

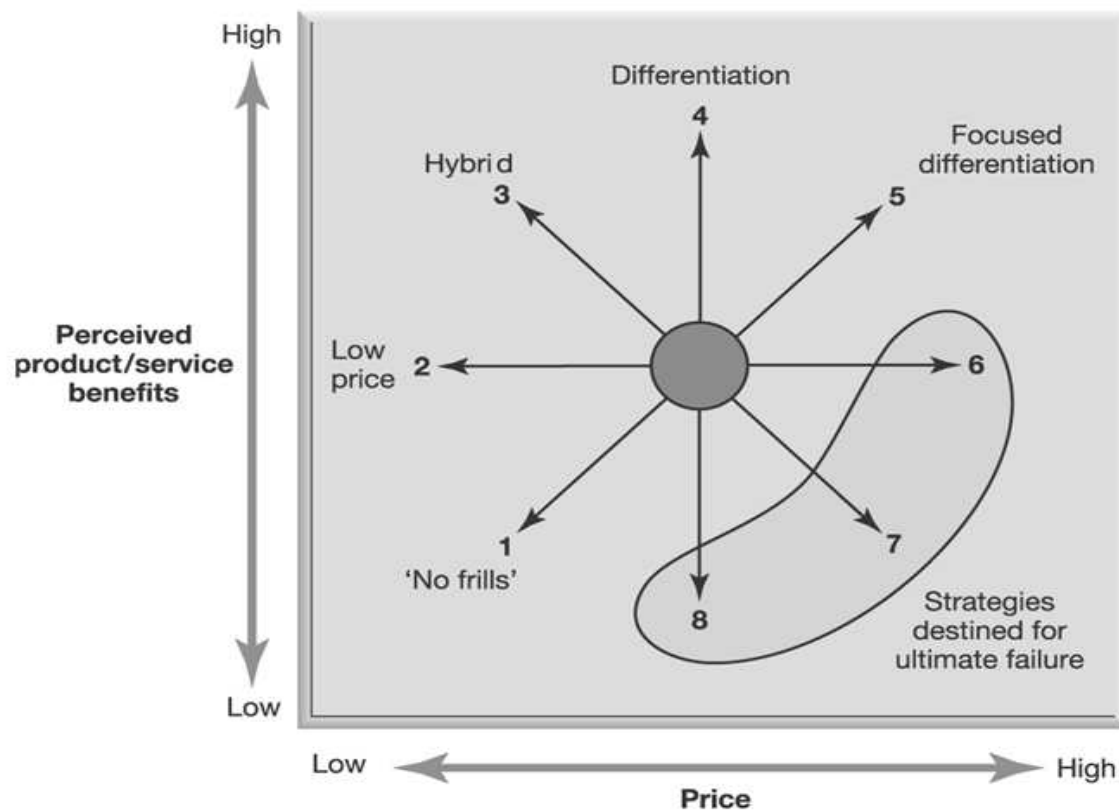
Bowman's Strategy Clock & Strategy Suitability: Ryanair

Ryanair is an airline services company and was founded in the 1985 to provide hauls between Ireland and UK as alternative to the monopoly of Aer Lingus. Ryanair started to become the first European low fares in the 1995; this restyle of the company was built on the model of the Southwest Airlines, the highly successful Texas based operator. Nowadays, Ryanair's objective is to maintain the leadership of low fares airline in Europe, basing its strategy on providing “no-frills” service.

1) Identify the strategy pursued by Ryanair based on the Bowman's strategy clock.

M. Porter in his book, "Competitive Strategy: Techniques for Analyzing Industries and Competitors", reduced competition down to three classic strategies: Cost leadership, Differentiation and Market segmentation (or Focus).

Looking at Porter's strategies in a different way, Cliff Bowman and David Faulkner developed



Bowman's Strategy Clock. This model is well represented in the following figure:

D. Faulkner and C. Bowman, *The essence of competitive strategy*, Prentice Hall, 1995

Each position briefly describes different competitive strategy options; also, focusing on perceived

product/service benefits and price, the model represents different positions a firm can assume in the market. The model is based on the principle that “competitive advantage can be achieved if organizations provide customers with products or services that satisfy their necessities (needs and wants) in a way better and more effectively than its competitor” (Faulker, D., & Bowman, C. (1995) *The Essence of Competitive Strategy*, Prentice Hall, cited on Johnson, G., Scholes, K., Whittington, R. (2006) *Exploring Corporate Strategy*, 7th edition, Prentice Hall, p. 242). Comparing Bowman's clock to Porter's model, it is possible to notice that positions 1 and 2 are price-based strategies corresponding to Porter's cost leadership. Position 3 is an intermediary position between cost and differentiation; position 4 is a differentiation strategy that corresponds to Porter's differentiation; position 5 is a focus differentiation strategy more or less similar to market differentiation Porter's strategy. The last positions 6, 7 and 8 are failure strategies. The low cost leadership is the strategy that Ryanair brought from the American company Southwest Airlines to Europe. Using the low cost leadership a firm tries to achieve the low cost producer in the industry. The requirements for this strategy are basically cost reductions in all the area of the firm and in its value chain, efficient scale facility and moreover tight control over cost. As result, a firm that choose this strategy sells a no-frills product/service; thus, the “no frills” strategy is characterized basically by a low perceived product/service benefits and by a price-sensitive market segment.

Ryanair's cost reduction strategy focuses on fleet commonality (Ryanair fleet consists of the most commercial aircraft in the world and this limits costs of staff training), contracting out of services (Ryanair, contracting out ticketing, baggage handling and different other functions to third parties, obtained multi-years contracts at fixed prices limiting exposure to cost increases), Airport charges (the company avoided all the fees of the main expensive airports and the major airline competitors choosing secondary and regional destination), marketing costs (Ryanair cut its rate of commission to travel agents and focused more on its website saving money on staff costs). All these cost reductions allow Ryanair to have low fares and so, target customers that are price-sensitive. In the article “Ryanair” by Eleanor R.E. O'Higgins we can read that the term “Ryanair generation” was coined to describe the younger educated Irish emigrant population in the UK. Furthermore, in the article it is possible to notice, in the Exhibit 4a, that Ryanair's customers care more about the product price than the value of the services that the company has.

2) Is Ryanair's strategy sustainable?

In order to have a sustainable competitive advantage, a company should develop a sustainable position in the long run, so it is possible to achieve a performance above average in the industry. The framework I am going to use is the Barney and Hesterley's VRIO framework: in order to lead to a sustainable competitive advantage a resource or capability should be Valuable, Rare, Inimitable and Organized.

Valuable: "Is the firm able to exploit an opportunity or neutralize an external threat with the resource/capability?"

The fact that Ryanair is a low cost fares airlines constitutes the introduction of a new business model (cost leadership) in a different context (airplane transport industry).

In the case study we can read that after Go, an Irish airline company, had launched flights between Dublin and Glasgow and Edinburgh, Ryanair launched a war in response to this incursion into its own home base. Ryanair increased flight frequency to Glasgow and instituted a new haul to Edinburgh at a price that Go could not match. "You can't take on someone with lower costs because they dig deeper than you to lower their prices and still make money while you're bleeding" (Emmet Oliver, "Former Go boss offers lessons in high flying", Irish Times, 28 November 2003).

Rare: "Is control of the resource/capability in the hands of a relative few?"

A resource is rare simply if it is not widely possessed by other competitors. One unique resource, that Ryanair has, is its management team headed up by Michael O'Leary. In 2004 he was named by the Financial Times as one of the 25 European business stars, who are expected to make a difference. He has, inside the company, a great influence both with the Ryan family.

Inimitable: "Is it difficult to imitate, and will there be significant cost disadvantage to a firm trying to obtain, develop, or duplicate the resource/capability?"

In my opinion this criteria is probably the toughest to maintain because given enough time and money almost any resource can be imitated.

Ryanair has been able to produce high volume for airports and this fact has negotiated favorable access fees. The company reduced fees by avoiding congested main airports and choosing secondary airports that are anxious to increase passenger throughput.

Furthermore Ryanair contracting out ticketing, baggage handling and different other functions to third parties, obtained multi-year contracts at fixed prices limiting exposure to cost increases.

Organized: "Is the firm organized, ready, and able to exploit the resource/capability?"

In spite of the war in Iraq, the Severe Acute Respiratory Syndrome (SARS), the tragedy of 11 September 2001, Ryanair's market capitalisation had grown from euro 392m in 1997 to euro 4.73bn by 2003. This profitability was seen to be unique among airlines worldwide because many other airline companies struggled with financial losses.

3) Would you recommend any changes to Ryanair's approach?

In the case study it is possible read that Ryanair would introduce a number of cut-costing new features on its flights; for example the Ryanair fleet would be devoid of reclining seats, windows blinds, headrests, seat pockets and other non-essential. This kind of no-frills strategy might be supported by creating a favorable perception about the safety of their airplanes and the value of the Ryanair's brand. This could be developed starting with the improvement of the cleanliness of the toilets and the interior of the airplanes. Another changes might be to increment the catering and to introduce ancillary services such as television and internet services on flights implementing strategic alliance.

Ryanair should establish new hauls in the est-European countries because of the entrance in the EU of new nations and focus more in main airports.

Ryanair should allow other company to advertise its airplane cabins. This should offer to the other external company to advertise customers during all the flights long for a fee. The advertisement might be a sticker stick on the folding board in front of the passenger.

References

Emmet Oliver, "Former Go boss offers lessons in high flying", Irish Times, 28 November 2003

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