The background of the ryanair business commerce essay

Environment, Air

In 1985 Cathal and Declan Ryan has founded the company. The airline started with a fifteen (15) seater Embraer Bandeirante turboprop aircraft and it was flying between Gatwick London and Waterford. On that time London-Ireland flights held by Aer Lingus and BA (British Airways). The company added a new route between Dublin and London in 1986 and competition started with the AL/BA duopoly. Company was refused by the government of Ireland, but the conservative government of UK has approved this new service. According to some analysis Company was generating the loss instead of profit but the mean time number of customers increased frequently. By 1991 company started to thinking about to make airline profitable and this task has been given to the Michael O'Leary. Ryan the founder of company suggested and encouraged Micheal to study the US airline model ' No Frill/Low Fares), which was using by the Southwest Airline in US and after that the model was implemented in the Ryanair. In 1995 at the completion of 10 year of the company, the Ryanair was carrying 2. 25 million passengers. Ryanair overtakes the Air Lingus in the same year and became largest passengers airline between Dublin and London and largest airline on any route in the Ireland.

Ryanair was founded in 1985 by Cathal and Declan Ryan (after whom the company is named), Liam Lonergan (owner of an Irish tour operator named Club Travel), and noted Irish businessperson Tony Ryan, founder of Guinness Peat Aviation and father of Cathal Ryan and Declan.[3] The airline began with a 15-seat Embraer Bandeirante turboprop aircraft flying between Waterford and London Gatwick with the aim of breaking the duopoly on London-Ireland flights at that time held by British Airways and Aer Lingus.

Mission statement:

Mission of Ryanair is

Provide Low fare Rate travelling at all the time for all the routes.

Key service commitment

Puncuality

Objectives:

Rynair believes on the following factors:

One way reservation to make flexible return for the passengers.

By controlling equipment cost, personal productivity and customer service cost operating cost keep low.

For peer groups best customer service

Maintain shor-haul routes frequently point-to-point flights.

Flight confirmation and reservation system availability on the internet.

No compromise on safety and quality maintenance of airplanes

By using ancillary service enhancement of operating results.

Focusing on the criteria of Growth, like more routes and increased frequency.

External Analysis

Political Analysis

Ryanair operates throughout the Europe and any political changes in any country can be effect the strategy of Ryanair. Ryanair has some dispute on each passenger flew at Newquay Airport with Cornwall Country Council.

Tax policy is another issue for Ryanair which can be create problems for the company.

Another political issue regarding the cash back that European Law is to fare return if any cancellation of the flight. This is not a big issue for Ryanair because Ryanair maintains their high quality service.

An announcement by the government of Ireland To break up the state monopoly may be brought some questions in European airline industry. However, if this plan implemented then Ryanair can be seriously affected It may block Ryanair future expansion in the Ireland.

Economic Analysis

Ryanair is European based company and so many of its operations are not affected by the exchange rate, as single currency operates many of these countries.

The only economical issue can the price of Oil, as Oil pricing are increasing frequently, this can be effect the low fare strategy of the company.

The taxation policy bring negative impact on the employees of the company as Europen Union has announced " EU deleted duty-free on intra-EU".

Social Analysis

European Union is and economic union of 27 countries. They developed a single market and single currency for exchange. A large number of people travel every day from one country to another country so they need a best solution and cheap fare travelling which is provided by the Ryanair.

The utmost divergence was created in European airline industry. Different price policy was implemented by mainstream and budget airline. Nevertheless, Ryanair can obtain this advantage to develop its business, as the direction of Ryanair fitted the market.

Technology Analysis

Ryanair is taking the best advantage of technology by providing solution through the internet. But this trend is growing in the European Airline Industry and other airlines are establishing their website. By using the technology Ryanair save cost and open up revenue like advertisement income.

Environment Analysis

Greenhouse emission is the big issue which is facing by Ryanair. Ryanair strategy has a positive environmental impact. At present, aviation accounts for roughly 5% of the UK's emissions, but this is expected to rise to 25% by 2030 (Economist 2005: 35).

The other main environmental issue is noise, the 737-800 will to reduce this issue.

Legal Analysis

The reiterated rule against illegal state subsidies hoped to be establish fair deal for the airline industry of Europe. " EU decision was based on non-discrimination legislation preventing airport from offering differential deal to different airline operators." The interests of European airline industry were protected by non-discrimination legislation. On the contrary, Ryanair may need to repay penalty for breaking rule.

Porter's Five Forces Analysis

Bargaining power of suppliers

Ryanair's main suppliers are Boeing. Two possible suppliers of planes for Ryanair in the market are Airbus and Boeing but Ryanair's main supplier is Boeing. Tring to switch supplier would be very costly because pilots would have to trained for the new mechanics. Ryanair controls aviation fuel through prevarication Price. Small and regional airports can have little bargaining power as compare to big and commercial airports because they only dependent on one airline. Ryanair avoid big airports and work from regional airports such as Stainsted and Gatwick.

Bargaining Power of Customers

Customers are price sensitive. It is very easy for customer to switch from one airline to other airline. Due to the increasing trend of reservation through internet customer can easily change airline. Ryanair is providing very low fare to customers but customers are not loyal.

Threat of New Entrants

Rynair can handle this issue by following these steps

· Put Some barriers and obstacles to newentry:

· Availability of some restricted slots make more difficult to find suitable airports for new entrants.

· By Starting price war.

Competitive Rivalry

There is very high competition in the market. Too many service providers are in the rivalry. Ryanair has first mover advantage in this market bacuase when they started the service their was no service providers but now there are many airlines in the competition with Ryanair.

3. Ryanair's Resources and Capabilities

Resources:

Ryanair has following threshold resources

1. Financial Resources

2. Hub Set up in Regional Airports

3. Number of Aircrafts

Following unique resources make Ryanair distinguish from their competitors:

1. Website

2. Boeing 737 Aircrafts

3. CEO Michael O' Leary

4. Award of Best managed Airline

5. Dedicated Team of Management

6. Ryanair Direct Limited

Competences:

Threshold Competences:

Low Fares

Advanced Reservation System

Baggage handling

On time service

Operating expanses in Euro Currency

Advertising and ancillary services sales

Core Competences:

1. Efficient Staff – Low costs of staff training

2. Fast Turnaound time management

3. Free Seat Givaways – No fares

4. Good Quality Service – No1

5. Third party service outsourcing

6. Performance related pay structure

7. Labour costs lower than rivals.

4. Strategic Situation

SWOT Analysis of Ryanair's Environment

Strengths of the Company

Brand name:

Ryanair has very well recognised brand name in the LCC market.

Low airport charges:

Ryanair has advantage of low charges for airport.

First mover:

This advantage acts as a barrier to new entry

Bookings on the Internet:

More than 94% booking on the internet contributes in low cost distribution

Aircrafts-Boeing:

Ryanair has A uniform fleet for maintenance.

High performance:

Punctuality, low baggage loss.

Utilization of Aircraft:

By keep maintaining Ryanair is able to flies longer and generating more revenue from assets.

Small headquarters:

Low on overheads

Weaknesses of the Company

Niche market:

Restricted expansion possibility

Distance of Airports:

Many regional airports are far from advertised destination.

Changes in-charges frequently

Opportunities

There is a lot of new destinations expected to open as European Union is going to be enlarge:

The market share would be doubled as there is still potential in the company to capture market share.

Recession can help as Ryanair offers low fare cost and can catch the new customers as economy is slow down.

Threats for the Company

Increasing price of oil is a big threat for company as fuel costs depend on the oil market.

· Low fare competition is increased

· Europena court dicision can make more difficult to make expansion.

· Growth in the South European market is limited

· Bargaining power increases on regional airports

· Customers are price sensitive

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· Ryanair and Easy jet limit one another's growth " rout wise", need for peaceful coexistence, or routes could become battleground (e. g.: London-Rome)

· Face increase in air traffic control charges. As more planes fly in the sky.

· Powerless to prevent introduction of duty for fuel or environmental charges: This would reduce its growth potential as it relies on price stimulation.

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5. Strategic choice.

Options

1. Low cost strategies- First Otion is to Continue the low cost strategy to remain top of the Cost Leadership

2. New Investment: New investment can be made for modernised fleet. Will become more uniformed with only one model (737-800) which leads to cheap maintenance. Ryanair would use the next generation aircraft Boeing 737-800 as an opportunity to rejuvenate the image of the company. By using new quality infrasture and Boeing 737-800 the perception can be made false which is “ Ryanair is los cost service, it is also a low quality service.” Change in uniform can increase the confident level of staff and provide a good change for the customers. It will be inexpensive relatively and will not effect the company’s equity in wide range and company’s price leadership strategy will not be destroyed.

3. Find out new markets: Look for the new places in the Europe to expand the business.

Michael Porter’s Generic Strategies

For Ryanair to obtain a sustainable competitive advantage, Michael Porter suggests that any company/organisation can follow either one of three generic strategies.

· Strategy 1: Cost Leadership.

· Strategy 2: Differentiation

· Strategy 3: Niche strategies

· Are you ‘ Stuck in the middle?’

Opt. #1

Cost Leadership Strategy:

To enhance growth of the company Ryanair should pursue Cost leadership strategy which is provided by the Porter’s Generic Strategy.

Cost Leadership could be done in the following ways:

· Increasing profits by reducing the costs, while charging industry-average prices.

Increasing market share through charging lower prices, while still making a reasonable profit on each sale due to reduced costs.

Bowman’s Strategy Clock

The ‘ Strategy Clock’ is based upon the work of Cliff Bowman (see C. Bowman and D. Faulkner ‘ Competitive and Corporate Strategy – Irwin – 1996). This is an appropriate way to analyze a company’s competitive position in comparison to the offerings of competitors.

Ansoff Matrix

Ansoff's Product/Market Matrix

Opt. #1 Opt. #2

Opt. #3

Market Penetration

Option 1

Market penetration technique can used in the current market with current brand or product.

By repositioning the brand and or promoting the products Ryanair can increase its revenue.

Product Development

Option 2 Product development means bringing a new product in the existing market. This is where Ryanair will market their newest investment. Ryanair would lounge a new product to the existing market this will help to increase the profitability of the company and awareness of new brand can bring more customers towards the organisation.

Market Development

Here, Ryanair would try to open up new markets possibly some where in the Europe and can provide current product or service to that market.

Implementation Methods of Options

The Following is a table showing the three options chosen above and the implementation method chosen for each option.

Option

Implementation Method Proposed

Continuation of low cost strategies

Organic Growth

2-	2-Investment in modernised fleet, which leads to less expensive maintenance

Organic Growth

Try to expand the European markets to accommodate more European countries and also open new markets servicing parts of North America, South America and the Caribbean

Organic Growth

Figure 4: Table showing Options and the Implementation method proposed

Organic growth is the rate of business expansion through increasing output and sales as opposed to mergers, acquisitions and take-over. Organic growth simply refers to the growth achieved by internal investments of the firm. This could be the day-to-day business of the firm or a division of the firm starting a new business from scratch. This is distinguished from growth by acquisition or merger, which involves an outside firm. The method of organic growth seems to be the most suited method of implementation for the options stated above. The benefits of this method are:

–	Cost Spread

– Choice of Location

– Latest Technology

– No Inappropriate Cultural History

In order to successfully implement the strategic options chosen in above, they must first be evaluated for suitability, acceptability and feasibility.

1. Suitability is concerned with whether a strategy addresses the circumstances in which an organisation is operating- the strategic position. In addition, whether the options chosen are in line with the mission and objectives of the organisation. The following must be carried out in order to test suitability:

– An examination of the resources of the organisation to determine whether the organisation possess the key resources (critical success factors) to pursue the option

– Analysis of the external environment of the organisation to determine whether the option is suited for the organisation

– Determination of whether a competitive advantage would be obtained and if the option would lead to a good financial performance.

2. Acceptability is concerned with the expected performance outcome of the strategy. A financial risk analysis is done here and the effectiveness of the impact on the following:

– Stakeholders

– Shareholders

– Employees

– Bankers

– Customers

– Suppliers

3. Feasibility examines the following:

– Internal constraints which would restrict the implementation of the option and also the weakness that would constrict the option

– Would the option improve performance level within the resources?

– What resources are possessed and additional requirements to pursue the options

– Commitment from managers and human resource and the physical constraints e. g. industry-rights and air-space legislation.

Suitability –

Life Cycle Analysis

Figure 5: An Illustration of the Life Cycle Analysis showing Ryanair's position

Source: www. marketingteacher. com

Due to the number of years of existence, servicing of a number of European countries, the acquisition of increasing market share and good brand image, Ryanair is said to be at its Maturity Stage based on the life cycle analysis above.

Ryanair being in the position of maturity which it currently is in, with the continuation of low cost strategies, could serve as a booster to increased sales and therefore profitability in the future. Although Ryanair has the lowest cost base of any of its competitors, the Company can continue to lower its cost base as it matures.

Ryanair will use the introduction of a new fleet of Boeing 737-800's " next generation" aircraft as an opportunity to rejuvenate the image of the airline. There is a perception that because Ryanair is a low-cost service, it is also a low quality service. To correct this perception Ryanair will launch an exceptionally intense marketing campaign (radio, newspapers and television). They will also include a modernising of their staff's ' look' as well as their fleet. A newer more fashionable uniform will be selected. It will be a relatively inexpensive exercise in the long term that which would help enormously in improving the public's perception on Ryanair. It will emphasise that the " upgrade" will not be followed with an increase in fare prices.

Eastern Europe is fast becoming a hotspot for tourists and business travellers alike due to the continuing expansion of the E. U. Ryanair however, does not serve any of these popular destinations. Other low-cost airlines have set up there already, such as Sky Europe, but not all routes have been exhausted. There is still plenty of opportunity in this area.

The above options would all contribute to Ryanair’s maturity and to the achievement of greater profits in future.

Value Chain Analysis

Infrastructure

HRM

Techn. Dev.

Procurement

Inbound Operations Outbound Marketing Service

Logistics Logistics & Sales

Figure 6: An Illustration of Ryanair’s Value Chain

The main core competencies of Ryanair are:

– Their unique cost cutting policy

– Robustness

– Culture

The implementation of option 1: Continuation of low cost strategies, takes into consideration all of Ryanair’s main core competencies. Low cost strategy is really the cutting of costs using Ryanair’s unique cost cutting policy. In terms of robustness, Ryanair’s competitors can try to imitate them but if not implemented in the correct way, could prove detrimental to Ryanair’s competitors.

Option 2: Investment in modernised fleet, which leads to less expensive maintenance: will become more uniformed with only one model (737-800), also newer planes will require less maintenance. This option will require a great amount of finance (investment) in order to be successful. Ryanair being such a large organisation, with profits in excess of £300 million in 2007 and having a high level of dominance in the European market, this option proves to be the most suitable of all three.

Option 3: Try to expand the European markets to accommodate more European countries (Central Europe) and open new markets servicing parts of North America, South America and the Caribbean. This option will require a large amount of financial investments into the American and Caribbean Markets. Even though Ryanair may possess the financial capabilities to finance this option, they might not possess the cultural aspect of management to venture into this drastic change of culture between the Europeans and the Americans and people of the Caribbean. There may also be legislations in these countries, which may hinder the success of setting up and success of Ryanair.

The most Suitable strategic option to be implemented is Option 2: Investment in modernised fleet, which leads to less expensive maintenance: will become more uniformed with only one model (737-800), also newer planes will require less maintenance.

Acceptability

Option 2: Investment in modernised fleet, which leads to less expensive maintenance: will become more uniformed with only one model (737-800), also newer planes will require less maintenance…

The returns from this option will yield almost one and a half times the amount of profit generated from sales in the year 2007.

This option falls under the Ansoff Matrix as Product Development. This segment of the Ansoff Matrix carries with it a medium or low risk.

Product development typically aims to follow changing needs of customers. With the implementation of the modernised fleet, customers will be satisfied and know to themselves that Ryanair provides them with a service which is like no-other, they will be assured that they are getting the best-quality service there is for a low quality price. They will also be greeted with fresh new faces (uniforms) of employees and will be treated with the best customer services possible.

The shareholder will now benefit from shares valuing much more than its present value. Bankers will also benefit because with the heavy costs incurred with this undertaking, Ryanair will need some sort of financing means and this is where bankers will benefit.

This option will require Ryanair to invest heavily in acquisition costs but this is a small price to pay for all the rewards, which it will bring. Not only will this option improve the public’s perception of Ryanair, but also increase profitability of the Airline.

All of Ryanair's stakeholders is directly linked to the airline's operations and are a vital part of the growth and development process of the company

Feasibility

The implementation of Option 2 would be successful due to the fact that Ryanair possess all the resources needed for this undertaking.

It can be seen from the diagram below that over the years 2005 – 2008, there was about two times growth in Ryanair's revenue and more than 50% increase in profits. This proves that Ryanair's profit generation will continue to grow inevitable over the next few years. This financial capability proves to be very crucial in implementation of this option.

Figure 7: Diagram showing Ryanair's growth in revenue and profits generated over the period 2005 – 2009.

Over the past year, Ryanair's growth delivered more and even better paying jobs for their people, as well as a significant number of promotions. Whilst their employees' pay is amongst the highest in Europe, they manage their rosters to maximize productivity and maximizing employees' time off. With the implementation of this option, Ryanair will continue to provide thousands of new jobs and many promotional opportunities for their people as their size doubles over the years to come.

With an average fare, which is 50% cheaper than any other major European airline, it is no surprise that Ryanair continues to grow strongly. In recent International Air Transport Association (IATA) airline rankings confirmed that

Ryanair has become the world's largest carrier of international passengers, making them the world's favourite airline.

Air travel in general and low fare airlines in particular continue to be the target of inaccurate attacks from small section environmentalists that air travel is responsible for 2% of the world's greenhouse gas emissions. A number of recent studies into environmental performance of European airlines have ranked Ryanair as the greenest cleanest airline in Europe. At Ryanair, every possible step to reduce the impact of passenger flights on the environment is taken. This is done by:

– Flying Brand new more efficient aircrafts

– Increasing the number of passenger flights

– Ensuring that all aircraft systems follows all fuel and noise minimisation procedures

Both management and employees are committed to making this strategy a success. Management's aim is that employees understand the strategy and are committed to Ryanair.

The motivation and commitment of Ryanair's employees is key to their performance.

Management recognises the importance of effective communication with its people. Ryanair implemented a newsletter " The Limited Release" to all staff ensuring that employees are kept up to-date on the plans, issues and challenges facing the industry, and daily news bulletins are also issued. All staff benefits from extensive travel concessions in Ryanair and discounted travel with other carriers.

Due to these incentives and excellent working environment at Ryanair, employees exert a greater effort in making Ryanair a success.

Ryanair's steady growth is being achieved in the most environmentally sustainable way through investing in the latest aircraft and engine technologies and adopting the most efficient operational and commercial measures that help to minimise the airline's impact on the environment. Ryanair is currently the industry leader in terms of environmental efficiency and is constantly working towards further improving its performance.

Implementation Issues

In the implementation of the option chosen, the following implementation issues need to be considered and managed:

– Financial- Ryanair seems to be in a financially stable position to successfully implement this option

– Human Resources- Ryanair must ensure that their staff are properly trained in order to display and portray the company's image

– Legal Issues- Ryanair must take into consideration the legislation and legal restrictions and issues of the various countries in which they operate

– Management of change- it must also be ensured that Ryanair's managers possess the management skills in order to successfully manage change. Change is inevitable.

Based on the evaluation of the suitability, acceptability and feasibility of the options chosen for growth and expansion of Ryanair, it can be seen that the implementation of option 2 is most feasible and would generate the most returns in the future.