

Ryanair the customer centric low cost model management essay

[Environment](#), [Air](#)



The intent of this report is to analyse and identify organisational factors and approach of Ryanair that require change or modification to make Ryanair a highly customer centric organisation with a high importance to customer and his needs. The report will analyse these factors and provide the organisation with recommendations for being customer oriented.

2. Ryanair

2. 1 Ryanair-Latest Organisational Information

Ryanair is one of the largest budget airlines in the world with 63. 3 million passengers on over 950 low fare routes across 26 European countries, connecting 150 destinations with 36 bases and over 1200 scheduled flights per day (Ryanair investor results& annual report, 2009). Their adjusted profits fell to a 100Mn in 2009 as compared to 470Mn in 2008 due to high operating costs, acquisitions, share price fall etc. (Refer Figure 4). Average fares are down 17% as of September, 2009. Their revenue were up by 35% in the fiscal year 2007-08. (Intel, 2009). Their income is going high in onboard sales (no free food), extra baggage charges, non-flight scheduled revenues, and ancillary products. The Internet income of the airlines from their website is growing and cutting cost. Ryanair strategy was not only confined to scheduled travel market of customers, but also to other ancillary services like car hiring, hotel reservations etc which account for around 20% of total revenue (Ryanair investor results, 2009). Ryanair's passenger traffic is growing abruptly over years due to their aggressive low cost ticket marketing (refer figure 1). Ryanair have now 210 new Boeing 737-800 air

craft's. They are expecting the traffic to increase to 70m by 2012 for which they ordered an extra 125 aircrafts. (Ryanair investor results, 2009).

From the graph it s clear that Ryanair's passenger base is growing rapidly year after year adding to the success of LCC (Low Cost Carrier) and expansion of the LCC market.

Figure 1: Ryanair Passenger growth

Source: Ryanair Website, January, 2010

1 Represents the number of passengers as a proportion of the number of seats available for passengers.

The table shows that Ryanair's Number of passenger is rising month after month and on a yearly basis with an almost constant load factor¹.

Figure 2: Ryanair passengers and load factor

Source: Ryanair Website, January, 2010

Ryanair is the number one airlines in the world in terms of International passenger carried . This is Including the traditional airlines.

Figure 3: Total Number Of international passengers in 2008

Source: IATA

The revenue of the Ryanair is rising after each year up to 2009. They lost around 170Mn on account of high fuel prices, acquisition of Aer Lingus and share price fall.

Figure 4: Ryanair revenue and adjusted profit

Source: Ryanair annual report, 2009

2. 2 Ryanair -The Negative side

Although the organisation is doing great in terms of profit and passenger growth there are several other factors that Ryanair is not doing good in terms of their approach to the customers, Business partners and employees. This is may be seen as their low cost strategy by being harsh and keeping the cost low, but it will definitely effect them in the long run as the LCC(low cost carrier) market becomes stable and saturated. Then the competition will be in terms of customer service and making own customers loyal to the brand and product in the long term. Ryanair is not very good in customer service and customer service to them now is to provide cheap, low cost and punctual flights. Ryanair was also rated as the worst family brand in UK (Family brands Poll, 2009)

In order to make Ryanair a customer centric organisation it will be relevant to understand which all areas of organisation need to change for achieving this and which all current relevant issues Ryanair must address and change. The report will cover each individual area in detail and finally will align all these areas with the service system model proposed by Gronroos, C (1990) for being and improving customer orientation.

3. Ryanair's Corporate Culture

Culture is originated from the mostly from the CEO or founders of the organisation and is spread throughout the organisation and each employee is expected to follow this. Ryanair don possess a service culture which treat customers and their employees well and with respect. If Ryanair has to develop the focus on customers, they should develop a service culture. Now they only intend to focus on low cost no matter how they treat customers or employees. Their pilots pay for drinking water and have less time to plan flights, their cabin crew have sales targets, pay for own training and dress . Thereby Ryanair squeezes own employee for higher profit(BBC Panorama, 2009). All these effect the employee motivation to perform in a highly service environment where goods are produced and consumed immediately. In order to develop a service culture Ryanair should treat their staff well, providing essential atmosphere, facilities and working environment for the employees to work as part of a service oriented culture and avoid incidents that effect motivation of employees.

In order to create a service environment or orientation, Ryanair should encourage the values of a service culture. These shared values and attitudes should be clear guidelines for the daily task performance of employees and should be their character in service encounters with the customers. Ryanair's Managers should ensure that, they create service orientation and attitude in the employees and which is spread across the organisation irrespective of internal customers (support function, employees) and external customers (outside customers). The effect of higher service orientation will be high

service quality & satisfaction perceived by the customer and profitability(Ref figure: 5)

High service orientated culture will create a positive energy in employees which they will trigger solutions to problems and customer wishes within organisation context resulting in quality customer service and profitability .

Gronroos, C (1990)

Figure 5: Effects of Service orientation, Source: Gronroos, C (1990)

The overall change in this manner should happen from the senior management down to each and every employee.

4. Ryanair's Organisational Structure.

The current structure of Ryanair is not suited for a service culture to develop.

The management of Ryanair is very strict on cost cutting and won't let customer contact persons that create customer values to serve the wishes of the customer even in case of emergencies. Ryanair should align their structure in such a manner that it is interactive and the service encounters with the customers should be given priority. These calls up for empowering the employees with abilities to take limited decision which will add value to the customer and increase the functional service quality. Currently there are incidents where the staff refused drinking water to customers because of flight delay (BBC Panorama, 2009). Also they are removing a toilet from new aircrafts in order to seat more passengers which is a top management decision (Wall street Journal, 2009). Incidents like this which cause mental displeasure to customers should be avoided by empowering employees by

changing the organisational structure to new service oriented structure proposed by Gronroos, C (1990) as in figure 6.

New Structure For Ryanair

The daily routine decisions for the customers should be taken by customer contact personals, for ensuring high functional quality in service environment.

Figure 6: Service oriented Organizational Structure Source: Gronroos, C (1990)

5. Change needed in the Service attitude of employees

Ryanair culture and policy of being non customer oriented has caused many issues to the customers from the employee's in the past, including missed flights, no help in case of emergencies, lost bags, flight cancellations, poor communication (Times online, 2009). Most of the cases could have avoided if employees are service oriented . The role of customer contact employee (direct, phone, mail,) is high and its create customer value and functional quality. Ryanair should convey the service messages and attitude to all of it employees, including employees who indirectly take part in service of customers . This calls for a re training of all of its employees in order to make the message and implement it properly and effectively. A properly trained and skilled personal will understand the needs and values of the customer, listen and probe them with questions in order to keep quality and take steps to maintain it.

The employees who do not have direct contact with customers but to customer contact persons should understand that, their service rendered to their colleagues will have an effect on the final service quality perceived by the customer. Managers should encourage service attitude and customer focus in all departments and make them understand their part in the delivery of final service quality.

6. Ryanair's contracting agencies

Ryanair now take staffs as contract employee from contract organisations to reduce cost. These employees will have varying quality and will be less trained on customer service. In order to make them adaptable to the new service culture Ryanair should acquire the best contract staff, provide them with training and should makes contract for employees in long term to ensure quality in customer service.

The Internal service quality provided by support function will affect the final service quality. If it's bad, bad quality and service by the contact personals. Support functions should treat servicing colleagues as internal customers

Internal Service

External Service

Figure 7: Importance of internal employees Source: Gronroos, C (1990)

7. Need for better clarity of Marketing Communication and Pricing.

Ryanair provides customers with the lowest fares in industry. But the way they communicate the other extra charges associated with the flight needs consideration for better customer orientation. Ticket can be only being booked online on the Ryanair website (avoiding agency fees and call centres- good strategy). But Ryanair advertise prices as very low and have lot of extra charges (Refer figure 8) which most customers are not aware of. Apart from this they charge high for food on board and other ancillary services which account for 23% of Ryanair's total revenue in 2009(Annual Report, 2009) . This result in high inconvenience for customers and they may also feel that they are cheated and this will reduce quality in customer service and affect Ryanair in long term.

Price List

Cost

Ticket price

Less expensive, say €5

Total weight

15KG

Extra charge for each KG

€ 15

Cost of bag check in

€10 for 1st ,€20 for further

Credit card charge

€ 5

Priority booking

€ 16

Web Check in

€ 5

Toilet onboard

€ 2

Printing of boarding card

€ 40

Total

€ 108

Figure 8: Ryanair pricing

Source: BBC Panorama, 2009

Ryanair have to provide customers with the full details of the charges they incur. They have to be clear about this during their Integrated Marketing Communications, which is an integration of the 6 marketing communication mixes Advertising, sales promotion, Events, Personal sales, Direct Marketing, Public relations. (Kotler, P and Keller, K, 2007). These prices should be conveyed appropriately in the web site when the flight charges are conveyed to the customer to avoid confusion and dissatisfaction. This will only lead to better clarity, customer satisfaction and quality.

8. Focus on customer needs, values and expectation.

Ryanair now should focus on customer needs and what all values they keep. In a recent survey by BBC Ryanair was rated 33/42 airlines for customer satisfaction (BBC Panorama, 2009). In order to improve this place and be service oriented, Ryanair should gather information on customer needs, value creating process. The GAP analysis (Parasuraman et al, 1985) can be used for improving service quality and an in flight survey questionnaire can be distributed (refer figure).

Ryanair should implement a service model in order to be systematic in service delivery.

Needs

Values

Experience

Communication

WOM

Value creating process

Expectation

Totally Invisible part

Line of Visibility

Customers

Business Mission

Service concepts

Interactive part

Support Part

Contact Person

Management

Systems

Systems

Physical

Resources

Corporate Culture of Ryanair

9. Figure 9: Service system model

Source: Gronroos, C (1990)

The Integration of above mentioned views for being customer centric are achieved by the service model proposed by Gronroos, C (1990). Ryanair need to implement it service mission and it should be supported by the corporate culture for service orientation. The interactive part constitutes of the customer contact person, customers, systems and resources for customers. Support part, supports the interactive part in servicing the customer and helping contact person to keep the quality up.

Ryanair should train the customer contact employees for providing high quality functional service. Ryanair should avoid usage of contract staff in this division, as this part is the quality generating part where service encounter occurs. Service queries should have a TAT (turn around time) within which the case should be solved, ensuring responsiveness. The employees should be empowered properly with values that are good for Ryanair and customers. Also the systems which are in place for customer service (E. g.: website) should be customer friendly and service oriented . Failure to adhering to this may lead bad perception of quality and service. It may also lead to de motivation among employees which will have a direct effect on employee performance. Physical resources used for customer servicing should be updated for better technical quality. The servicescape of service also influence customer quality.

The support part is the part invisible to the customers. Due to this customers may not understand the technical quality Ryanair is providing. This must be taken care by marketing communication where people are informed about service quality provided. The Management of Ryanair should adapt a new service oriented culture which supports and motivates own employees for better service orientation. If they fail to do that the perceived quality will be deteriorated. Also people in the back end supporting the customer contact personal should treat their colleagues as internal customers. The service of the supporting staff is crucial for providing a high technical quality.

The Gap Model (see Figure 10) proposed by (Parasuraman et al, 1985) can be implemented to assess the perceived service quality and thereby improving customer service orientation.

Personal needs

Word Of Mouth

Past experiences

Expected service

Perceived Service

GAP 5

GAP 1

External Communication

Service Delivery

GAP 1

GAP 3

Translation of perception into service quality specification

GAP 2

Management Perception

Figure: 10 Gap Model for understanding perceived service quality

Source: Parasuraman et al, (1985)

10. Recommendations

In order to re align Ryanair to a customer centric organization the board of Ryanair must take a serious of steps of change from the roots of the organisation. These steps are proposed based on the earlier practices of Ryanair and on the theoretical models of service management discussed above.

Ryanair should implement a better price clarity in marketing communication. Revealing all the charges to the customer prior to ticket booking is highly recommended to avoid wrong perception among customers

Ryanair should create a service culture where enough top most priority is given to the customer. This can be enacted only from the top management

level where managers have to support and encourage a service oriented approach and work environment

Ryanair should implement shared values and beliefs among the employees and these values should be the basis of their service encounters

Customer contact employees should be empowered with limited decision making abilities, for satisfying the relevant wishes of customers for high service quality perception and which is also profitable to Ryanair

All employees should be trained for service oriented approach. Customer contact employees should be trained for pleasant behaviour to customers; whereas internal employees should be trained for timely service delivery to ensure high final quality (A low Turn around Time (TAT) is recommended).

Another recommendation is not to use contract staff(less functional quality) as customer contract personals. Instead highly trained Ryanair employees are preferred(to ensure high quality).

Implement GAP model (Parasuraman et al, (1985)) and use appropriate questionnaire to measure perceived service quality by the customers and make appropriate changes based on that.