

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF COMMERCE**

**FINAL EXAM: MAY SEMESTER 2018**

**CODE: BUS 414X UNIT: STRATEGIC MANAGEMENT & DECISION MAKING**

**INSTRUCTIONS: TIME: 2 HOURS**

**ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE :** Study the case below and answer the questions that follow

**RYANAIR**

In October 2011, Ryanair began “child Free” flights in response to a Europe-wide passenger survey showing that over half would pay higher fares to avoid other people’s children. Ryanair despite frequent, seemingly ludicrous suggestions, the airline outperforms its competitors, and many actions that appeared risky or foolhardy at the time (such as ordering new planes when the market collapsed after the 9/11 attacks) later turned out to be quite astute. Ryanair was founded in 1985 and has its headquarters at the Dublin airport in Ireland. Flights began between Ireland and the United Kingdom in 1986 as the new airline’s Dublin-London route challenged the British airways-aer Lingus duopoly. After severe financial losses in 1990, Ryanair restructured, adopting the Southwest airlines business model, and became the pioneer of the low-fares model in Europe. The next years showed growth from 745,000 passengers in 1990 to 72.1 million as of March 31, 2011. Ryanair Holdings was incorporated in 1996 as a holding company for Ryanair Limited. Today, Ryanair operates more than 1,500 flights per day from 44 bases and across 27 countries, connecting 160 destinations throughout Europe and Morocco. Ryanair grew from 51 employees in 1985 to more than 8,000 employees today. Based on passengers carried, Ryanair is Europe’s largest low-cost carrier and second-largest airline. It is also the world’s largest carrier of international passengers and the fifth-largest carrier of both international and domestic passengers. As it continues to grow, Ryanair faces challenges in its use of ancillary fees as a means of maintaining revenue growth while keeping ticket prices low. Externally, increasing legislation and financial distress in Europe threaten to adversely affect its business model and raise the cost of operations. Throughout this case, “Ryanair” refers to both Ryanair Holdings and Ryanair Limited, which are managed as an integrated unit with the same board of directors and executive officers. Ryanair has no published mission or vision statement, but its Annual Report and website statements imply a vision and mission. Ryanair vision is to “firmly establish itself as Europe’s leading scheduled passenger airline through continued improvements and expanded offerings of its low-fares service.” Ryanair mission “ryanair seeks to offer low fares that generate increased passenger traffic while maintaining a continuous focus on cost-containment and operating efficiencies.” Key Elements of Ryanair’s Strategy: 1.Low Fares—targets fare-conscious leisure and business travelers who might otherwise use a substitute form of transportation 2. Customer Service—emphasis on better punctuality, fewer lost bags, and fewer cancellations than rivals 3. Frequent Point-to-Point Short-Haul—secondary airports near major metropolitan areas with “no-frills” 4. Low Operating Cost—use of single aircraft type, productive work force, use of contractors, choice of airports with competitive costs 5. Use of the Internet—all ticket purchases and check-in via internet 6. Commitment to Safety and Quality—low-cost operating strategy does not extend to safety, maintenance, or quality assurance 7. Ancillary Services—revenues are enhanced with hotel bookings, car rentals, and other nonticket revenues as well as baggage and other charges 8. Focused Criteria for Growth—growth based on an explicit plan with a focus in europe 9. Responding to Current Challenges—responses to increasing fuel costs and reduced economic growth. Ryanair’s primary means of achieving its objective to become europe’s leading scheduled passenger airline is to offer lower fares than competitors. While ryanair’s leading strategy is lower cost (through its operations), it also seeks to differentiate itself (through certain aspects of customer service) and raise revenues on nonticket items (through ancillary services) as a means of offsetting the lower fares. its strategy has generated some controversy, especially with respect to ancillary fees (which the airline has been accused of concealing) and customer service (which has been reduced in some areas, or which may only be available for a fee). Five key value chain activities make up the main elements of strategy: 1) operations, 2) human resource management, 3) customer service, 4) use of the internet, and 5) ancillary revenues. these value chain activities show how ryanair organizes its internal activities to implement its strategy. The primary method of cost control is the use of a single model of aircraft (the Boeing 737800), which allows minimization of training and maintenance costs, efficient management of spare parts inventory, and more flexible scheduling of flight crews. Because this model aircraft is widely used, flight crews are more readily available for hire. in addition, because ryanair purchases a large number of aircraft from Boeing, it can negotiate price concessions. External Factors: Government Regulation Commission For Aviation Regulation (CAR), Irish Aviation Authority (IAA), Department Of Transportation (DOT). Fuel; Fuel represented 34.1 percent of total operating expenses for fiscal 2010 (43.8 percent in 2009). Ryanair actively engages in fuel hedging (for example, purchasing future fuel supplies at a set price to minimize losses should prices increase). It is limited in its ability to pass on fuel increases to passengers and has made a commitment in its charter not to impose a fuel surcharge on any fare. Ryanair is 90 percent hedged for fiscal year 2012 at $820 per metric ton (1,000 kilograms or 2,204.62 lb.), or about $82 per barrel. this represents a 12 percent price increase over last year but is below current prices. The airline anticipates higher oil prices next winter coupled with the refusal of some airports to offer lower charges. This may result in the grounding of aircraft rather than risk financial losses. Although Ryanair expects traffic to grow overall in fiscal 2012, it does anticipate a reduction in the winter. It expects its full year fuel costs to increase by approximately €350 million. The European airline industry is highly competitive with a number of low-fare (e.g., easyJet, air Berlin, and germanwings), traditional (e.g., British airways, Lufthansa, and air France), and charter airlines (e.g., Monarch airlines and titan airways). Charter flights are offered by low-fare as well as traditional airlines, and some charter airlines (e.g., Monarch) offer scheduled services. Airlines compete on fares, time and frequency of services, service quality (e.g., number of on-time. Other challenges faced by Ryanair are: 1. How sustainable is the strategy of low ticket price plus extensive fees as consumers become more educated about Ryanair’s fee structure? 2. Will customers continue to put up with the poor overall customer service in exchange for lower ticket prices, faster turnarounds, and a higher percentage of on-time departures and arrivals? 3. Will increasing customer complains about the airline’s services and advertising bring more restrictive legislation for the airline? 4. Does ryanair’s strategy provide an opportunity for a “differentiated” low-cost entrant, perhaps a low-fare carrier with a softer touch?

(Source : <http://www.ryanair.ie>)

Questions

a) i) Identify and explain what made Ryanair to restructure and what was achieved? (2marks)

ii) Advice the management on two other corporate strategies they would have adopted

(3marks)

b) Identify PESTEL factors affecting Ryanair and outline other two analytical tools that can be used in strategic analysis and selection (5marks)

c) State Ryanair vision and mission and indicate your view about their appropriateness.

(5marks)

d) Identify Key Elements of Ryanair’s Strategy and give your view whether they can enable the company to have a competitive advantage. (5marks)

e) Enumerate value chain activities in Ryanair and briefly highlight other activities that would have been considered in the value chain. (5marks)

f) i) Explain the relevance of environmental scanning with respect to Ryanair (2marks)

ii) Identify challenges that Ryanair is facing and likely to face in the strategy implementation, monitoring and evaluation (3marks)

**QUESTION TWO**

1. Briefly explain the main steps/stages in the strategic management process (5marks)
2. Explain the relevance of the following in strategic management;
3. Environmental scanning (2marks)
4. Decision making (2marks)
5. Corporate strategy (1mark)

**QUESTION THREE**

1. In an organization of choice, explain how they can carry out an industry analysis using five forces framework (5marks)
2. Explain the TOWS matrix, highlighting the various strategies that managers can adopt

(5marks)

**QUESTION FOUR**

1. Explain the following terms using relevant examples:
2. Strategy (1mark)
3. Corporate governance (1mark)
4. Strategic leadership (1mark)
5. Management of change (1mark)
6. Strategy formulation (1mark)
7. Resource based view theory (2mark)
8. Strategy implementation (1mark)
9. Elaborate on the role of strategic planning in organizations (2marks**)**