

Understanding ryanairs external environment and industry commerce essay

[Business](#)



As already described in the introduction, the European airline Industry has grown so quickly over the past two decades and to understand the challenges and opportunities that Ryanair has, it is necessary to analysis its external environment and its industry. A business' external environment is made up of several factors which can be described and analysed using the PESTLE model and the five forces of Porter (Appendix 2).

2. 1PESTLE Analysis of Ryanair:

Political external factors:

The European Union (EU) has been expanding since the treaty was signed in 1993. In 2004, ten countries joined the EU. They include Malta, Poland, Hungary and Lithuania. In 2007, Romania and Bulgaria also joined the EU (EU 2010). Iceland is currently in talks to join the EU. The increase in the number of the EU states means that there will be a constant increase in the demand for business and holiday flights within the Union. This is favourable for Ryanair. Decisions such as abolishing duty free sales at airports have negative impacts on business for Ryanair and other low budget airlines. The duty free industry at airports is worth a £4. 3 billion a year (BBC 1999). It has been warned that abolishing the duty free sales could lead to an increase in the landing charges for airlines as airports gain back some of the money they lose by not selling duty free goods (BBC 1999).

Economic:

Steady increase in fuel prices all over the world especially in the EU presents a negative environment for the company which operates. Jet fuel prices increased 800% between 2002 and 2008, fuel accounted for 10% of airline

costs in 2000 and by 2008 it accounted for over 40% (Morris 2008) Low cost flight airlines receive subsidies on several airports across the Europe and Ryan is no exception. According to Irishtimes. com, Ryanair received €35 million in France alone (Byrne 2011). These subsidies come in form of providing free staff at the airline's check booths, free landings and subsidies for plying new routes to encourage airlines to travel those routes even while they are unprofitable.

Social:

There has been an increase in demand to travel to more European destinations. Many of these destinations have become hotspots with many people travelling there for short breaks, parties etc. There has also been increased business travel on the continent; in 2007 7.8% of all IFR flights were business aviation (Eurocontrol 2007)

Technological:

The growth in internet business has afforded the airline an opportunity to increase its sales by means of online advertising. However, there is also increased competition because other airlines also use the same medium. The internet has become a place where people can get cheap tickets to travel in Europe.

Environmental:

The importance of environmental issues such as greenhouse emissions and noise level controls has increased over the years. there has been increasing concern over the carbon footprint of the airline industry with calls to reduce

it (FAA 2004) even airport expansion plans are often delayed or cancelled (FAA 2004)

Legal:

Allegations of misleading advertising when advertising city destinations while it is travelling to secondary airports which are far from the advertised cities.

2. Assessing the attractiveness of the airline industry using Porter's five forces.

Threats of New Entrants: there is a substantial threat of new entrants due to the increase in demand for short flights. However, the costs of starting an airline company are relatively high and this means that the threat of new entrants is not too high but medium. Intensity of Industry Competition: there are many airlines in the industry and there is severe competition between them. This can be seen by the aggressive advertisement online and offline. The airlines are always offering price cuts and other sales strategies to attract customers. Threat of substitute products: this is not very high but is considerable. There are more fast trains that travel between European countries such as Euro star between London and Paris and the TGV within France. Trains are not a great threat because they are not likely to substitute air travel much. Therefore, this carries medium force. Suppliers' bargaining power: airport charges such as landing charges are generally favourable to low cost airlines like Ryanair to encourage them to navigate new routes. It can be sad that the suppliers' power is low. Buyers' bargaining power: their bargaining is also low. People do not have direct substitutes to travelling by air and so do not have any direct influence on the air fares.

3.0 An Analysis of Ryanair Strategic Capabilities

The business model can be summed up in its mission statement " Ryanair will become Europe's most profitable, lowest cost scheduled airline by providing its low fares/ no frills service in all markets in which it operates to the benefit of our passengers, people and shareholders" (Mayer 2008). The airline has been profitable and even during the economic recession; between year 2008 and 2009 its operating revenue made 2% increase from €2, 942. 0m to €2, 988. 1m (Appendix 2). The following models will be used to understand Ryanair's strategic capabilities; its core competences, its activity map, its strengths and weakness of its internal structure. Figure 3. 1. The activity map of Ryanair Ltd

3.2 Activity Map

Based on Porter's Activity Map (Appendix 1), Ryanair's activities (see figure 2. 1) are: Frequent reliable departures Limited passenger amenities: the airline provides no meals, no seat assignments, no baggage transfers all of which cuts costs. Short-haul, point to point routes between midsize cities and secondary airports: no connections with other airlines Very low tickets: since cost is low, the airline is able to offer its market low cost tickets. High aircraft utilisation: it tries to ensure that the aircraft is always full. It sells free tickets to ensure that this happens Lean, highly productive ground and gate crews: little use of agencies. The airline cuts off the middle man where possible to reduce costs, makes use of online ticketing system to reduce the need for man-power.

3.3 Ryanair's Core competencies

Good Leadership Insight: the company's leadership is adept in managing change. Change is necessary if a business is to grow and diversify to reach a wider market. Being able to manage change is fundamental to a business' success. Great Public Relations: This is much more than presenting a favourable image to the rest of the world but the ability to negotiate with industry leaders, governments and communicate with all stakeholders. Ability to create a Vision: the company has demonstrated the ability to follow its vision, which is to offer cheap airline services and to adopt the necessary business models to achieve it. As a result of its activities, core competencies and other internal structure and business processes, the company has the following strengths and weaknesses.

3.4 The Company's strengths and Weaknesses

Ryanair's Strengths include: It has first mover advantage: since it was the first airline to offer cheap fares in Europe, it was able to gain a high market share that still exists today. It has an established network routes. Inventive cost reductions: the airline is able to save costs by providing a 'no frills' service i. e. no free snacks or drinks on board, no planned seating arrangements etc. the company is able to save 40 - 50% of costs compared to other airline (Doganis 2001 cited in Boesch 2007). Little or no use of the middleman: it sells its tickets online and by telephone and hardly uses travel agents. It has a strong brand name which is great for marketing purposes. Ryanair has a good network of business partners that helps in gaining better competitive advantages. It outsources its ground crew operations to contractors in airports outside Dublin. Its weaknesses include: Too much

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dependence on its Chief Executive Officer Michael O' Leary: The CEO has brought the airline up to the standard and profitability it has attained. However, there seems to be excessive dependency on him which might cause instability for the airline when he resigns. Refusal to accept and recognise labour unions Antagonistic relationship with competitors: Ryanair has a culture of directly antagonising its rivals e. g. Aer Lingus, Alitalia and EasyJet.

4. 0 Conclusions and Recommendations

Ryanair has done very well for itself since it was established in 1985. Its success is aided by the conducive nature of its industry and external environment. The airline industry has its challenges such as intense competition, the threat of new entrants and the climatic concerns but the expansion of the EU, the increase in the travel demand, low supplier bargaining etc have aided the growth of the low cost airlines such as Ryanair. Internally, Ryanair strengths and activity map shows it to be a company with a strong sense of direction and potential. It appears determined to grow within the industry and remain the largest low cost airline in Europe. However, its weaknesses which include its dependence on its CEO, its poor relationship with other companies in the industry have to be addressed. The CEO might want to delegate some of his duties to other people in the company and ensure that adequate training is provided to the management so that in the event of his resignation, the business will remain standing.

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Appendix 1

Porter (2006) maintained that for a company to be successful, it needs to focus on some activities that determine and reinforce its strategy and which gives it an edge over other competitors. These activities will be linked and reinforce each other. Activity maps identify the most critical activities needed to achieve strategic objectives and the investments necessary to support these activities. The goal is to identify important activities so that it will be possible to develop ways to measure how well the company is performing these activities. The dark blue circles denote higher-order strategic offerings. The light blue circles denote activities or investments tailored to deliver it. The first is for companies to provide goods or services with greater value, charge higher prices, thereby increasing revenue. The second type of activity aims to provide goods or services at a lower cost, reduce costs, thereby increasing profitability. Porter asserts that activities are the basic unit of competitive advantage