

The internal analysis of ryanair

Environment, Air



Ryanair entered the airline market in 1985 and since then has enjoyed success not only in the European market but also globally as well. Ryanair revolutionised the airline industry by offering passenger the lowest fares thereby positioning itself as a dominant player by gaining a huge market and becoming an intensive competitor for traditional airlines like British Airways, Lufthansa etc. (Eleanor O’Higgins, 2007)

Strengths

The cost reduction strategy adopted by Ryanair can be regarded as a key factor for its success and distinguishing itself in the industry. According to (Lawton, 2002, cited in FrederikBoesk, 2005) analysis of Ryanair the company adopts a low cost model to curb their expenses e. g. it reduces catering and cleaning costs by adopting the no frills . Opting to land in secondary airports helps in paying low landing charges and cheaper parking due to less presence of traffic. (Barrett 2004 cited in Fredrick 2005, p8). By providing online ticket purchase and check in facilities Ryanair eliminates the need for staff and travel desks thereby investing the funds on marketing and promotion (Eleanor O’Higgins, 2007).

Ryanair beats its competitors with regard to passenger service . Apart from providing cheap fares and fewer lost bags Ryanair flights are punctual (88% flights arrive on time) and the company received fewer complaints and response to 99% of the complaints within a period of 7 days. The company was also recognised as Europe’s greenest, cleanest airline. This explains the reason that Ryanair is the world’s favourite airline and why over 73m passenger choose to fly them. (Ryanair Annual Report 2010)

Ryanair has a very strong operational capacity it's currently operating 1400 flights per day from 44 bases and 1100 plus low fare routes across 27 countries. It shows why customers choose Ryanair making it the largest and most successful European airline (Ryanair 2010)

Weaknesses

One of the weakness of Ryanair is bad publicity. IN 2006 a documentary called ' Ryanair caught napping' highlighted issues like aircraft unhygienic ways, poor staff moral and not conducting security procedures properly. The Guardian. co. uk (2010) cites that Ryanair plans to introduce coin operated toilets and standing area for passengers on its flight but safety officials say it will not come into effect for at least two years. With majority of customers being price sensitive the above issues taken up by Ryanair will cause concern and affect their customers buying decisions and losing them to other competitors or full service airlines.

Relationship between the staff and the airline has also experienced sore notes. According to ft. com (2010) Michael O'Leary plans to cut expenses by removing co-pilots since " the computer does most of the flying now". This resulted in employers approaching the media and challenging the company to replace Michael O'Leary by junior flight attendant to save more cost. The axing of co-pilots has raised safety concerns among travellers.

Value Chain Analysis Of Ryanair

Michael Porter's Value Chain helps in analysing the primary and supporting activities along with Ryanair's operational strategy which are responsible for

creating and delivering its services. With reference to the Value Chain Analysis at Appendix A conducted shows that the company is able to create robust revenues despite selling low cost fares this is attributed to Ryanair ability to sustain its costs to a minimum level such as online and ticketless bookings, flying to secondary airports, usage of only Airbus 737-800s resulting in investing less in staff training and maintenance costs. It can be clear identified that the company's main core competences is efficient cost management.

Financial Analysis Of Ryanair with Aer Lingus

The financial performance of Ryanair was able to generate revenues despite the financial crisis that had a severe impact on other airline carriers leading to closures or declaring bankruptcy. The company reported a Net Profit of Euro 318. 8M for 2010 which was an increase of 280% from 2009's Euro 104. 9M . With Ryanair's cost efficient ways , increase passenger traffic and operating new routes along with competitive prices Ryanair is able to maintain its position as the Number one carrier in the world. In order to analysis the financial strength of Ryanair a comparison has been made between Aer Lingus in which Ryanair owns 26. 2% shares.

Financial Analysis – Ryanair Vs Aer Lingus

Key Performance Indicators

1) Return On Capital Employed

With growth of net profitability of Ryanair dropping from 16.2% to -6.1% from 2008-09 as a result of high fuel prices which affected 45% operating profit and due to collapse of Aer Lingus shares that written down Ryanair investment to Euro 79.7M in 2009. This resulted in Ryanair ROCE dropping from 11.3% to 1.9%. In 2010 ROCE rose to 6.7% with increasing operations however with the termination of Ryanair's contract with Boeing the capital expenditure is likely to decrease in further since Ryanair plans not to invest in aircraft for the next 3 years. Ryanair also has strong capital employed ranging from Euro 4770.6M to Euro 6013.8M indication the company's high level of operations. The net profitability of Air Lingus reduced from 9.7% to -12.9% for 2007-2009. Air Lingus experienced operating loss of Euro93M due to cancellation in flights, restricting costs etc. Capital employed by the company ranges from Euro 1364M to Euro 1272 indicating small operations to Ryanair.

2) Current Ratio

Ryanair is more liquid is comparison to Aer Lingus thus enabling the company to fund capital expenditure as well as pay shareholders with the strong cash flow Ryanair generates from revenues and company's operations. The company's current assets are more than current liabilities thereby proving Ryanair has strong financial strength.

3) Interest Coverage

Ryanair interest coverage is sufficient since the company is able to generate revenue to satisfy interest expense . In 2009 due to Air Lingus share drop

(Ryanair having 29. 8% share) revenues was affected greatly to a huge extend thereby effecting its ability to pay its debtors in 2009. Aer Lingus performance over the past years suffered losses which resulted in the company having insufficient funds for their interest expense.

Primary Activities

Inbound logistics

Ryanair has a contract agreement since 1998 with Boeing which provides large aircrafts such as the Boeing 737-800s and have a seating capacity of 189 passengers and is able to fly for longer hours without refuelling and is equipped with the latest aviation technology. The new aircraft is complaisant with the 2002 EU regulation Chapter 3 noise reduction requirements. But in 2009 news. bbc. co. uk (2009) reported that Ryanair ended its contracted with Boeing over the purchase of 200 aircrafts . The company plans to increase its cash flow by not investing into aircraft purchases and use its existing aircraft till 2015. Inorder to escape from the high fuel prices Ryanair has entered into fuel hedging to escape the rising fuel charges. By doing so Ryanair is able not to impose these charges onto the passengers travel fares.

Operations & Services

Ryanair operates on a large scale with flying to 1, 100 routes and operating 1, 300 flights per day. With such heavy operations and its low fare policy Ryanair is able to make profit and dominate the market . This is due to Ryanair being able to lower its operation cost and adopting the no frills policy. Ryanair uses only Boeing 737-800s aircrafts thereby reducing the

cost for training, maintenance, purchase and storage of spare parts. With internet booking facility and online check in the company eliminates the need for staff and systems to a great extent.

Outbound Logistics

Choosing secondary airports not only is Ryanair able to reduce landing charges and escape heavy traffic from primary airports which has enable it to achieve faster turnover time, fewer terminal delays and lower handling cost.

Marketing And Sales

Ryanair marketing strategy is used to promote its low cost and competitive prices to its customer. Newspapers, internet and press conferences are the marketing mediums used by the company. The company's website accounts for a huge share in the firm's profit. Michael O Leary Ryanair's chief executive unusual public antics such as dressing up as the Pope or St Patrick and outspokenness has helped in promoting the image of Ryanair to the public.

Support Activities

Procurement

As mentioned earlier Ryanair contract with Boeing has enabled the company to reduce its costs due to purchase and usage of only Boeing 737-800s aircrafts.

Technology Developments

Ryanair utilizes the internet extensively by launching its internet reservation system for customer to purchase and check in online. The Ryanair website accounts for 99% of the company's annual sales.

Human Resource Management

With all the cost reduction strategies adopted by Ryanair the presence of crew and staff is limited and as a result company can invest less on the training and management of its staff.

Infrastructure

Ryanair has its corporate headquarters based in the republic of Ireland.