

Business strategy for ryanair

Environment, Air



INTRODUCCION

But it should be clear that the strategy is something else, not just something that has conceived, is something that happens, continually emerge in enterprises, to the extent that people respond to and reinterpret their sense of identity and purpose of the organization. It is strongly argued that something must start with a plan and then be sufficiently flexible to change as you go and put into practice, allowing evolve in response to environmental changes. In this regard, business strategy allows you to set business objectives and core courses of action according to the characteristics of the environment competitive and specific conditions and prospects of the company, so ensure that the latter is inserted in the socioeconomic environment to which it belongs. Without strategy there is no set course to follow, no map to consult, no coherent plan of action to produce desired results and adaptation company to the changing environment, in fact, becomes the direction deliberate change towards a competitive advantage in the business. In recent years, the strategic direction has been established as a legitimate field of research management practice. In the evolution of research in strategy have emerged a variety of paradigms and approaches on how to interpret and act strategically in an organization A school is a range of thoughts of a group of researchers and have crystallized a number of proposals and ideas on strategic direction. A school is an institutionalized paradigm. The field of strategic management is fragmented and there is a widespread practice of certain instruments that become popular due to its simplicity and fashion publications. Mintzberg

proposed a classification of nine schools of strategic thinking. These nine schools met in two groups: schools prescriptive and descriptive schools

COMPANY OVERVIEW

A pioneering European discount airline, Ryanair Holdings offers low-fare, no-frills air transportation via its main subsidiary, Ryanair. The carrier flies to about 150 destinations, including more than two dozen in Ireland and the UK; overall, it serves more than 25 countries throughout Europe, plus Morocco. Ryanair specializes in short-haul routes between secondary and regional airports. It operates from more than 35 bases, including airports in Belgium, France, Germany, Italy, Spain, and Sweden, as well as in Ireland and the UK. The carrier maintains a fleet of about 200 Boeing 737-800s. Throughout 2008 and early 2009, Ryanair launched several unsuccessful bids to acquire rival Irish airline Aer Lingus.

HISTORY

Ryanair Europe's largest low fares carrier, has been successful in the market for many years. To get to know and understand the positioning strategy of Ryanair, which has brought such success, we will review the history and relevant costs. Although preceded by Laker Airways and a couple of US low cost airlines, Ryanair Europe's first and largest low fares airline. It was founded in 1985 by Tony Ryan, an Irish business man. In July the first route was opened between Waterford and London with daily flights. From 1987- 89 Ryanair expanded rapidly, opening many new routes between Ireland and the UK, but the airline ran up losses totalling 20 million and consequently was in need for a substantial restructuring. In 1991 Ryanair came under new

management and Michael O'leary, now CEO of ryanair, was assigned the task to make the airline profitable again. He went to USA, studied the low fares- no frills model of the American southwest airlines and finally adopted it. From 1991- 1997 the airline increased its fleet from six to 21 aircraft and also its routes from Ireland to the UK. 1997 marked a milestone for ryanair. The European union finally completed the deregulation of the air industry in Europe. Airlines from EU country are now able to operate and compete on scheduled services between other EU states. Ryanair took full advantage of this opportunity by opening its first routes to continental Europe, to Scotland and Oslo. In May 1997 it became a public limited company with the successful flotation on the Dublin stock exchange and the NASDAQ stock exchanges. In the following years ryanair continued to open up new routes in Europe and became more and more successful. In 2000 ryanair launched its website which became Europe's most used travel website by 2001. From 2001 it launched several continental European bases, for instance Brussels, Frankfurt. In 2002 ryanair won an award as number one for customer service in Europe. In 2003 it acquired its competitor BUZZ from KLM and continued to be the most searched travel website in Europe. The enlargement of the European Union on 1st May 2004 made it possible to open up new routes throughout the EU. Up until 2007 the rapid growth of ryanair continued and passenger numbers were expected to increase from 35 million in 2006 to 70 million in 2012. **App 177 Concept at ryanair** Frequent point to point flights on short haul routes: by solely offering direct and non stop routes ryanair has no complex baggage transfer and there is no risk of missed connection flights. To avoid cost for accommodation, the crew should not spend the night at a foreign airport.

Secondary airports: chooses its routes and destinations with regard to secondary airports with convenient transportation to major population centres. These airports are often less congested. The aircraft utilisation can be maximised. Single aircraft type: by purchasing aircraft of a single type, it is able to limit the costs associated with personnel training, maintenance expenses and the purchase and storage of spare parts. Basic service on board: passengers have to pay for any food on board. Furthermore, seats are not adjustable, the covers are washable, consequently, cleaning and maintenance is faster and easier. There is a high seating density on board which results in a high passenger capacity and a rising economies of scale. There is no entertainment but in case you desire you can rent a dvd for a fee. In order to generate more money, lottery tickets as well as transfer tickets for trains are sold on board. Low cost: secondary airports offer lower landing and gate fees than major airports. Ryanair reduces its airport charges by using outdoor boarding stairs. Late night departures are avoided. Uses third party contractors airports Booking over the internet Fastcheck in ground staff are necessary.

1.1 Mintzberg

Una estrategia según Mintzberg es el patrón o plan que integra las principales metas y políticas de una organización y a la vez, establece la secuencia coherente de las acciones a realizar. Una estrategia adecuadamente formulada ayuda a poner orden y a asignar, con base tanto en sus atributos como en sus deficiencias internas, los recursos de una organización, con el fin de lograr una situación viable y original, así como anticipar los posibles cambios en el entorno y las acciones imprevistas de los

competidores. Mintzberg afirma que pensar estratégicamente significa la forma en que los gerentes, directores y demás miembros de una organización usan el idioma, las ideas y los conceptos cuando tratan de entender e interpretar el campo de objetivos y circunstancias que giran entorno a la empresa. El pensamiento estratégico exige el desarrollo de una actitud gerencial para actuar en forma proactiva, adelantándose a los acontecimientos, en vez de reactiva, tratando de dar respuestas a los hechos pasados. Over the last decade, la dirección estratégica se ha establecido como un legítimo campo de investigación de la práctica directiva. En la evolución de la investigación de estrategias ha emergido una gran variedad de paradigmas y enfoques sobre la forma de interpretar y actuar estratégicamente en una organización. Mintzberg propuso una clasificación de nueve escuelas de pensamiento estratégico. Estas se reúnen en dos grandes grupos: escuelas prescriptivas y escuelas descriptivas. Mintzberg is a strategy according to the pattern or plan that integrates the main goals and policies of an organization and in turn, establishes a coherent sequence of actions to be performed. A properly formulated strategy helps to bring order and assign, based on both their attributes and in their internal weaknesses, the resources of an organization to achieve a viable and original, so as to anticipate possible changes in the environment and unforeseen actions of competitors. Mintzberg states to think strategically means the way that managers, directors and other members of an organization use the language, ideas and concepts when trying to understand and interpret the field goals and circumstances that revolve around the company. Strategic thinking requires the development of a

management attitude to act proactively, anticipating events, rather than reactive, trying to give answers to past events. Over the last decade that the strategic direction has been established as a legitimate field of research policy practice. In the evolution of strategy research has emerged a variety of paradigms and approaches on how to interpret and act strategically in an organization. Mintzberg proposed a classification of nine schools of strategic thinking. They gather in two groups: descriptive prescriptive schools and colleges.

The Planning school

The entrepreneurial school

The Culture school

Ryanair have a “ low cost” culture as well. They try to implement the “ low - cost” not only outside the company but inside as well. However, this has been criticized by the press. “ Ryanairs culture is based on their main phase which is “ low cost”. As Ryanair is always trying to reduce cost this is being tranfered to the culture of the company and known as been the low cost culture everywere,

The Positioning School

Whittintong- School of Strategies

Whittington suggests as well four perspectives for the strategy definition as it is possible to see in graph below.

Source: Whittington R. 2001

Classical perspective: presumes that the chief executives had a complete manage about assigning internal and external resources with the aim of achieve its objectives Evolutionary Perspective: Establishes the importance of behaviour between different companies, its competitive approach to grow and survive in the market. Processual Perspective: Highlight the importance of the relationship between people and environment to improve the company's profits. Systemic Perspective: Social and culture context influence in the historical company events, particularly in their procedures. BASF have been showing an evolutionary system to survive in the chemical industry through managerial decisions focus in diversification, develop and innovation, allowing them being open to changes gaining market position.

GLOBAL STRATEGIC DECISION**2. 1 Ryanair Strategy overview**

Ryanair strategy currently concentrates in driving down the costs in order to be able to offer the lowest prices in the industry and remain profitable at the same time. They are focusing in the cost-leadership strategy of the Porter's generic strategies. Although they eliminate aspects that are valuable for the customers such as advance seat assignment, more staff in the flight to take care of the customers' needs, meals and drinks during the flights and free baggage allowance. They are trying to give customers value by giving them on-time service and frequent departures. The way they are doing this: a) Effectiveness in logistics and operations: Being efficient and effective they spend less time in the ground and this means less cost. As well as focusing in on-time departures. b) Direct sales through their web page: this means less

cost because they don't need additional staff and they don't need to pay commissions to agencies. c) Landing in secondary airports: lower landing charges and less air traffic. d) Having a modern fleet: lower cost in maintenance and less repair expenses. e) Outsourcing : They reduce cost using outsourcing and deals for activities that are not related to their core business such as: catering, airport transfers, holiday packages and hotels, doing this they save costs and they don't have to worry much about the logistics that are needed for this additional services they offer. They use outsourcing of handling services such as: food, health, security and cleaning services saving cost and time for the company. f) Point to point service: They don't need to spend money in connections concerns. e) Having only two types of aircrafts: Company save money in staff training as there are only two types of planes.

Porter's Five Force

Porter's 5 Forces For analyzing the industry is very important to take into account the different actors and the roles they play within the industry. One of the best ways to analyze them is by using Porter's 5 forces model[i]. Source: from M. E Porter 1985 Analyzing the Porter's 5 forces I consider that this is an attractive industry for the ones that are already in the market.. However, is important to detect a competitive advantage to differentiate from its most direct competitor or to find a way of expanding the market in the industry and position the brand in the customers mind as their first choice when traveling. 2. 2. 2 Competitors In order to perform a detail analysis of the industry is not sufficient to describe the 5 forces of the industry, it is relevant to describe who are the current competitors and how are they affecting the

company's performance. Ryanair has 2 types of competitors: -Indirect competitors: They are indirect competitors because although they are in the same industry, the business model is different. This flag carriers are long-haul airlines that fly intercontinental routes. These are some examples among others: 1. Air France 2. Lufthansa 3. Iberia 4. British Airways 5. KLM - Direct Competitors: They are direct competitors because they have the same low-cost, no frills model. The biggest direct competitor is Easyjet. 2. 3 Value Networks and Business Partners Ryanair uses its relationship with its business partners making them part of a Value Network where the process of adding value takes place. First of all is very important to name Ryanair's business partners. They are suppliers of raw materials, airports and hotels, cars and buses companies. Suppliers: They play a very important role in the Value Network as they are the ones that start all the process. Without raw materials Ryanair will not be able to operate. However, raw materials by themselves don't have any value to customers. The way Ryanair add value to the customers is by converting these raw materials into a service that customers can use. Basically they use airplanes and fuel(among others) and they add qualified employees, several routes options to travel , the " know how" of the business and convert this in a useful service to transport customers to several destinations at a low cost. The way Ryanair keep its good relationship with its suppliers is emphasizing in this statement they have on their code of ethics: " For our suppliers, Ryanair is committed to obtaining the best value on the basis of open and truthful communication." Ryanair Code of Business Conduct & Ethics 2009.[ii]Airports: Airports play another vital role in the Value Network. Ryanair uses partnership with

secondary airports in order to add value to the service. This means that by their relationship with these kind of airports they are lowering their costs in order to be able to offer a more affordable price to customers. Hotels, cabs and buses companies: The way they contribute to the Value Network is that by Ryanair's relationship with this companies they are giving value to the customer offering them not only a low cost flight but also the possibility of booking the whole package without having to do it separately. This saves a lot of time to customers and gives value to them.

Strategic Group map

Generic Value Chain for Ryanair[iii]

SUPPORT ACTIVITIES

Firm infrastructure

Ryanair has 37 bases and 950+ low fare routes across 26 countries, connecting 150 destinations. Ryanair operates a fleet of 210 new Boeing 737-800 aircraft with firm orders for a further 102 new aircraft, which will be delivered over the next 2.5 years.[iv]

Human resource management

-The average employment numbers in Ryanair rise by 21% to 6,369. Within that number 1,526 people were promoted.[v]-Ryanair has benefits for their employees such as: *discount on their mortgage as well as in-house mortgage services and additional benefits[vi]*Stable Roster – guaranteed days off and no planned overnights. *Vacancies across European base network. *Roster planned 1 month in advance with a fixed 5 days on and 4

days off in most bases. -Legal cases regarding Ryanairs refusal to recognize unions and accusations of providing poor working conditions to the staff[vii]

Technological development

Ryanair was one of the first companies that innovate with online bookings and therefore was able to reduce their costs because they don't have to pay agencies a commission to sell their tickets and this also makes a more affordable price to customers. Which add value to them. They introduced a self-check in which reduce cost for the company in staff. They have technology to become more environmental friendly reducing fuel burn and CO2 emissions by 45% over the past 10 years[viii], which helps them to generate a positive image among their stakeholders.

Procurement

Ryanair uses outsourcing and deals for activities that are not related to their core business such as: catering, airport transfers, holiday packages and hotels, doing this they save costs and they don't have to worry much about the logistics that are needed for this additional services they offer.

MAIN ACTIVITIES

Inbound logistics

They use outsourcing of handling services such as: food, health, security and cleaning services saving cost and time for the company.

Operations

They do all the operations with extensive safety training and protocols to check all the planes and equipment before setting off.[ix]This help adding

value to the service because customers know they are flying safe at a low cost.

Marketing and sales

Ryanair does not spend much money in marketing. However, they use word of mouth as their principal marketing strategy. Their adverts are known to be controversial and this makes people talk about them. They made their sales through their web page. This kind of controversial marketing can make people talk about the brand; however it doesn't mean they are increasing their sales for using this type of marketing. Ryanair could add more value to the service by standing out their strengths in their communication strategies. By making sales online they don't need intermediaries so they can offer better prices.

Service

Figures on Ryanair's website show us that customer service is doing well in terms of punctuality, baggage complaints and period of time complaints are answered. See appendix 1. However its customer service in terms of how the staff treats customers or how attention is provided to customers during the flight is not known as being the best. Is important for Ryanair to try to add value to the service they provide in these terms.

Strategy Clock

CHALLENGES IN THE GLOBAL MARKET

3. 1 PEST ANALYSIS

There are several environmental factors that can affect the performance of the company. To make a better analysis of the external situation I am going

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to use the PESTEL model[x]. For each of the PESTEL aspects there are several factors to take into a count. However, the main ones are going to be explained below. It is important to take them into consideration for analyzing the environment and therefore be able to select the best strategic decision for the company.

2. 1. 1. POLITICAL -EU Regulations and landing charges: The airline industry is regulated very often by the countries government. For the airline industry is very important to follow all the EU regulations created for the airline industry. We could say that the government basically decide if a company can penetrate the market or not and they create restriction policies for foreign airlines in order to protect the local airline market. An example of these regulations could be the landing charges they named in the case study.

2. 1. 2. ECONOMICAL -Fuel Prices: Fuel prices are increasing and this is affecting the airline industry because if they have to pay more for the fuel , this means they have to increase their prices and this is very risky for a company known for their low cost. A company such as Ryanair will have to reduce budget on other areas of the company in order to maintain their low prices. This reduction of budget can be traduced on cut of personnel or reduction of benefits to employees which is very negative for the company. -

Recession: Nowadays with the credit crunch crisis and companies cutting off jobs there may be a decrease of demand of air tickets because people have less disposable income than before for holidays. This could be a benefit to low cost airlines as Ryanair because customers will be looking for cheaper options to travel.

2. 1. 3 SOCIAL AND CULTURAL -Terrorism: Terrorism has been a concern for the airline industry throughout the years. It is still a big issue that affects tremendously this industry. People are afraid of travelling

to certain places because of terrorist attacks and as a consequence, airlines are decreasing their sales on these particular places. So it has been a negative impact on the airline industry. -Lifestyle: Nowadays, people have the habit of going somewhere to spend their holidays, and tourism has always been a very attractive industry. Europe is known as a very touristic continent, with a lot of history and touristic attractions, where almost everyone wants to go. This kind of traveling lifestyle has a very positive impact for airlines. However, worldwide between January and April of 2009 international tourist arrivals declined by 8%. And specifically in Europe it decreased 10% compared to 2008 having this as a very negative impact in the airline industry.[xi]-Health: Health issues can also affect the airline industry performance. On the past year with the swine flu according to World Tourism Organization associated the decrease of international tourists arrivals from 269 million to 247 million from 2008 to 2009 due to concerns about the outbreak of the Influenza A(H1N1) virus. These kinds of situations decrease people flying intentions to some destinations affecting airline companies' sales.[xii]

2. 1. 4. TECHNOLOGICAL

-New aircraft technology: For the airline industry technology is one of the most important aspects. Throughout the years aircrafts are being made much more effective in terms of fuel consumption and flying capacity. This improvement made to the aircrafts represents a very good opportunity for airline companies to save money and to be more efficient. On the other hand, new technology used in the airports may increase landing charges to the different companies. -Internet: Nowadays, the use of internet is essential for any industry, especially in the airline industry. Advances in internet are making customers

life easier in terms of saving money and time. A good example of this is that nowadays customers have the opportunity to check-in online which avoids a long time queuing and at the same time it benefits the airline because the fewer times they spend on land the fewer the landing charges are going to be.

2. 1. 5. ENVIRONMENTAL -Green Issues and CO2 emission Most countries governments are very concerned about the environmental issues and are coming up with legislations towards preserving the environment. Especially airline companies have to adopt these new laws to decrease carbon dioxide emissions, make the industry less harmful to the environment and to decrease noise pollution. This has a big impact in the airline industry because it means they will have to upgrade their existing aircrafts to a friendly environmental technology aircrafts. Which will represent an extra cost for them. -Eco Friends Additionally companies are having big pressures from ECO friends and ignoring this campaign and laws can harm the company image within their shareholders and stakeholders.

2. 1. 6 LEGAL - EU laws for airline Industry The airline industry is heavily regulated and most of the time in almost all countries the government is supervising and controlling the industry through different types of laws. Although they are independent companies, their activities and some decisions depend on all these existing regulations. -EU laws for customers Additionally, laws are protecting more and more the customers' rights and employees' rights. So companies have to be very careful by the way they deal with both of them. They can be in big risk of being demand or have any legal issue from a non-satisfied customer or employee and this will lead to a bad reputation of the

firm as well as perhaps a lot of money in lawyers. For example Ryanair faced and is facing legal cases for these reasons

3. 2 SWOT

In order to understand the current Ryanair's general situation is very useful to use the SWOT analysis that will help us to evaluate the companies situation by taking into a count both internal and external aspects. SWOT analysis