarly to environment changes and be similarly advantaged or disadvantaged by such changes. Porter (cited in John et al, 1997), suggests that an industry can have only one strategic group if all firms followed essentially the same strategy. At the other extreme each firm could be a different strategic group.

Strategic Group Map analysis below of the European Airline industry will indicate that Ryan air has to compete with Aer Lingus and EasyJet very closely while British Airways and other national carriers are in the region. Other smaller budget airlines based across Europe such as FlyBE, German Wings and Hapag Lloyd Express also pose competition in routes which they commonly compete (Little Masters, n. d.).

This diagram also shows how the Mega carriers compete within their strategic groups as opposed to the Mid-Sized carriers.

Private

Mega Carriers:

American Airlines

British Airways

Mid-Sized Carriers:

FlyBE

German Wings

Aer Lingus

EasyJet

Government-Owned Carriers:

British Airways

Bulgaria Air

Government

No: of Destinations

High

Low

Ownership

3. 3 INTERNAL ANALYSIS

3. 3. 1 VRIO/ VRINE of Ryan air

VRINE MODEL

The top management should be able to identify the resources available in the organisation presently in order to assess whether the resources available are sufficient enough to implement the strategies. So the outcome of the reconstruction depends on the resources available at that time.

VRIO of Ryan air – Value, Rarity, Imitability, Organization

Ryan air values its high service performance. The airline is known for its strict observance on punctuality, high rate of flight completion, and low baggage loss. It purchased modernized fleet which leads to less expensive maintenance with uniform brands used while high aircraft utilization strengthens its business and financial sheet. The rarity of Ryan air is based primarily on its strategic positioning and management operations. Its implementation on low fares service and high level of customer service delivery made Ryan air strong and competitive compared to other firms in the same field. Other firms in the same industry hardly find their ways in imitating the same operations and strategic planning. Ryan air produced effective planning and management operations in which it leads others to imitate. Not all of the tangible and intangible resources like software, fleet designs, infrastructure, organizational culture, and knowledge management can be imitated. Causal ambiguity, time compression diseconomies and path dependencies are factors which affect the difficulty of other firms to imitate effective plans of successful firms like Ryan air.

Barney's Model for Ryan Air

The top management should be able to identify the resources available in the organisation presently in order to assess whether the resources available are sufficient enough to implement the strategies. So the outcome of the reconstruction depends on the resources available at that time.

According to the Barney's model can analysis Easy Jet as Ryan air's competitor. Easy jet has enough recourse. For an example they have large number of air craft and their skytrax star rate level is high, so easy jet is valuable. Easy jet is not rare because same strategy what easy jet currently using is other competitors also using. Easy jet can easy to imitate to another company because low fare and also they have enough substitutes (for an example Train, ship). Easy jet is competitive parity. (Refer Appendix 4)

3. 3. 3 Ryan air Value Chain Analysis

Ryan air strongly manages and forms relationships with different suppliers for an example. Boeing and food, beverages etc, to make sure goods are received of requirement standards and on time in order to add value through out its value chain. In order to add substantial value for its service by providing low cost and directly monitors relationships with airports around Europe, so they provide subsidies to the airliner in order for them to provide low cost and seen as adding grater value for customers.

In order to reduce the cost and provide low cost to customers Ryan air contracts staff for aircraft handling, ticketing and baggage handling to third parties at competitive rates as well as engine repairs and heavy maintenances of its aircrafts. Therefore reduces direct exposure to employee relationships and disputes reducing costs all through value chain.

In order to add greater value for customer, the aircraft staff e. g. pilot, cabin crew, they holds close relationships, giving the right training making them to feel confident to answer on flight questions. The airliner has a commission placed for its aircraft crew linked with the sales of duty paid goods. Therefore close management with aircraft crew ensures good labors turnover reducing the threat of staff being absent for flights, thus seen as adding value for customers. (Refer Appendix 5)

4. 0 EXTERNAL ENVIROMENTAL ANALYSIS

The external organizational environment includes all elements existing outside the boundary of the organization that have the potential to affect the organization (Daft, 1995). The environment includes competitors, resources, technology and economic conditions that influence the organization. The external environment can be further conceptualized as having two layers generally and task environments.

The general environment is the outer layer that is widely dispersed and affects organization indirectly. It includes social, demographic and economic factors that influence Ryan air. The most important part concerning in the task environment which is closer to the organizations; its includes the sectors that conduct day to day transaction with the organization and directly influence their basic operations and performance: – suppliers, competition, customers and the labour market.

(Refer Appendix 3, 6)

5. 0 INTERNAL ENVIORNMENTAL ANALYSIS

All organizations have strength and weakness in its areas of business. No organization is equally strong or weak in all areas (David, 2005). The process of internal environment parallels that of the external analysis. Resources come in many forms form common factor inputs to highly differentiated resources that are developed over a man years and are very difficult to replicate (Collins and Montgomery 1998). Internal environment analysis involves a study of culture, structure and resources including technology adapted by the origination.

5. 1 Resources and capabilities

Ryan air’s main tangible resource is air craft. Their intangible resource includes things such as company’s reputation (first budget airline and low fare airline), brand name (Ryan air), technical knowledge (100 percentage online ticket booking), patent and trademark. A competitive advantage is the set of factors and capabilities that allow firms to consistently outperform their rivals.

(Refer Appendix 7)

Tangible Resources

Air craft

Technical Advancement

Equipements

Competencies

Price, Quality service, Reliability

Competitive advantage of Ryan air

Capabilities

Low cost, High profit

Intangible Resources

Ryan air's Reputation

Brand name

Low fare

Technical knowledge

Figure 1: Resources based view if competitive advantage of Ryan air

6. 0 SWOT ANALYSIS

This analysis is an effective way of identifying internal strengths and weaknesses of Ryan air and of investigative opportunities and threats of the external environment. (Refer Appendix 8)

Strengths

Ryan air is the largest and most successful of Europe’s low cost airline. This fact is strongest selling point for Ryan air. Result of this low cost strategy, which increases customers and airline, is expanding rapidly. Ryan air’s website was the largest travel website in Europe. And the fifth most recognized brand on Google. According to the Ryan air annual report 2006, Ryan air’s ancillary revenues (include non flight schedule services) had climbed by 36 percentage.

Weaknesses

Ryan air is the least favorite airline in the world. Passengers who travel in Ryan air lose their luggages very often. Ryan air staffs are considered to be very unfriendly and there is common issue that the process always delays. Ryan air was only mid range or below average in its P/E multiple relative to peers like easy jet, whose shares had risen by 46% during the year. Ryan air has been criticized for many aspects of its customer service.

Opportunities

They have potential market share. Because low cost airline market share not reached the peak level. Ryan air has better opportunities to dominate and catch up with the competition in the European airline industry in terms of providing more quality service. The continuous initiatives of the company in diversification of its revenue resources also open new opportunities to make the business become stronger to outgrow all its competitor companies.

Threats

Ryan air faced various challenges as it entered the second half of fiscal 2007. The airline itself predicted that its extra capacity building would create uncertainty about the success of new routes, locations and other difficulties. These were extra marketing and discounted fare costs incurred in launching new routes, as well as overcapacity leading to price cutting by rivals.

7. 0 CONCLUSION

By taking into consideration the above analysis, Jenoir management consultant believe Ryan air has gained competitive advantage since there is a greater opportunity and strengths regarding to the air line industry. Based on the External, Internal and Industry analysis, there are some major issues which were identified by Jenoir management Consultant analysis team in relation to Ryan air have weaknesses and threats. There are many areas which Ryan air should workout.

Systematic, healthy and an organic organization contribute much to the success of Ryan air. An organization with clear objectives and capable to draw everyone to work with these objectives will lead to its success. For airlines, the future will hold many challenges. Successful airlines will be those that continue to tackle their costs and improve their products, thereby securing a strong presence in the key world aviation market.

Therefore taking into consideration these detrimental impacts to the entity Jenoir management Consultant analysis team formulated certain recommendations for Ryan air to perform the task of a guideline in overcoming these weaknesses and threats, by systematically utilizing these recommendations. Ryan air will be able to convert its current weaknesses into opportunities and strengths in the future. However risk management in the strategic management must be given an important consideration in strategic management plan implementation process.

8. 0 RECOMMEDATION

Based on External, Internal and Industry analysis, Jenoir management consultants is recommended that Ryan air consider the move their business with low cost strategy in to international market, so Ryan air should has a detailed plan for this and be able to provide good customer service to the customers like by having discounted flights, promotion to keep the competitive advantage at a stable mode within its competitors and also will need to focus more on the core competition that will help Ryan air to practically designs suitable airline operation within their market.

There are some other recommendations for Ryan air,

Ryan air, being the market leader in the budget airline industry is performing very well as of now. But it does need to take into account all the factors discussed above. Ryan air also has to make sure that even though Michael O'Leary's tactics work today, they may backfire tomorrow.

Ryan air should slow down on the aggressiveness of its strategic planning and implementation so that it can avoid getting into trouble with the governments and end up paying millions.

In order to retain its employees, motivate them and also another means of cutting costs, Ryan air can adopt a similar strategy that of Jet Star's JEN (Jet star Employee Network). This intranet software is both the sophistication and the functionality necessary to gather, share and communicate key corporate, HR and time critical staffing information. Head of Corporate Relations, Simon West away says “ JEN delivers ongoing savings of about $130, 000 annually” (Story, 2009, p. 18).

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10. 0 APPENDIX

10. 1 Appendix 1

PESTLE ANALYSIS OF RYANAIR

Political Environment

National airlines supported by certain countries

Europe union expansion with new routes and new competitors.

New European Union rules and regulations.

Due to the government stability tourism will be increase, which is good for Ryan air.

New different tax policy for different countries.

Economic Environment

Threat of Ryan air is increasing fuel price.

Taxes and Interest rates

Decrease of US dollars

Increasing business class travelling

The threat of the substitutes

Rise of airport handling charges

SOCIAL FACTORS

Increasing grey market, which is the trade of a commodity through distribution channels, which while legal, are unofficial, unauthorized, or unintended by the original manufacturer.

Populations growth – does an ageing population affect them i. e. baby boomers, lots of people in that life stage have more disposable income to spend

Safety solutions

Trend

TECHNOLOGICAL FACTORS

Internet sales and Increased internet competitions

High speed trains

Online check in

Low fuel use

LEGAL FACTORS

Privatizing of airline industry

Illegal subsidies from airports

Competition laws in aviation industry

Allegations of false advertisement

Rules and regulations about Carbon emission level

ENVIRONMENTAL FACTORS

Noise level controls ,

Global warming , 2. 6% of Carbon emission in the EU, so this gas will effect Green house

10. 2 Appendix 2

Porter's Diamond Model of Ryan air

Factor

Condition

Demand Condition

Firmly strategy structure and Rivalry

Related & supporting Industries

Change

Government

Firm Strategy, Structure and Rivalry

Environmentally concerned.

Entrants of other Low Cost Carriers

Factor conditions

Technological advancement.

Demand conditions

Demand is increasing for Low fares air travel.

Related and supporting industries

Car hire, Hotels, Travel insurance, Baggage tracing, Free city guides, Ticketing, Aircraft handling , Airport coach and other services

10. 3 Appendix 3

Porter's Five Forces model

Bargaining power of Supplier

Bargaining power of Buyers

Threat of New Entrants

Threat of Substitutes

Competitive

Rivalry

10. 4 Appendix 4

(Source: VRIO model / Barney's model

http://www. web-books. com/eLibrary/ON/B0/B58/033MB58. html)

Competitive Implications from Recourses (Easy jet as Ryan air's competitor)

Valuable

Rare

Difficult to Imitate

Without substitutes

Competitive Implication

Yes

No

No

No

Competitive parity

10. 5 Appendix 5

Value Chain Analysis of Ryan Air

Firm Infrastructure

(Head Quarters)

Technology Development

(Internet, Integrate system, Low tech marketing , Internet sales)

Human Resource Management

(In house, Low cost training, Management control, Limited crew, performance contracts)

Procurement

(Boeing discount, Alliances, Low cost, out sources & private)

Inbound Logistic

(Quality training, Low cost supplier, Airport agreement)

Operation

(No frill, low cost)

Outbound Logistic

(Reliable service, quick turn around)

Marketing and Sales

(Free publicity, Low cost, promotions, Internet sales)

Services

(High productivity, Limited resourses)

10. 6 Appendix 6

Location of the organization general task and internal environments

Technological

CUSTOMERRS

Task Env

Internal Environment

Socio cultural

LABOUR MARKET

Employees

Culture

International

COMPETITORS

Management

SUPPLIERS

Legal/ Political

Economic

It can be noted that SUPPLIERS forms an integral part of task environment and the role of importance of suppliers of components.

10. 7 Appendix 7

Resources

There are two kinds of resources, tangible and intangible which can further be categorized into financial, human, physical and intellectual capital.

Physical Resources – which Ryan air possesses is 196 Boeing aircrafts. Huge amount of money was being spent for the aircraft maintenance and they need to keep the resources proper and running to make sure that these will not harm their low cost structure. They also have the youngest fleet in the whole of Europe with a highly fuel efficient capacity.

Financial Resources – Ryan air is the highest profit making low cost structured airline. According to O'Higgins (2007), Ryan air's profits have been increasing 8. 5% on average per year. It also goes onto say that in its Annual General Meeting in 2006; the airline had delivered 12% increase in net profits despite a 74% increase in fuel cost.

Human Resources – Initially Ryan air started with only 25 employees and had 3500 people by the year 2006 and all of them are entrenched with a cost cutting approach. Ryan air employees a very much dedicated as Ryan air pays its employees well. In its 2006 annual report it claimed to have the highest pay figures than any other major European airline. Also by tailoring rosters, the carrier maximized productivity and time off for crew members. The biggest HR advantage Ryanair has is Michael O'Leary.

Intellectual Capital – The high