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A Study on Airline Strategy: Comparing Ryanair and Lufthansa to determine the best strategy in the industry

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ABSTRACT

While Porter's generic strategies provide a look at five of the main business models that companies typically follow, two in particular stand out in the European passenger airline market: low cost leadership and product differentiation. Ryanair dominates the European market of price-sensitive consumers, while Lufthansa has long been regarded as one of the best quality airlines in the industry. While the question of which strategy is "better" is difficult to determine, what this paper aims to discover is how both companies have found such incredible success in the competitive industry of passenger airlines with their differing strategies and how these strategies have been the main contributors of said success. To fully examine the companies from all aspects, this paper will use McKinsey's "7-S" Model to develop a better understanding of the two companies to understand their commitment in all areas to their respective strategies. Also included is a survey that I conducted to get a sense of which airline's strategy "wins" in the eyes of customers. In the end, the results from the survey, as well as from all secondary research, show that despite Lufthansa's current lead over Ryanair for largest passenger airline company, there is no clear winner between the two strategies. Rather, the "winning strategy" is a company's complete commitment to *one strategy* as opposed to low cost leadership versus product differentiation.

INTRODUCTION

In the extremely competitive and capital-intensive airline industry, two companies stand out in the international market: Ryanair Ltd. and Deutsche Lufthansa AG. They are the top two largest airlines in Europe (based on numbers of passengers carried) (Ryanair, 2013; Lufthansa, 2013) yet they follow completely different strategies.

These two companies could not be more opposite in the delivery of their product and service. While Ryanair provides the bare minimum (for the bare minimum price), Lufthansa goes the extra mile in taking care of its customers (but not without a premium). The question is which is the best strategy for airlines to follow in order to achieve success in such a saturated market.

Beginning with a brief description of Porter's low cost leadership and product differentiation strategies, this paper will then highlight the history of Ryanair using McKinsey's "7-S" Model to fully examine its strategy and all of the components involved. The same will be done for Lufthansa afterward.

Following this in-depth look at both company's strategies, we will review the results from my survey ("Airline Strategies") to hear what consumers think – and see what impact an airline's strategy has on their decision of with whom to fly.

Finally, this paper will examine all of the primary and secondary research involved and try to determine which airline strategy is better: low cost leadership or product differentiation, if either.

THE STRATEGIES

According to “Porter’s generic strategies,” from Michael E. Porter’s book “Competitive Strategy: Techniques for analyzing industries and competitors” (1980), these two companies follow a Cost Leadership strategy (Ryanair) and a Product Differentiation strategy (Lufthansa). These are two out of Porter’s three simplified generic strategies, and are popular in almost all industries.

A cost leadership strategy involves a firm winning market share by appealing to price-sensitive customers through having the lowest prices in the market. In order to have the lowest prices while still achieving profitability, however, the cost leader firm must also operate at a lower cost than its competition. This can be done in three ways: achieving high asset turnover, achieving low direct and indirect operating costs, and controlling the supply chain to ensure low costs. Ryanair has found its success as a low cost leader by following the above list, which this paper will elaborate on.

A differentiation strategy involves a firm differentiating its product(s) in order to compete successfully. This strategy is appropriate where the target customer segment is not price-sensitive, the market is competitive, and customers have unique or specific needs, which are possibly under-served. Another important aspect for a company to be successful using this strategy is through brand management – having people associate your name or logo with a quality, or differentiated product. Lufthansa has achieved this recognition, in part from its long history (originally founded in 1926) but primarily because of its excellent reputation for quality and service.

HISTORY: Ryanair

Founded by Christopher Ryan, Liam Lonergan, and Tony Ryan in 1985, Ryanair did not begin as a low-fare airline. It originated with the primary purpose of breaking the duopoly held by British Airways and Aer Lingus on the Dublin – London route (IBS Center for Management Research, 2003). The following five years saw intense competition between the three companies now operating on this route. Ryanair, with its smaller planes, charged fares that were half of what British Airways and Aer Lingus were charging. In its beginning years, while still run by Tony Ryan, Ryanair offered services such as a business class and a frequent flyer program. Ryan saw that his airline was not profitable, so he sent Michael O’Leary, who at the time was working as an accountant and manager, to investigate and analyze the situation. In its early years, it was not uncommon for Ryanair to provide lounges with free food and alcoholic drinks for customers. O’Leary saw that Ryanair was losing money on all of these extra amenities that it was giving away to passengers and saw the need to change strategies before losses grew too large.

In the meantime, Southwest Airlines in the United States had been enjoying the perks of airline deregulations since the 1970s, which provided it with the ability to implement the first low-cost airline business model. O’Leary was sent by Ryan to study this low-cost leadership strategy utilized by the American airline to see if it was plausible for Ryanair. O’Leary returned confident that Ryanair could use this strategy and become the low-cost and low-fare carrier in Europe, and so in 1991, the company changed its strategy. O’Leary was appointed chief executive officer of the company in 1994.

Ryanair has had continuous growth since its newfound strategy in 1994, and, after dominating the London-Dublin market, took off into the rest of Europe (Ryanair, 2013). Ryanair sought secondary airports to fly to, as it was cheaper for the company, and it engaged in advertisements meant to draw attention – whether positive or negative.

With this newfound airline strategy taking off in Europe, competitors began to pop up. Most notably is EasyJet, Ryanair’s main low-fare competition. Others were wiped out after a short period of time, such as British Airway’s budget line Go, as they were not able to compete on the same scale that Ryanair already was.

Now, according to its 2012 Annual Report (Ryanair, 2013), Ryanair saw profits of €560 million, flew over 75 million passengers, and had 8,500 employees worldwide.

STRATEGY: Ryanair

To get a better understanding of Ryanair, we can use McKinsey's "7-S" model from Robert Waterman and Tom Peter's book *In Search of Success* (1982) to analyze each aspect of the organization and see how they have to align to be successful. We will begin by looking at the "Hard S's" – Strategy, Structure, and Systems – followed by the "Soft S's" – Shared Values, Style, Staff, and Skills.

Strategy

The strategy of Ryanair is its defining factor, and what this paper is primarily interested in. Ryanair follows a low-cost leadership strategy, and by doing so, offers its customers low prices. Ryanair's objective is to offer the lowest airfares in the industry (currently just in the European market), and it achieves this in several ways. The two most apparent tactics Ryanair uses to reach its objectives are: hidden fees and the limited customer service. These tactics are not what entice customers to fly with Ryanair, but are how the company is able to realize profits. Customers must book their own tickets using Ryanair's busy and crowded website, which becomes a difficult task when it requires you to opt-out of choices that come with an additional price. These extra options include priority boarding, travel insurance, checking luggage, and so on. Customers are then required to check in to their flight online and print off their own boarding pass. If either one of these things is forgotten, Ryanair charges up to £40 to do it for you. If a customer misspells his or her name, or it differs from what is in his or her passport, more fees are charged. Another huge fee is charged to customers whose carry-on luggage is too big or too heavy (or if there is more than one piece of carry-on luggage). Customers must line up well before boarding time to find their own seats, which can be a stressful experience. Once onboard, flight attendants perform their tasks in a satisfactory level, typically not going above and beyond because it simply isn't expected of them. Food and drinks are offered, but only if you are prepared to pay a hefty price. O'Leary summarized this tactic in an interview for the BBC documentary "Flights and Fights: Inside the Low Cost Airlines" (Miller, 2013) as "turning a cost into a profit."

Furthermore, Ryanair does not invest heavily in marketing. Rather, young people, often students, are hired to create its advertisements, which normally are only published in a few newspapers for a few days, as these ads are often offensive or provocative. Though most ads are often removed shortly after being published, they remain in the media long after, as angry or offended citizens continue to talk about it. O'Leary believes that any publicity is good publicity. He will often say misleading or outrageous things in interviews to get people's attention and bring focus to the company (whether it is true or false). One example of this is when O'Leary said that he would like to remove two out of the three lavatory facilities onboard aircrafts to make room for more seats (Warnicka, 2011). Ryanair deals with competitive pressure by "fighting dirty." It is not uncommon for Ryanair to create advertisements directly denouncing its competition and comparing fares to show Ryanair is the cheapest.

Ryanair deals with customer demands in a way that benefits the company. For example, instead of investing in improving customer service standards (although minor changes have been made, according to the press releases on its website), Ryanair focuses on aspects that will save the company money. Ryanair places a lot of focus on punctuality, and finished 2012 with 91% of its flights on time (Ryanair, 2013). The faster the arrival, the faster the turnaround, the more costs are reduced. According to the Chairman's Report in their 2012 Annual Report, David Bonderman states that the company has further improved on its "industry leading passenger services" including fewer lost bags and less cancellations. Part of the reason why Ryanair has such a great record for fewer lost bags is because it has fewer bags to lose – most passengers avoid the costs of checking luggage and plan to bring only a carry-on suitcase or bag. Still, the company's commitment to keeping better track of checked luggage ensures that funds are not spent trying to reconcile the situation of lost luggage, not necessarily to ensure better service to the passenger (Tretheway, 2003).

Structure

The hierarchy of Ryanair reflects O'Leary's true involvement in operations. He remains on the board, but also has explicit lines of communication with the Chief Pilot, Deputy COO, Deputy CFO and Director of Customer Service. Of these managers, explicit lines of communication exist between Human Resources and In-Flight Services, Legal and Regulatory Services, Engineering, and Flight and Ground Operations (respective to the order of the previous list). It is also made clear on the organizational structure that O'Leary is directly involved with these third tier departments (Ryanair, 2013).

The decision making approach at Ryanair plays a large role in maintaining and following the company's strategy. The management team aims to follow a rational decision making process that is ongoing and dynamic. According to Kroon (1995), this approach helps to identify underlying problems and to find relevant solutions. Ryanair has typically focused on short-term objectives as opposed to long-term goals. Fleet planning, airline fare and fleet scheduling are among Ryanair's primary concerns with regards to the company's centralized decision making process.

Systems

Aviation law is considered a matter of international law due to the nature of air travel, however in Europe, aviation law is regulated at federal or state-level. The European Aviation Safety Agency (EASA) is one authority created by the European Union to keep air transport safe and sustainable, allowing for growth and improved safety. Ireland, and therefore Ryanair, is responsible for adhering to EASA's rules and legislations (European Aviation Safety Agency, 2013).

Ryanair also must adhere to the Irish Aviation Authority (IAA). The IAA regulates all aspects of aviation in Ireland, from safety reporting (in addition to EASA) to ground operations, to cabin crew, to aircraft registration and leasing, and so on (IAA, 2013). In addition, Ryanair also must follow the laws of the Irish Department of Transportation, Tourism and Sport (Aviation, 2013). While these laws and regulations set forth by these authorities are fair and done with safety and ethical behaviour in mind, Ryanair often comes into conflict with them as the low-cost airline is constantly trying to push the boundaries of what is acceptable and what is not in their attempt to cut costs.

Shared Values

The corporate culture within Ryanair is consistent with its strategy. Ryanair is able to offer customers the lowest fares because of operating efficiencies. This goes right to its offices, where staff work in an outdated space and fight for resources. For example, in "Flights and Fights," employees spoke of how difficult it would be to get new office supplies, such as staples, from the company. O'Leary himself has stated in an interview that he steals pens from hotels every chance he gets.

Despite its close following of Southwest Airlines' example, Ryanair did not replicate the successful low-cost American company's culture. Southwest CEO and founder Herb Kelleher believes in making the customer feel welcome and does so by encouraging a positive working environment (Gillen, 2006).

Style

The leadership style at Ryanair is participative. O'Leary is involved in day-to-day operations and his office is not fancy but instead is just a small room on the same floor as most of his employees. This shows little power distance between employees and management (Hofstede, Hofstede, & Minkov, 2010). It is also a reflection of how low Ryanair keeps its costs low, as this office has remained the same since it was built in 1996. Only just this

year did Ryanair announce that they would be moving into a new headquarters (Ryanair, 2013). O’Leary is also a very public figure and is often associated with people’s thoughts of Ryanair (whereas Christoph Franz, CEO of Lufthansa is less synonymous with the company).

O’Leary’s leadership is effective. As harsh as he can be at times, his team of managers have stated how much they have grown as managers under his guidance. O’Leary knows his vision for the company and makes it clear to his employees, who follow suit (Miller, 2013).

While Ryanair is not exactly transparent on their website regarding employee relations, O’Leary has publicly stated that there are competitions between cabin crew (who also serve as the check-in staff and boarding staff) that for every overweight or oversized carry-on bag they catch prior to boarding, a small bonus will be rewarded to them (Miller, 2013). Whether this is O’Leary trying to gain media attention or if it is actually true is unclear, because the company has recently been pursuing efforts to increase customer satisfaction by allowing a second carry-on bag (Ryanair, 2013).

Staff

Because of Ryanair’s commitment to maintaining low operating costs, the company has approximately only 8,500 employees worldwide (at the end of December 2012). In most cases, these employees perform several jobs. For example, Ryanair is known for its punctuality and fast turnaround time. This is because its cabin crew also double as its clean-up crew after passengers disembark, often joined by the pilots as well. This same cabin crew is also responsible for all the work at the terminal as well: checking guests in and boarding them at the gate. However efficient and cost-effective this is for the company, this comes with a steady stream of reports from ex-staff claiming that they were “exploited” by Ryanair. One ex-flight attendant claimed that cabin crew members are only paid for their time in the air, meaning that boarding and turnaround time (when they are required to perform extra duties not typically included in an attendant’s job description) are unpaid (Smith, 2013).

Ryanair’s board of directors is composed of ten members (as of July 2013) and their senior management team is headed by five functional directors, the Chief Pilot, Chief Operating Officer, Chief Financial Officer, and of course the Chief Executive Officer. Its headquarters is located in Dublin, at the Dublin Airport, which also serves as the airline’s main hub.

Skills

While the Ryanair company is not known for its great customer service, the tasks performed by frontline staff, as discussed above, are extensive and varied, and are a huge part of Ryanair’s cost savings. Cabin crew personnel are required to do much more than greet guests, and instead of waiting on flight passengers with free beverages and snacks, the crew is trained to prevent incidents of lost luggage, to board and unload planes as efficiently as possible, and maintain fast turnaround times.

Furthermore, O’Leary, as much as people may loathe him, is a visionary and an exceptional leader as its CEO. O’Leary, for all of his ridiculous ideas, has had an equal amount of brilliant ones that have made the company extremely profitable.

HISTORY: Lufthansa

Lufthansa traces back to 1926 when it was known as Deutsche Luft Hansa A.G. and served as Germany’s flag carrier until the end of the Second World War in 1945. Like the rest of Germany, Lufthansa went through a dark time between 1933 and 1945 when Hitler used the company to train men who would go on to become Luftwaffe pilots. In 1953, a company called Aktiengesellschaft für Luftverkehrsbedarf ('We Call on Luftag', 1954) was

founded in Cologne, Germany, with a large number of staff who had once worked for Lufthansa before the war. Because of this, it was easy enough to start up the new post-war Lufthansa, which had just discovered the time- and cost-saving advantages of jets instead of propellers, especially on transatlantic flights.

Lufthansa has always been a company of innovation and improvements, and the 1970s saw an exciting decade of development for the company: the era of Boeing 747s. With wider bodies and two aisles, service and communication was made much easier on longer flights. The Boeing 747, also called the “Jumbo”, has been Lufthansa’s proud flagship since April 26, 1970. Lufthansa dealt with several ups and downs over the 1980s and 1990s. The reunion of Germany and Berlin was promising to Lufthansa, but in the early 1990s, several major crises hindered all airline success. The Gulf crisis and economic recession caused a loss of billions of dollars to the airline industry as well as the first drop in passenger numbers in a decade (Stanford University, 2000). It was after these crises that Lufthansa sought alliances and cooperations with other airlines, eventually forming “Star Alliance” with Scandinavian Airlines, Thai Airways, Air Canada and United Airlines. This alliance rapidly became the industry leader and the largest global air alliance (Tagliabue, 1997).

In 2001, Lufthansa began its placement for 15 Airbus A380 aircrafts to kick off the new millennium. This was a bold move for the company, as each of these huge new aircrafts costs \$375 million, but Lufthansa was confident, as even in times of crisis, it has remained on the ascent (Lufthansa, 2013).

Lufthansa received its first Airbus A380 in 2010, which began a “new era of flight” for passengers (Lufthansa, 2013), as this new aircraft features two passenger levels, a new First Class and improved Business and Economy Class. Lufthansa and its subsidiaries were among the leaders in the industry for moving toward activity on social networks, such as mobile boarding passes during this time.

The German carrier operates the fourth largest fleet of passenger planes in the world, and according to its 2012 Annual Report, Lufthansa saw profits of €990 million, flew over 103 million passengers, and had approximately 117,000 employees worldwide (Lufthansa, 2013).

STRATEGY: Lufthansa

Once again, we will use McKinsey’s 7-S model (Waterman & Peters, 1982) to get an integrative view of Lufthansa’s strategy and organization. This will show how greatly the company differs from Ryanair, and how it uses a completely different strategy to be successful.

Strategy

Lufthansa’s strategy, as defined by Porter’s generic strategies (1980), falls under the product differentiation quadrant. As discussed in the introduction, this means that, due to a heavily saturated market, it has separated itself on the basis of quality – both service and product.

According to its website, the Lufthansa Group strategy relies on four pillars: increase company value, continually improve customer satisfaction, run an economically and ecologically sustainable business, and expand leading market position by actively shaping the airline industry. This well-rounded strategy allows Lufthansa to focus on a model similar to a “triple bottom line,” which is a guide for companies to meet economic, social, and environmental standards or goals. Lufthansa elaborates on these pillars, adding the following points:

- Focus on increasing future viability and company value
- Market leadership to be extended
- Greater customer satisfaction a priority
- The Lufthansa Group sets its sights on profitability

Based on these goals, it is easy to see the differences from Ryanair. Lufthansa is committed to quality, from its products to its processes to its people.

While Lufthansa's prices can be higher than its competitors', the level and quality of service provided is also on a level higher than its competitors'. Its slogan, "Nonstop you," is a true testament to its commitment to the customer. In my survey, 46% of the respondents said they had flown Lufthansa before, and of these, 63% commented specifically on the excellent customer service. It is apparent from its website that Lufthansa tries to make flying easier for their customers. The whole layout of its website is easy to navigate and not too busy, with a clear layout for where to book flights and where to find general information.

Lufthansa, in stark contrast to Ryanair, offers not only First- and Business-Class seats, but they provide several deluxe First Class lounges and even a First Class terminal at its Frankfurt hub. These lounges feature relaxation lounges, a full bar, a cigar lounge, full service à la carte dining, and bath facilities. When passengers are ready for boarding, they are taken to their flight privately in a luxury vehicle. Approximately 200 staff care for 300 passengers per day in the first class terminal (Lufthansa, 2013). Furthermore, Lufthansa offers "Miles & More," Europe's leading frequent flyer program. This program allows passengers to collect reward points and status points.

Additionally, Lufthansa further differentiates itself on the basis of quality *product*. Lufthansa has recently shifted its strategy to include a new fleet of aircrafts: the Airbus A380. This behemoth plane is fast, fuel efficient, and can seat 500 passengers comfortably, making it the largest passenger aircraft in the world. The Airbus A380 is therefore being utilized by Lufthansa to address its desire for growth, which is currently hindered by already too congested airports and limited availability of take-off and landing slots. With its steep price tag (the most expensive passenger plane ever made) and quality design, it is obvious that Lufthansa is providing the best to their customers. But Lufthansa's superb service and quality products do not come without a premium. Passengers expect more from Lufthansa because they pay more for it (Mighty Planes: Airbus A380, 2013).

Structure

Lufthansa is a part of one of five business segments in The Lufthansa Group, an aviation group with global operations and over 400 subsidiaries. The five business segments, which cover the areas of passenger transportation, airfreight and airline services include: Passenger Airline Group, Logistics, MRO, Catering, and IT Services. The airlines constitute the core business segment of the Lufthansa Group. The top three, which enjoy outstanding reputations of quality airlines, are Lufthansa, SWISS, and Austrian Airlines.

Because of the vastness of such an organization, there are very explicit structures laid out for clear understanding of protocols and functions of each organization and how they all interact. Regarding Lufthansa's (passenger airline only) structure, it is bigger and more complex than that of Ryanair, as there are four main airline subsidiaries that the company is responsible for. The structure shows a supervisory board at the top of the chart, and directly below is Chairman of the Executive Board and CEO Christoph Franz. Interestingly though, there are no lines connecting Franz to the CEO of Lufthansa (German Airlines), the CEO of Group Airlines (Austrian Airlines, SWISS, and so on) and Logistics, nor to the CFO or CEO of Corporate Human Resources and Legal Affairs. This implies decentralized decision-making and shows a clear difference in the leadership styles employed by Franz versus that of O'Leary. Franz, while currently at the top of the company, places much of the decision-making control into the hands of his well-qualified top management team (Lufthansa, 2013).

Systems

After the crises of the early 1990s, Lufthansa developed better crisis management systems, which contributed to its ability to survive and remain strong after the horrific events of September 11, 2001. In Hättly and Hollmeier's article "Airline strategy in the 2001/2002 crisis – the Lufthansa example" (2003), Lufthansa is praised for its ability to adapt to bad circumstances. The authors go on to show how the company's strategy has been to realize growth in a cautious way. "Flexibilization" has been one of the company's most important instruments for reducing risk. This is essential for reconstituting balance when the economy tilts and economic forecasts for planning become obsolete. The majority of Lufthansa's success in crisis management is attributed to its communication systems – both public and internal. Furthermore, after the events of September 11, 2001, Lufthansa reduced capacity, while making sure not to abandon markets and but it also reduced personnel through optional unpaid leaves or part-time work contracts as opposed to lay-offs. The company also put a short-term freeze on investments and projects.

As discussed previously under Ryanair's systems, Lufthansa also adheres to the rules of the EASA. In addition, as is the case with Ryanair in Ireland, Lufthansa must follow the rules of its national authorities: Luftfahrt-Bundesamt or LBA (Federal Aviation Office) (Luftfahrt-Bundesamt, 2013) and the Bundesministerium für Verkehr, Bau und Stadtentwicklung or BMVBS (Federal Ministry of Transport, Building and Urban Development) (Transport and Mobility, 2013). Lufthansa must always be aware of its subsidiaries as well, and the specific jurisdictions pertaining to their country. For example, one of Lufthansa's big subsidiaries Austrian Airlines must adhere to the laws of its own Ministry of Transport, Innovation, and Technology (BMVIT) (Aviation, 2013).

Shared Values

The Lufthansa Group places a lot of emphasis on quality. This is how its product and service is differentiated from competitors – the fleet of Lufthansa aircrafts is modern and feature top-of-the-line amenities on board and at the terminal, and the level of customer service is some of the best in the industry.

The team culture at Lufthansa is positive. Employees enjoy their work and their positive attitude is reflected in their customer service. Lufthansa maintains a blog on its website from some current employees who share their experiences (which, seemingly, are mostly all positive) of working for Lufthansa and all of the opportunities such a company can provide (Lufthansa, 2013).

The fundamental values the company was built on have changed over the years. This is to be expected, however, from a company that has endured so much history. For example, the Second World War era of Lufthansa is not a time the company remembers for its values. Part of what makes Lufthansa such a successful company is its ability to keep growing and expanding. This and its commitment to quality are the fundamentals that the "new" Lufthansa (from 1953 on) was founded on.

Style

As discussed above in Lufthansa's organizational structure, it is clear that Franz's style of leadership is less participative than O'Leary's. Franz places more decision-making power in his management team.

This style of leadership has been extremely effective for Lufthansa, who enjoys its position as an industry leader, globally and in Europe. Franz has played a big role in the challenge of restructuring Lufthansa's disparate European operations, which had been acquired at a rapid rate by his predecessor Wolfgang Mayrhuber. Franz has had great success in his aggressive restructuring, notably turning around unprofitable Swiss International Airlines when he was their CEO prior to its integration into Lufthansa. The future of Lufthansa will soon be in the hands of a new leader however, as Franz moves to Swiss drug maker Roche Holding AG. Franz assures the public "not to

expect any major changes” and that the airline’s efficiency drive is “making good progress and it will be continued under a new leadership” (Lufthansa, 2013).

Staff

While Ryanair hires the absolute minimum number of staff required, Lufthansa staffs approximately 117,000 employees worldwide. Of course, the company is larger, especially when considering the whole Lufthansa Group, but Lufthansa passenger airlines provides far more services to its passengers than Ryanair. Additional jobs include the First Class terminal, as well as First- and Business- Class flight attendants, check-in staff at the larger airports (separate from the cabin crew), as well as a considerably larger number of flight attendants based on the longer-distance (and therefore larger aircraft) flights offered by Lufthansa. Lufthansa also has a large senior management team, considering all of the subsidiaries it is responsible for.

Skills

Lufthansa boasts a strong management team and strong frontline staff. The management team has kept Lufthansa one of Europe’s most successful airlines, while the front line staff aid in this through excellent customer service that is one of the reasons why customers are loyal to Lufthansa (Herrmann, Huber, & Braunstein, 2000)

Lufthansa has long been known for its excellent customer service. It starts from the inside: employees must enjoy their job in order to provide the best service to customers – at least, that is what Lufthansa believes. Employees undergo extensive training for their respective positions, and are truly made to feel a part of the Lufthansa team.

SURVEY RESULTS

To gather primary research on this subject, I conducted an online survey of 100 respondents comparing airline strategy, but through the eyes of the customer. In this concise survey, respondents were asked about the most important factors when it comes to flying in general, and then specifically a few questions about Ryanair and Lufthansa.

In the first question, survey respondents were asked to order the following factors in order of importance to them when it comes to flying:

- Price
- Company
- Customer Service
- Quality
- Schedule of Flights
- Direct or Non-direct
- Location of Airport
- Onboard Amenities (food, drinks, etc.)

Not surprisingly, as the majority of the survey respondents were students, Price was ranked as the most important factor for 61%, while Quality and Customer Service were more important to only 4% and 6%, respectively. The least important factors were Onboard Amenities (2%) and Location of Airport (3%). Based on these results alone, one could assume that Ryanair is the clear winner for “best strategy,” as its Price is the lowest, it does not provide onboard amenities, and the locations of its airports are often far from city centres. However, when asked if respondents would fly with Ryanair (again or for the first time), only 63% answered yes, while 32% did not know if they would, and 5% actually said that, based on their previous experiences, they would not fly again with Ryanair. Comparing this to Lufthansa, 73% of respondents would fly again with the company,

and only 27% did not know if they would, but no one said that they would not fly Lufthansa (again or for the first time).

Respondents were asked to comment on their experiences with both airlines, and the answers followed similar patterns for each company. Below is a summary of the key words or phrases from each, along with the percentage of how often they were used.

Ryanair:

Ryanair received almost all negative feedback. 51% of respondents have had a negative experience, while the remaining 49% have had either an “okay” or a good experience. Those who said they have had a good experience justified this answer with an explanation that, while service was lacking and the experience was “stressful” due to all the hidden fees, the flight was cheap and punctual. Not one respondent raved about their experience with Ryanair.

The most common comments from respondents about their experiences were: “stressful,” “horrible service,” “strict,” “on time,” and, the most popular, “cheap.” The general consensus from the respondents was “you get what you pay for” – a cheap flight to get you from A to B, on time, but with no frills.

Lufthansa:

Lufthansa, on the other hand, received almost all positive feedback in its comments. 90% of respondents have had a positive experience with Lufthansa, while 10% were left unsatisfied. However, most of the negative comments had a positive aspect to them (as opposed to Ryanair, where the positive comments would often still include a negative aspect). In the case of Lufthansa, one respondent complained of a flight being delayed by a day, but was pleased that Lufthansa paid for his or her hotel and meals to make up for it.

The top comments found in respondents’ experiences with Lufthansa were: “great onboard amenities,” “on time,” “high quality,” “comfortable,” and, by far the most popular response, “excellent service.” One respondent even commented that, despite never having flown Lufthansa, they had only heard excellent things about the company and would love to fly with it someday. Lufthansa, while not always able to meet the needs of price-sensitive customers, received overwhelmingly positive feedback regarding its service.

CONCLUSION – What is the Winning Airline Strategy?

While this paper has endeavoured to find the “best” airline strategy, it is apparent that there might be no such thing. In any market there will always be a range of different consumers. From price-sensitive consumers to premium quality consumers to niche consumers, no one strategy will be able to target them all, particularly in the airline industry. In order for Ryanair to offer such low fares to its price-sensitive passengers, it has to be cost effective in its operations, meaning that certain luxuries, such as onboard amenities, are impossible to offer for free. In order for Lufthansa to provide such high quality service to its passengers, it has to charge a premium.

Considering Lufthansa and Ryanair are the two largest passenger airlines in Europe, is it possible to pick one best strategy when both companies operate completely differently but have both found such success? After reviewing the results of my survey, and based on personal experience, I think that there is no “best strategy.” I have had great experiences flying on Lufthansa, and always look forward to flying with them, however, if I am booking a flight from Linz, Austria to London, England, and Ryanair has flights available for under €40, I would not say no because of bad customer service or no onboard amenities.

In conclusion, this paper determines that there is no best airline strategy, but rather that complete dedication to one strategy is the best option for an airline. In the extremely competitive industry of passenger airlines, every company must commit themselves to a strategy in order to become the best at it, and stand out in the market. This is exactly what Ryanair and Lufthansa have done. Ryanair is widely recognized as the ultimate low-cost carrier (in Europe especially, but is recognized worldwide as well), so passengers know what to expect. What Ryanair lacks in service and quality, it makes up for in low prices and punctual flights. Likewise, Lufthansa is recognized internationally as an industry leader in quality and service. Both airlines have achieved huge success from their dedication to one strategy. The next question now, is which of these airline strategies will be the most sustainable in the future; but that is a question for another paper.

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