Environmental analysis of ryanair

Environment, Air

In spite of lots of controversies, in august 2006 Air Transport World Magazine announced that Ryanair was the most profitable airline in the world on the basis of its operating and net profit margins (case study). The purpose of this report is to undertake an environmental analysis of European airline industry with implications to Rynair. On the bases of environmental analysis Ryanair's success and its sustainability in European budget airline industry is critically assessed.

An environmental analysis is undertaken on the European airline industry with implication to Ryanair using tools such as PESTEL analysis, Porter five forces, SWOT analysis and Strategic group analysis.

Pestel analysis is one of the important tools to analyse environmental factors influencing organisation's strategy. PESTEL stands for political, economic, social, technology, environmental and legal. It is important for organisation to analyse how these factors are changing and how they are likely to change in the future (Johnson et. al, 2009). PESTEL analysis is used to analysis macro-environment in which Ryanair operates and to identify key-drivers of change.

Government policies can influence to a large extend on airline industry. After the terrorist attract in 2001 UK authorities imposed serve security measures at all airports. As a result of this Ryanair suffered a loss of 1. 9 million Euros on reduced bookings. Airport and handling charges was increased by 21% in 2006, which could put more pressure on budget airline like Ryanair. In 2005 EU regulations came into effect, which forced the airline to refund fares to passengers in case of delays, cancellations or denied boarding.

Economic climate plays a vital role in influencing airline industry. During time of recession people refer to reduce their expenses which could reflect on number of people travelling in a flight, they may use any other alternative transport.

The main economic factors that concerns airline industry is increase in fuel price, which forced some of the airlines to include fuel surcharges into airfares. Ryanair guaranteed its customers that it will not add fuel surcharges into their tickets. Current fluctuation in exchange rate is another issue in airline industry. The fuel price was always quoted in US dollars therefore there is always a risk in converting, as Ryanair deals with Euros. Ryanair had not hedged early, so it was paying $70 per barrel of oil up to October 2009 while other airlines were paying $50 to $60 per barrel of oil.

Social:

Social factors include social life style, demographic, perceptions which could also influence airline industry. It is expected that by 2012 there will be more old people in European countries; this will be the key to all airlines to come up with something special for them. Ryanair charged up to £18 for using wheelchair and check in baggage and advertising standards rebuked the airline for misleading advertisement complaint, all these could create a negative impact on customers.

Technological:

With new technological improvement flying has became a new experience for passengers. New flights, online boarding, in flight entertainment system are some of the technological advancement in airline industry. In 2001 Ryanair launched its website which facilitates car & hotel rentals, rail services and travel insurance, all at low prices. The airline website was largest travel website in Europe and fifth most recognised brand on Google, offering huge potential in E-commerce and advertising revenues. Ryanair brought new Boeing 737-800 aircraft which is more environmentally-friendly, reducing fuel consumption by 2%.

Environmental:

The airline industry is been accused by various social groups for emissions of carbon. Aviation represents 2. 6% of carbon emissions in the EU, Oxford university study predicted that carbon from aviation would accelerate. Therefore airline industry was asked to play environmental taxes which could put more pressure on all airlines. Ryanair protested against this taxation arguing aviation contributes only small proportion of carbon emissions.

Legal:

Ryanair filed two cases against UK government: one for claim to compensate the carrier for lost flights and bookings; another was for increase in insurance costs for all commercial airlines. The carrier was sued by Sweden’s prime minister and a former foreign minister for placing their photos in one of company’s advertising campaign without getting their permission.

Porter’s Five Forces

The five forces model was introduced by Porter, which helps to identify the sources of competition in an industry or sector. Although initially used with business in mind, it is of value to most organisations (Johnson and Scholes, 2002). Porter's five forces model is used to analyse the level of competition existing in airline industry.

Competitive Rivalry:

The low-cost airline market is very competitive compared to other markets. The concept of low cost can be easily copied by rivals, which leads to high competition in the industry. Two major low-cost airlines (EasyJet and Ryanair) have always avoided direct competition by serving different routes. There is high level of competition for Ryanair and other established airlines in getting landing permissions and departure slots.

Bargaining Power of Customers:

Customers who prefer low-cost airline are often price sensitive and tend to switch over to another airline. Now days all airlines are online which has made customers relatively easier and cheaper for them to more to another airline. Moreover they try to maintain some sort of loyalty towards the airline in which they frequently fly.

Bargaining Power of Suppliers:

The major cost for all airline industry is fuel prices, which is constantly increasing. There is no alternative to aviation fuel therefore oil companies has high bargaining power. Boeing supplies plans to Ryanair, if they have to switch to another supplier it will cost them high since they have to retrain its pilots. Bigger airports like Heathrow has a high bargaining power than smaller airports, thus it will be difficult for Ryanair to operate from these airports.

Threat of New Entrants:

The low-cost model can be easily adopted by others and can enter into the market. There are also some barriers for the new entrants like requires huge capital investment, availability of slots and price war existing in routes where other low-cost airlines operates. The new entrants have to get prior authorisations which are not easily these days and need to setup strong base in order to survive in the competition.

Substitutes:

Not all people prefer to travel by flights. Especially during time of recession most people avoid flights and travel by other cheap alternatives like travel by sea or by trains or by ferries or by cars. There are some people who may be aerophobia (Fear of flying), these people try to avoid flying and choose other alternative.

SWOT Analysis

SWOT analysis summarises the key issues from the business environment and the strategic capability of an organisation that are most likely to impact on strategy development. It aims at identifying the extent to which the current strengths and weakness are relevant in dealing with threats in the environment (Johnson and Scholes, 2002). It is very useful tool in environmental analysis, which helps to find out strengths, weakness and opportunities & threats of Ryanair. Strengths and weakness are concerned in detail to analyse current position of the company, complete SWOT analysis can be found in Appendix 3.

Strengths:

Ryanair's CEO Michael O'Leary is one of the main strength to the airline as he often comes up with new ideas and was credited with single-handedly transforming European air transport. Ryanair always operates from small airports thus reducing their costs on airport charges and gaining suitable departure SLOTS. In 2000, Ryanair launched its website www. Ryanair. com, which facilitated car and hotel rentals, rail services and travel insurance and all at low prices (Box and Byus, 2007). The airline uses Boeing 737-800 which is more environmental friendly and also reduces fuel consumption by 2%.

Weakness:

Ryanair is always criticised for charging for wheelchair and check-in luggage which could leaves a negative image on the customers. The staffs and crew members are not well trained therefore not customer friendly. Ryanair always avoided bigger airports and concentred on small regional airports, which could be a drawback for the company for future expansion. Other important concern for Ryanair is its relationship with authorities, the airline often involved in some kind of crash with them.

Strategic Group Analysis

Strategic groups are organisations within an industry with similar strategic characteristics, following similar strategies or competing on similar bases.

There are many different characteristics that distinguish between strategic groups but these are classified into two major categories: scope of organisation’s activities and resource commitment (Johnson et. al., 2008). The main competitors to Ryanair are EasyJet and Aer Lingus. Strategic group analysis (Appendix 5) is used to understand the competition, strategic opportunities and mobility barriers of Ryanair in low cost airline industry.

Strategic Groups in Low-cost industry

In Europe there are three main airlines providing low-cost flights to destinations namely Ryanair, EasyJet, Aer Lingus. Ryanair is dominant low-cost producer and has a gross cash of more than 1. 8bn Euros. EasyJet’s majority of passengers are UK based, but becoming pan-European player.

Aer Lingus is another low-cost airline operating from Dublin serving more than 70 destinations across Europe and US. Figure 1 in appendix 5 shows the positioning of these airlines on bases of passengers capacity and their market share in industry. Ryanair and EasyJet have 56% of market share in low-cost industry.

Strategic Space in Industry

Strategic group maps help us to identify the most attractive “ strategic spaces” within an industry. A strategic group map is only the first stage of the analysis; strategic spaces need to be tested carefully (Johnson et. al., 2008). In low-cost airline industry, for instance the airlines can serve long haul routes which could help them in expansion. They can also consider moving into other low-cost segments like trains and offer its passengers new attractive products and services (figure 2 in appendix 5).

Mobility Barriers

Moving across the map to gain competitive advantage is costless but it often involves difficult decisions and rare resources. Mobility barriers are the obstacles to movement from one strategic group to another (Johnson et. al., 2008). Similarly in the low-cost airline industry (figure 3 in appendix 5) it will be difficult for airlines to move to another strategic group. The lack of experience in long haul routes, increasing fuel prices, high competition from big airlines like British airways and other regional airlines are some of the barriers which could put more pressure on airlines to move to another strategic group.

RYANAIR'S SUCCESS

When Ryanair was started in 1990, everyone where anxious to see its performance in an industry where there was a monopoly created by giants like British Airways and Lufthansa. In response to this, the airline became one of the successful low-cost airlines operating from 127 destinations around the world (Case study). There have been many ups and downs for Ryanair since its launch but it continues to be successful in its operation.

The success of an airline depends on how and what it offers to its customers. In case on Ryanair, it always tried to offer its passengers low-cost airfares at all times. The airline often comes up with new ideas which make them to reduce its airfares. These new ideas differentiate it from other traditional airlines. One of the main differentiate is its website, the company's site is largest travel website which was recording 50000 bookings per week (Box and Byus, 2007).

The website also provides additional facilities to its customers like car, hotel rental, rail services and travel insurance, all at low prices. The airline offers customers online check-in which enables them to save its costs on printing tickets and other additional costs. The use of internet also makes it easy and quicker for customers to check-in.

LIMITATIONS OF MODELS USED

PESTEL Analysis

The environment is constantly changing therefore PESTEL analysis should be done on regular basis and information needs to be accurate (Campbell et. al, 2002).

PESTEL analysis is very expensive in terms of cost and time

The effectiveness of this model depends on the level of prediction made on future. No one can predict the future.

The speed of changes makes it difficult for managers to anticipate developments that may affect the organisation in future.

Porter's Five Forces

Porter's five force model assumes that all companies try to achieve competitive advantage over others in the industry

This model assumes that goal of competitive advantage is to dominate suppliers and buyers (Campbell et. al, 2002).

Internal environment is not taken into account

It is difficult to use this model in complex industries with multiple interrelations.

SWOT Analysis

It is not critically analysed

The data used in the analysis may be based on assumptions.

Lacks detailed structure.

It usage rarely amounts to much more than a poorly structured, very general list of factors regarded by the proposing individual as important components of the organisation’s strategic situation (David, 1997).

Value Chain

The concept of value chain disaggregates a company into “ activity” or the discrete functions or processes that represent the elemental building blocks of competitive advantage (Porter, 1998).

There is risk of losing control of proprietary knowledge, skills, capability, or competence as these are disseminated to supply chain members (Morden, 2007).

It can be applied only to manufacturing companies not to service industries.

Strategic Group Analysis

Difficult to group companies based on their strategy.

Strategic groups are relatively unstable.