# An Analysis of Michael Porter‘s Ryanair’s Corporate Strategy

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**Abstract**

Strategy is the pattern of decisions in a company that determines or reveals its objectives, purposes or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and noneconomic contribution it intends to make to its shareholders, employees, customers, and communities. This research paper analyzes how the company defines its strategy and can be seen in a longer period or shorter period of time and managers that can foresee the future. Organizations are facing exciting and dynamic challenges in the 21st century. In the globalized business, companies require strategic thinking and only by evolving good corporate strategies can they become strategically competitive. Businesses which understand clearly what strategy is and design their future plans based on those strategies are going to be more successful than their competitors in the environments seen fierce competition and fast change. The main challenge for business strategy is to find a way of achieving a *sustainable competitive advantage* over the other competing products and firms in a market. *The analysis has been done by using significant theories Porter's Five Forces Analysis, Value Chain Analysis, and Porter's Generic Strategy on Ryanair. The analysis of this report was done with the support of the provided case information, Ryanair website, using first report materials, industry related information from academic books, journals, websites, and other publicly available secondary data sources*

**KEYWORDS:** ***S****trategy, Five Forces Analysis, Value Chain Analysis, Generic Strategic process, Sustainable Competitive Advantage.*

## 1. Historical Background of Ryanair Company:-

Ryanair was founded in 1985 by Christopher Ryan, Liam Lonergan, and Tony Ryan (after whom the company is named). The initial flight took place between Waterford, Ireland and London Gatwick on a 15-seat airplane. The plane was so small that prospective flight attendants were required to be less than 5’2” tall. With just 51 employees and 5,000 passengers in its first year of operation, Ryanair was one of the smallest commercial airlines in the world. Founded during a period of European air travel regulation, Ryanair had the intent of breaking the duopoly on London-Ireland flights held by British Airways and Aer Lingus. In 1986, a new EU ruling brought about partial air travel deregulation, which stated that airlines could operate new international routes as long as one of the two countries agreed. As a result, Ryanair opened a second route from Dublin to London Luton in direct competition with the duopoly. The Irish government refused approval for the route in order to protect Aer Lingus, but Margaret Thatcher and the deregulation-seeking British government approved the addition of Ryanair to the route. While Ryanair’s price of £99 for the Dublin-Luton is quite high by today’s norms, it far undercut the £209 regulated rate offered by British Airways and Aer Lingus. Despite offering just two short routes, Ryanair became Europe’s first low-cost carrier and changed the continent’s air travel pricing structure forever. In the late 1980s, Ryanair underwent rapid expansion, acquiring new airplanes and expanding its route offerings. Flights outside of the United Kingdom were available and Ryanair became a major player on all main routes within the United Kingdom. In its attempt to become a serious competitor to Europe’s established airlines, Ryanair introduced a frequent flyer program and offered business class seats. Neither of these offerings was successful, however, and both were eliminated within a year. Despite rising passenger numbers, Ryanair was losing money. Ryanair was a low-fare airline, but not a particularly low-cost airline. It attempted to offer similar service as the major airlines at a lower price, and with the major airlines starting to lower their own prices to force Ryanair’s down even further, Ryanair could not survive. After restructuring in 1990 and a £20 million cash injection from the Ryan family, Ryanair installed new management and lowered prices even more, vowing to offer the lowest fares in every market it served. This was accomplished by eliminating especially costly routes, increasing flight frequency on profitable routes, and moving to a single type of airplane in order to reduce maintenance expenses. By flying between regional airports with lower landing costs and quicker turnaround times, profitability was attainable even with the cheapest flights Europe had ever seen. The new CEO, Michael O’Leary, followed Southwest Airlines’ lead and eliminated free meals and beverages during flights, a radical move for the European airline industry, but one that soon paid off. The Gulf War resulted in diminished passenger numbers in 1991 (the only year passenger numbers have ever declined for Ryanair), but with O’Leary’s cost-saving measures in place, Ryanair managed to break its streak of unprofitable years. When the EU deregulated its airline industry in 1992, allowing for non-national carriers to fly between any EU states, Ryanair seized the opportunity and expanded rapidly. 1995 saw Ryanair take over from British Airways and Aer Lingus as the single largest airline on every route if offered to and from Dublin. A successful IPO in 1997 raised previously unattainable amounts of capital, and in 1998, Ryanair bought 45 new Boeing jets. In 2000 the airline launched its website, and within a year, three quarters of all bookings were made online. In April 2003, Ryanair acquired Buzz from KLM, and by the end of 2003, the airline flew 127 routes. Ryanair recorded its first loss in over a decade during the second quarter of 2004 (€3.3 million), but the expansion of the EU in 2004 opened more profitable routes, particularly in Eastern Europe, and Ryanair quickly regained profitability. In 2006, Ryanair posted half-year profits of €329 million during which passenger traffic grew by more than a fifth and revenues rose by a third to €1.256 billion. Soon afterwards, Ryanair attempted to takeover Aer Lingus, but its €1.5 billion euro offer was rejected. On 1 December 2008, Ryanair again offered to takeover Aer Lingus, this time with an all-cash offer of €748 million, but the Irish government, who possesses a large stake in Aer Lingus, denied the takeover for competition concerns. In June 2009, Ryanair reported an annual loss of €169 million. In October 2009, Ryanair eliminated all traditional check-in desks in favor of simple baggage drops in a new cost-saving move. Later that year, Ryanair announced negotiations with Boeing over 200 aircraft order had failed. Despite this setback, profits rose to €318 million the following year, even with the recession’s effects. As of February 2010, Ryanair had an average fair of €32, less than half than that of competitor easyJet at €66. In June 2012, Ryanair made another bid to buy Aer-Lingus, but the European Commission blocked this bid since the combined companies control 80% of flights between the UK and Ireland. Ryanair's growth has been extremely impressive during a period in which established major airlines have struggled mightily and gone bankrupt in many cases. Between 1985 and 2011, Ryanair's passenger numbers increased by more than 15,000-fold, from 5,000 to nearly 76 million. Europe's first low-fare airline has maintained its position of offering the cheapest flights, and with rapid expansion still occurring into new airports, Ryanair's passenger numbers continue to grow.

*Ryanair is an Irish airline and largest European carrier in terms of passenger volume in 2016 (Lufthansa wrestled the top spot in 2017) and is largely characterized by the successful implementation of the low-cost business model. It has over 12,438 employees as of 2017.Being a pioneer in offering low fares to its passengers on short European routes, Ryanair has earned the reputation to offer lowest fares in the industry and hence turns out to be the toughest competition to the newbie's in the aviation industry. During the 90's Ryanair operated as an airline serving short point to point European routes. Later it entered the Dublin-London route hitting the market with its attractive strategy of lowest fares and increased routes between Ireland and UK. Gradually Ryanair started new routes in various other countries, keeping its business model simple and focused towards providing lowest possible fares with increased frequencies to destinations and emphasizing on safety and security of passengers. In 2017, albeit facing a lot of internal and external problems, Ryanair managed to be a low-cost carrier and became the first European airline to fly with more than 1 billion customers. Ryanair's unique selling proposition or USP is to provide lowest fares in the airline industry with increased frequencies for short point to point routes. Ryanair's mission statement reads as to offer low fares that generate increased passenger traffic while maintaining a continuous focus on cost containment and efficiency operation. Ryanair's Vision is to firmly establish itself as Europe's leading low-fares scheduled passenger airline through continuous improvements and expanded offerings of its low-fares service?*

*According to the report, in 2017, world economic growth has reached 3 per cent—the highest growth since 2011—as crisis-related fragilities and the adverse effects of other recent shocks subside. The improvement is widespread, with roughly two-thirds of countries worldwide experiencing stronger growth in 2017 than in the previous year. Global growth is expected to remain steady at 3.0 per cent in 2018 and 2019. Despite the improved short-term outlook, the global economy continues to face risks—including changes in trade policy, a sudden deterioration in global financial conditions and rising geopolitical tensions. The world economy also faces longer-term challenges. The report highlights four areas where the improved macroeconomic situation opens the way for policy to address these challenges: increasing economic diversification, reducing inequality, supporting long-term investment and tackling institutional deficiencies. The report notes that reorienting policy to address these challenges can generate stronger investment and productivity, higher job creation and more sustainable medium-term economic growth. Many developing economies and economies in transition remain vulnerable to spikes in risk aversion, sudden capital withdrawal and an abrupt tightening of global liquidity conditions, while rising debt poses global financial challenges. The report suggests that a new financial framework for sustainable finance should be created in alignment with the 2030 Agenda and the Addis Ababa Action Agenda that would shift the focus from short term profit to long term value creation. Regulatory policies for the financial system, well coordinated with monetary, fiscal and foreign exchange policies, should support this framework, by promoting a stable global financial environment. This major aspect shows the importance of strategy and its growth over the period of time and speaks about how a good strategy led the growth of the company.*

### 1.1. Conceptual Framework of Strategy:-

Day-to-day developments in the world economy have become increasingly complex and global in their implications. Economic shocks, from Greece to China to Russia, are now of greater concern because around the world, traditional policy tools have already been used and financial resources depleted to help economies recover from the last downturn. Strategic decisions have become correspondingly more consequential. Shocks are inevitable, but strategists must find ways to extract the signals from the noise to understand what's over the horizon. Three interlinked factors have the potential to shift the global economy from one long-term outcome to another: aggregate demand, structural challenges, and diverging growth patterns.

Indeed, strategy is a military oriented concept used to mean an aim of gaining a battle or a conflict in a war. However, today we use this concept in every area of our life. It means ways and techniques which are going to be used for achieving an identified aim or goal by using human and non-human all tools (Çevik,2001, p.310)[8]. The concept is military sourced. Having its foundations in military practices, strategy implies the use of armament actions that are going to reach to determined goals identified by decision makers. If it is necessary, it will direct military, political, economic and moral powers in coherence. Forming a strategy is the responsibility of top management of business.

| Current Strategy of Ryanair |
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| **Ryanair is a global airline which provides scheduled passenger airline services between Ireland and the United Kingdom. It is Europe's first and largest law fares airline which started 1985 by Ryan family (Ryanair website). Today it is the World's favorite airline with 41 bases and 1100+ low fare routes across 26 countries, connecting 153 destinations. Also it operates a fleet of 232 new Boeing 737-800 aircraft with firm orders for a further 82 new aircraft. In order to achieve its long term Vision Ryanair has set appropriate mission, a set of goals and objectives. The set of Objectives itself represent that Ryanair currently has main strategy to offer low fares/cost reduction.** |

Modern business strategy emerged as a field of study and practice in the 1960s; prior to that time, the words "strategy" and "competition" rarely appeared in the most prominent management literature.[17] Alfred Chandler wrote in 1962 that: "Strategy is the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals." Michael Porter defined strategy in 1980 as the "...broad formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry out those goals" and the "...combination of the *ends* (goals) for which the firm is striving and the *means* (policies) by which it is seeking to get there."[19] Henry Mintzberg described five definitions of strategy in 1998: **Strategy as plan**, **Strategy as pattern**, **Strategy as position, Strategy as ploy** and **Strategy as perspective** – executing strategy based on a "theory of the business" or natural extension of the mindset or ideological perspective of the organization.

The strategic management discipline had originated in the 1950s and 1960s. Among the numerous early contributors, the most influential were Peter Drucker, Philip Selznick, Alfred Chandler, Igor Ansoff,[23] and Bruce Henderson.[22] The discipline draws from earlier thinking and texts on 'strategy' dating back thousands of years. Prior to 1960, the term "strategy" was primarily used regarding war and politics, not business.[24] Many companies built strategic planning functions to develop and execute the formulation and implementation processes during the 1960s.

**Peter Drucke**r addressed fundamental strategic questions in a 1954 book *The Practice of Management* writing: "... the first responsibility of top management is to ask the question 'what is our business?' He recommended eight areas where objectives should be set, such as market standing, innovation, productivity, physical and financial resources, worker performance and attitude, profitability, manager performance and development, and public responsibility.[26] In 1957, **Philip Selznick** initially used the term "distinctive competence" in referring to how the Navy was attempting to differentiate itself from the other services. He also formalized the idea of matching the organization's internal factors with external environmental circumstances.[27] This core idea was developed further by Kenneth R. Andrews in 1963 into what we now call SWOT analysis, in which the strengths and weaknesses of the firm are assessed in light of the opportunities and threats in the business environment.

Ryanair has seen large success over the recent years due to its low-cost business model and has become the world's largest airline in terms of international passenger numbers. Ryanair operates a cost-leadership strategy to drive itself into achieving its mission of being the leading European low-cost carrier (LCC). As Europe's largest low fare airline, Ryanair's competitive advantage remains in their ability to continue as cost leaders; providing the cheapest fares to its customers. This dictates that the company must minimize its own costs to ensure that they are able to offer customers the service at a price below their direct competitors. This leads us to consider some key functional strategies which directly help Ryanair towards their ultimate goal 'to be Europe's leading low fares airline' (Ryanair). Ryanair's current business strategy dates to the early 1990s, when Ryanair became the first European airline to replicate the low-fares, low-cost operating model pioneered by Southwest Airlines Co. in the United States. During the period between 1992 and 1994, Ryanair expanded its route network to include scheduled passenger services between Dublin and Birmingham, Manchester and Glasgow (Prestwick). In 1994, Ryanair began standardizing its fleet by purchasing used Boeing 737-200A aircraft to replace substantially all of its leased aircraft. Beginning in 1996, Ryanair continued to expand its service from Dublin to new provincial destinations in the U.K. In August 1996, Irish Air, L.P., an investment vehicle led by David Bonderman and certain of his associates at the Texas Pacific Group, acquired a minority interest in the Company. Ryanair Holdings completed its initial public offering in June 1997. From 1997 through June 30, 2018, Ryanair launched service on more than 2,000 routes throughout Europe and also increased the frequency of service on a number of its principal routes. Ryanair has increased the number of booked passengers from approximately 4.9 million in fiscal year 1999 to approximately 130.3 million in fiscal year 2018. As of June 30, 2018, Ryanair had a principal fleet of over 440 Boeing 737-800 aircraft and now serves over 200 airports. Ryanair expects to have approximately 585 aircraft in its operating fleet by March 31, 2024.

**Alfred Chandler** defined as "*Strategy is the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals*."[11] **Ansof**f wrote that strategic management had three parts: strategic planning; the skill of a firm in converting its plans into reality; and the skill of a firm in managing its own internal resistance to change.[29] **Porter** wrote in 1980 that companies have to make choices about their scope and the type of competitive advantage they seek to achieve, whether lower cost or differentiation. Porter revised the strategy paradigm again in 1985, writing that superior performance of the processes and activities performed by organizations as part of their value chain is the foundation of competitive advantage, thereby outlining a process view of strategy.

## 2. Research Methodology and Objectives of the Study:-

Strategic objectives are, in general, externally focused and (according to the management guru Peter Drucker) fall into eight major classifications: (1) Market standing: desired share of the present and new markets; (2) Innovation: development of new goods and services, and of skills and methods required to supply them; (3) Human resources: selection and development of employees; (4) Financial resources: identification of the sources of capital and their use; (5) Physical resources: equipment and facilities and their use; (6) Productivity: efficient use of the resources relative to the output; (7) Social responsibility: awareness and responsiveness to the effects on the wider community of the stakeholders; (8) Profit requirements: achievement of measurable financial well-being and growth.

***Ryanair's main current strategy is to provide low cost fares for the passengers and it is mainly controlled by Minimized marketing cost, low customer facilities, fleet commonality, and outsourced services advertisement managing staff at a lower cost***

The study concentrates to find out the reply on the following questions:-

1. ***To study the Nature of Strategy and Importance of Strategy in Ryanair corporation.***
2. ***To study the Porter's Five Forces of Ryanair,***
3. ***To study the Generic Strategic Model of Ryanair***
4. ***To study the Porter Value Chain Analysis of Ryanair***
5. ***To suggest the recommendations to develop Ryanair's competitive gain in the future***

Its aim is to be a theoretical article in which the major aspect of providing a good strategy can be transferred to a company with a brief presentation of an international company that has focused in the past years on a successful strategy in terms of ***the low cost strategy.*** *The analysis has been done by using significant theories such as Value Chain Analysis, Porter's Generic Strategy, and Porter Five Forces Model from the knowledge on Ryanair. Through the Ryanair strategy* *identification and implementation analysis unproductive strategic decisions have been identified and finally suggest the recommendations to develop Ryanair's competitive gain in the future. The analysis of this report was done with the support of the provided case information, Ryanair website, using first report materials, industry related information from academic books, journals, websites, and other publicly available secondary data sources*

## 3. The Key Elements/ Nature of Ryanair's Strategy:-

In this century of speed where everything changes at the speed of light it is important for the managers to find quick and efficient solutions at the problems that a company can deal on a market. Many contemporary theories treat strategy as the main way in which a company can obtain competitive advantage, and this is quite true, because a good conceived strategy and well implemented can bring the most desired competitive advantage to a company. This paper study the key element / nature of strategic of Ryanair's as given below:- *Ryanair's objective is to establish itself as Europe's biggest scheduled passenger airline, through continued improvements and expanded offerings of its low-fares service. In the highly challenging current operating environment, Ryanair seeks to offer low fares that generate increased passenger traffic while maintaining a continuous focus on cost- containment and operating efficiencies. The key elements of Ryanair's long-term strategy are: -* 1. ***Low Fares****:-Ryanair's low fares are designed to stimulate demand, particularly from fare-conscious leisure and business travelers who might otherwise use alternative forms of transportation or choose not to travel at all. Ryanair sells seats on a one-way basis, thus eliminating minimum stay requirements from all travel on Ryanair scheduled services.* 2. ***Customer Service****:- In recent years, Ryanair introduced a series of customer-service related initiatives under the AGB customer experience program, including an easy-to-navigate website, a mobile app, reduced penalty fees, allocated seating, security fast track at selected airports and more customer-friendly baggage allowances and change flight policies. Ryanair has also introduced several important products that improve its offering to customers and include scheduling more flights to primary airports, selling flights via travel agents on GDS, marketing spending to support these initiatives, and adjusting the airline's yield management strategy with the goal of increasing load factors and yield.* 3. **Frequent Point-to-Point Flights on Short-Haul Routes**.-Ryanair provides frequent point-to-point service on short- haul routes. In fiscal year 2018, Ryanair flew an average route length of 775 miles and average flight duration of approximately 1.9 hours. Short-haul routes allow Ryanair to offer its low fares and frequent service, while eliminating the need to provide unnecessary "frills," like free in-flight meals and movies, otherwise expected by customers on longer flights. 4. **Low Operating Costs** – Ryanair's operating costs are lowest among the any of European scheduled passenger airline. They maintain and reduce expenses through aircraft equipment costs, personnel productivity, customer service costs and airport access and handling costs. 5. **Aircraft Equipments costs**:-Ryanair's initial strategy for controlling aircraft acquisition costs was to purchase used aircraft of a single type, however this no longer became viable as in the case Ryanair started to purchase new Boeing 737-800 "next generation" aircraft. The 737-800s represent the latest generation of Boeing's 737 aircraft and share certain basic attributes in common with Ryanair's current fleet. Although Ryanair's acquisition of the 737-800s has already increase the size of its fleet and due to this its aircraft equipment and related costs also increased but purchasing aircraft from a single manufacturer enables it to limit the costs associated with personnel training, maintenance and the purchase and storage of spare parts as well as affording greater flexibility in the scheduling of crews and equipment. 6. **Personnel Productivity:-**Remuneration for employees emphasizes productivity based pay incentives, including commissions for onboard sales of products for flight attendants and payments based on the number of hours or sectors flown by pilots and cabin crew personnel within limits set by industry standards or regulations fixing maximum working hours as well as participation in Ryanair's valuable stock option programs. Ryanair's average pay per employee for the year compares favorably to its competitors such as easyJet, Aer Lingus, British Airways.

**7. Customer Service** Costs:-Ryanair has entered into agreements with third party contractors at certain airports for passenger and aircraft handling, ticketing and other services that management believes can be more cost efficiently provided by third parties. The development of its own reservations centre and internet booking facility has allowed Ryanair to eliminate travel agent commissions. 8. **Airport Access Fees**:-Ryanair attempts to control airport access and service charges by focusing on airports that offer competitive cost terms. Management believes that Ryanair's record of delivering a consistently high volume of passenger traffic growth at many of these airports has allowed it to negotiate favourable contracts with such airports for access to their facilities. 9. **Maximizing the use of the Internet** – Ryanair converted its host reservation system during year 2000 from the British Airways Booking System to a new system hosted by Accenture open skies. As part of the implementation of the new reservation system open Skies developed an internet booking facility called Skylights. This Skylights system allows internet users to access Ryanair's host reservation system and to make and pay for confirmed reservations in real time through Ryanair's Ryanair.com website. 10. **Commitment to Safety and Quality Maintenance** – Ryanair's promise to safety is a primary priority of the Company and its management. This promise begins with the hiring and training of Ryanair's pilots, cabin crews and maintenance personnel and includes a policy of maintaining its aircraft in accordance with the highest European airline industry standards. Ryanair has not had a single incident involving major injury to passengers or flight crew in its operating history. 11. **Enhancement of Operating Results through Ancillary Services** – Ryanair offers a variety of ancillary services and other revenue generating services including on-board merchandise, beverage and food sales, accommodation reservation services, advertising, travel insurance, car rentals and rail and bus tickets. Ryanair distributes car rentals, accommodation services and travel insurance through both its website and its traditional telephone reservation offices. 12. **Focused Criteria for Growth** – Ryanair's expansion of service to Europe and building its success in the Ireland and U.K. market intends to follow a manageable growth plan targeting specific markets.

## 4. Defining the Company's Mission and Objectives:-

Strategic mission is a type of marketing approach which is based on the core philosophy of organization. It is a long term plan on which the company operates to achieve its mission and vision objectives and goals. Questions to ask and narrate the mission statements:-

1. What is our business and what are we trying to accomplish on behalf of our customers?
2. What is our company's reason for existing?

"*Ryanair's objective is to firmly establish itself as Europe's leading low-fares scheduled passenger airline through continuous improvements and expanded offerings of its low-fares service. Ryanair aims to offer low-fares that generate increased passenger traffic while maintaining a continuous focus on cost-containment and operating efficiencies*."
**Mission of Ryanair: -** "To become Europe's most profitable airline by rolling out proven low- fare, no frills service in all markets in which we operate to the benefit of passengers, people and stakeholders

| **Vision & Mission of Ryanair** |
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| **Ryanair's core vision is evolving as the company matures, but remains objective and straight to the point. Its core mission is aligned with this vision and places the values that Ryanair strongly believes in at the center of its mission – delivering profitability, low cost and industry leading customer standards to its passengers. ¬ Ryanair strongly believes that its mission is to provide to people a way to travel at low cost in various markets. ¬ This is the main added value that Ryanair provides to its customers, and strongly indicates its positioning. Over time, its vision has evolved and more recently it has changed its focus to improving customer relations in addition to being Europe's "only ultra low cost airline" ¬ Its latest mission reflects a new focus on enhancing the customer experience.** |

For companies which are at the start of the road or for which have a long presence on the market, defining the company's mission is an essential criteria and at the same time the first step which must be taken in order for that respective company to have even a chance to obtain competitive advantage.

## Current Objectives:-

The company has the following objectives:- 1.**Customer Service**:-As Ryanair's business matures and growth rates begin to slow, the company's focus has begun to develop toward a customer service focus, attempting to create brand loyalty by providing the most consistent service; this is achieved by aiming for the highest amount of on-time flights, losing fewer bags than its competitors and cancelling the least flights. 2. **Airport Partnerships**:-Ryanair has historically flown to secondary airports in order to lower costs, however "Over the last 12 months an increasing number of major city primary airports are offering Ryanair low costs and efficient facilities in return for new route and/or traffic growth on existing routes, in many cases to make up for traffic declines at those primary airports by their incumbent carriers." (Ryanair, 2014) 3. **Digital:**-In 2014, Ryanair launched a new subsidiary company called 'Ryanair Labs', the aim of this subsidiary is provide the most innovate digital solutions and ideas in order for Ryanair to enhance its online offering. In addition, Ryanair has begun to invest in emerging digital trends such as wearable technology. 4. **Personnel**:-Between 2013 and 2014, Ryanair has employed 500 more members of staff and introduced promotional incentives to help staff develop new skills and in turn develop the business itself. In order to keep up with the rising importance of the digital industry, the company has made extensive effort to hire in specialists from this industry.(O'Leary, 2014

## 5. Michael Porter's Ryanair Strategy:-

Porter's Generic strategies can be used to determine the direction (strategy) of your organisation. He believes that a company must choose a clear course in order to be able to beat the competition. An understanding of the market, industry and an organisation are paramount in choosing the right strategy.
One of the best way to find the strategic position and its sustainability in the future is to see how the different force have influence the Ryanair by studying the Five forces Model of Porters. The Ryanair business strategy is one of fanatical cost reduction and efficiency such they can offer a basic low cost reliable and dependable service which is in high demand. Ryanair operates an ultra-low fare, scheduled airline serving short-haul, point-to-point routes from 86 bases to airports across Europe, which together are referred to as "Ryanair's bases." Ryanair pioneered the low-fares air travel model in Europe in the early 1990s. As of June 30, 2018, the Company offered over 2,000 short-haul flights per day serving over 200 airports across Europe, with a fleet of over 440 Boeing 737 aircraft.

## 5.1. Porter's Five Forces Analysis of Ryanair:-

One of the best ways to investigate if the strategy of Ryanair is sustainable in the future is to see how the different forces have influence on Ryanair. The Porter's five forces model describes how strong Ryanair is in the Low Cost Carrier (LCC) industry. Porter (1998) highlighted potential risks that companies adopting any of the three generic strategies might face. For a strategy competing on costs, the main risks are when competitors are able to imitate the strategy itself, or technology changes. When the target segment (in this context - price conscious travellers) becomes structurally unattractive, it also poses a risk to the company. This can happen when the demand for low fares disappears due to changing consumer tastes. Ryanair therefore needs to have a defensible position in the industry with relation to Porter's 5 Forces. The 5 Forces are: (1) Threat of new entrants, (2) Bargaining Power of Buyers, (3) Bargaining Power of Suppliers (4) Threat of new substitutes and (5) Intensity of Rivalry among the competitors. For example, Ryanair depends heavily on its suppliers like Boeing and the various airports for favourable rates of equipment purchases and landing fees. If there is a shift in the balance of power, Ryanair's cost focus strategy may no longer be profitable. This can also be demonstrated when alternative modes of transport to flying like trains or by sea are perceived to be more attractive (cheaper), since Ryanair's targeted segment are travellers who are only price conscious. Porter (1998) also points out that a generic strategy can be compromised by the temptation of growth, when it becomes "stuck in the middle". Ryanair is the dominant player in the sector, and this risk is particularly high at this stage. According to Porter (1998), "focus involves deliberately limiting potential sales volume". Ryanair's "no frills" policy may have to change as they are actively expanding their flight route network and distance. It would be impossible for Ryanair not to provide meals on longer haul flights, and as a result their cost focus strategy may become blurred.

**Figure No: 1**
**Porter's Competitive Strategic Model**


There are some limitations to the practical value of the generic strategies theory in the sense that they may not always be easily applicable in practice. As mentioned earlier in this essay, Porter (1998) failed to define clearly what he meant by an "industry", and the vagueness of the term meant that Ryanair's strategy can be identified differently: as a cost focuser if the airline industry is considered in its entirety, or as a cost leader if the low-cost segment is seen as an industry on its own. The theory also hardly considers price as a factor, and he only suggest that a cost leader can set prices near industry average and earn higher profits due to lower costs. This has not been the case for Ryanair, and they continue to set prices lower than most of their competitors. Ryanair has emphasized competition in costs. However, it is clear that pursuing the strategy successfully takes more than just trying blindly to achieve lower costs. According to Kay (1995), the distinctive capabilities or core competences of an organisation are what provide a competitive advantage. Stalk, Evans and Shulman (1992) defines a capability as "a set of business processes strategically understood". Porter (1998) stated that strategic capabilities are about core competences how resources are deployed into activities and hence create competitive advantage. In essence, Ryanair has evolved from competing on costs to a capability-based competitor. The critical success factor of the sector was price, and Ryanair was very aware of it, judging from the valiant efforts to drive costs down. The no-frills policy of the company creates opportunities to increase efficiency and employee motivation through sales commission and excess total remuneration and hence placing genuine and practical value on porter's generic strategies. For example, the absence of free in-flight services enabled cabin staff to earn commission on duty paid sales and in-flight refreshments. As a result, motivation of staff increased and the aircraft cleaning time in between flights were reduced, leading to higher productivity. Contracting out services to third parties also protect Ryanair from potentially costly industrial actions also proves porter's generic strategies are being implied since financial output is being minimized. Ryanair has the reputation of being the low fare airline in Europe. Another capability differential is cultural capability. This refers to the organisational culture of an organisation, and how it creates competitive advantage. Ryanair's culture is steeped in achieving low costs, with most habits, routines, beliefs, attitudes and values geared towards that objective. These competencies are embedded deeply and Johnson and Scholes (2002) suggest that the cultural capability often refers to organisational knowledge, which cannot be easily imitated. Experience is a strategic asset that Ryanair possesses. As the first low-fare airline in Europe, it had pioneer advantage which provided them with the important experience. Although Ryanair may have had to make mistakes as the "pioneer" company, experience is cumulative, and that only serves to let it become more efficient. Michael O'Leary is a unique resource to the company, and his knowledge and management style contributed much to Ryanair's success but the success was no doubt also down to the practical value of porter's generic strategies.

1. **Threats of New Entrants:-** There are some barriers to enter the Low Cost Carrier industry. A high capital investment is needed and new entrants will find immediate competition when entering on an existing LCC route. As a new airline you need to acquire a low cost base and the restricted slot availability makes it difficult to find suitable airports. There are some barriers to enter, but still there are quite a lot of low cost competitors entering the market each year. Many of the larger airlines have opted to launch their own no-frills airline. Most of the airlines that have done this have sold their no-frills airline to Ryanair. The possibility of new firms entering into the industry affects the competition and pricing strategies of other operating firms. So, the globalization and privatization has given free entry for all firms. However, industries which have high impact on the market will protect rivals entering into the market. Ryanair has no impact on protecting the rivals entering into the industry. Ryanair being small developing airlines has no more impact on protecting the rivals in entering the firm. New entrants come into a market place when the profit margins are attractive and the barriers to entry are low. *Main barriers to entry airline industry: 1.high capital investment, 2. restricted airport slots availability, 3. need for low cost base.*

**2**. **Bargaining Power of Suppliers:-** Ryanair orders its planes at Boeing which is its main supplier. Boeing has a lot of bargaining power as there are only two main suppliers of planes, Boeing and Airbus. A change to the other supplier would have high costs as all mechanics and pilots would have to be retrained. Ryanair is trying to get the cheapest deals when ordering their planes. The last negotiation round with Boeing failed, because they could not agree on the conditions of the deal. New planes will arrive until 2012 and growth and expansion to new routes is possible until that date. After that Ryanair will change its strategy, decrease its growth and eventually it will return more profits to their shareholders. This will definitely affect the future of Ryanair. The price of aviation fuel is closely related to the oil price. Ryanair is reducing this risk by hedging. Still, this has a large influence on the net profits. In 2008 the profits were less mainly due to an increase of almost 60 percent in oil prices. (independent.ie, 2008) Next to these suppliers, Ryanair also has to deal with the airports. The regional airports are small and are largely dependent on the airlines. The bigger airports, which Ryanair is avoiding, do have a greater bargaining power as there are more airlines willing to leave from these sides. The firm requires raw materials like labour, supplies, components, etc, where the relationship between the buyer and supplier is very essential in carrying out the business in a smooth way. Ryanair has its suppliers including Boeing, Airport authorities where the services of them are much essential to make their strategies as planned by the management. Any business requires inputs—labor, parts, raw materials and services. There are five main suppliers for airline industry: 1.aircraft producers, 2.airports, 3. fuel suppliers, 4.Ryanair's ancillary services suppliers, 5. Travel/advertising agencies. 6. **Aircraft producers**

**3. Bargaining Power of Customers:-** The customers for Ryanair are very price sensitive. It is very easy for them to change to another airline as most of the people book their tickets through the internet. Among the low cost carriers there is almost no loyalty to any airline, these people are just looking for the lowest price. Ryanair is in this way very dependent on their customer and don't have much influence on them. The customer service of Ryanair, concerning punctuality, lost bags, fewer cancellations and fewer complaints is 100% upfront when compared to their competitors. This could be a thing where people care about and may become loyal to the airline. On the other hand, the cabin crew of Ryanair is not so friendly. Ryanair has to increase the friendliness of their staff in order to get more loyal customers. The buying powers of the customers have an impact on the products and these impacts the price to be charged for the products and services. So, if the economy is monopolistic, the seller has impact on fixing the prices of goods and services. Ryanair has no monopolistic advantage and it has perfect competition from other airways, and the buyer has impact on the prices fixed by Ryanair. So, the buyers have impact on the management while fixing prices for their services. Customers are price sensitive. Switching to another airline is relatively simple and is not related to high costs. 2. It is possible to buy almost all airlines tickets on-line.3. Customers know about the cost of supplying the service and there almost no loyalty. 4. Ryanair product is much the same as that from other competitors. So for customers it is easy to switch from one carrier to another.

**4. Threat of substitutes:-** The customer shows no loyalty to a low cost carrier because this is mostly created through a differentiation strategy. There is also no close customer relationship to build some loyalty. Ryanair is flying short-haul routes in Europe where you can also go to by train, ferries, cars and busses. In this model, Porter has given importance for substitute products in the same industry, as the substitutes take makes share in the profits and business. So, the elasticity of the products is affected by substitute products, as more substitutes are available the demand for other products reduces, and the demand becomes more elastic since the alternative increases. Ryanair has substitutes from other short haul commuting like railways and bus where Virgin trains has been using its first railway coaches to substitute with airways which provides short haul flights. So, the availability of substitutes makes the demand for airways seats more elastic. The main kind of threat of substitutes: 1.No brand loyalty of customers, 2. No switching to the substitute costs for the customer, 3. other modes of transport, e.g. Eurostar

**5. Industry Rivalry:-**The market where Ryanair is in is highly competitive. Most cost advantages can easily be copied immediately. There is not a lot of difference between services, price is the main differentiator. At the moment, there is a low level of competitiveness as the two major airlines (Ryanair and EasyJet) have avoided direct competition by choosing different routes. On the other hand, as soon as any other player decides to compete directly with Ryanair there will be heavy pressure on prices, margins and profitability. Ryanair is trying to keep a large market share by buying up smaller airlines that might cause a threat as a competitor. Ryanair has already made an offer twice for a takeover of Aer Lingus, but the Irish government is not willing to sell it. The concept of pure competition implies that the risk and returns over the industry would be around the same levels. However, some studies affirm that different industries sustain at different levels, wherein the industrial structure is very important. Michael Porter has framed a model stating various forces influencing the industry, which is known as Five Forces model. Competition between rivals drives profits to zero, and competition is not perfect at all times. Firms strive to take competitive advantage over their rivals to outperform others to get profits, and strategic analysts are much interested to know this difference. Ryanair has its rivals from various other airlines including British Airways, Air France, Lufthansa, Easy Jet, etc, where the competition between them is so high which makes the firms to keep up their prices more closely the same, in order to strive in the market. The completive Rivalry points as: 1.Most cost advantages can be copied immediately, 2.Not much differentiation between services. Price is the main differentiating factor, 3. Low levels of existing rivalry as the two major low-cost airlines have avoided direct competition by choosing different routes to serve

So, Ryanair has its place in focusing on the five forces revolving around the industry as to operate smoothly. Ryanair plans its prices, and its services according to the five forces. Hence, the strategic team needs to analyze all these factors before planning any strategy plans.

## 5.2. Porters Generic Strategies:-

These generic strategies are what companies use to maintain competitive advantage. Before one of the three strategies can be adopted, the company must first consider a variety of factors including but not limited to Porter's five forces Ryanair uses a cost leadership strategy, they do this by ensuring costs are lower than their competition whilst still providing the same quality product or service as its rivals "Firms that set out to be cost leaders then use this lower cost base to reduce prices and in this way build market share" (Gillian and Wilson, 2011). Ryanair manages this by taking advantage of economies of scale and corporate clout to ensure the best value for money from all suppliers Furthermore, by all support functions for the business are run with peak efficiency to ensure value

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Michael Porter has given the above strategy which stated that to gain competitive advantage an organisation has to use any one of the strategy which will differentiate them from others in the industry.

**Figure No: 2**

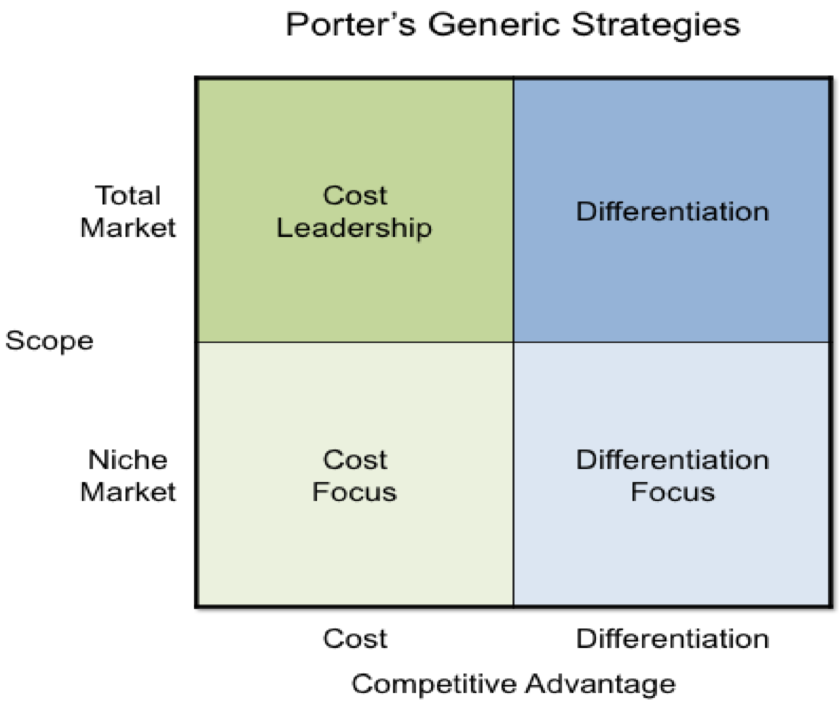



**Table 1 : Porter's Generic Strategy- Cost Leadership**

| **Types of Generic Strategy** | Ways to achieve strategy | **Benefits** | **Possible Problems** |
|---|---|---|---|
| **Cost Leadership** | Size and economies of scale<br>-Globalisation-<br>Relocation to low cost parts of the world<br>-Modification/Simplification of design<br>-Greater labour effectiveness<br>-Greater operating effectiveness<br>-Strategic alliances<br>-New sources of supply<br>-Learning<br>-Cost linkages<br>-Integration<br>-Timing-<br>Superior labour and management-<br>advanced technology<br>-smart buying | **The ability to:**<br>**1.Outperform rivals**<br>**2.Erect Barriers to entry**<br>**3.Resist the five forces** | Vulnerability to even lower cost operators<br>-<br>Possible price wars<br>-<br>The difficulty of sustaining strategy long term |

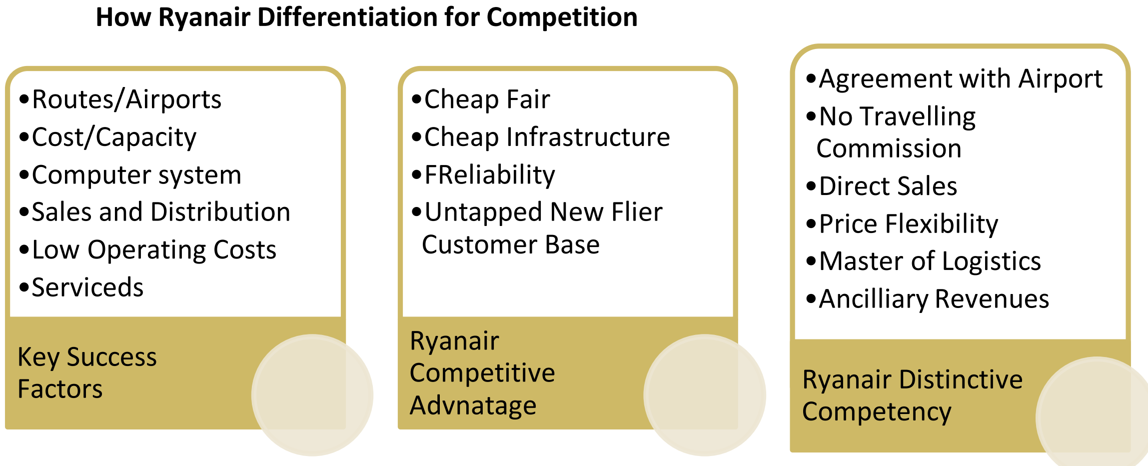
The benefits of adopting this strategy have been realized by Ryanair, having forecast record profits for 2014 demonstrates that the airlines continues to outperform rivals. Furthermore, the cost leadership strategy has helped Ryanair to resist the five forces which affect other companies in the aviation industry. Ryanair has worked to counter the possible problems of this strategy by reinvesting profits into infrastructure. Ryanair has a firm deal with Boeing to purchase 100 new aircraft which will be more fuel efficient and less noisy, leading to lower fuel costs and noise pollution fines. These savings can be passed on to the customer to strengthen the company's market share.

**1. Cost Leadership**:-Cost Leadership is the strategy with the low cost market leader gains advantage over others by offering cheap deals for their products and services, which is being used by Ryanair as its major principles of leading the market over its competitive low fare deals. Ryanair's low fare strategy stimulates demand in the market, for its services, and those who are fare-conscious leisure and those who never travelled on flights. Ryanair uses to sell one way basis which reduces the minimum stay requirements, wherein its competitors like British Airways, Air France do not operate one-way pricing method, which makes them a market leader of cost. The strategy here is based on the goal of the airline. A low budget airline adds value and competes against its competitors with the lowest costs. Ryan Air has been able to become a popular airline among European citizens and have attracted many European business travelers who only require getting from point A to point B. With the recent recession and various other factors of customers searching for cheaper option which provided quality service, Ryan Air have been able to create a demand for its tickets. At first they were an ordinary airline with normal service of high quality which also suggested that they are a high priced airline. Therefore the company was forced to go in to cost reduction mode due to the external forces of recession. Therefore along with the expansion to Europe the air line was faced in hardships of surviving as a high costs airline. Therefore the company was forced to become a more effective cost leader in its sector. Through this they are able to become the best low fares airline in the European sector.

**2. Differentiation**:-Differentiating the goods and services to satisfy the customers which has been offered from those of others gives a competitive advantage. This gives firms to concentrate on quality, service, timeliness, safety generating higher revenue and a better margin. So, this requires good market understanding and segmenting the target market to differentiate the services from others to make it selling. This is incur additional costs in differentiating a particular service with others service. Ryanair has distinguished its services with its rivals including BA in terms of punctuality, where the reports from the Association of European Airlines and statistics has shown that Ryanair has achieved better punctuality, fewer cancellations, no crashes and injuries, and very few lost baggage, and reducing the flight turnaround time, with a record of 25 minutes which makes to "Sweat their Assets". Differentiation has many advantages for the firm which makes use of the strategy. Some problematic areas include the difficulty on part of the firm to estimate if the extra costs entailed in differentiation can actually be recovered from the customer through premium pricing. Moreover, successful differentiation strategy of a firm may attract competitors to enter the company's market segment and copy the differentiated product. (Lynch, 2003). Ryanair faced various hardships in the past receiving losses of up to IR£20 Million, the fight to survive along with Michael O'Leary decided to change company strategy that was based on the model developed by American Southwest Airlines. Ryan air's generic strategy remained unclear, alas they remained somewhere between a focuser and a cost leader. But their previous strategies were heavier on the focuser aspect of the porter's generic forces. When their competitors were blooming they were on the verge of changing their strategy to becoming a low budget airline. Therefore differentiation together with cost leadership was made a combination in being popular among the segment for a unique service provider in the airline industry. As it competitors like EasyJet were using primary airports which charges a higher rates, Ryan Air was able to use Secondary airports being available to most destinations suggesting it was the most pure low cost airline. As Aer Lingus and Lufthansa remained as competitors they have focused on differentiation over low cost. They are focusing on both differentiation and low cost. Therefore Ryan Air is able to maintain its lower costs focusing mainly on low costs. As Ryan Air remain cost leader Aer Lingus and EasyJet focused mostly on differentiation. Therefore these airlines on this aspect were differentiated where as Ryan Air focused entirely on a pure low cost airline.

**Figure No: 3**

**How Ryanair Differentiation for Competition**




3. **Focus or Niche Strategy**::-The focus strategy also known as 'Niche' Strategy, which means an organization will focus on a particular field or area of business to reduce unnecessary waste of costs and time to focus on particular segment or focus on particular strategy. Ryanair focuses on low cost which is the "Heart of the Airlines". Aircraft fleets are being purchased which is of 11 to 17 years old and Ryanair buys only Boeing 737-800 which focuses on less training and availability of trained staff on board. Porter initially presented focus as one of the three generic strategies, but later identified focus as a moderator of the two strategies. Companies employ this strategy by focusing on the areas in a market where there is the least amount of competition (Pearson, 1999). The focus of Ryan air is to attract customers to low cost airlines getting from point to point. Therefore its focuses are to accommodate passengers and customers to select a purely low budget airline over its competitors as mentioned above. Therefore the case also represents that Ryan Air has no frills and suggests extremely low cost with high quality service catering to customers who need to get to cities with secondary airports. This helps them focus on business clients over the holiday customers who demand comfort over A to B transportation. Therefore through these strategies Ryan Air is able to use the purely low cost strategy to gain sales of air tickets that were often demanded by businessmen.

**Figure No**: 4
**Focused (Market Niche) Strategies**

| | Types of Competitive Advantages | |
|---|---|---|
| | Value Creation Involve Low Costs | Value Create Involve Differentiation Features |
| Brand Range of Market Segment | Value Creation Involve Low Costs | Broad Differentiation Strategies |
| | Best Cost Provider Strategy | |
| Limited Number of Market Segment | Focused Low Cost Strategies | Focused Differential Strategies |

**4. Differentiation Focus:-** Ryanair develop carefully designed products or services to appeal to the unique preferences and need of a narrow, well defined groups of buyers. Ryanair uses price as a big differentiator and it compensates for the fact that they are flying from secondary airports to secondary airports which are slightly further away from the main city airports. Furthermore, Ryanair differentiates itself with its customer service; they are regarded as being 100% upfront with their customer service. With the customer service is meant the punctuality, fewer cancellations, lost bags and complaints, and not the friendly treatment of staff. Also, they outsource many of their operational services to keep their price low. Differentiation through price outlines the superseding of Porter's generic strategies by the resource/competence-based strategy frameworks. In addition to low prices, Ryanair's branding emphasizes on punctuality and efficiency, which is mainly achieved through operating from secondary airports. According to Ryanair, their success is not just due to their low fares "but also a winning combination of our No.1 on-time record, our friendly and efficient people and our new Boeing 737-800 series aircraft" (Ryanair, 2005). It can therefore be argued that in a globalized competitive environment, even cost leaders need to differentiate their message ('hybrid strategy'), contradicting Porter's original idea of fundamentally different routes to competitive advantage.

As per cost leadership Ryan air has focused in to becoming the lowest cost airline catering to many customers who seem to easily select Ryan Air over other airlines that provided a higher quality and quantitative service for a premium price. Therefore the focus of this airline such as Ryan Air was to focus less on differentiation and maintain focus on low cost airlines. Through these aspects by using the porter's generic forces, Ryan Air remains as purely a low cost airline that focuses less on being unique against its competitors lacking differentiation. Their strategies are entirely based on being the Cost Leader in its segment.

Ryanair is sticking to its mantra, when the going gets tough, sell more seats for almost nothing (Symonds 2008). By offering low fares, Ryanair expects passengers to trade down to the low cost airlines rather than stop flying completely. This trend appears accurate so far based on passenger numbers as recession forces millions of passengers to focus on price (Waterman 2009). Additionally, the latest statistics from The European Low Fares Airline Association members show a 15.7% year-on-year growth in the number of passengers for 2008, indicating that the LCC model is robust, even in times of crisis (Latest 2009). Consequently, there is no doubt that Ryanair looks poised for substantial profits and passenger growth in the coming years. However, in order to compete with other LCCs and maintain its continued market share growth in the future, Ryanair needs to improve its poor customer relations.

The ***sustainability of Ryanair's cost leadership strategy*** also depends largely on the price of oil and how effective the firm is in cutting costs in order to continue offering low fares. According to the firm's latest financial report, 'Ryanair will enjoy significantly lower oil costs thanks to their recent hedging programme, when most of their competitors are already hedged at much higher prices. These lower prices will drive Ryanair's traffic growth, maintain high load factors and capture market share from higher cost fuel surcharging The current strategy at Ryanair is expected to work so well that despite the recession Ryanair's CEO has underlined the firm's commitment to expansion. The firm is expected to grow at 20 percent a year because of a 180 aircrafts on order from Boeing. These expansion plans for the future will require the company to increase its landing slots at airports and recruit more employees. Currently Ryanair has limited access to landing slots in major airports and the secondary airports are long distances away from city centres which could make it less attractive in the future. However, a remarkable cut in flights by other European airline carriers due to recession is creating enormous opportunities for Ryanair, as many major airports compete to reduce charges in order to attract Ryanair's growth (3rd Quarter Results 2009). Availability of skilled personnel shouldn't be a problem for Ryanair due to recent high unemployment levels. However, Ryanair needs to improve its current low level of empathy for employees if it is to retain them in the future.

Ryanair has always been criticized for many aspects of its poor customer relations. If Ryanair is to maintain its large customer base, it needs to ensure that it acknowledges its customers' concerns and maintains a service focused attitude at all costs. Ryanair needs to invest in servicing customers better by providing a non-premium contact number, improving its non user friendly website, and simplifying the terms and conditions of the flight service. Ryanair should also create a frequent flyer program to establish a fixed customer base and encourage customer loyalty.

Ryanair is notorious for its high staff turnover which negatively affects its reputation as an employer. Over utilization of employees, poor remuneration package, and minimal training are a few other critical items to be considered by Ryanair if it is to retain employees in the future. Ryanair needs to understand that although it is currently possible to replace outgoing employees, but with time Ryanair's overall image will be tarnished. Resultantly, attracting new employees could become impossible and this will hinder their expansion plans. Ryanair should incorporate a flexible benefits package solely designed to improve employee morale such as flexible working hours and extra holidays. To improve its image amongst employees, training at all employee levels must include exposure to similar techniques and methods that help promote the development of a uniform company identity.

Following huge success in Europe, Ryanair should consider introducing low cost transatlantic flights to support its expansion plans and attain a larger customer base. With a high demand for certain routes like London-New York and room for negotiation in airplane prices and airport slots mainly due to the current financial climate, it is an ideal time to further reap the rewards of the cost leadership strategy that has served Ryanair so well over the years. Ryanair's model looks set to survive the current industrial downturn through its lower costs and substantial cash balances. No airline is better placed in Europe than Ryanair to trade through this downturn. It will therefore continue to grow, by lowering fares, taking market share from competitors, and expanding in markets where competitors either withdraw capacity or go bust (Monaghan 2008). By taking the recommended improvements into consideration, it looks like Ryanair's cost leadership strategy seems ideal for the future.

**5.3. Porter's Value Chain Analysis of Ryanair**:-

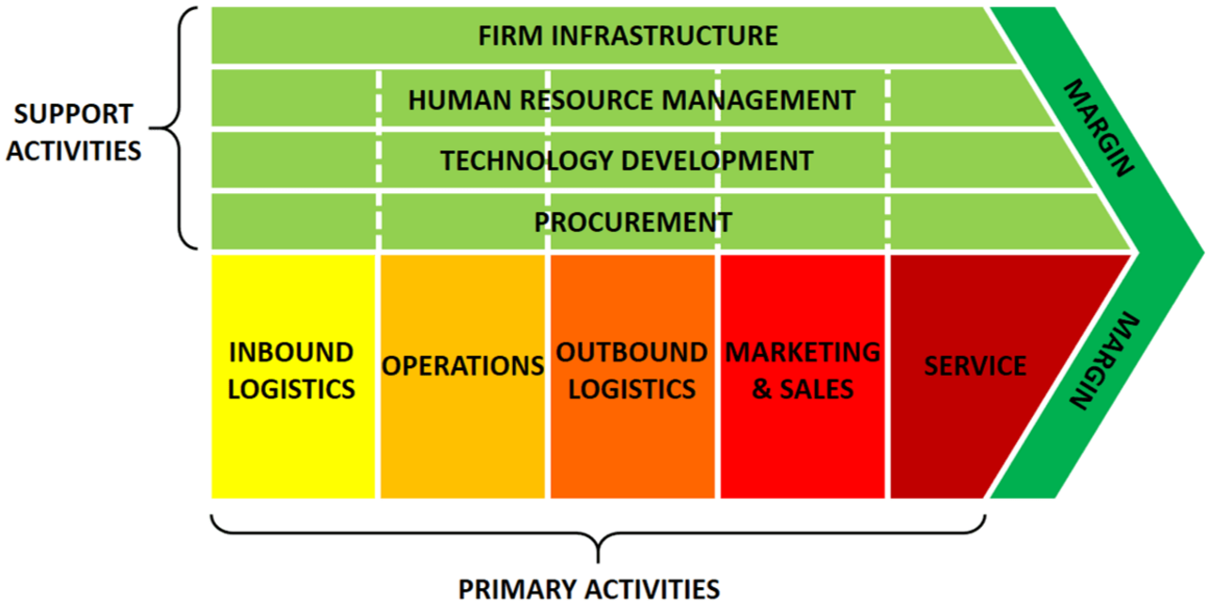
All organisation s consist of activities which link together to develop the value of the business. The chain identifies how these different activities create value. The margin is the difference between the working costs of the activities and the money made from selling the product. The value chain approach was developed by Michael Porter in the 1980. Value chain analysis is the examination of the value chain of an enterprise to determine how much and at which stage value is added to its goods and/or services and how it can be increased to enhance Competitive advantage. The value chain is consisted of primary **& supportive activities** which add value directly and indirectly respectively. The diagram below clearly demonstrates the Ryanair's core activities and this allow assessing the effectiveness and efficiency of the operations. Therefore a powerful carry-out of these operations will direct Ryanair to create a competitive advantage through adding value to the customer satisfaction. By identifying the key resources and capabilities which are unique to the business and which are valuable and hard to imitate will determine the sustainable competitive advantage." Through the help of the value chain analysis the company could be able to identify how Ryanair could build up its capabilities to compete against other similar budget airlines. This illustration does show how the organization could add value to their services. It will also help understand the strengths and weaknesses. In the diagram the value chain analyzed through the study of Ryan Air has been able to outline the important areas in Porter Value Chain Analysis. Throughout this analysis it is clear that the infrastructure made for Ryan Air has been quite competitive and have worked to their advantage.

When analyzing the Inbound Logistics which provides quality training with the help of low cost suppliers and airport agreements have helped through Building a low cost training facilitation of crew and pilots together with internet sales and ticketing which has made things much efficient and effective. The Boeing discounts received on procurement of new airplanes have enabled them to create a qualitative inbound logistics at Ryan Air. Operations at Ryan air on the other hand have remained focused on low cost, which suggest a no frills airline that caters to customers of the European sector. A limited crew in lower cost on HRM and technical development that helps access to information much easier that help alliances in working together to be more efficient. These have attracted low costs that attract more customers in to choosing Ryan Air. The outbound Logistics remain as Management control which consists of an integrated system that is outsourced to a company that would help handle outbound logistics. This helps in the efficiency of the airline. Quick turnaround and Reliable service both helps Ryan Air to enhance their efficiencies in their value systems to maintain outbound logistics at a efficient pace.

Marketing and sales have been conducted in house with existing employees of Ryan Air and have been handles internally. Low technical Marketing and internet sales have required a minimum number of staff which helped in cutting down on costs to remain truly a low cost airliner. Therefore Low cost promotions to attract customers, together with free publicity have helped create awareness among the public to enhance sales. Controversial comparisons to its competitors making Ryan air the selected airline among many businessmen. Internet Sales have boosted the speed of acquiring customers and efficiency and saving of time in obtaining the maximum number of passengers in each flight. Yield management has helped enhance the Marketing and Sales to make sure performance is at its peak where the sales are constant and consistent. Influencing consumers to select Ryan Air has enabled Yield Management to be successful in Ryan Air's Marketing and sales division. Under the service aspect of Ryan Air performance contracts of employees have ensured that all perform at high levels and high productivity. This suggests that making maximum use of limited resources and a basic low cost would enhance the service through performance contracts. These aspects on the service sector of Ryan Air have made it able to reach high targets being a low cost airliner. They have been able to acquire many sales and is on the verge of being the best budget airliner in the European sector. Therefore through this analysis it has been identified that a successful budget airliner and remains a truly low cost airline. The aim of this paper is to analyze Ryanair value chain. In particular, since Ryanair has adopted a cost leadership strategy in order to gain a competitive advantage (Schermerhon, 2011 ), the report focus on how the airline manages to maintain cost leadership I n the airline sector

**Figure No: 5**

**Value Chain System**




## (A) Primary Activities:-

Inbound logistics – Inflow of materials for production is called as inbound logistics. Since Ryanair is a service organization, the main components of inbound logistics would be the human resource of the company (pilots, air hostess) machineries (Plains and other equipments) supplies as in fuel and other gases or oils and methods including the proceedings and other systems aligned with the service. Ryanair has a contract agreement since 1998 with Boeing which provides large aircrafts such as the Boeing 737-800s and have a seating capacity of 189 passengers and is able to fly for longer hours without refueling and is equipped with the latest aviation technology. The new aircraft is complaisant with the 2002 EU regulation Chapter 3 noise reduction requirements. But in 2009 news.bbc.co.uk (2009) reported that Ryanair ended its contracted with Boeing over the purchase of 200 aircrafts .The company plans to increase its cash flow by not investing into aircraft purchases and use its existing aircraft till 2015.Inorder to escape from the high fuel prices Ryanair has entered into fuel hedging to escape the rising fuel charges. By doing so Ryanair is able not to impose these charges onto the passengers travel fares. In perspective of inbound logistics, the low cost airline has managed to maintain its low costs model by sourcing material from suppliers who can supply them at cheaper rates than what is normally charged by others. For example, unlike other airlines based in airports located in big cities where landing fees as well as ground services attract premium rates, most of Ryanair flights depart and land at airports outside major cities with the exception of Dublin airport where the airline has access to the airport (Ryanair, 2012). That strategy helps the company to be able to charge low fees since it does not have to incur high expenses for using smaller airports that are located outside the main cities. In addition, the company has established strong relationship with other suppliers like airplane manufacturer Boeing and Jet fuel suppliers in order to ensure that the deliveries are made on time thus ensuring that efficiency is achieved.

**1. Operations** – These are the activities related to the production of products and services. (Porter, 1985) The overall procedure of Ryanair is carried out with a low cost strategy. Secondly the processes aligned with the flights such as safety functions when accidents take place. The processes that assist environmental concerns and other processes that relate with transportation stand for the overall operational process of Ryanair. Running the operations to the minimum cost will overstress the on the whole performance of Ryanair that will leads to a competitive advantage through proving a low price service. Ryanair operates on a large scale with flying to 1,100 routes and operating 1,300 flights per day. With such heavy operations and its low fare policy Ryanair is able to make profit and dominate the market .This is due to Ryanair being able to lower its operation cost and adopting the no frills policy. Ryanair uses only Boeing 737-800s aircrafts thereby reducing the cost for training, maintenance, purchase and storage of spare parts. With internet booking facility and online check in the company eliminates the need for staff and systems to a great extend. In the perspective of operations, Ryanair has adopted various strategies that will ensure that the company manages to keep its operations efficient while at the same time charging low prices. According to Calder (2003), Ryanair automation of the booking system implies that the company does not require hiring a lot of staff since customers can reserve, book and check in on their own. Furthermore, the fact that Ryanair does not offer onboard meals and entertainment unlike in situations where passengers are willing to pay more implies that the company is able to avoid additional expenses (Calder, 2003).

**2. Outbound logistics** – These are all the actions concerned with distributing the final product or service to the customers. Here Ryanair doesn't poses outbound logistics as it only offer a customer satisfaction through providing transportation services. Choosing secondary airports not only is Ryanair able to reduce landing charges and escape heavy traffic from primary airports which has enable it to achieve faster turnover time, fewer terminal delays and lower handling cost. Unlike is the case with traditional airlines that rely on brick and mortar agents as well as online agents to sell their tickets to prospective customers, Ryanair does not use any agencies and relies on the company's website for the sales of tickets. The direct marketing approach through the company's website implies that the company can be able to sell the tickets at low costs since there are no commissions to be paid to travel agents as is the case with other airlines. Furthermore, Ryanair focuses on short turnaround times (TAT) which ensures that planes are in the air at most of the times thus bringing down costs (Denholm, 2006).

**3. Marketing and sales** – This functional area essentially analyses the needs and wants of clients and is responsible for creating awareness among the target audience of the company about the firm's products and services. Ryanair use many techniques for marketing and Sales to set up an effective communication such as they try to make internet sales as their main source of bookings by 2012. Ryanair marketing strategy is used to promote its low cost and competitive prices to its customer. Newspapers, internet and press conferences are the marketing mediums used by the company. The company's website accounts for a huge share in the firm's profit. Michael O Leary Ryanair's chief executive unusual public antics such as dressing up as the Pope or St Patrick and outspokenness have helped in promoting the image of Ryanair to the public.

**4. Services** – Customer satisfaction is merely the success in the service sector. There is often a need to provide services like pre-installation or after-sales service before or after the sale of the product or service. However recent surveys of Ryanair indicate a low level of customer satisfaction. Ryanair follow a "no frills" services to make the fares lowest possible. As a result consumers sometimes meet up with circumstances where most necessary services are not offered. In the perspective of service, Ryanair's service offering is based on adherence to set schedule at all times. This approach helps the company maintain its low cost model as it implies that the airline ensures that the airplanes are in the air most of the time. From the customer's perspective, the approach appeals to them as they don't have to spend a lot of time in departure halls waiting for the flights (Sally, 2011).

**Figure No: 6**

**Porter Value Chain for Ryanair**

| | | | | | |
|---|---|---|---|---|---|
| | **Minimum Corporate HQ** | | | | |
| Infrastructure Human Resource Management, Technology Development, Procurement | Low Cost Training | Limited Crew | Management Control | In House | Performance |
| | Internet | Internet Information | Integrated System | Low Technology Marketing | n/a |
| | | Alliances | Outsources | Private | Low Costs |
| | Quality Training, Low Costs, Supply, Airport Agreement, Corporate Clout | No Frills, Low Costs, Lean Operation, Online tickets sales | Quick Turnaround, Reliable Sources. Precision, Punctuality | Low Costs Promotion, Free Publicity, Yield Management | Limited Resources, Low Costs, High productivity, Brand Preferences, Turnaround Strategies |
| | Inbound Logistics | Operations | Outbound Logistics | Marketing/sales | Services |

## (B) Support Activities:-

**1. Human Resource Management** – This area is concerned with recruiting, training, motivating and rewarding the workforce of the company and it is more and more becoming an important way of attaining sustainable competitive advantage According to the Ryanair their HR carries all the employees of Ryanair; all the employees of administration and management. With all the cost reduction strategies adopted by Ryanair the presence of crew and staff is limited and as a result company can invest less on the training and management of its staff. he average employment numbers in Ryanair rise by 21% to 6,369. Within that number 1,526 people were promoted. -Ryanair has benefits for their employees such as: *discount on their mortgage as well as in-house mortgage services and additional benefits *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 Ryanair's refusal to recognize unions and accusations of providing poor working conditions to the staff.

**2. Technology Development** – This is concerned with technological innovation, training and knowledge that are crucial for most companies today in order to survive. Therefore adoption to technology changes is important to survive in the market. Ryanair has introduced an internet for check-in and further services are provided through its website. Ryanair utilizes the internet extensively by launching its internet reservation system for customer to purchase and check in online. The Ryanair website accounts for 99% of the company's annual sales. 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, which helps them to generate a positive image among their stakeholders.

**3. Procurements** – This is responsible for acquiring the materials that are necessary for the company's processes. A well-organized procurement department should be able to obtain the highest quality goods at the lowest prices. Here Air craft's and fuel is the main sources of procurements at Ryanair. Well skilled and knowledgeable experts are required in purchasing. Ryanair contract with Boeing has enabled the company to reduce its costs due to purchase and usage of only Boeing 737-800s aircrafts. 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 safe costs and they don't have to worry much about the logistics that are needed for this additional services they offer.

**4. Firm Infrastructure**:- This includes planning and control systems, such as finance, accounting marketing and corporate strategy etc. 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. Firm Infrastructure Ryanair's infrastructure costs come from the leasing of gates at airports, maintenance of technology systems such as their website and a minimal Corporate HQ. Ryanair has its corporate headquarters based in the republic of Ireland. In the Ryanair, lived in a big change of culture and structure, when Tony Ryan decided to nominate Michael O' Leary such a new CEO who started to guide young and energetic team.

From that moment the strategy of the company was clear: do high profit and minimizing the costs (no frills) according to the idea for the customers the price is more important than the quality. Continuing the policy of cost reduction, the company has reduced the cost of administrative offices of the area, lowering the number and size.

All the primary and supportive activities represent the organizational behaviors that create value to the customers therefore Ryanair should take necessary actions to integrate all the primary and secondary activities. This strategy can be applied by other companies in other industries, for example companies that operate in the field of goods transportation and have a field of several trucks can reduce its cost applying some techniques used by Ryanair. In the sense a manager from such a company can purchase the same kind of trucks reducing therefore maintenance costs, and can choose from the standard model which has the lowest cost.

In conclusion, it is evident from the analysis that Ryanair has developed an effective value chain analysis that ensures that the company continues to make profits while charging less for its services. Consequently, the company has experienced growth over the years as its service offering has appealed to a lot of customers.

It also can develop a strong relationship with its consumer through a well design web site where clients can have an image about the company's services and even make orders. As in the case of airplanes, trucks can be used for advertising spaces, enabling that company to increase its profits. A company that adopts a organizational structure that fits best its principals, that can manage the difficulties regarding a informal structure, and which knows how to motivate its employees has better chances to survive on the market and to obtain competitive advantage.

## 4. Conclusions and Recommendations:-

In conclusion the analysis of Ryan Air is to assess its viability and ability to overcome obstacles and restraining forces to become the largest carrier in the United Kingdom. Analysis of Ryan Air was conducted with the Value Chain and Porters Generic 5 Forces. These helped in the understanding of the focus in Ryan Air as a Cost Leader and their cost methods that have complimented their business with a demand for their service. As cost leader over differentiation is their major concern, Ryan Air is able to become a true budget airline that offers basic service and high quality and quick flights with no delays and fuel surcharges. Quick turnarounds and efficient flights ensure Ryan Air to be the selected airline in UK among businessman. Expanding the horizons to catering to leisure sectors also may be of value to Ryan Air if expansion is conducted. The strategy of Ryanair has to be changed mainly due to their lack of bargaining power with their supplier Boeing. They could not agree on a deal for new planes to be delivered after 2012. Their current strategy is based on rapid growth and expansion to new routes. Whenever they can't grow larger they have to change their strategy into a more mature strategy. Profits will be returned to their shareholders instead of reinvestments. This offers the opportunity for other small airlines to grow and capture routes. It will certainly increase the competition for Ryanair. Ryanair needs to remember that it has to be aware of the dynamic business environment which is changing constantly and hence needs to continually focus on porter's generic strategies. The current industry critical success factors will eventually become the norm, and new ones will emerge. Ryanair's quest for the lowest cost may also eventually be its downfall, since there has to be a limit to the number of amenities that can be removed before the threshold quality level of its service are breached when customers may no longer find it acceptable, regardless of how low the fares are. Nonetheless the practical values of porter's generic strategies and the product life cycle have placed Ryanair in good stead. The differentiation and cost strategy used by Ryanair and propelled them into the European airline business.

These aspects regarding strategy show that a company must take very serious the facts and the forces that can come from a powerful strategy. In this period when competitive advantage cannot appear just out of nowhere it is very important for the management team to have a clear direction and this can only come from a coherent analysis made from present elements in the company. As shown in the upper examples a good strategy must fit the company like a glove, and must be suitable for the company in the near and far future. Future analysis will try to see the sources of competitive advantage and how they are able to influence the strategy of a company, a backward process considering that a company has established a strategy and it is able to obtain competitive advantage, is it necessary to change the strategy or should the company only try to adapt to new conditions. By determining a strategy, organizations also determine a way in accordance with the change in the evolution era, and they also decide new goals within this way. Having examined in this regard, organizations which do not have any strategy cannot be sure of their future because their future is not preplanned and stays unclear. In such a case, it will naturally result in failure. Organizations without a strategy cannot use their resources effectively and efficiently because they cannot make a strategic analysis that will enable an effective use of financial and human resources. Strategic management provides the organization an opportunity to make a strategic analysis because it contains adaptation, intuition, and creating change both in the organization and in the environment. Strategic management not only enables organizations to effectively compete in a competitive environment but it also helps them make sense of the future.

Circumstances on the market show how difficult is for a company to adapt to new conditions, and a fact regarding strategy is that in order for a company to implement a good strategy it must have stability in the organizational team both in the management team but also a low fluctuation of employees.

Ryanair has excelled at seizing the birth of the ultra low cost airline market in Europe. Their leadership has given them tremendous competitive advantages, enabling the airline to maintain low costs, high profits, and rapid expansion. However, as the European airline industry will continue to converge – an occurrence that ensued after the initial broadening of the industry post-deregulation – Ryanair must maintain its competitive advantage amongst airlines to maintain profitability. Through continued strategic cost cutting techniques, rapid expansion, and a large market share amongst low cost carriers, Bridges believes Ryanair will remain the lowest cost carrier in Europe. However, as other airlines approach Ryanair's low prices, Ryanair will have to improve its image in the public eye in order to retain passengers. Regulation and fuel prices will be additional challenges that Ryanair must navigate, but given their unrelenting leadership amongst European airlines, Bridges believes

Ryanair will continue to lead the European airline industry for years to come. All over the report primarily concentrate on the case provided "Ryanair – The Low Fares Airline" and evaluating the identification of strategy & implementations that can be done to the organizational strategic gaps and the report highlights some of the key strategies of the organization. Ryanair is the most favorable low fare airline in the Europe and with this they have been successful all the way so far. But now I can conclude from the above analysis that Ryanair have to implement their current strategy not for only winning the low fare strategy but gaining a stable position in the value segment and in new non-European markets.

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**Recommendations:**

**The whole analysis has summarized both pluses and minuses in the company. Through examining the Ryanair's current strategy the following recommendation could be illustrates. Following strategies can be used to decrease the weaknesses and avoid threats of the company and improve its competitive upgrading.**

Customer Relationship Management **– In the service sector most important is the satisfaction of the customers. Due to poor facilities and ancillary services Ryanair has lost their customer relationship. In SWOT analysis also customer relations are mentioned as a weakness. Therefore Ryanair may improve their customer service by designing a better service system that can deliver good service with low cost, better training frontline employees, monitoring the target market needs, wants and values rather than making the assumption that offering the lowest fare is the only incentive. Therefore, a strong CRM strategy should be implemented to minimize the weaknesses of the company.**

Expand to more known routes **– Ryanair must look to other operating bases to expand their network. Although there is not the same demand outside there is still sufficient demand to make a considerable profit. Also there are many possible routes still not served by low-cost carriers. Ryanair can also open routes where the competition is a more expensive for traditional carrier while attracting customers with the cheaper no-frills option.** Bridges highly encourages Ryanair to continue rapid expansion into Eastern Europe. 12 of the 13 fastest growing countries by air travel in Europe were either part of Scandinavia, the Baltics, or Eastern Europe. Large portion of Ryanair's competitive advantage is its early expansion into uncongested space. As the first-mover, Ryanair gets favorable deals with airports, dominates airports that will later increase in value, and seizes larger shares of consumer demand for point-to-point routes. Specifically, Bridges recommends expanding into Hungary, where Ryanair currently does not fly; and expansion in Lithuania, Latvia, and the Czech Republic, where Ryanair operates in and out of only one airport.

Ryanair is able to charge lower ticket prices than every other European airline because it does not include many services for free, leaving the choice up to the consumer as to which services to purchase. Ryanair makes twenty percent of its revenue from ancillary fees, and they are vital to the company's success. However, Ryanair has two genres of ancillary fees: fees that arise to account for the costs of a specific good or service and fees that take advantage of a consumer's desperation. While ancillary fees for services rendered or goods purchased are the catalysts for cheap ticket prices and should be expanded, fees that capitalizes on consumer's desperation harm public perception and should be eliminated.

Look at large leisure and private travel market **– Ryanair is only focused towards low cost passengers but there are customers who used airlines for their private and leisure travels which gives chance to make a significant profit. Also when it comes to low cost it hides the quality of the service. Therefore Ryanair can expand their market to new segments.**

As we could see the road from defining strategy to obtaining competitive advantage is a long road, full of spaces where a manager has to take decisions, to assume risk, and the final goal of the competitive advantage can be seen in months maybe even years, the goal is to bring the company into a better position, to improve the position in which it is now, or to benefit from a better market position. With increases in competition resulting from deregulation, low cost carriers have emerged on the scene with great success, flying more exclusively profitable routes at lower prices. As customers have shifted to fly with low cost carriers, full service network carriers have had to restructure, allocating more aircraft toward profitable routes and cutting labor costs. As the industry progresses, we will likely see a convergence towards a lower cost model than before regulation. However, governments will work to protect airlines that fly less profitable routes because of concerns for tourism and business; therefore regulation will be a key concern for airlines going forward as well.

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