STRATEGIC CASE ANALYSIS:

RYANAIR

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Introduction

Ryanair, a low-cost, no-frills airline carrier operating in the European airline marketplace, experienced measurable drops in consumer patronage volumes and overall service revenues in 2004. This represented a significant change after 26 consecutive quarters of total company growth. The mitigating factors which created these sales slippages involved changing consumer behaviours, vast levels of competition (especially in the UK market) and even a need to change strategic orientation.

Ryanair's no-frills service mentality involves maintaining low-cost fares, such as offering no meal options or extended service elements such as beverage consumption, thus keeping labour-related costs low and inviting the more humble or thrifty consumer to enjoy travel to regional destinations without the worry of excessive airline expense. Thus, in 2004, the company's short-term market orientation involved segmenting by lifestyle and by income bracket in the European marketplace in order to appeal to a broader target consumer audience.

The key stakeholders in the firm include all staff members responsible for carrying out strategic objectives, the communities in which Ryanair thrives, as well as the customers who frequent Ryanair as their low-cost carrier of choice. Satisfying the stakeholder appears to be the firm's long-term mission in Europe in lieu of having no established, formalised mission or vision statement. Lack of such a mission or vision may be involved in the rationale for why Ryanair experienced sales declines in 2004, however this will be discussed in further detail in this case analysis report.

This report will highlight factors in both the internal and external business environment which are plaguing Ryanair in terms of maintaining a strategic orientation that is completely congruent with sales goals and growth initiatives. A micro- and macro-level analysis of the firm in 2004 is proposed in this report.

External analysis – PEST

PEST analysis is an acronym for political, economic, social and technological (Channon, 1997). Each of the aforementioned forces are categorised by a particular macro-level external influence, each of which directly impacts strategic direction at Ryanair. The external political environment is one of significant advantage to Ryanair, as the majority of its operations are contained within Europe. It is relatively common knowledge that this region maintains political stability, thus Ryanair does not experience issues with governmental instability in Europe as a concern regarding passenger volumes or flight destinations.

However, outside of the European marketplace, the firm maintains significant economic difficulties posed by political forces such as OPEC, the organisation responsible for oil production in the Middle East. As the majority of international revenues in the Mid-East regions stem from oil and oil production/distribution, the current methodology of global supply chain (in relation to where oil is delivered based on price and overall demand) incurs large-scale costs to Ryanair who, like other business entities, is unable to secure low-cost fuel due to political forces which drive oil distribution. This assessment of the external political environment is well-supported by Ryanair documentation highlighting 2004 as a year of challenges stemming largely from the cost of oil which continued to escalate in this particular period (Annual Report, 2004).

The economic environment in which Ryanair thrives in 2004 is relatively stable in terms of maintaining operations successfully and contributing to the financial well-being of European nations in the process. The European Union, consisting of a large quantity of developed countries in Europe, maintains a high value for its integrated currencies, suggesting that this region is economically-stable and can provide Ryanair with significant value in the form of higher volumes of consumer patronage. Shifting operations into undeveloped market environments, outside of Europe, would require a significant assessment of the micro- and macro-level environments to determine whether any non-European nation would be a viable business strategy. For the most part, European consumers are economically-stable and Ryanair is not largely affected by minute changes in local governmental or economic policies.

The social environment, however, appears to be an external factor which greatly impacts business strategy at Ryanair. This environment is categorised by changing consumer demographics and fluctuating consumer preferences, most of which are completely uncontrollable from the perspective of Ryanair. Boone & Kurtz (2006) offer that consumer behaviours are becoming increasingly difficult to predict as contemporary consumers tend to shift loyalties from one brand to another due to price differences or even lack of basic consumer consistency. As the majority of the company's revenues are founded on consumer-generated revenues, the firm must come to understand its intended markets in order to fully market the firm utilising a methodology that will bring the most value and can relate to the needs of a diverse consumer audience. At the same time, increased competition with carriers offering lower-cost fares is impacting the consumer mentality regarding which carrier to choose when travelling within European destinations.

The technological environment does not appear to significantly impact the firm in a negative capacity as the firm appears to be in a cash position that can sustain purchase of new jets to remain competitive. Additionally, supply chain software programmes and other integrated software applications are available to assist Ryanair in streamlining labour functions and improve internal organisational efficiency. No research evidence indicated any measurable problems with Ryanair business strategy in relation to technological evolutions in the external marketplace or lack of available technologies to improve business performance.

It might be said that the external environment for Ryanair is relatively stable, however it is clear that the firm's largest problem involves understanding consumer behaviours and then utilising strategic marketing applications to improve total consumer patronage and improve sales performance.

Microeconomic Analysis

One of the largest factors acting as a positive force for Ryanair is the firm's orientation toward outsourcing certain service activities within the firm, such as maintenance and repair services (Higgins, 2005). Third party outsourcing limits the necessity for Ryanair to intervene in settling disputes or dealing with regulating third-party responsibilities, thus the firm can focus on sustaining improvement with on-payroll staff members and increase customer service orientation. Such outsourcing also alleviates potential strains on the payroll budget in terms of offering broader compensatory packages or extended employee benefits, thus third-party outsourcing initiatives appear to be a viable strategic decision for Ryanair in terms of sustaining economic objectives. Ryanair has additionally established a bonus pay-for-performance scheme and profit-sharing options for its internal staff members, making Ryanair a leader in building staff motivation and as a company that stands out in terms of providing excellence in customer service. The pay-for-performance ideal allows the firm to increase payroll compensation only when staff members have performed to corporate expectations, thus alleviating further burden on the payroll budget.

Internally, Ryanair appears to face no significant drawbacks from a strategic perspective as the firm appears committed to sustaining a rather progressive and liberal staffing and administrative policy which continuously improves total organisational performance each year of operation. Thus, the largest element which impacts strategy and subsequent decision-making processes is the external macro environment.

Current Problem Diagnosis

Competition, marketing uncertainty and changing consumer preferences appear to be the largest factors which are causing problems with strategic orientation in the firm. Ryanair is beginning to witness the emergence of several low-cost (and traditional) carriers in the European marketplace, thus the erosion of sales volumes and consumer patronage was experienced in 2004. Though the case study indicates that many small-scale competitors are unable to maintain a quality strategic position in the airline marketplace and are eventually swallowed up by larger companies (Higgins), this still represents an erosion of potential service destinations as other competitive entities swallow small-scale airline businesses and expand their service fleets. Essentially, more competitive jets in operation erode potential market opportunities for Ryanair.

Ryanair appears to maintain the strategy of cost-reduction associated with marketing objectives. To avoid the accumulation of costs associated with booking and commissions paid to travel agents, the company dramatically reduced said commissions by 8 percent and began to rely on the interactive nature of its company website to reduce costs of booking flights and make services more convenient for consumers (Higgins). Additional revenues have been built as an outcome of this business strategy in the form of services such as travel insurance, vehicle rental fees and partnerships with connecting railway service agencies (Higgins). This would suggest that as Ryanair looks toward methods to cut costs the firm is proactive in recognising how changes to business philosophy can bring long-term gains financially.

The previously-identified professional assessment regarding fluctuating consumer behaviour patterns and lack of loyalty toward established brands suggests a significantly difficult task in terms of utilising marketing initiatives as a means to improve the strategic position of Ryanair in the competitive airline market environment. With other low-cost carriers emerging in the same market where Ryanair operates, it is not necessarily surprising that consumers steered away from Ryanair in 2004 in the hopes of receiving a better quality of service at a lower fare, which competitive firms appear to try to capitalise on. Hence, it might be competently suggested that Ryanair relies heavily on marketing efforts to engrain the quality and value of Ryanair into the minds of fickle and unpredictable consumer markets. Eroding sales volumes and lowered consumer patronage statistics in 2004 would suggest that this is a viable long-term strategy to ensure relationship-building and connectivity with consumer lifestyles through marketing efforts. However, for most firms marketing initiatives represent a significant amount of the corporate budget for operations, thus Ryanair's diversified marketing efforts in the form of web, television, radio and newspaper are likely costly initiatives but well-worth the investment in the face of declining consumer patronage.

By and large, the most significant problems stem from the macroeconomic environment in which Ryanair operates, suggesting that the firm must take substantial steps to isolating these external influences and working toward reducing their impact on the firm or adjusting internal tactics to combat these external influences.

Generation of Strategic Options

Determining methods to undercut competitive efforts or to boost consumer perceptions of superior Ryanair quality in proportion to other competitive airline options is priority number one for Ryanair in 2004. The first recommendation for Ryanair is to adjust the marketing budget, in relation to advertising and promotional initiatives, from the current two percent of operating budget to five percent, thus improving the scope and reach of Ryanair’s promotional strategies. Boone & Kurtz (2007) offer that television and internet advertising are becoming more affordable and effective mediums for advertising in Europe and with large volumes of consumers now having access to the Internet, Ryanair must capitalise on these opportunities with an expanded marketing budget.

The aforementioned increase in marketing is supported by declines in sales volumes in 2004, after a 9.1 percent change in marketing costs from 2002 to 2003 (Higgins). Perhaps it can be assessed that Ryanair’s decrease in consumer patronage, at a time when competitive efforts were plaguing the firm, can be directly tied to slashed marketing budgets in the same time period. Analysts might offer the argument that such an increase in marketing only represents significant expenditures for the firm, causing Ryanair to look for other areas of operations to slash in terms of budget to offset increased marketing costs. However, the increases in consumer patronage and service sales revenues generated by creative and expanded advertising and promotional activities will likely serve to offset marketing costs by expanding the target demographics. Thus, a singular change in marketing budget serves to address all three aforementioned macro-level external factors which have caused Ryanair publicised performance decreases in 2004, including reaching fickle consumers, eroding competition market share and in the process increasing total service sales revenues.

Additionally, Ryanair must actively pursue competitor efforts and assess elements of successful competitor strategies worthy of benchmarking to ensure a more quality Ryanair experience. For instance, the case study identifies the competitive entity easyJet. This company services 39 airports in the United Kingdom from eight different hubs (Higgins). Unlike Ryanair, which avoids more centrally-located airport destinations because of high congestion and the costs associated with operating in larger-scale destinations, easyJet offers service to central airport destinations even though costs are higher as it better serves the business traveller (Higgins).

Perhaps centralised location destinations, as part of Ryanair's service packages, could be considered a viable strategy worthy of incorporating. That is, if marketing research is conducted which identifies that business travellers are wary of Ryanair as a viable airline option because of the difficulty in multi-channel travel necessary to exit airports not centrally located to reach the final consumer destination; such as extended taxi or railway costs after exiting the Ryanair jet. Ryanair, if the firm determines that the business traveller makes up the majority of sales revenues in this European market environment, should reconsider avoiding central airport destinations for a variety of flights so as to rebuild the consumer perception of extended value provided by Ryanair. This new approach to business strategy can easily be blended with increased marketing budget initiatives, thus utilising the company's current pre-existing advertising and promotional channels to target the business traveller. Perhaps a marketing initiative which clearly indicates the costs associated with arriving at non-centrally-located destinations and incorporating a smaller fee schedule to offset costs which is substantial to boost necessary revenues without a corporate loss and to satisfy the business client.

Aer Lingus, another competitive entity claiming similar low-cost flights, displaced Ryanair as the recipient of the Best Overall Value Award from the Air Transport Users' Council of Ireland (Higgins, 2005: 851). This type of public relations hype likely engrained Aer Lingus as a viable consumer options with significant value, thus undercutting market share for Ryanair in this European marketplace. Additionally, Ryanair executive leadership commented negatively against Ryanair's loss of this prestigious award by essentially bad-mouthing Aer Lingus value in a public statement (Higgins). This type of negative publicity has plagued Ryanair in past years, from publicised employee grievances leading to executive outcry against labour unions (Artemis, 2004) to negative competitor commentaries. Understanding that under marketing theory consumer attitudes toward companies are difficult to predict and highly non-loyal toward a particular brand, such negative public statements may create the impression within consumers that Ryanair is unable to keep up with competition thus the firm and its leaders must resort to negative commentaries to remain competitive in an ever-expanding competitive landscape. This is a somewhat subjective assessment, however Ryanair maintains the ability to improve its strategic position in the European airline marketplace without resorting to rather inappropriate or perceived immature business dealings.

Evaluation of Strategic Options

As the majority of influences which negatively impact the 2004 position of Ryanair are uncontrollable in the macro-level environment, Ryanair can only change strategic orientation and essentially sit back and witness whether these efforts have met with long-term success. As part of the proposed expanded marketing budget, in terms of promotion and advertisement, maintaining either an internally-coordinated or external third-party market research panel to address consumer preferences in the midst of strategic changes to marketing should be established. With a small increase in total marketing budget, thus changing the demographics in how the company utilised real-time primary consumer research data, the firm can greatly expand its desired demographics to include broader tourist and general consumer patronage.

The aforementioned changes to marketing strategy is a suitable alternative to address several macroeconomic factors driving decreased performance, including marketing and reaching fickle consumers. From a shareholder perspective, such actions would likely be deemed acceptable by investors only if the company is able to provide somewhat rapid research or statistical evidence that increased marketing budgets have created financial value for the firm. Investors would likely be turned off by the notion of increased operational budgets unless the firm is able to securely acknowledge the expected gains from these new strategic objectives.

In terms of feasibility, expanding marketing budgets to include more aggressive advertising and promotion is well within the cash position of Ryanair. The only internal changes required of the firm, should it choose not to incorporate third-party marketing professionals in its new strategy, would be the implementation of a marketing research team which would be responsible for coordinating and monitoring the impact of new marketing opportunities. This would strain the payroll budget, potentially, by a small margin, however the ultimate gains from this long-term promotional strategy most assuredly maintains the potential to improve Ryanair's image in a highly competitive market environment.

It is a likely assumption that most firms do not maintain the same type of financially-inspired flexibility as that of Ryanair, in terms of cash position. Hence, Ryanair maintains the ability to address all of the macro-level external forces which are impacting sales performance with a singular marketing campaign borne of higher promotion and advertising budgets. This offers Ryanair a significant competitive edge as their cash position, created over a period of 26 consecutive quarters of gains and profitability, affords them higher flexibility in terms of readjusting operating budgets.

Action plan for implementation

The changes to the marketing budget would be instantaneous pending Board and/or executive approvals. The development of an appropriate advertising and promotional campaign can be conducted in-house utilising marketing talent or through third-party alternatives. The company must understand elements of consumer behaviour theories prior to developing a viable, aggressive promotional campaign under the assistance of knowledgeable professionals. In approximately one month, the firm can be equipped to release a variety of print and broadcast advertisements geared toward their desired target markets. Immediately afterward, follow up research methodology to include questionnaires or consumer surveys, along with a strategic analysis of sales revenues per region, will indicate the viability of increased marketing budget long-term or whether the new initiative should be scrapped in favour of better alternatives.

Conclusion

Though Ryanair did not experience high levels of total organisational performance in 2004, the proposed recommended strategy changes will afford Ryanair with greater opportunities to develop a more controllable macro-environment. By creating a new sensation with a fickle consumer audience, Ryanair may be able to create a demand where none exists on the current customer market. Controlling the macro environment should be the highest priority for Ryanair, which can feasibly be accomplished through higher marketing expenditures and the establishment of teams designed to fully understand what is driving consumers to competition. Failure to perform these strategic objectives will only erode Ryanair’s long-term future.

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