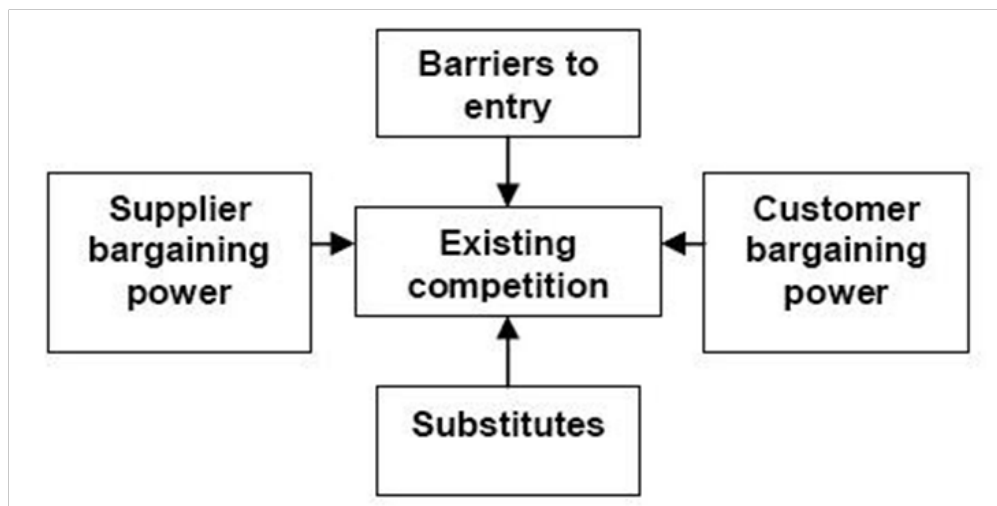


# Ryanair Porter's Five Forces Analysis

## Bargaining power of suppliers

Boeing has been traditionally Ryanair's main supplier, however, there are reports that "Ryanair is interested in Comac's planned C919 aircraft, which is being developed to rival the Boeing 737 and the Airbus A320, the dominant players in the commercial aircraft market" (Milmo, 2011, online). Comac, Chinese jet manufacturer, is attracting Ryanair's interest due to greater amounts of seats within its planes, as well as increased level of efficiency associated with energy consumption (Cliff et al, 2011). This fact signals about Ryanair's increasing bargaining power towards its main supplier, Boeing.

However, the supplier switching costs for Ryanair is extremely high due significant amount of expenses involved associated with pilot retraining needs. Moreover, "airline pilots have a strong bargaining power in the airline industry" (Pelapu et al, 2007, p.48), because there is no abundant supply of highly qualified and experienced pilots. Nevertheless, Ryanair enjoys rapidly increasing power towards a different category of its suppliers. Specifically, as Walsh (2011) confirms, highly intensified level of competition among airports has significantly increased the bargaining power of airline companies in their business relationships with the local airports.



## Bargaining power of customers

Bargaining power of customers can be explained as "an advantage that comes from gathering together to put collective pressure on producers to lower prices or improve quality" (Business Dictionary, 2012, online). Ryanair customers enjoy high bargaining power because switching to another airline is simple and not associated with additional expenses. However, it has to be mentioned that only for Ryanair, but for airline industry in general "the bargaining power of buyers is relatively high and increasing, since most airline companies are forced to cut costs by aggressive competitors" (Szymanski, 2011, p.7)

Increased level of price sensitivity of Ryanair customers is another factor that contributes to their bargaining power. Specifically, as it has been argued by Sabrautzki (2010), that Ryanair is highly vulnerable to any price reduction measures introduced by its competitors due to the lack of brand loyalty associated with the airline industry.

### **Threat of substitute products and services**

A substitute is “a product or service of another industry, which creates an equivalent value for the customer” (Witcher and Chau, 2010, p.102). The threat of substitute products or services is a major factor upon the level of profitability of an industry. It is sometimes claimed that “there are almost no alternatives for high-speed travelling, except perhaps high-speed trains (traditional substitutes), which are not fully developed yet and are missing the required infrastructure in most of the regions” (Szymanski, 2011, p.7)

Nevertheless, substitute services for airline industry in general and Ryanair in particular include railway networks, sea transports, coach transport, as well as, car rental firms. However, “usually, train, bus or ferry tickets are more expensive than Ryanair’s flight tickets” (Muller, 2001, p.21) due to the chosen strategy of Ryanair that relies on cheap prices as the main source of competitive advantage.

The threat of main substitute, trains are occasionally addressed by Ryanair in a proactive manner through providing price comparison prices of Ryanair services with train services on the company website and other sources. Nevertheless, it is fair to state that the threat of substitute products and services for Ryanair is insignificant compared to many other industries in the marketplace.

### **Threat of new entrants**

Threat of new entrants relates to the extent of ease associated with entering into an industry and competing with current market players (Hitt et al, 2010). The threat of new entrants is low for Ryanair due to the significant entry barriers associated with entering airline sector that include economies of scale, capital requirements, access to distribution channels etc.

Economies of scale, known as the cost advantage associated with business expansion (Azar and Brocks, 2010) is considered to be the biggest entry barrier into airline industry. Specifically, according to economies of scale, for established market players in airline industry such as Ryanair “as the quantity of a product produced during a given period increases, the cost of manufacturing each unit declines” (Hoskisson et al, 2008, p.80).

Moreover, significant capital requirements associated with entering airline industry include, but not limited to obtaining physical facilities, dealing with inventories, engaging in marketing activities and attracting qualified workforce represent another significant barrier.

Difficulties associated with gaining access to distribution channels is another considerable barrier faced by new entrants in airline industry. Namely, local and international airports may not be able to create additional slots in their platforms in order to serve new entrants into the market.