

Integrating Business Models and Strategy for Sustained Competitive Advantage

- A Case Study of Ryanair

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Caroline Ramos Korsaa Cand.Merc. SMC

Lisbet Røge Jensen Cand.Merc. MIB

Supervisor: Claus J. Varnes , Department of Operation Management

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Abstract

This thesis studies the business model as a possible integrator of different strategic perspectives on firms' sustained competitive advantage. It presents the arguments for viewing the business model as a concept closely related to strategy in general and competitive advantage in particular. Furthermore, it reviews existing business model literature in order to determine how this field can contribute to our understanding of sustained competitive advantage.

Despite the increase of interest in the term business model by academics and managers, no common definition has yet been accepted by the business community (Shafer et al., 2005). On one hand, Porter (2001) argues that the talk about business models has substituted the talk about strategy and competitive advantage and that the business model approach to management is an "invitation for faulty thinking and self-delusion" (p.73). On the other hand, the study conducted in this thesis and the review of existing business model literature show that the business model can in fact be integrated with strategy in order to create a wider understanding of a firm's sustained competitive advantage.

Hence, based on a theoretical framework, this thesis proposes a business model which integrates components from both Industrial Organization and the Resource-Based View of the firm as well as components from the business model literature. In addition, the business model proposition is based on the hypothesis that the sustainability of competitive advantage depends on a strategic fit, which is argued to be a function of competitive advantage and the degree of coupling between the business model components. In order to test the business model proposition and hypothesis, an empirical investigation of the Irish airline and industry leader *Ryanair* is conducted.

The conclusion of the study carried out in this thesis is, that including important elements from different perspectives allows for a greater complexity when evaluating firm performance. This complexity comes from the wider scope of analysis which is a result of working with the several components included in the business model proposition. Working with these components makes it possible to pull apart aspects of the firm in order to look closely at the firm's fundamental functions and this, in turn, enhances our understanding of sustained competitive advantage.

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Chapter 1: Introduction & Problem Statement

1.1 Introduction

This thesis is a study of business models. More specifically, it studies the business model as a possible integrator of two strategic perspectives on firms' competitive advantage which differ in their basic assumptions, namely Industrial Organization (I/O) and the Resource-Based View (RBV) of the firm. On one hand, the I/O school of thought is based on the assumptions that firm resources are homogeneous and highly mobile in the market (Porter, 1981). On the other hand, the RBV is based on the idea that firms are fundamentally heterogeneous regarding their resources and internal competencies (Barney, 1991). This first chapter introduces the subject and the arguments for viewing business models as a concept closely related to strategy in general and the question of firms' competitive advantage in particular. Following the introduction, the problem statement of the thesis is presented together with the research questions used for structuring the study. The final section of chapter 1 introduces the research strategy and includes the methodology, philosophy, and organization of the thesis.

1.1.1 Murky Definitions and Faulty Thinking

"The definition of a business model is murky at best. Most often, it seems to refer to a loose conception of how a company does business and generates revenue. ... The business model approach to management becomes an invitation for faulty thinking and self-delusion." (Porter, 2001, p. 73)

In 2001, Michael Porter argued that the talk about business models has substituted the talk about strategy and competitive advantage (Porter, 2001). In the context of doing online business he accused Internet companies for a misguided approach to competition and for embedding it in the language used to discuss it. Hence, the vague definition and conception of the term "business model" have unfortunate consequences, such as leading to simplistic strategic approaches and failure to harness important competitive advantages.

It seems though, that the business model concept has moved far beyond business on the Internet, and several authors contributing to the business model literature recognize a close relation with the theoretical field of strategy. In the following, we present some of the arguments found in the business model literature for viewing business models as a concept closely related to strategy and the theoretical perspectives within that field.

1.1.2 The Theoretical Domain of the Business Model Concept

“Admittedly, the topic of business models led to a lot of publications by journalists, business people, consultants and academics. It is discussed in various different domains, such as e-business, information systems, strategy, and management [Pateli and Giaglis 2003].” (Osterwalder & Pigneur, 2005, p. 3)

As the quotation above indicates, the concept of the business model is found in diverse fields of literature, both academic and managerial. The business model term is particularly popular within research on e-business (Hedman & Kalling, 2003). It is, however, more sparsely used within strategy research even if this area covers many of the theoretical components included in the business model concept (ibid). In fact, attempts to separate the concept from the field of strategy have proven quite difficult (Mäkinen & Seppänen, 2007). Morris et al. (2005) also argue that the concept of the business model lies within the field of business strategy. The construct builds upon central ideas in business strategy and associated theoretical traditions. Most directly, it builds upon Porter’s concepts of the value chain, value systems, and strategic positioning from 1985 and 1996, respectively. Furthermore, the business model construct draws on resource-based theory, strategic network theory and cooperative strategies and it also relates to choices of firm boundaries as well as transaction cost economics.

Zott & Amit (2007) place business model research at the intersection of organization theory, entrepreneurship, and strategy while Mansfield & Fourie (2004) present the business model as a contingency model, which describes linkages between a firm’s resources, functions, and environment. They place the concept in a setting of both Porter’s position-based view on strategy and the RBV.

As the business model literature directs, the two strategic perspectives of I/O (primarily the works of Michael E. Porter) and the RBV are particularly relevant when studying business models. Although these two perspectives conflict in their basic assumptions (Barney, 1991), the business model concept has promise to integrate them because it unites “the finer aspects of strategy, such as resource-bases, activities, structure, products and external factors” (Hedman & Kalling, 2003, p. 49). And while differing in assumptions, both Porter’s environmental models and the RBV focus on analyzing and understanding the sources of competitive advantage, and both perspectives ask how a firm can create and sustain competitive advantage (Porter, 1985; Barney, 1991).

1.2 Problem Statement

So, with this relation between the theoretical fields of the business model and strategy in mind and the view of the business model as a possible integrator of two, apparently conflicting, strategic perspectives, we are lead to the following problem statement:

How can the business model be integrated with traditional strategic perspectives in order to better understand a firm's sustained competitive advantage?

This main problem can be investigated through the following research questions:

Research questions

- 1) *Traditional strategic perspectives concerned with how firms create and sustain competitive advantage are Industrial Organization (I/O) and the Resource-Based View of the firm (RBV). What are the views on competitive advantage within each of these perspectives and which limitations exist?*
- 2) *How does the business model literature contribute to the discussion about sustained competitive advantage?*
- 3) *Based on theoretical insights from research questions 1 and 2, how can traditional views on competitive advantage be integrated with contributions from the business model literature into a business model proposition?*
- 4) *How can the business model proposition be empirically tested in order to confirm or reject our hypothesis of what leads to a firm's sustained competitive advantage?*

1.3 Research Strategy

Based on the research questions above, the overall structure of this thesis is to develop a theoretical framework, which then serves as a basis for deducting a hypothesis in the form of a business model proposition having as its purpose to lead to the creation of sustained competitive advantage. This proposition is then empirically tested and, finally, the main question answered. In the following, we explain our chosen methodology and the philosophy behind it. We also account for the information gathering as it relates to both the applied literature and empirical data. The organization of the thesis is mapped out in the last section of the chapter.

1.3.1 Methodology and Philosophy

As indicated by research questions 1 and 2, the theoretical framework is based on two parts: The first part concerns the traditional views on competitive advantage as it reviews the strategic perspectives I/O and the RBV of the firm. More specifically, we rely primarily on

the contributions of Porter (1985; 1996; 2001), Barney (1991), and Hamel & Prahalad (1994). The reason why we have chosen this theoretical base is that these two perspectives, i.e. I/O and the RBV, are both specifically concerned with the question of how a firm can create and sustain competitive advantage (Porter 1985; Barney 1991). Other strategic perspectives would undoubtedly be relevant in other contexts, but since competitive advantage is the purpose of the proposed model, we consider it appropriate to create consistency between the purpose of the model and the applied theoretical foundation.

The second part of the theoretical framework concerns the business model and is a review of the existing literature. Texts in this review are selected according to our judgment of their relevance to the issue of competitive advantage. While our journey into the theoretical field of the business model quickly revealed a lack of coherence and theoretical anchoring, there seems to be agreement on the fact that the phenomenon is closely attached to the fields of strategy. The business model is mentioned in many and diverse domains, such as e-business, information systems, and management (Osterwalder & Pigneur, 2005), however, attempts to separate the phenomenon from strategy has proven quite difficult (Mäkinen & Seppänen, 2007). To narrow down the vast amount of material on the subject and to focus on our research area, we have identified similarities in research methods and issues already raised in the literature. These similarities and issues raised are then taken as the main drivers of our literature selection and review.

With the purpose of answering research question 3, we then discuss this theoretical framework. Inspired by several business model authors (e.g. Hedman & Kalling, 2003) we adopt an integrative method, which considers the business model as a promising phenomenon in the sense that it can integrate disparate strategic perspectives such as I/O and the RBV (Hedman & Kalling, 2003). In the context of this thesis, the discussion leads us to deduct a hypothesis from the theoretical framework, which concerns how existing views on competitive advantage can be integrated with insights from the relatively new literature on the business model. The hypothesis takes the form of a business model proposition which requires a strategic fit between several specific components in order to lead a firm to sustained competitive advantage.

To answer the last research question, this theoretically deducted hypothesis is then tested on the case of Irish airline *Ryanair*, which we, with a high degree of certainty, can determine as

leader of its industry. With this case analysis we want to be able to confirm or reject our hypothesis as stated above. Testing it on a company that we know is industry-leader lets us have a “check-point”, as we know that we must somehow be able to determine what makes the company successful. The result of this empirical investigation was a confirmation of our hypothesis as we were in fact able to point out a connection between the components in our business model proposition and also a mutually reinforcing relationship between these. Had we found out that some components had been superfluous or irrelevant, we would have rejected our hypothesis, but this seemed not to be the case. On the other hand, we have to accept the uncertainty that there could be additional relevant elements, which we have not taken into consideration.

Whether this confirmation of our business model proposition is enough to conclude that it is true or false, is a question of research philosophy. While we recognize that we are standing on the shoulders of giants as it relates to the development of the theoretical framework of this thesis, we are humble enough to accept that we, as well as the authors applied, can be wrong. Only through continuous experimentation and observation, and through a discussion based on various viewpoints it is possible to come closer to the objective truth. In this sense, we accept Karl Poppers critical rationalism (Gilje & Grimen, 2002), and the notion that only falsification, not verification (as proposed by the positivists), can determine whether the proposed knowledge can be classified as the objective truth. The implication of accepting Popper’s critical rationalism is that we need to accept that no matter how many case studies we made to test our hypothesis, having positive outcomes, it would not be enough to eliminate the insecurity of our possible wrong-being. However, as long as the proposition, i.e. the hypothesis, has not been falsified, we can categorize it as a qualified guess. Qualified in the sense that it builds on existing theories which have also been exposed to testing. Hence, we view our thesis as more of an attempt to contribute to the scientific advance in the studying of firms’ competitive advantage than as an attempt to reach a conclusion of the objective truth in this question. A way to further advance in this area is to repeat the empirical experiments until falsification is achieved and assumptions then must be reviewed. For example, market leaders in other industries could be investigated to see if there were conditions that deviated from those of *Ryanair*’s.

This leads us to discuss our choice of a single-case study. Including more than one case, we would have increased our possibility of falsifying the proposed business model and

hypothesis. However, the amount of data needed in order to perform the investigation places this option beyond the scope of this thesis as regards time and space. Furthermore, the amount of cases in a study like this, is not as important as the choice of cases (Eisenhardt, 1989). Our case has been chosen for theoretical, not statistical, reasons. As mentioned before, we have chosen a case that represents a polar type (ibid), i.e. *Ryanair* as the industry leader. This makes the subject of interest (in our case: competitive advantage) “transparently observable” (Eisenhardt, 1989, p. 537), which is preferable when testing emergent theory via case studies.

1.3.2 Information Gathering

This section describes our choice of business model literature and our process of gathering empirical data. We will not go into a detailed account of the theories of competitive advantage, as this is covered by the first part of chapter 2.

Business Model Literature

Our quest into the domain of the business model literature began with a Google search and a search in Business Source Complete which returned 14,100,100 and 8,874 results, respectively. We narrowed this down to a rough list of 55 articles that we reviewed in order to get to the core of the business model literature and identify a relevant context for this study. Throughout our continuous efforts, this rough list eventually ended up as an exclusive sample of the business model literature consisting of 22 articles, which are all summarized in table 2.2. In the literature review performed in chapter 2, part II, it is the views and arguments of these authors that are presented and applied. Other authors may be referred to in other parts of the study, but their contributions are then only used for descriptive, not analytical, purposes.

Empirical Data

The empirical data gathered for this thesis is used for the case study of *Ryanair*. In the following, we explain how we have employed the case study as an all-encompassing research strategy covering design, data collection, and analysis (Yin, 2003). Our research design is built around the questions (main and research questions) that this thesis studies and the business model proposition made. The unit of analysis is *Ryanair* and more specifically *Ryanair's* business model. Our theoretical framework developed in the first part of the thesis is what enables us to gather relevant data on one hand and to analyze the results of the case study on the other hand. Furthermore, the framework has been determining for the interview guides developed. We have used data triangulation (Yin 2003) as a principle for collecting

evidence for the case study. This entails the use of multiple sources of evidence with the purpose of confirming the same fact or phenomenon observed, and applying this principle enhances the likelihood of convincing and accurate findings and conclusions (ibid).

More specifically, the information gathering for the empirical testing of our business model proposition is characterized by primary data in the form of interviews with industry analysts and complemented with data collected from articles, books, web-sites and reports. As interviews are argued to be an essential source of case study information (Yin, 2003), we provide a thorough description of this data source below.

Our three interviews were carried out with specialists working with the key metrics behind *Ryanair's* competitive position as well as the airline industry in general. By conducting three interviews with different specialists, we obtain a broad perspective. However, in our search for interviews with Irish and English analysts, we were met with an unwillingness to be quoted and many simply refuse to spend time on school projects. As compensation, *Morgan Stanley* and *Citigroup Global Markets* provided us with financial reports on *Ryanair*. It should also be noted that *Ryanair* upholds a policy of not giving interviews to students.

The first interview was conducted with *Jacob Pedersen, CFA senior analyst from Sydbank*, who is often interviewed on the news and in other media concerning the airline industry. He follows *Ryanair* and their competitors closely, as forecasts are made based on his analysis.

The second interview was conducted with *Per Hvid, Head of foreign equities from Svenska Handelsbanken*. Unlike Jacob, his perspective is that of a stock broker and serves as a liaison between investors and the stock market. Accordingly, he buys, sells and trade stocks for investors based on his own forecast and the input he gets from analysts.

The final interview was conducted with *Joe Gill, Director of Equity Research with Bloxham Stockbrokers*. Since *Ryanair* is an Irish airline an interview with Ireland's largest independent stockbroker (bloxhams.ie/we) was important in order to get as close to the company as possible. On *Ryanair's* website, Joe Gill is referred to as an analyst who "*actively publish research on the key driver and metrics behind Ryanair's success*" (*Ryanair.com/da/investor/analyst-coverage*). Accordingly, Joe Gill works in close relation with *Ryanair*, and as *Ryanair*

does not make interviews for the purpose of school projects, Joe Gill is the closest we can get to an interview with the management.

Additional sources of information include:

- Documentation (Yin, 2003) in the form of:
 - o Written reports from *Ryanair*, e.g. briefs on the company strategy
 - o Formal case studies of the same company carried out by other researchers in journal articles, books, and reports
 - o Newspaper articles
- Archival records (Yin, 2003)
 - o Annual reports and budgets
 - o Service records, e.g. lists of passengers served etc.
 - o Survey data collected about *Ryanair* by other researchers, industry organizations, etc.

Information gathered from these sources has been carefully evaluated, as have the actual sources. Hence, information from e.g. special interest groups (ELFAA, ITF), which could be argued to be biased in their evaluation of industry conditions, is not allowed to stand on its own, but is carefully held up against other sources to confirm or reject their accuracy.

1.3.3 Organization of the Thesis

The last part of this chapter describes how the rest of the thesis is structured. The study is organized according to the four research questions posed to substantiate the problem statement. Each chapter in the study has as its purpose to answer a research question, with each part then contributing to the final conclusion and answer to the main question. Hence, chapter 2 deals with research questions one and two, which make up the theoretical framework of the study. Then follows chapter 3, which answers research question 3 and is the business model proposition deducted from the theory applied in chapter 2. As a final element of the study, chapter 4 is structured to answer research question four and, hence, conducts the empirical investigation based upon the business model proposition presented in chapter 3. In the end comes our final conclusion and answer to the main question together with reflections about the findings from the study.

Chapter 2: Theoretical Framework

The aim of this chapter is two-fold as it seeks to discover, firstly, which views and limitations exist in the traditional strategic perspectives concerned with creating and sustaining competitive advantage, and, secondly, which contributions the literature on business models has to offer that may enhance our current understanding of competitive advantage. These are the two issues raised in research questions 1 and 2. Hence, the chapter is divided into two parts, which seek to answer each of these questions. Separate conclusions are made to the two parts of this chapter, and together these conclusions form the theoretical framework and basis for the discussion, which opens chapter 3 and leads to our business model proposition.

2.1 Part I: Competitive Advantage

This part of chapter 2 has the purpose of answering the first research question of the study:

Existing strategic perspectives concerned with how firms create and sustain competitive advantage are Industrial Organization (I/O) and the Resource-Based View of the firm (RBV). What are the views on competitive advantage within each of these perspectives and which limitations exist?

We begin with a brief historical introduction to the two strategic perspectives and then move on to describing each of the perspectives as it regards their position on what constitutes competitive advantage. We also look at the critique raised of each perspective and their limitations. Finally, we present our conclusion to the research question, and this forms the first part of our theoretical framework which is applied in later chapters of the study.

2.1.1 Historical Context

"Since at least 1911, scholars have tried to answer the question 'Why do some firms persistently outperform others?'" (Barney & Arian, 2001, p. 124)

Strategic management deals with this question from a managerial perspective and tries to explain the sources of sustained competitive advantage. Strategic management has, however, changed dramatically since its starting point in the 1950ies, when Selznick introduced the need to bring an organization's 'internal state' and 'external expectations' together for implementing policy into the organization's social structure (Kong, 2008). This perspective was later further developed in 1982 by Wehrich who conceptualized the internal and external analysis into a structured matrix known as the SWOT framework (ibid). This model provides information in order to match the firm's internal Strengths and Weaknesses with the external Opportunities and Threats.

As strategic management has continued to change, the SWOT framework has been split into two separate schools of strategy. The first school of strategy is the I/O school of thought, which is represented by the opportunities and threats and the second school of thought is the RBV of the firm represented by the strengths and weaknesses (ibid).

2.1.2 I/O and Competitive Advantage

The dominant school of thought in strategic management has been the I/O, where the relationship between the firm and the industry is essential. A principal model of this school has been Michael Porter's (1985) "five competitive forces" for analyzing industry structures. In this model, a firm's profitability is influenced by its relative size compared to its industry rivals, suppliers and customers (Porter, 1985). Accordingly, the industry forces in which the firm operates requires that the firm adapts to these requirements in order to survive in the long run. In addition, the firms that fail to adapt to these requirements will be forced to exit from the industry/market.

The models within the I/O school of thought are based on the following two assumptions: firstly, companies in an industry are identical in terms of the strategically relevant resources they control and the strategies they pursue (Porter, 1981). Secondly, resources in an industry are identical because an organization's resources, which they use to implement strategies are highly mobile in the market (Barney, 1991). Moreover, within the I/O school of thought the key to sustained competitive advantage is choosing an appropriate industry and positioning itself within that industry.

Consequently, the I/O paradigm regards competitive advantage as a position of superior performance that a firm can achieve through one of the following generic strategies: cost leadership, differentiation or focus (Porter, 1985). Cost leadership is the achievement of the lowest unit cost base of the industry, whereas differentiation is the ability to charge a premium price for offering some perceived added value to the customer (Porter, 1985). The focus strategy is the concentration of a narrow segment and within that segment attempt to achieve either a cost advantage or differentiation (Porter, 1985).

2.1.2.1 Limitations of I/O

In the context of today's rapidly changing environment, the static framework within the I/O school of thought is being tested and questioned, as an unknown company can take over the market leader position over night (Tidd et al. 2005). Consequently, many scholars have begun to look beyond the I/O school of thought in order to better understand the sources of sustained competitive advantage.

In addition, proponents of the RBV (Teece et al., 1997; Hamel & Prahalad, 1994) argue that the structural approach represented by Porter's competitive forces framework is obsolete as the competitive environment has changed dramatically since the mid 1980's.

Moreover, Barney contradicts Porter's central principle of industry attractiveness, i.e. that superior firm performance is a result of excellent entrance and operation in attractive product markets. Barney argues that "if strategic factor markets are perfectly competitive, even if firms are successful in implementing strategies that create imperfect competitive product markets, those strategies will not be a source of economic rents" (Barney & Arian, 2001). Accordingly, theories of imperfect product market competition are not sufficient for the development of a theory of economic rents. As a result, Barney & Arian (ibid) suggest that economic rents can be obtained through the resources, which a firm controls. He argues that firm specific resources, as opposed to resources acquired elsewhere, are more likely to lead to economic rents because these were acquired or developed in a previous strategic factor market where their price was a function of the expected value of those resources in that market (Barney & Arian, 2001).

2.1.3 RBV and Competitive Advantage

The RBV emerged as a complement or dual to Porter's theory of competitive advantage (Barney & Arian, 2001). Initially, Wernerfelt (1984) developed a theory of competitive advantage based on the resources a firm develops or acquires to implement product market strategy. Wernerfelt's (1984) primary contribution to the RBV literature was recognizing that firm specific resources as well as competition among firms based on their resources can be essential in order for organizations to gain advantages in implementing product market strategies (Barney & Arian, 2001). A different perspective is presented by Rumelt (1984) who focuses on economic rents and created a theory of rent generation and appropriating characteristics of firms (Barney & Arian, 2001). Moreover, Rumelt (1984) in his strategic

theory offered many characteristics which were later associated with the RBV. For example his view on “firms as collections of productive resources” as well as his suggestion that the imitability of these resources depends on the extent to which they are protected by an “isolation mechanism” (Barney & Arikan, 2001). The third resource-based article in the field of strategic management was published by Barney in 1986. Barney introduced the concept of strategic factor markets as the market where firms acquire or develop the resources they need to implement in their product market strategies. As a result, Wernerfelt (1984), Rumelt (1984) and Barney (1986) are the three corner stone’s of what was later known as the resource-based theory.

In the mean time, while resource-based theory was developing, a parallel stream of “resource-based” work was being developed in the area of competitive advantage (Barney & Arikan, 2001). The most significant contributors of this parallel stream is Itami (1987), Prahalad and Bettis (1986) and Prahalad and Hamel (1990).

Itami’s (1987) theory of invisible assets suggests that invisible assets, e.g. information-based resources such as technology, customer trust, brand image, control of distribution, corporate culture, and management skills are necessary for competitive success. Accordingly, invisible assets are the real source of competitive advantage because they are hard and time-consuming to accumulate. Further, they can be used in multiple ways simultaneously, and are inputs and outputs of business activity. Itami (1987) continues to argue that people are both accumulators and producers of invisible assets. Visible assets, on the other hand, must be present for business operations to take place, but it is the invisible assets that lead to competitive advantage.

Prahalad and his colleagues (Prahalad and Bettis, 1986; Prahalad and Hamel, 1990) developed an approach to understanding corporate diversification. Differing from previous corporate strategy work which had been focusing on the importance of shared tangible assets across businesses, Prahalad began emphasizing the potential importance of sharing intangible assets across businesses. These shared intangible assets were called “a firm’s dominant logic” (Prahalad and Bettis, 1986). The concept of a dominant logic led to the very influential paper that defined the notion of a corporation’s “core competence” A core competence is defined as:

“the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies.”
(Prahalad and Hamel, 1990, p.82)

Consequently, the work of Itami (1987), Prahalad and Bettis (1986) and Prahalad and Hamel (1990) has had a great impact on the development of the RBV. In fact resource-based theories of corporate diversification has been one of the most popular ways to empirically test resource-based logic (Barney and Arian, 2001).

Moreover, resource-based theory is based on the assumption that firms are fundamentally heterogeneous regarding their resources and internal competencies. It deals with the problem of how firms can exploit their internal resource base and capabilities to obtain sustained competitive advantages (Barney, 1991; Hamel & Prahalad, 1994).

According to Barney (1991), a firm is argued to have a competitive advantage when it is implementing a value creating strategy which a current or potential competitor is not implementing at the same time. Moreover, a firm is argued to have a sustained competitive advantage when it is implementing a value creating strategy which a current or potential competitor is not implementing at the same time and when these other firms are unable to duplicate the benefits of this strategy (Barney, 1991). However, in order for a resource to have the potential of being a sustained competitive advantage, it must contain the following four attributes: Firstly, it must be valuable, in the sense that it exploits opportunities and/or neutralizes threats in a firm's environment, secondly, it must be rare among firm's current and potential competition; thirdly, it must be imperfectly imitable and fourthly, there cannot be any strategically equivalent substitutes for this resource that are valuable but neither rare or imperfectly imitable (Barney, 1991).

Whereas Barney focuses on internal resources as the key to sustained competitive advantage, Hamel & Prahalad (1994) focus on core competencies and argue that a firm's sustained competitive advantage is to be found in its core competencies. In order for a competence to be a core competence, three criteria have to be met: the competence has to 1) provide access to more than one market, 2) give a significant contribution to the end product/products and 3) be difficult for competitors to imitate (Hamel & Prahalad, 1994). Accordingly, if a company possesses a core competence and understands how to take advantage of it, it can lead to sustained competitive advantages.

2.1.3.1 Limitations of the RBV

Focusing only on the internal resources or core competence of the firm can limit the reach for learning new competencies. Hence, core competencies can also become ‘core rigidities’ in the firm, when established competencies become too dominant” (Tidd et al., 2005).

Moreover, Hedman & Kalling (2003) criticize the RBV as well as the I/O perspectives for neglecting the obstacles to strategic dynamics and managements (Hedman & Kalling, 2003). This view is supported by Chan et al. (2004) who criticize both perspectives for their implicit assumption of static equilibrium. As a result, Teece et al. (1997) argue that in a dynamic environment, the dynamic capabilities perspective adds a new framework where focus is on the ability to manage talent, creativity, expertise, relationships and technology in a global and rapidly changing business landscape. The success of the organization is dependent on its ability to identify market opportunities, and to organize processes to respond to these opportunities. As a result, the ability to coordinate resources and capabilities becomes a competitive parameter for organizations in order to create competitive advantages. However, the capabilities that a firm possesses and can produce in the future are path dependent, and cannot be changed quickly. Accordingly, competitive advantages stem from developing current capabilities that are highly effective in responding to the organization’s environment; yet, some firms are not able to replicate those capabilities quickly (Davenport et al., 2006).

2.1.4 Conclusion part I

Since its starting point strategic management has been divided into two dominant schools of strategy, namely the I/O and the RBV. On one hand, the I/O school of thought regards firm resources as being homogeneous and therefore they see the concept of competitive advantage as being ascribed to external characteristics. On the other hand, the RBV is based on the idea that firm resources are heterogeneous, and therefore views competitive advantage from the perspective of the distinctive competencies and resources that give a firm an edge over its competitors.

In spite of the dominance of I/O and the RBV as separate schools of thought, both perspectives contain limitations. Core competencies can become ‘core rigidities’ in the firm if established competencies become too dominant. Accordingly, one theoretical deficiency within the RBV as well as in the I/O schools of thought is their implicit assumption of static equilibrium (Chan et al., 2004), without addressing the requirements for continued success in

a volatile and dynamic environment. Moreover, both schools of thought are argued to be insufficient when applied on its own. When focusing only at the industry/firm level or only at the resource level, the firm will be missing out important insights from each theoretical perspective.

2.2 Part II: Business Model Literature Review

This second part of chapter 2 seeks to answer research question 2:

How does the business model literature contribute to the discussion about sustained competitive advantage?

In order to answer the research question, we conduct a literature review. To begin with, we introduce the business model concept by briefly describing its emergence. We then move on to present some of the many existing definitions of the term as well as accounts of which components should be included in a business model. After this introductory section we dig deeper into the issues raised in the existing body of literature, which have a specific relation to competitive advantage. Two specific issues are treated: First, we review the discussion found in the business model literature about the connection between the business model and strategy, and, secondly, we take a look at what the literature says about successfulness in business models.

As a summary of part II of chapter 2, we provide a full overview (table 2.2) of the business model literature applied in this thesis. As a concluding section we propose an answer to the research question posed above.

2.2.1 Emergence and Meaning of the Term “Business Model”

According to Magretta (2002), it was with the introduction of the personal computer and the spreadsheet that the term business model became widespread. The spreadsheet allowed a much more analytical approach to planning than previously when business planning usually consisted of a single base-case forecast. The spreadsheet offered an analytical approach where every major line item could be pulled apart into various components and subcomponents permitting the testing and modeling of a business (Magretta, 2002). Accordingly, before the personal computer and the spreadsheet, successful business models happened by accident and not by planning.

The term business model became a buzzword with the internet boom, where an increasing belief in a promising web-based business model became evident (Magretta, 2002). However, the appearance of the term in academic literature can be traced back to 1990, including several variations of the term such as “e-business model”, “new business model” or “internet business model” (Osterwalder & Pigneur, 2005). See also the table below.

Year	In Title	In Abstract	In Keywords	in Full Text
2003	30	159	10	667
2002	22	109	2	617
2001	11	100	7	609
2000	16	67	1	491
1999	3	42	1	262
1998	1	19	0	128
1997	1	14	0	86
1996	0	14	0	57
1995	0	4	0	36
1994	0	2	0	18
1993	0	5	0	18
1992	0	2	0	15
1991	0	1	0	10
1990	0	4	0	7

Table 2.1 Occurrences of the Term “Business Model” in Scholarly Reviewed Journals

Source: Osterwalder & Pigneur (2005)

The table shows that the term is rather new in use and, furthermore, that the popularity of the term has increased greatly around the year 2000. This underscores Magretta’s point about the correlation between the popularity of the term and the emergence of the Internet boom. Also, when looking at the occurrences of the term “business model” and comparing with fluctuations of the NASDAQ, it shows that there is a likely relationship between the concept and technology (Osterwalder & Pigneur, 2005). Nonetheless, the significance of the term business model has changed towards the purpose of identifying a firm’s core logic (Linder & Cantrell, 2000).

2.2.1.1 Business Model Definitions

While the term business model is widely discussed in today’s business environment, it is rarely defined explicitly (Chesbrough & Rosenbloom, 2002) and in spite of the consensus among theorists and practitioners that a good business model is essential to every organization (Magretta, 2002), no definition of the term has yet been generally accepted (Morris et al., 2005). The literature overview later in this chapter (table 2.2) presents business model definitions from all authors applied in this thesis. In this section, however, we introduce some of the overall tendencies in defining what constitutes a business model.

The largest volume of research on business models comes from e-commerce. In this context, Mahadavan (2000) defines a business model as consisting of value, revenue, and logistics and thus does not explicitly focus on internal aspects such as core competences or core capabilities. Whereas Mahadavan (2000) and others (e.g. DeYoung, 2005; Kraemer et al., 2000; Hayes & Finnegan, 2005; Osterwalder & Pigneur, 2005) focus on business models in relation to e-commerce, Davenport et al. (2006) focus on business models in relation to innovation. According to Davenport et al. (2006) a business model is defined as: “simply the ‘way of doing business’ that a firm has chosen: its entire system for creating and providing consistent value to customers and earning a profit from that activity, as well as benefit for its broader stakeholders.” In fact, several of the definitions of the business model are defined in the area of value creation in order to describe the content, structure, and governance of transactions designed to create value through the exploitations of business opportunities (Amit & Zott, 2001). Yet another approach to defining the business model is the distinction from or integration with the concept of strategy. Linder & Cantrell (2001) and others (e.g. Magretta, 2002; Mansfield & Fourie, 2004; Seddon et al., 2004;), argue that strategy and business models are two distinct and complementary tools. Accordingly, the business model is the company's "logic for making money in the current business environment". Strategy relates to the company's overarching aspirations and position in the industry. The opposite view is presented by e.g. Shafer et al. (2005), who argue that it is difficult to separate strategy from the business model, and thus define the business model as a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network.

As noted earlier, the business model concept has been approached from a number of different perspectives, and, hence, not only is the definition unclear, but also several alternative models exist consisting of a variety of components. We will examine this further in the next section.

2.2.1.2 Business Model Components

In the previous section we introduced the diversity of definitions of the business model. To sum up, the definitions differ in perspective and viewpoint and no common definition has yet been accepted by the business community (Shafer et al., 2005). In addition, the various definitions envelop a range of business model components. In the following section we give some examples of these business model components, as they are essential to the business model proposal presented later in the thesis.

To Hedman & Kalling (2003) the business model encompasses several components at multiple levels. The different levels include the market, the offering, activities, company resources and organization. Components at each of these levels include for example customers and competition (market level), pricing and costs (offering level), human and physical resources (resource level). In addition, Hedman & Kalling’s account of the business model shows the process of how internal factors are transformed into resources and further into products and offerings and into the market through activities and structure. Hence the components of the business model are closely related to and integrated with concepts drawn from the theories of I/O and RBV which will be discussed later in the chapter.

Shafer et al. (2005) also include several components in their definition of a business model as illustrated in figure 2.1 below. The first term in the model ‘strategic choices’, reflects the choices that have been made in the organization. Moreover, the terms ‘creating and capturing value’ is argued to be fundamental functions that all organizations have to perform in order to differentiate themselves from competitors and thus be successful. In addition, firm specific core competencies, capabilities, and positional advantages can serve as a unique way to differentiate from competition. Furthermore, the authors argue that these functions have to be seen in the context they occur, namely within a ‘value network’ where unique relationships are of great importance and thus an essential component of a business model.

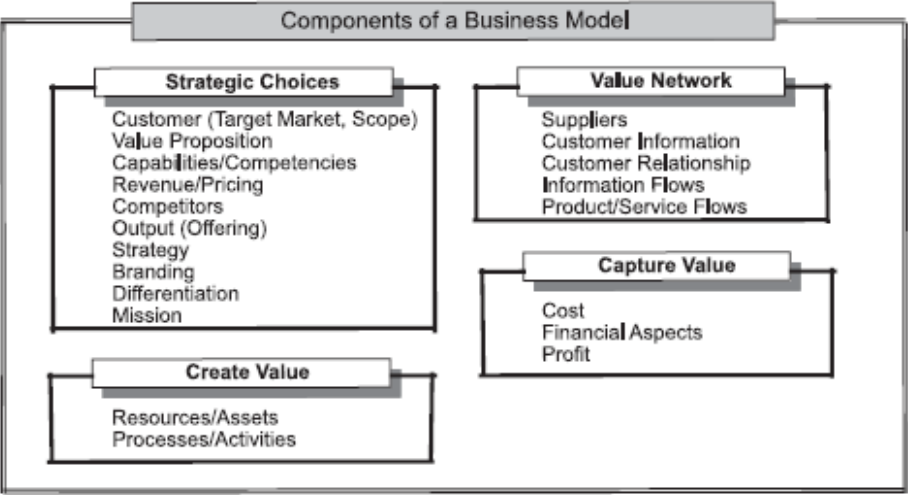


Figure 2.1: The components of a business model

Source: Shafer et al. (2005)

Whereas Shafer et al. (2005) emphasize the importance of value creation and value capture, Hedman & Kalling (2003) focus on processes and activities as well as input from the factor market. However, they agree on the importance of value network, where the supply chain and partner network are argued to be critical components of a business model (Shafer et al., 2005; Hedman & Kalling, 2003).

An alternative perspective is presented by Chesbrough (2007b) who argues that companies need to open their business models. The way to do this is by using outside ideas and technologies in internal product development and by allowing inside intellectual property to be commercialized externally. Accordingly, a business model of open innovation leads to cost and time savings. The component 'costs' is argued to be important since it is no longer merely internally developed, but also externally developed.

Many different components are presented in the business model literature, and the components mentioned above are merely a sample. In our initial rough list of 55 articles, across 23 articles where business model components are listed, 39 different components were identified. In table 2.2, we list the components that the authors, applied in this thesis, include in their business model proposal.

2.2.2 Issues Raised in Relation to Competitive Advantage

This section of the review takes a closer look at the issues raised in the business model literature, which can be said to have a specific relation to competitive advantage. We find that there is an active discussion in the business model literature as it concerns the distinction from or integration with the concept of strategy in general and with the perspectives of I/O and RBV in particular. Also, many authors are concerned with the question of what makes a business model successful and how business models can help firms outperform competition. These two topics, i.e. the relation with strategy and the question of successfulness, are the issues we include as it pertains to competitive advantage.

2.2.2.1 Business Model and Strategy

“Today, “business model” and “strategy” are among the most sloppily used terms in business; they are often stretched to mean everything – and end up meaning nothing.” (Magretta, 2002, p. 92)

In Osterwalder & Pigneur’s (2005) account of business model literature they find that the debate about the differences between strategy and business models reveals widely differing opinions. Several authors who write within this field do not take account of the relation between “business model” and “strategy” and even use the terms interchangeably. Nevertheless, the authors who do explicitly deal with the relation between the business model and strategy can be divided into two groups: Those who see a relation, yet a clear separation or distinction between the two concepts, and those who might be said to support Hedman & Kalling’s (2003) notion that the business model unites the finer aspects of strategy. These views are presented in the following with an initial account of the general relation between the business model and strategy and then by digging deeper into the views on I/O and RBV offered by the business model literature.

In their review of the existing literature, Seddon et al. (2004) find several overlapping definitions of “business model” and “strategy” and are frustrated to admit; “we don’t clearly understand the differences between these terms.” (p. 428). They start by asking the question: Which of the following diagrams (which illustrate the possible overlap between the two concepts) is more correct?

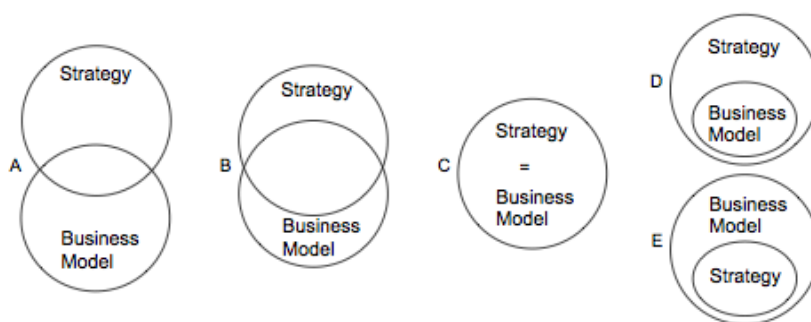


Figure 2.2: Possible Overlap Between the Concepts “Strategy” and “Business Model”

Source: Seddon et al. (2004)

They then make the case for viewing a business model as an abstraction of strategy:

“A business model outlines the essential details of a firm’s value proposition for its various stakeholders and the activity system the firm uses to create and deliver value to its customers. If Porter [1996, 2001] is used to define strategy, a business model may be defined as an abstract representation of some aspect of a firm’s strategy. However, unlike strategy, business models do not consider a firm’s competitive positioning.” (Seddon et al., 2004, p. 429)

Furthermore they conclude that this view is consistent with the current literature in the field, e.g. Magretta (2002), Linder & Cantrell (2000). Hence, Magretta (2002) also considers competition to be strategy’s job. The business model is not the same as a strategy, she argues and the dimension of competition is exactly what separates the two. The business model can be identical for several firms, but they will need a strategy to differentiate themselves in terms of customers, markets, products and services as well as value creation. She offers the example of Wal-Mart which operates a widely used business model (discount retailing) but has differentiated itself from the start by choosing specific locations, specific brands and specific processes within the areas of purchasing, logistics, and information management. It is the firm’s strategy in this respect, the author concludes, that sets Wal-Mart apart from competitors.

Shafer et al. (2005) also explicitly consider the business model as a concept that differs from that of strategy. While admitting that it is not a trivial task to define “strategy”, they summarize the field as made up by contributors ranging from Henry Mintzberg over leading strategist Michael Porter to management guru Peter Drucker. Although these contributors differ widely in perspective, the authors argue that there is a common element which is: Making choices. The business model, on the other hand, is a reflection of those choices and their operating implications. Hence, it can be used as an analytical tool to test and validate the choices.

Zott & Amit (2008) suggest that the business model is a relatively new concept within the strategy literature. In their article on the fit between product market strategy and business model, they coin the business model as a valid and distinct concept. The business model as a source of value can help explain why some firms outperform others, and its rationale for value creation and appropriation differs from that of a firm’s product market strategy. The concepts

are complements, however, rather than substitutes, and the authors find significant effects on firm performance when business models interact with product market strategy.

Views on I/O and the RBV

While most authors applied in this thesis refer to and draw on work written by Porter and/or authors within the tradition of the RBV (e.g. Betz, 2002; Chesbrough & Rosenbloom, 2002; Dubosson-Torbay et al., 2002; Mansfield & Fourie, 2004; Hayes & Finnegan, 2005; Morris et al., 2005), few explicitly deal with the theoretical linkages between the business model and the two theoretical perspectives of I/O and the RBV. In the following, we present the views of those who do, as the issue is connected to creating and sustaining competitive advantage.

Hedman & Kalling (2003) have an extensive discussion of the relationship between the business model concept and the strategic perspectives of I/O and the RBV. The authors tie the concept of the business model directly to the RBV but includes Porter's conception of strategy as well. Their business model proposal encompasses Porter's value chain, generic strategy choices, five forces, together with a specific resource level and a longitudinal dimension. Hence, the authors introduce the business model as a promising integrator of disparate views on strategy and argue that strategy research covers many if not all of the theoretical components included in the business model concept. In their review of the strategy theory (in the context of this thesis our focus is limited to comments on I/O and the RBV) Hedman & Kalling note that "the strategy field is fragmented and there is no such thing as *one* strategy" (Hedman & Kalling, 2003, p. 51). But even if the strategy concept, in theory, can mean whatever phenomenon subjectively is attached to it (e.g. industry position, product range, resource-bases, etc.), the authors argue that it is possible to integrate relevant components into one model. They take what they view as a set of valuable concepts from different strategic perspectives and offer it as their business model proposal. Hence, the business model is in fact a strategy model and it unites "the finer aspects of strategy, such as resource-bases, activities, structure, products, and external factors" (Hedman & Kalling, 2003, p. 49). The authors also claim that what strategists still argue about is what makes companies successful: Internal resources (Barney, 1991), value chain reconfiguration (Porter, 1985), or generic strategy (Porter, 1980).

Other authors who explicitly deal with the interaction between the I/O perspective and the RBV and their relation to the business model are Seddon et al. (2004). As discussed earlier in

this part of the chapter, Seddon et al. view the business model as an abstraction of strategy, and strategy, they argue, contain elements of both I/O and the RBV. While recognizing that there are several conceptualizations of strategy, the authors choose to work with what they call “the Harvard school’s latest conceptualization of strategy”, represented by Porter’s contribution to the literature in 1996 and 2001. However, both I/O and the RBV have strongly influenced this conceptualization, and the authors show this in a model which describes the evolution of the Harvard school’s thinking on strategy. According to the authors, Porter’s conceptualization is a mutation of the different perspectives and models from 1996 and 2001, which is indicated by arrows 1a/b and 2a/b in the figure below.

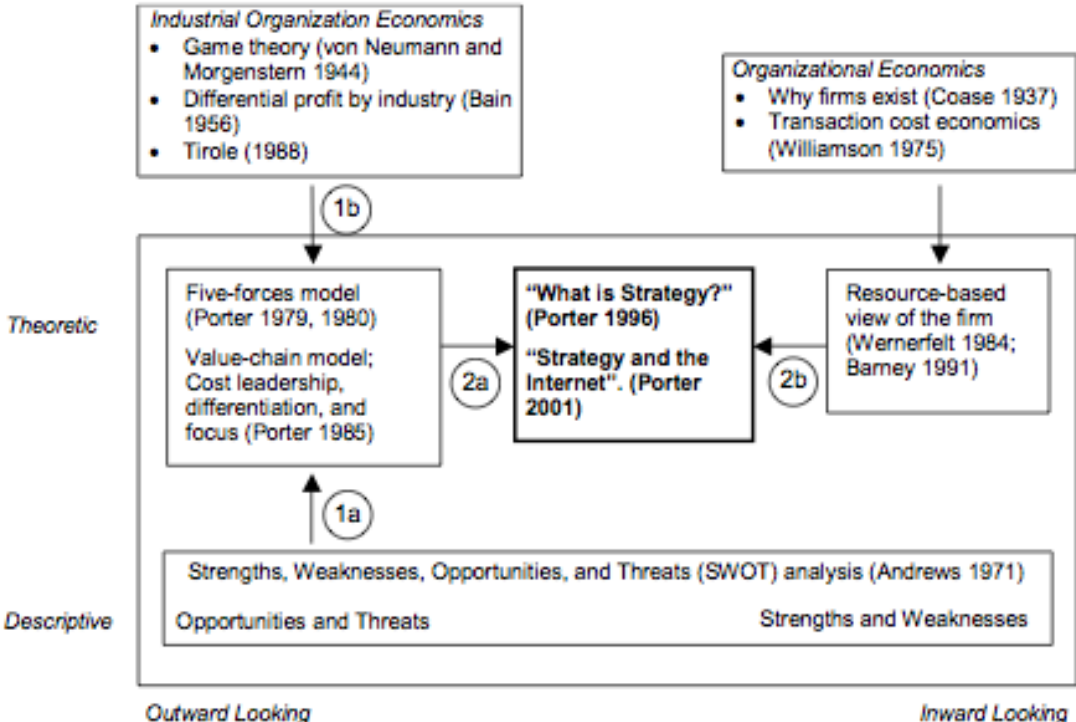


Figure 2.3: Evolution of “Harvard School” Thinking on Strategy

Source: Seddon et al., 2004: 431, figure 3

Schweizer (2005) argues that the RBV is the underlying foundation for his typology of business models. On top of the RBV lie other strategic perspectives, e.g. the value chain and strategic network theory, which also influence the business model configuration. Schweizer’s rationale for placing the RBV as the underlying foundation for his configuration of business models is that it is necessary to identify and develop resources and capabilities which are crucial to sustained competitive advantage (Schweizer, 2005). According to the author, the RBV offers two distinct contributions in this regard: First, the value of the business model increases as the bundle of resources and capabilities it comprises becomes more and more

difficult to imitate, less transferable and more complementary. Second, a firm's existing kind of capability or core competence allows for decision on the type of business model best suited in a given competitive situation.

Amit & Zott (2001) study the sources of value creation in e-business and to this purpose they explore the sources of value creation in entrepreneurship and strategic management literature. Specifically, the authors draw on the theoretical views of Porter's value chain, Schumpeter's creative destruction, the RBV, strategic networks and transaction costs economics. Their review of theory and analysis of e-business lead Amit & Zott to propose the following definition of a business model:

“A business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities.” (Amit & Zott, 2001, p. 511)

This definition draws on all the theories mentioned above and at the same time, it constitutes the business model as a new unit of analysis. This is a way of integrating five theoretical approaches, which otherwise work with distinct units of analysis, i.e. activities, the firm/entrepreneur, resources and capabilities, networks, and transactions (Amit & Zott, 2001).

2.2.2.3 Business Model Successfulness

Apparently, all authors writing within the domain of business model literature find it necessary for a firm to have a business model, or argue that even if managers cannot express it in words, all firms in fact do have a business model.

But what kind of business model should the firm adopt? What kind of business model leads to success, or in the terminology of this thesis: what kind of business model leads to sustained competitive advantage? Several authors, though far from each contributor to the field, explicitly touch on this subject - but from varying perspectives. We will outline these perspectives below and we take the liberty of dealing with them under the general term of “successfulness”, although we cannot say if this abstraction is necessarily true to the intentions of all the authors.

“How do companies succeed?” ask Linder & Cantrell (2000) and answer, “They choose an effective business model and execute it superbly. And then they renew it when competitors

threaten distinctiveness. According to the authors, there is no guarantee for financial success, however, there are three characteristics of a successful business model: It offers unique value, it is hard to imitate, and it is grounded in reality (Linder & Cantrell, 2001).

Walters (2004) also mentions specific attributes of the business model, which the firm should focus on. These five attributes are: Cash flow, return on investment (ROI), distributed assets (low capital intensity), core assets and distinctive capabilities and finally the firm's positioning in the industry value chain.

Other authors define specific and/or generic business models and discuss which entire model is the most successful. Zott & Amit (2007) find that the so-called novelty-centered business model, in which a firm's business model either creates a new market or innovates transactions in existing markets, matters to the performance of firms. In a later article they couple this specific business model with product market strategy, and argue that the novelty-centered business model combined with differentiation, cost leadership, or early market entry enhance firm performance (Zott & Amit, 2008).

Schweizer (2005) draws two conclusions about which of three business models are the most successful. The first one is that the models called the Layer Player Model, in which a firm specializes in one crucial and value-adding step of an industry's value chain, and the Market Maker Model, in which firms use informational advantages to create an entire new layer in the value chain, can be profitable for a few companies in a specific industry. However, the models also run enormous risks if competitors catch up, because they are based on competence-enhancing technology in combination with either legal protection or tacit/implicit knowledge, which in effect function as strong appropriability regimes. Therefore, as the second conclusion, the model called the Orchestrator Model, in which a firm focuses on one or a few steps of the value chain while outsourcing and coordinating others, can have the best long-term potential and the highest probability of becoming a dominant business model design.

Open business models where firms actively search for and exploit outside ideas and in turn allow unused internal technology to flow to the outside for other firms to benefit from are what enables an organization to better create and capture value (Chesbrough, 2007b). Furthermore, thinking of the business model in stages can help managers improve a specific

business model, Chesbrough argues (2007a). He shapes an entire Business Model Framework (BMF), which sequences possible business models from basic and not very valuable models to advanced and very valuable models. The highest achievement is a level 5 and 6 model, where the firm integrates its innovation process with the business model and where key suppliers and customers are business partners with whom the firm may share both technical and business risks. However, even if firms should reach these levels where the business model is likely to be very profitable and hard to imitate, no great business model lasts forever, the author argues (Chesbrough, 2007a).

Reshaping a business model can be characterized as a learning process and facilitates mappings and this may contribute importantly to success (Chesbrough & Rosenbloom, 2002). It is also this process of continuing business model innovation, Mitchell & Coles (2003) argue, that provides a way to outperform competition. Top performers frequently make fundamental improvements of their business models and most effective firms shift models every two to four years, according to the authors. These firms combine ongoing, effective strategies with business model innovation on a regular basis.

Linder & Cantrell (2000) also propose that firms should master the ability to change. They argue that in order for firms to prosper it is important to experiment with new business models (Linder & Cantrell, 2002). The best way to do this is via the organizational mindset as opposed to changing organizational structure, and this “mindset”, the authors argue, equals the firm’s working business model. Firms that learn to manage different mindsets instead of different organizational blocks, can reap big payoffs as they avoid the traumas that can be caused by repeated structural changes.

Davenport et al. (2006) argue that for firms to compete, they must consistently create and destroy their own business models. This means, the authors explain, that firms must manage a portfolio of multiple business models to avoid a fixation on the existing business model. Also, firms should be able to “unlearn” past successes and strategic mindsets in order to avoid path dependency. It is this process of systematic reinvention that firms should strive for (Davenport et al., 2006).

Morris et al. (2005) distinguishes between generic and unique elements, all entailed in the actual business model. The authors split the business model into three levels and the first

level, which is dubbed the foundation level, contains the essence of the business model and is generic. The next level, the proprietary level, is where applying unique approaches to the foundational components creates sustained advantage. The proprietary level is strategy specific, the authors argue. The last level, the rules level, is also closely linked to the success of the business model, as this is where certain guidelines are ensured. Consistent adherence to these basic principles can distinguish companies with otherwise similar business models (Morris et al., 2005).

Other authors argue that what constitutes a successful business model depends on the situation. Choosing an appropriate business model is based on the context and factors specific to the firm according to Mahadevan (2000). The business model is a contingency model with an optimal mode of operation for a specific situation in a specific market, say Mansfield & Fourie (2004). Kraemer et al. (2000) investigate the case of Dell and propose that this is an illustration of how one business model may have inherent advantages under particular market conditions. Also arguing that it is the context that gives the business model meaning are Chaharbaghi et al. (2003). They propose that a change of context requires a change of business model. Firms can increase the possibility of “surviving and thriving” by creating their own formulas for success. The most effective tool to do this is not the business model itself, but by working with a meta-model and recognizing the relationship between the meta and micro level (Chaharbaghi et al., 2003).

In the next section we summarize all the contributions to the business model literature reviewed for use in this study. The contributions are gathered in table 2.2 below, which includes a summary of all the issues treated in the literature review as it relates to the authors who deliver the primary contributions to the theoretical framework of this thesis. In the last part of this chapter, which follows table 2.2, we conclude on this part of chapter 2 and answer research question 2.

2.2.3 Theoretical Overview of Business Model literature

Author	Title	Year	Journal	Business Model Definition	Business model components	Business Model Successfulness	Business Model and Strategy	Views on I/O and the RBV
AMIT, R. and ZOTT, C.	Value Creation in E-Business	2001	<i>Strategic Management Journal</i>	A business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities.	Ressources/Assets, Capabilities/Competencies, Information flows, Output (offerings), Product/service flows, Business opportunities, Create value, Transaction content, Transaction governance, Transaction structure	N/a	N/a	I/O and the RBV are theoretical views on value creation, which (amongst others) can be integrated in the business model. In this way it becomes possible to conduct analysis in spite of the perspectives' otherwise distinct units of analysis, and to secure that important insights from each perspective are not lost.
CHAHAR-BAGHI, K., FENDT, C. and WILLIS, R.	Meaning, legitimacy and impact of business models in fast-moving environments	2003	<i>Management Decision</i>	Business models are a representation of management thinking and practices that help businesses see, understand and run their activities in a distinct and specific way. While specific business models are built to describe particular business activities, the meta-model provides the underlying blueprint from which these models are developed.	Way of thinking, operational system, capacity for value generation	Context gives the business model meaning. Firms can increase the possibility of surviving and thriving by creating their own formula for success. An effective tool to do this is not the business model itself but the recognition of a relation between a meta and micro level.	N/a	N/a
CHES-BROUGH, H.	Business model innovation: it's not just about technology anymore	2007a	<i>Strategy & Leadership</i>	See Chesbrough & Rosenbloom (2002) in this table	Value network (Suppliers/partners), Customer (target market, scope), Value proposition, Revenue/Pricing, Cost, Strategy, Sale, Innovation	Highest achievement is when the firm integrates its innovation process with the business model and when key suppliers and customers are business partners who share the business risks.	N/a	N/a

CHES-BROUGH, H.W	Why Companies Should Have Open Business Models	2007b	<i>MIT Sloan Management Review</i>	A business model performs two important functions: It creates value, and it captures a portion of that value. The first requires the definition of a series of value-adding activities. The second requires the establishing of a unique resource, asset or position within that series of activities in which the firm enjoys a competitive advantage. Open business models enable an organization to be more effective in creating and capturing value by leveraging more ideas via the inclusion of external concepts and the utilization of assets, resources or position in other companies' businesses.		Open business models lead to enhanced value creation and capture. Firms should actively search for and exploit outside ideas and in turn allow unused internal technology to flow outside.	N/a	N/a
CHES-BROUGH, H. and ROSEN-BLOOM, R.S.	The role of the business model in capturing value from innovation: evidence from Xerox Corporation's technology spin-off companies	2002	<i>Industrial & Corporate Change</i>	A business model is defined by six attributes: Articulation of the value proposition; Identification of the market segment; Definition of the value chain; Estimation of cost structure and profit potential; Description of firm positioning within the value network; and formulation of competitive strategy.		Reshaping the business model is a learning process which facilitate mappings that may contribute importantly to success.	The business model and strategy are different concepts. The business model focuses on value creation and assumes that knowledge is cognitively limited and biased. Strategy focuses on value capture and sustainability as well as competitive threats. It is value for shareholders that strategy is concerned with as opposed to value for the business.	N/a
DAVENPORT, T.H., LEIBOLD, M. and VOELPEL, S.	Strategic management in the innovation economy: strategy approaches and tools for dynamic innovation capabilities	2006	<i>Book</i>	The "way of doing business". A business model is a firm's entire system for creating and providing value to customers and earning a profit from that activity as well as benefit its broader stakeholders.	Value network (Suppliers/partners), Value proposition, Strategy, Customer, Capabilities/Competencies, Processes/Activities, Economics, Management, Technology, Legal issues	In order to compete, firms must manage a portfolio of business models and consistently create and destroy them via a process of systematic reinvention.	N/a	N/a

HEDMAN, J. and KALLING, T.	The business model concept: theoretical underpinnings and empirical illustrations	2003	<i>European Journal of Information Systems</i>	The business model is a strategy model which unites the finer aspects of strategy, i.e. resource-bases, activities, structure, products, and external factors.	Value network (Suppliers/partners), Customer (target market, scope), Ressources/Assets, Value proposition, Capabilities/Competencies, Processes/activities, Revenue/Pricing, Competitors, Cost, Output (offerings), Strategy, Customer relationship, Differentiation, Financial aspects, Culture, Management	N/a	The business model integrates different strategic perspectives and encompasses elements from Porter, the RBV and the strategy process perspective.	I/O and the RBV (and the strategy process perspective) can be integrated via the business model which is also shown in an empirical example. I/O and RBV are in focus because both perspectives are interested in competitive advantage. In spite of the many existing strategy perspectives it is possible to integrate relevant components in one model.
LINDER, J.C. and CANTRELL, S.	Changing Business Models: Surveying the Landscape	2000	<i>Accenture Institute for Strategic Change</i>	A business model is also known as an "operating business model" and it is defined as the organization's logic for creating value. It explains how an enterprise makes money and a good business model highlights the distinctive activities and approaches that enable the firm to succeed.	Value network (Suppliers/partners), Value proposition, Customer (target market, scope), Ressources/Assets, Revenue/Pricing, Create value, Economics, Customer relationship.	Companies succeed when they choose an effective business model and execute it superbly.	Existing strategic frameworks are not comprehensive enough to describe the wide variety of business model choices.	N/a
LINDER, J.C. and CANTRELL, S.	Five business-model myths that hold companies back	2001	<i>Strategy & Leadership</i>	The business model is the company's logic for making money in it's current business environment.		A successful business model has three characteristics: It offers unique value, it is hard to imitate, and it is grounded in reality.	N/a	N/a
LINDER, J.C. and CANTRELL, S.	It's All in the Mind(set)	2002	<i>Across the Board</i>	Business models are organizational mindsets.		Firms that manage different mindsets in the experimentation with new business models can reap big payoffs.	N/a	N/a
MAGRETTA, J.	Why Business Models Matter	2002	<i>Harvard business review</i>	The business model as a system is a description of how the pieces of a business fit together. However, it does not deal with competition.	Value proposition, Customer (target market, scope), Cost, Economics, Profit	The business model does not make a firm unique - strategy does.	The business model is distinct from strategy. It can be identical for several firms while the firm's strategy is what sets the firm apart from competitors. Competition is the dimension which separates the two concepts from each other.	N/a

MAHADEVAN, B.	Business Models for Internet-Based E-Commerce: AN ANATOMY	2000	<i>California management review</i>	A business model is a unique blend of three streams that are critical to the business. These include the value stream for the business partners and the buyers, the revenue stream, and the logistical stream.	Value network (Suppliers/partners), Value proposition, Revenue/Pricing, Product/service flows	The choice of an appropriate business model is based on context and factors specific to the firm.	N/a	N/a
MANSFIELD, G.M. and FOURIE, L.C.H.	Strategy and business models -- strange bedfellows? A case for convergence and its evolution into strategic architecture	2004	<i>South African Journal of Business Management</i>	The business model is a contingency model and it describes linkages between firm resources, functions, and environment.	Value network (Suppliers/partners), Product/service flows, Information flows	The business model has an optimal mode of operation for a specific situation in a specific market.	Business models identify other factors than strategy. Sustained competitive advantage is the concern of strategy, which concentrates on the firm's relationship with the environment. The business model focuses on the customer as a source of value creation.	The RBV perspective begins to parallel that of the business model: it is value creation with resources and capabilities. Porter and RBV are not mutually exclusive.
MITCHELL, D. and COLES, C.	The ultimate competitive advantage of continuing business model innovation	2003	<i>Journal of Business Strategy</i>	The business model is a combination of the elements involved in providing customers and end users with products and services, i.e. the "who, what, when, why, where, how, and how much".	Value network (Suppliers/partners), Value proposition, Customer (target market, scope), Resources/Assets, Capabilities/Competencies, Revenue/Pricing, Processes/activities, Output (offerings), Product/service flows, Cost	N/a	N/a	N/a
MITCHELL, D.W. and COLES, C.B.	Business model innovation breakthrough moves	2004a	<i>Journal of Business Strategy</i>	ibid.		N/a	N/a	N/a
MITCHELL, D.W. and COLES, C.B.	Establishing a continuing business model innovation process	2004b	<i>Journal of Business Strategy</i>	ibid.		Continuing business model innovation is a way to outperform competition. Top performers improve the fundamentals of their business model every two to four years.	N/a	N/a

MORRIS, M., SCHINDEHUTTE, M. and ALLEN, J.	The entrepreneur's business model: toward a unified perspective	2005	<i>Journal of Business Research</i>	A business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustained competitive advantage in defined markets.	Value network (Suppliers/partners), Strategy, Capabilities/Competencies, Output (offerings), Financial aspects, Create value, Economics, Competitors	Applying unique approaches to the foundational components of the business model creates sustainable advantage. Consistent adherence to basic guidelines on the rules level can distinguish companies with otherwise similar business models.	Strategic decision variables are part of the business model which is a representation of strategy, architecture, and economics work to solve the challenge of sustained competitive advantage.	N/a
SCHWEIZER, L.	Concept and evolution of business models	2005	<i>Journal of General Management</i>	Business models are defined along three dimensions: Value chain constellation, power of innovators vs. asset owners, and total revenue potential. A typology is developed consisting of four different configurations of specific business models with each their definition.	Value network (Suppliers/partners), Strategy, Innovation	Specializing in one crucial step of the value-chain (Layer Player) or using information advantages to create a new layer in the value chain (Market Maker) can be profitable for a few companies in a specific industry. However, in the long run the best potential for success lies in focusing on few steps of the value chain while outsourcing and coordinating the remaining (Orchestrator).	N/a	The RBV is the underlying foundation for the business model. On top of this lie other strategic contributions among which are the value chain which also influence the business model configuration. RBV, however, is foundational because it is necessary to identify and develop resources and capabilities in order to create sustained competitive advantage.
SEDDON, P.B., LEWIS, G.P., FREEMAN, P. and SHANKS, G.	The Case for Viewing Business Models as Abstractions of Strategy	2004	<i>Communications of AIS</i>	A business model outlines the essential details of a firm's value proposition for its various stakeholders and the activity system the firm uses to create and deliver value to its customers. If Porter [1996, 2001] is used to define strategy, a business model may be defined as an abstract representation of some aspect of a firm's strategy. However, unlike strategy, business models do not consider competition.	Value proposition, Strategy, Create value	N/a	The business model is an abstraction of strategy that suppresses irrelevant details and capture certain aspects of the firm's strategy. Many firms can have the same business model, but strategy is particular to the individual firm. This is so, because unlike strategy, the business model does not consider competitive positioning.	The Harvard School's latest conceptualization of strategy, which is represented by Porter's 1996 and 2001 contributions, is a mutation of different perspectives. The RBV and Porter's five-forces, value chain and generic strategy together with the SWOT analysis has had the greatest impact.

SHAFER, S.M., SMITH, H.J. and LINDER, J.C.	The power of business models	2005	<i>Business horizons</i>	A business model is a reflection of a firm's strategic choices and it facilitates analysis, testing, and validation of these choices.	Value proposition, Strategy, Customer (target market, scope), Ressources/Assets, Capabilities/Competencies, Revenue/Pricing, Processes/activities, Output (offerings), Financial aspects, Product/service flows, Cost, Create value, Customer relationship, Competitors, Differentiation, Branding, Mission	The propability of long-term success is increased when the organization tests its strategic options formally and rigorously through business models.	The business model is a concept which differs from strategy. Strategy is not a trivial task to define, but has a common element across definitions: Making choices. The business model is an analytical tool which reflects the choices made.	N/a
ZOTT, C. and AMIT, R.	Business Model Design and the Performance of Entrepreneurial Firms	2007	<i>Organization Science</i>	The business model is defined as in Amit & Zott, 2001 (see top of this table). Further, a business model elucidates how an organization is linked to external stakeholders, and how it engages in economic exchanges with them to create value for all exchange partners. Business model design is defined as the design of an organizations boundary-spanning transactions.	Ressources/Assets, Capabilities/Competencies, Information flows, Output (offerings), Product/service flows, Business opportunities, Create value, Transaction content, Transaction governance, Transaction structure	A business model that creates a new market or innovates transactions in existing markets, i.e. a novelty-centered business model, is most succesful.	N/a	N/a
ZOTT, C. and AMIT, R.	The fit between product market strategy and business model: implications for firm performance	2008	<i>Strategic Management Journal</i>	The business model is defined as in Amit & Zott, 2001 (see top of this table). Further, it represents a conceptualization of the pattern of transactional links between the firm and its exchange partners. Business models can be characterized by their design themes, which capture common threads orchestrating and connecting the firm's transactions with external parties.		The novelty-centered business model combined with differentiation, cost leadership, or early market entry enhances firm performance.	The business model and strategy are complements. The business model is a new concept within the strategy literature and has significant effects on firm performance when interacting with strategy.	N/a

Table 2.2 Theoretical overview of Business Model literature

2.2.4 Conclusion part II

In this concluding section of the preceding literature review, we sum up the contributions that the business model literature offers to the discussion about creating and sustaining competitive advantage.

It seems evident, that many authors within this literature domain take their point of departure in a definition of the business model that includes the so-called value network, or what Davenport et al. (2006) call an entire system for creating and providing consistent value. This system includes not only the firm itself, but to a large extent the collaboration with partners, suppliers, and customers. Important elements of the definitions presented are both the firm's positioning within the value network, but also competitive positioning, i.e. strategy in the "Porterian" sense, and the linkages between firm resources and the environments. Hence, it can be concluded that the business model is indeed a strategy model which unites the finer aspects of strategy as proposed by Hedman & Kalling (2003).

Also, most accounts of the business model include the notion of components, which, according to Magretta (2002) is what permits the testing and modeling of a business. Working with components and subcomponents makes it possible to pull apart various aspects of the firm and take a closer look at fundamental functions that have to be performed to achieve differentiation from competition and successfulness. Components can, depending on the author, cover a range of elements spanning from resources and assets over revenue and pricing to costs and other financial aspects.

In terms of the relation between the business model and strategy, the literature suggests that viewing these concepts as complements can have significant effects on firm performance. Hence, several authors support the conceptualization of the business model as a promising integrator of disparate views on strategy. This entails business model proposals, which include Porter's value chain etc. as well as the RBV. In this way, valuable concepts from different strategic perspectives are integrated into what Amit & Zott (2001) call a new unit of analysis, i.e. the business model, which ensures that important insights from different theoretical approaches are not lost.

Finally, the business model literature also contributes with more specific views on what constitutes competitive advantage. Some argue that a successful business model offers unique value, is hard to imitate, and is grounded in reality. Others argue that business models can be identical for several firms, because it is the strategy that makes a firm unique and differentiates it from competitors. Moreover, some authors argue that what constitutes a successful business model depends on the situation. Others develop specific typologies of business models and discuss which ones are the most successful. These are for example business models that create new markets, innovate transactions in existing markets, introduce an entire new layer in the value chain or focus on few steps of the value chain and outsource others. Openness towards ideas and technology from the outside also has effects on performance, just as the willingness to let internal resources flow to the outside of the firm. And what is also important is a dynamic attitude entailing the constant experimentation with the firm's business model to ensure that fundamental improvements are installed whenever competition comes too close.

Chapter 3: Business Model Proposition

The purpose of this chapter is to present our business model proposition and answer research question 3:

Based on the theoretical review, how can traditional views on competitive advantage be integrated with contributions from the business model literature into a business model proposition?

First, we will discuss the integration of strategy and business model as it is applied in the remainder of the thesis. This discussion is based on the findings made in the theoretical framework in chapter 2 and is completed with a figure showing the integration of strategy and the business model. Hereafter, we will present our business model proposition and argue for the chosen components starting with the contribution from strategy. We then move on to the contributions from the business model literature and argue for the chosen components and how the business model serves as a unit of analysis and an integrator of I/O and the RBV. Finally, we argue for the sustainability of competitive advantage as it depends upon the fit between all the components in the proposition.

3.1 Integration of Strategy and Business Model

In the preceding chapter we have examined the strategic perspectives of I/O and the RBV and we have reviewed literature about the business model concept in order to gain insight on this connection. In the following we will discuss the findings so far which will lead to a figure showing the integration of strategy and business model as they are applied in this thesis. Accordingly, this section forms the basis for the later business model proposition, as it argues for how traditional views on competitive advantage can be integrated with contributions from the business model literature.

Since this thesis operates with a problem statement that deals with both business model and competitive advantage, it is relevant to discuss whether there is a theoretical rationale for doing this. As we mentioned in the introduction of chapter 1, the business model concept arguably has a close relation to the theoretical field of strategy. Equally, the question of creating and sustaining competitive advantage is an issue of strategy and in particular a research topic for the perspectives of I/O and RBV as shown in chapter 2. However, as the business model literature review shows, there are quite differing views on the relation

between the business model and strategy in general and competitive advantage in particular. Seddon et al. (2004) argue that the business model is an abstraction of strategy and that only this view gives the business model concept meaning. According to the authors, one specific feature of the business model is that it does not consider competitive positioning. The consequences of this view are that only strategy differs from firm to firm, whereas the business model can be the same for several firms. Hence, if one follows either Porter's position-based view or the RBV, the business model, in itself, cannot constitute sustained competitive advantage. The view that competition is strategy's job is also supported by Magretta (2002), which also leads to the conclusion that it is strategy, not the business model, which sets a firm apart from its competitors. These authors, in effect, see a relation yet a clear separation between the business model and strategy. This is also the case for other contributors to the business model literature.

However, there is another strand of authors whose views support the notion that the business model can play a role when discussing sustained competitive advantage. Hedman & Kalling (2003) view the business model as an integrator of I/O and the RBV and illustrate this in a model showing that the components of a business model include both perspectives in the sense of resources, value chain, industry positioning and much more. Hence, the business model unites the finer aspects of strategy, the authors argue. Schweizer (2005) shows how he considers the RBV as an underlying foundation for the business model and also credits other strategic perspectives, including the value chain. According to the author, the value of the business model increases as the bundle of resources and capabilities it comprises become difficult to imitate, hard to transfer and more complementary as according to the attributes of competitive advantage in the RBV. Zott & Amit (2008) see the business model as a source of value which can explain why some firms outperform others, and they see the business model and strategy as complements rather than substitutes. They propose the business model as a new unit of analysis which facilitates inclusion of several theoretical approaches, hereunder I/O and the RBV, which otherwise operate with different units of analysis. This leads to a broader perspective and a smaller risk of leaving out aspects not being given due importance.

It is this last view on the relation between the business model and strategy that we choose to employ throughout the remainder of the thesis cf. the figure below.

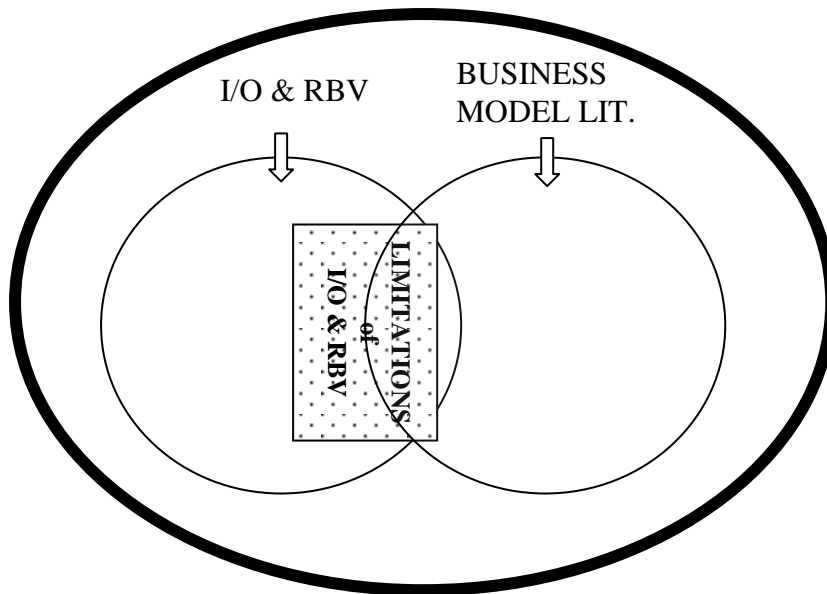


Figure 3.1 Integration of Strategy and Business Model (own illustration inspired by Seddon et. al 2004)

As illustrated in figure 3.1, we view strategy and business model as integrated concepts. Furthermore, we argue that contributions from the business model literature can discharge some of the limitations found within the strategic perspectives of I/O and the RBV. We will discuss this more thoroughly in the following.

We find it clear from the business model literature review that the issue of competitive advantage is a concern for authors whether or not they explicitly recognize the role that the business model plays in this connection. When discerning what makes a business model successful, there is a significant overlap with what is regarded as sustained competitive advantage within both I/O and the RBV. For example, Linder & Cantrell (2001) mention characteristics that equal uniqueness and imperfect imitability, Walters (2004) mentions core assets, distinctive capabilities and industry positioning, and Zott & Amit (2007) couple market/transaction innovation with industry positioning when discussing business model successfulness. Hence, the notion of successfulness is not solely about having a business model that functions but about having a business model which in effect sets a firm apart from competitors. Therefore, we argue that this allows for an alignment of the successful business model with sustained competitive advantage. However, as much as the literature review gives indications that the successful business model can be likened to competitive advantage as defined by both I/O and the RBV, some attributes may be left out when focusing only on these two strategic perspectives. According to Tidd et al. (2005), core competencies can

become core rigidities in a firm and this view corresponds well with the argument by several authors in the business model literature that the ability to constantly reshape the business model may contribute importantly to success (Chesbrough & Rosenbloom, 2002). Mitchell & Coles (2003) call this “continuing business model innovation” while Davenport et al. (2006) propose that firms must consistently create and destroy their own business models in order to compete. Linder & Cantrell also argue that in order for firms to prosper, it is important to experiment with new business models. The arguments just mentioned indicates that a dynamic view of the business model must also be considered in addition to the “traditional” attributes of sustained competitive advantage as defined by I/O and the RBV. This dynamic view could be in the form of acknowledgement of a need for continuous change and experimentation with the business model as described by the authors just mentioned.

3.2 Proposition

Based on the discussion above, we will now present our business model proposition shown in figure 3.2. We begin by presenting the contribution from strategy and argue for how components from I/O and the RBV make out the foundation for competitive advantage. We then move on to the contribution from the business model literature and argue for the chosen components and how they serve as integrators of the two strategic directions. Finally, we present our hypothesis i.e. that strategic fit between the specific components is needed in order to lead to sustained competitive advantage.

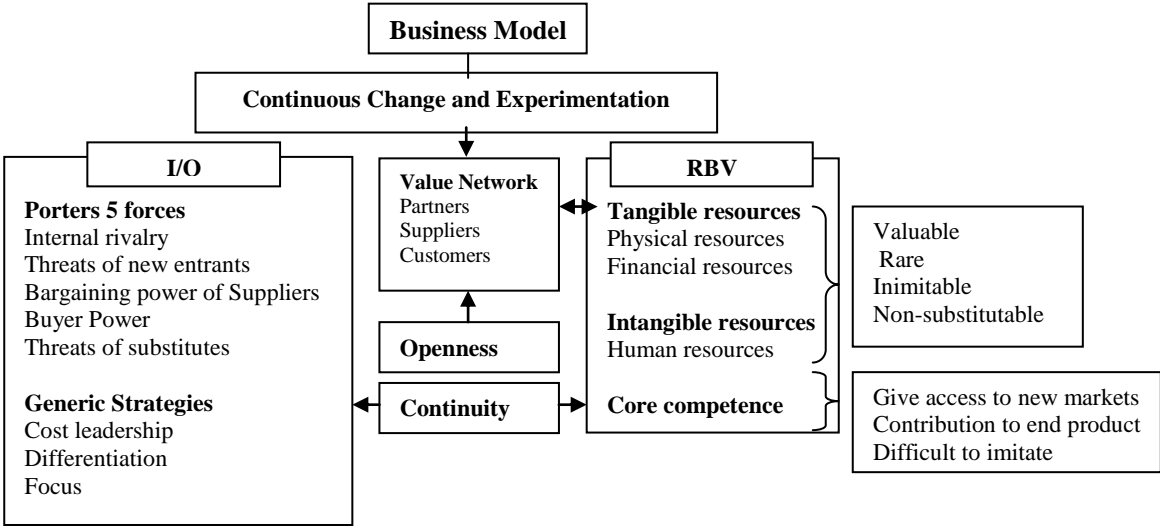


Figure 3.2 Business model proposition (own illustration)

3.2.1 Contribution from Strategy

In the following section, we explain the contributions to the business model proposition originating from the traditional strategic perspectives (see figure 3.3).

As argued in Chapter 2, Part 1, the field of I/O was pioneered by the theories of Michael Porter (1980) where the most dominant paradigm became “The five competitive forces”. As a result, we include Porter’s (1996) view that strategic positioning within an industry is essential and must be considered with a single goal in mind: Superior long-term return on investment (Porter, 2001). Industry attractiveness is a fundamental determinant of a firm’s profitability and can be described by the following five competitive forces as shown in figure 3.3: 1) Internal rivalry; 2) Threats of new entrants; 3) Bargaining power of Suppliers; 4) Buyer Power; 5) Threats of substitutes (Porter, 1985). Accordingly, the structure of the industry strongly influences the competitive rules of the game as well as the strategies potentially available to firms (Teece et al., 1997). As a result, a firm should seek to screen against and exploit the competitive forces in order to obtain and keep high profitability (Porter, 1980).

Within the chosen industry, the firm must deliver greater value or create comparable value at a lower cost (or both) in order to outperform rivals (Porter, 1996). In other words, the firm needs to establish a difference and, furthermore, it needs to be able to preserve this difference. The means to do this is pursuing one of the generic strategies: Cost leadership, differentiation or focus (Porter, 1985). Accordingly, Porter’s generic strategies are included as business model components as Porter (1985) argues that competitive advantage stem from choosing one of them.

From the RBV we include Barney’s notion that a firm is argued to have a sustained competitive advantage when it is implementing a value creating strategy which a current or potential competitor is not implementing at the same time and when these other firms are unable to duplicate the benefits of this strategy (Barney, 1991).

As shown in the business model proposition, we distinguish between tangible and intangible resources, where tangible resources are represented by physical and financial resources and intangible resources are represented by human resources and core competence.

The physical resources consist of the physical technology used in a firm, including a firm's plant and equipment, its geographic location, and its access to raw materials (Barney, 1991). Financial resources include retained earnings, as well as capital from equity holders, bond holders and other external sources (Barney & Wright, 1998).

The human resources include the training, experience, judgment, intelligence, relationships, and insight of individual managers and workers in a firm (Barney, 1991). In addition, the business model proposition includes Barney's four attributes that a resource has to contain in order to have the potential of being a sustained competitive advantage. These attributes are as follows: firstly, it must be valuable, in the sense that it exploits opportunities and/or neutralizes threats in a firm's environment; secondly, it must be rare among a firm's current and potential competition; thirdly, it must be imperfectly imitable and fourthly, there cannot be any strategically equivalent substitutes for this resource that are valuable but neither rare or imperfectly imitable (Barney, 1991). As shown in the business model proposition, these attributes refer to the tangible resources and human resources.

Moreover, given the dynamic environment, it is argued by many researchers (Pringle & Kroll, 1997; Chan et al., 2004,) that intangible knowledge-based resources are more likely to lead to sustained competitive advantage, as tangible resources have been weakened due to globalization and other changes in the economic landscape. This argument is enforced by Schweizer (2005) who argues that a firm's core competence defines the value of the business model as well as allowing the firm to decide what kind of business model is more suited for a given competitive situation. As a result, the business model proposition includes the component core competence and the three criteria it has to live up to in order to lead to sustained competitive advantage. The notion of core competence is defined as: "the collective learning in the organization" (Prahalad & Hamel, 1990). Especially the coordination of production skills and the integration of technologies. In addition, in order for a competence to become a core competence, it has to 1) provide access to more than one market, 2) give a significant contribution to the end product/products and 3) be difficult for competitors to imitate (Hamel & Prahalad, 1994).

On the one hand, the contribution from I/O illustrates the impact of industry structure and shows the need for firms to pursue either a cost leadership, differentiation or focus strategy as the fundamental basis for competitive advantage. On the other hand, the contributions from the RBV show the importance of resources and core competence in order to create a

competitive advantage. In addition, as the bundle of resources which the firm holds becomes more valuable, rare, inimitable and non-substitutable, the value of the business model increases (Schweizer, 2005). Accordingly, each approach is insufficient when applied on its own, as it is the combination of the two views that form the basis for competitive advantage.

As argued earlier, both strategic views contain limitations such as their assumption of static equilibrium without addressing the requirements for continued change and experimentation in order to respond to a rapidly changing environment. Moreover, the RBV only focuses on the difficulties of imitating, substituting or taking away resources rather than on the complementarities or co-specialization of resources (Amit & Schoemaker, 1993). In order to address these theoretical gaps, it is suggested by many researchers (e.g. Voelpel et al., 2004; Chesbrough, 2007a) that firms need to continuously identify, rejuvenate and reinvent valuable resources in order to comply to a dynamic environment.

However, in order to build unique capabilities and competencies, it is not advisable to change strategy often, Porter argues (1996). Accordingly, firms should have a planning horizon of a decade or more in order to avoid “inconsistencies across functions, and organizational dissonance” (Porter, 1996). As a result, we include the component continuity in the business model proposition. This component refers to the generic strategies and the core competence and relates to the demand for stability in the long-term strategic goals of the firm.

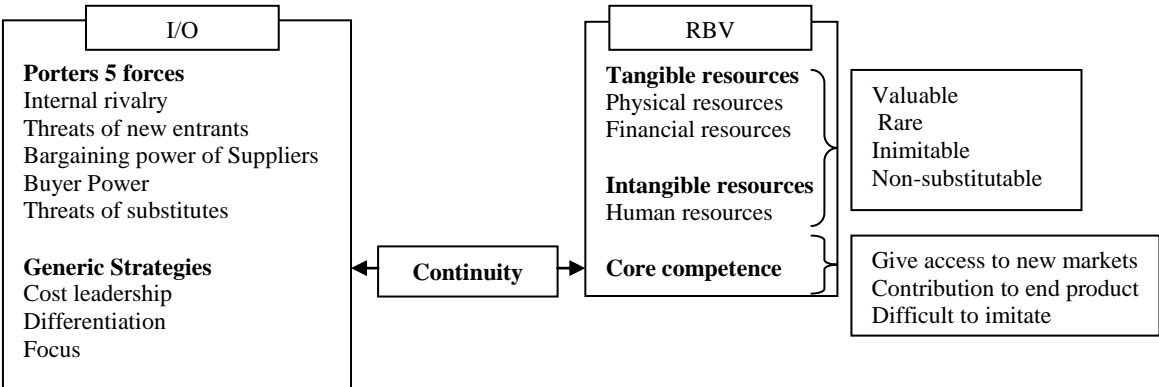


Figure 3.3 Components from Strategy (own illustration)

3.2.2 Contribution from the Business Model literature

We will now move on to the contributions from the business model literature as it makes out the other half of the business model proposition (figure 3.2).

As argued throughout the thesis, the business model literature is concerned with the issue of competitive advantage whether or not the authors explicitly recognize the role that the business model plays in this connection. Moreover, the business model literature shows evidence of how I/O and the RBV can relate and reinforce one another through a value network where unique relationships are made by taking advantage of the internal resources and capabilities in the organization. As argued by Shafer et al. (2005), the value network is of great importance as it can facilitate unique relationships between customers, suppliers and partners. Amit & Zott (2001) further argue that the business model is a crucial source of value creation for the firm and its suppliers, partners, and customers.

In addition, we contend that the argument for the integration of the two theoretical perspectives is supported by the business model literature. Seddon et al. (2004: 431, figure 3) operate with what they call “the Harvard school’s latest conceptualization of strategy”, which in essence is a mutation of the SWOT, the RBV and Porter’s early contributions of the five forces model, the value chain model, and generic strategies, leading to a central element consisting of Porter’s 1996 and 2001 articles as also referred in our argumentation for the theoretical foundation of the business model above. Also to Schweizer (2005) the development of resources or capabilities are crucial in order to perform the activities in the value chain which effectively determine the extent of a firm’s sustained competitive advantage. Finally, we adopt the notion of the business model as a unit of analysis as presented by Amit & Zott (2001). The authors argue for this way of integrating different theoretical perspectives that makes it possible to work with several approaches with otherwise distinct units of analysis. In that way, they argue, it is possible to secure that important insights from each approach are not lost.

As a result, we include the component value network in our business model proposition as it is argued to be a value creating component of a business model (Shafer et al., 2005; Hedman & Kalling, 2003; Chesbrough, 2007a). In addition, value creating activities and competitive advantage, are inseparable because value creating activities can integrate I/O and the RBV as seen in the analysis.

This argument is reinforced by Chesbrough (2007a), who argues that key suppliers and customers are business partners with whom the firm may share both technical and business risks. Accordingly, a business model is likely to be very profitable and hard to imitate when it

exploits outside ideas as opposed to only focusing on internal core competencies and resources as the key to competitive advantage.

This leads us to introduce a dimension of “openness” in the figure. This dimension is related to the tangible resources and connected to the value network and serves as a way to enhance value creation and competitive advantage in accordance with arguments by Chesbrough just referred to.

Moreover, we introduce the component “continuous change and experimentation”, in order to comply with the limitations of I/O and the RBV. This component refers to the value network and should be regarded – together with the openness dimension presented earlier – as the firm’s realization of the risk of core competencies becoming core rigidities (cf. Tidd et al., 2005). This component is the acknowledgement of a dynamic view of the business model; and where the company constantly experiments with new and alternative combinations of their resource base which can lead to innovative or fundamentally different activities, partnerships and/or products and with the purpose of constantly working to create sustained competitive advantage within the chosen strategic path.

As argued by Mitchell & Coles (2003) it can be said that by improving your business model, competitors will either continue to follow your old direction or be overwhelmed and confused by what you are doing. Either way, competitors will be left choking in your dust as you speed off in better direction (Mitchell & Coles, 2003). The importance of change is supported by Hedman & Kalling (2003) who introduce a longitudinal dimension in their business model in order to cover the dynamics of the business model over time.

Furthermore, those authors within the business model literature who argue that a business model cannot be a source of differentiation argue that this is so because a business model does not consider a firm’s competitive position. However, if they accept that the value chain and value creation are central parts of the business model – and they do, cf. Chesbrough, 2007a; Magretta, 2002; Mansfield & Fourie, 2004; Seddon et al., 2004 – we see from the analysis of the integration of I/O and the RBV that these elements, i.e. competitive positioning and value creating activities, are inseparable. Hence, it must be possible, as shown above, to integrate both strategic perspectives in a business model proposition with the purpose of leading to sustained competitive advantage. We say this, however, not arguing that it is the business

model as such that leads to sustained competitive advantage, but that it is possible to integrate the relevant components of sustained competitive advantage into one model, which then serves as a unit of analysis. Hence, competitive advantage becomes the purpose of the business model, and we may argue that this – a purpose – is exactly what has been missing from accounts of the business model concept, in order to give it meaning as a distinct phenomenon.

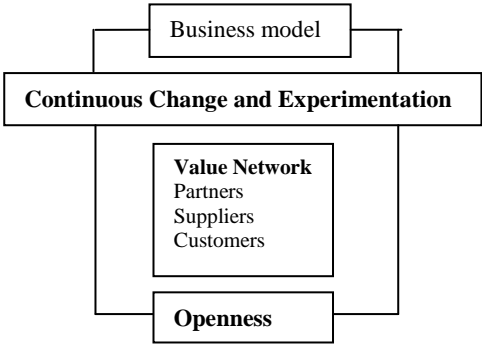


Figure 3.4 contribution from the Business Model literature (own illustration)

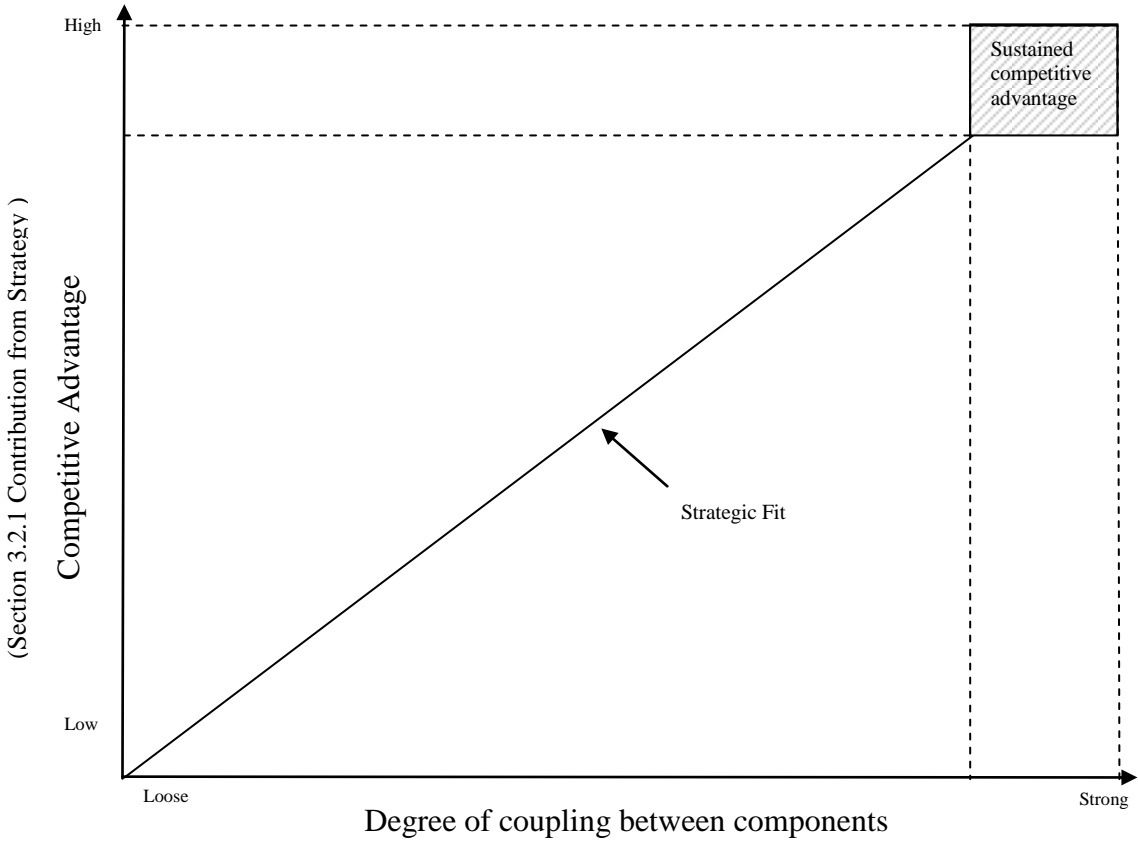
With this business model proposition in place, we will now move on to our hypothesis relating to the sustainability of competitive advantage, which depends upon the fit between strategy and business model.

3.2.3 Integration of section 3.2.1 and section 3.2.2 for Sustained Competitive Advantage

The business model proposition presented in figure 3.2, showed how components from strategy could be integrated with the contribution from the business model literature. Moreover, it was concluded that the business model served as a unit of analysis and an integrator of the two strategic perspectives, I/O and the RBV, which otherwise analyze only the industry/firm activities or the firm as a bundle of resources, respectively. Accordingly, this allowed us to include elements from both strategic perspectives and made the exploration of the business model and its connection with competitive advantage operational without missing important insights from each theoretical standpoint. Distinct from traditional value chain analysis which centres around a single company and serves as a unit of analysis, our business model proposition encompasses multiple firms and their resources and capabilities (Schweizer 2005). Consequently, the unit of analysis has changed from focusing on a single company to focusing on a value network of suppliers, partners and customers (Prahalad and Ramaswamy, 2000 cited in Schweizer, 2005).

However, when creating a wider scope as a unit of analysis than traditional strategic analysis, our business model proposition creates a complexity concerning the question of sustained competitive advantage. Accordingly, the key to sustained competitive advantage is not solely to find in the firm’s generic strategy, internal resources or core competence or in the value network of a firm.

In order to comply with this complexity, we hypothesize that the sustainability of competitive advantage is dependent on the degree of strategic fit. Moreover, the strategic fit is a function of the degree of competitive advantage (represented by section 3.2.1) and the degree of coupling between the components (represented by section 3.2.2).



(Section 3.2.2 Contribution from the Business Model literature)

Chart 3.1 Strategic Fit between Strategy and Business Models (own illustration)

Accordingly, the chart above integrates strategy and business model for sustained competitive advantage. As such, the chart illustrates how a given firm performs based on the strategic fit between the X and Y axis. Accordingly, the contribution from the business model literature is represented by the X axis, where the degree of coupling between the components can vary from loose to strong. Coupling refers to the degree of reinforcement between the components.

Since the components are argued to be related and interdependent, changes in one component influences all the other components. Accordingly, a strong degree of coupling is similar to what Leinward and Mainardi (2010) call the maximum efficiency.

On the Y axis the degree of competitive advantage is illustrated as it can vary from low to high. This degree is dependent upon the accumulated strength of the components from strategy.

In addition, the strategic fit illustrated in the graph can vary depending on how the business model components relate to and reinforce one another, i.e. it is the whole system of activities, not simply a collection of parts (Porter, 1996). Strategic fit is thus central to the sustainability of competitive advantage (Porter, 1996), and cannot be substituted by focusing only on core competencies, critical resources, and key success factors. It is the whole that matters more than any individual part, because competitive advantage grows out of the entire system of activities (Porter, 1996).

Furthermore, strategic fit is fundamental to the sustainability of competitive advantage, since it is harder to imitate a position based on a variety of related and mutually reinforcing activities than it is to replicate single product features or processes (Porter, 1996; 2001). Accordingly, the stronger the strategic fit is, the more sustained is the competitive advantage. This argument is enforced by Porter (1996; 2001), who argues that strategic fit creates superior profitability and makes it harder for competitors to imitate.

In addition, the sustainability of competitive advantage exists when the competitive advantage is high and the degree of coupling between all the components in the business model proposition is strong. As such, a high degree of coupling facilitates the achievement of maximum efficiency as every component reinforces the other ones and supports the underlying strategic purpose of the firm (Leinward and Mainardi, 2010). In addition, a company which is positioned with a sustained competitive advantage is characterized as selling products and services which fits with its “way to play”, i.e. market approach (Leinwand & Mainardi, 2010), as is the case of *Ryanair* which will be shown in chapter 4. Accordingly, when there is a low degree of competitive advantage and a loose degree of coupling, there is no potential for sustained competitive advantage, and the organization should reconsider their business model in order to survive in the long run.

Chapter 4: Ryanair Case Study

This chapter seeks to answer research question 4:

How can the business model proposition be empirically tested in order to confirm or reject our hypothesis of what leads to a firm's sustained competitive advantage?

In order to answer this research question, we use the case of Irish airline *Ryanair*. To begin with, we make a brief description of the case company, where it is argued that *Ryanair* has managed to create and sustain a competitive position for almost two decades. This description thus forms the basis for the testing of our theoretically deduced hypothesis. After this case description we move on to applying our business model proposition on the case company. Finally, we discuss the strategic fit between the components in order to test our hypothesis of what leads to sustained competitive advantage.

4.1 Description of Case Company

In the following the case of *Ryanair* is described in order to make the foundation for the later testing of our hypothesis of what leads to sustained competitive advantage.

4.1.1 Initial efforts as a low-cost airline

Ryanair was founded in 1985 by the Ryan family as an alternative to the high fare duopoly, *Aer Lingus* and *British Airways* (Ryanair.com/da/about). *Ryanair* began their initial flights between Ireland and London with a single aircraft (Ray, 2003) offering tickets for less than half the prices of their competitors *Aer Lingus* and *British Airways*. During the following two years, the company expanded with 17 scheduled routes, leasing 6 jets and launching a business class service and a Frequent Flyer Club. In spite of a large growth in the number of passengers during its first three years in operation, the company suffered great financial problems, and in 1989 the company abandoned the Frequent Flyer Club and the business class service which had turned out to be a failure (Ryanair.com/da/about)

4.1.2 Re-Launching Ryanair as a 'Low-Fares, 'No Frills' Operation

In 1990 *Ryanair* had accumulated a loss of £20 million due to their rapid growth in aircraft, routes and intense price competition. As a consequence, the Ryan family invested further £20 million in the company and copied Southwest Airlines' low fares model. They re-launched *Ryanair* under a new management as Europe's first low fares airline. The new strategy was to offer the lowest fares in every market, high frequency flights, moving to a single aircraft fleet type, scrapping free drinks and expensive meals on board and reducing the lowest fares from

£99 to just £59 return (Ryanair.com/da/about). Over the next decade, Michael O'Leary furthermore eliminated seat-back pockets, blankets and pillows and began charging extra for everything. As Michael O'Leary puts it; "Our trick is: can we shave 30 cents per passenger? When you're serving 30 million passengers, that's an awful lot of money" (McGinn, 2004).

In 1991 the company made a profit for the first time with an audited profit of £293,000 for the year. In 1992 *Ryanair* continued to restructure by cutting back routes and instead increasing the number of jets, flight frequency and lower fares. The following three years the company continued to launch new routes and replace old jets with new aircraft and in 1995 *Ryanair* became the largest passenger airline on the Dublin-London route, thus overtaking *Aer Lingus* and *British Airways* (Ryanair.com/da/about).

Due to the deregulation of the air travel market by the European Union in 1997, *Ryanair* launched its first European routes and became a public company with a successful flotation on the Dublin and NASDAQ (New York) Stock Exchanges. In 1998 *Ryanair* continued to open up new routes in Europe and placed an order of 45 brand new Boeing 737-800 series aircraft with a value of over \$2bn. The year after *Ryanair* received 5 Boeing 737-800 allowing the company to operate with significantly lower seat costs and lower airfares. Moreover, the new aircraft offered better reliability and a better product for the customers (ibid).

In 2000 *Ryanair* launched its website www.Ryanair.com which became Europe's largest booking website. By the end of the year the website was taking 68 % of all ticket sales and 95 % within three years (Ray, 2003). *Ryanair's* website furthermore allowed customers to hire cars, hotels, insurance and rail services.

The following years *Ryanair* continued to expand to European countries and in 2002 *Ryanair* put an end to *Lufthansa's* high fare monopoly, by being the first to introduce low fare flights to Germany. In addition, *Ryanair* made a new order of 125 Boeing B737-800 being the largest order by an Irish airline ever made. Furthermore, *Ryanair* became the No.1 Airline in Europe in customer service due to their punctuality, fewer cancellations and least lost bags (Ryanair.com/da/about).

In 2003 *Ryanair* acquired the loss making airline Buzz from KLM, which gave the company direct access to 11 new French regional airports. The same year the company had launched 73

new routes and carried more than 2 million passengers in one month for the first time. During the next two years *Ryanair* replaced their remaining old aircraft with new B737-800 and became the airline with the youngest fleet in the world. The company continued to expand with new routes and new bases. In 2005 the company had a total of 15 bases throughout Europe and was the most searched for airline in Europe according to a Google survey (ibid). In addition, *Ryanair* introduced a 'no fuel extra guarantee', distinct from their competitors *British Airways*, *Air France* and *Lufthansa* who added extra fuel surcharges depending on current oil prices.

In 2006 *Ryanair* launched a web check-in service, allowing passengers to check-in online. Moreover, the company became the first airline to announce plans for onboard mobile phone use. The same year, *Ryanair* launched gaming and bingo and made a cash offer to purchase *Aer Lingus*. *Ryanair's* growth continued and their competitive position has led the company towards being the most successful low-cost airline in Europe (ibid) with 152 low fare routes to 25 countries (Ryanair.com/da/cheap-flight-destinations) and a net income of \$571.7 million in 2008 (Datamonitor, 2009). In addition, since they re-launched *Ryanair* the company has achieved €2.4 billion in net profits (Airline Business, 2009).

4.2 Applying the Business Model Proposition

In the following we will test our business model proposition (figure 3.2 repeated from section 3.2) starting with the components from traditional strategic perspectives, where the components from I/O and the RBV are analyzed and tested in the case of *Ryanair* as they seek to explain the foundation for competitive advantage. Hereafter we move on to the components from the business model literature as they are argued to fulfill the theoretical deficiency of both directions. Finally, we argue for the sustainability of competitive advantage as we plot all the components into our chart of strategic fit.

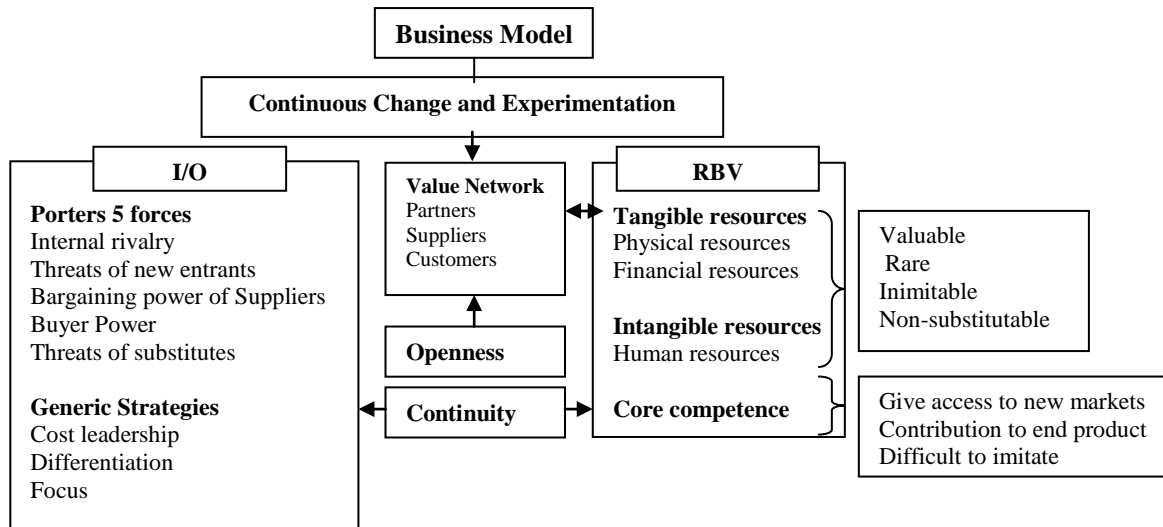


Figure 3.2 Business model proposition (own illustration) repeated from section 3.2

4.2.1 Components from I/O

In the following, we begin by analyzing the industry structure in the airline industry in order to determine whether or not *Ryanair* has managed to screen against and exploit the competitive forces in order to obtain and keep high profitability in terms of Porter (1980). Hereafter we discuss *Ryanair's* generic strategy in order to determine whether or not *Ryanair* has managed to pursue and sustain their cost leader position.

Internal Rivalry within the Industry

“*Competition in the airline industry is extremely tough*” (expressed in the interview with Jacob Pedersen, CFA senior analyst). *Ryanair* is not only competing with Full-Service Carriers (FSC) which they did initially. Many airlines are copying the *Southwest* low cost model e.g. *EasyJet* (easyjet.com), *Virgin Express* (virgin.com), *KLM* (klm.com), *Go air* (goair.in) forcing Low Cost Carriers (LCC) like *Ryanair* to continuously change and adapt themselves in order to attract new customers and segments and look for new ways to generate revenue from their customers (Hvass, 2006). According to *Director of Equity Research*, Joe Gill, the industry cost is a critical measurement to this end: “*In the case of Ryanair it has been consistent for the past 20 years (...) they understand how to secure their financials (...) Ryanair has the ability to keep their unit costs at industry low* (Interview with Joe Gill, Director of Equity Research). Accordingly, *Ryanair's* ability to sustain a competitive position since their re-launch as Europe’s first low fares airline in 1990 is due to obtaining the lowest prices in the market.

FSC are characterized as operating at primary airports, regional, short and long routes, 2-class seating, high frequency flights and functions completed in-house if possible (Hvass, 2006). However, as the airline industry is no longer regulated as it was at the outset, FSC's are responding to the highly competitive market by integrating LCC characteristics, thus making competition even more brutal (ibid.). LCC's are characterized as offering short-haul routes, operating a single-aircraft type, operating from secondary airports, high frequency flights, avoiding transfer traffic, outsourcing functions when possible, offering buy-on-board catering and selling tickets through call-centers and websites (ibid.)

Moreover, the airline industry is characterized as being price sensitive, since there is no customer loyalty; but instead customers go for the cheapest flight to a higher extent (Interview with Per Hvid, Head of Foreign Equities). Moreover, most cost advantages can be copied immediately by competitor airlines, thus increasing rivalry. In addition, high fixed costs, such as salaries and maintenance increase rivalry.

In the meantime due to the intensified competition in recent years resulting in mergers and acquisitions as well as bankruptcy for some airlines, new entrants might be scared off. This will reduce rivalry as the number of leading companies fall. Moreover, there are high exit barriers in the industry due to divestment of assets (Datamonitor, 2009).

Furthermore, most leading competitors have diversified their business by carrying not only people but also air cargo and other loads, thus becoming less reliant on sales of passenger airline tickets, thus reducing rivalry (ibid.).

Analysts assess the overall degree of rivalry in this industry as strong (ibid.).

Threats of New Entrants

The airline industry is highly capital intensive where buying aircraft and obtaining skilled staff to run the airline are high investment costs. This is a barrier which can be difficult for new entrants to overcome (Datamonitor, 2009). On the other hand, CFA senior analyst from Sydbank argues that, *"it is very easy to get access to aircraft. Especially leasing aircraft is a cheap and easy way to enter the industry, thus attracting many new entrants."* (Interview with Jacob Pedersen, CFA senior analyst)

However, due to the fact that price competition is becoming more brutal, it can be difficult for new entrants to compete on prices and make a profit since fixed costs and operation costs are high.

Nevertheless, the deregulation (Feldman, 1988) of the industry has lowered entry barriers, thus making the industry more attractive to new entrants. Airlines are now allowed to negotiate with different airports about their operating arrangements, entering and exiting routes easily, and setting fares and flight volumes according to market conditions (Datamonitor, 2009). In addition, as argued by Head of Foreign Equities, *“Many new airlines have appeared during the last couple of years. However, many have gone under (...) Before the liberalization of the industry, there was a monopoly situation, where SAS was the big player (...) Today competition is very fierce and SAS is becoming the loser. Ryanair’s advantage is that they do not have a huge service machinery. SAS and others have many expenses in comparison. Accordingly, they save a lot of money compared to their competitors (Interview with Per Hvid, Head of Foreign Equities).*

However, in the process of starting up a new airline, there is still a high degree of bureaucracy. For instance getting an operating license to operate aircraft is a long-lasting process, thus revenue generation is delayed. Another barrier to entry is infrastructure constraints, where the negotiation of slots at the airport is an increasing hindrance for new entrants. Due to growth in the air traffic, there has been an increasing overcrowd at many airports, especially at major hubs. As a result, established airlines hold the monopoly over slots at certain airports, making it difficult for new entrants to get attractive hours and destinations. Customers might choose alternative airlines with more attractive alternatives. Moreover, 2009 has proven to be a difficult year for the airline industry, where many airlines have gone bankrupt (e.g. *Zoom, Silvejet, XL, SkyEurope, Sterling*) (Datamonitor, 2009). The danger of low profitability may keep new entrants away. However, the situation is quite different for airlines flying point-to-point where entry barriers are argued to be low (Interview with Jacob Pedersen, CFA senior analyst).

Overall, analysts assess the likelihood of new entrants to be moderate for this industry (Datamonitor, 2009).

Bargaining Power of Suppliers

The key suppliers in the airline industry are fuel suppliers, aircraft manufacturers, airports and skilled employees (Datamonitor, 2009). Due to the increase in mergers and acquisition as a consequence of the financial crisis, supplier power could be affected due to lack of demand. However, since *Boeing* and *Airbus* have a duopoly in the manufacture of aircraft, where *Boeing* is *Ryanair's* main supplier (Ryanair.com/da/about) and since there does not exist a substitute for jet fuel, these suppliers are argued to have a certain degree of bargaining power “*Maybe they have a higher bargaining power today, especially Boeing, since they are Ryanair's only supplier of aircraft. They are much more dependent on Boeing today, since it would be very costly to change supplier and getting spare parts. However, Boeing is also very dependent upon Ryanair as they are their biggest customer.*” (Interview with Per Hvid, Head of Foreign Equities).

In addition, airlines have to enter a contract with the suppliers when buying or leasing aircraft. These contracts are very costly to break for the airline, thus enforcing supplier bargaining power (Datamonitor, 2009). However, according to Jacob Pedersen, *Ryanair's* suppliers have a low bargaining power. “*Ryanair has the absolute power because they purchase big volume. Ryanair makes money and buy when others cannot afford to - Airports crave for aircraft*” (Interview with Jacob Pedersen, CFA senior analyst). Accordingly, *Ryanair* achieves scale economies thus increasing their bargaining power compared to their suppliers. However, unlike other modes of transport, airlines have no alternative source of energy. “*The only thing that Ryanair does not have the power over is the oil price*” (ibid.) Small airports are more dependent on one airline than bigger airports, thus giving the latter a higher bargaining power. As *Ryanair's* policy is to avoid the big airports and instead focus on the smaller ones, they have an increased bargaining power.

Overall industry supplier power is assessed as strong (Datamonitor, 2009).

Buyer Power

Customers can be divided into two main groups namely leisure and business travelers, where the latter are considered as B2B (ibid.).

“Customers have become very disloyal. Price is the offsetting factor” (Interview with Per Hvid, Head of Foreign Equities). Accordingly, buyer power has increased with the emergence of online booking sites (e.g. momondo.com, supersaver.com), which facilitates comparison between all available flights, thus giving the customer the possibility of choosing the cheapest flight. Moreover, there are low inherent switching costs because brand loyalty is low. Some airlines have introduced loyalty schemes in order to increase switching cost (e.g. *British Airways’ Executive Club* (britishairways.com) and *SAS Eurobonus* (flysas.com)). These initiatives are intended to raise firm bargaining power as customers lose their benefit by travelling with competitors.

However, as the industry is highly price sensitive, loyalty schemes might not be enough to sustain customers. In the case of *Ryanair*, before they turned the company into an LCC, they had to abandon their *Frequently Flyer Club*, because it turned out to be a failure (Ryanair.com/da/about).

Also B2B customers are looking for cost reductions due to the financial crisis. In addition, rising unemployment and lack of job security increases buyer power (Datamonitor, 2009). However, as argued by CFA senior analyst, *“Ryanair cannot cover the entire market. It is the cheapest part of the market that they cover which is especially B2C customers. I don’t see that B2B customers would choose Ryanair (..) Ryanair cover their customers’ needs, which is delivering the lowest prices”* (Interview with Jacob Pedersen, CFA senior analyst). In addition, individual customers have less power, since airlines do not feel an impact of losing a single customer.

Overall, buyer power is assessed as moderate (Datamonitor, 2009).

Threats of Substitutes

Substitutes to airline travel are road, rail (e.g. Eurostar, TGV), and marine travel. When choosing alternative transportation options customers focus on the time of the journey besides price (Datamonitor, 2009). Therefore when it is a long distance travel, air travel has the time advantage, whereas short travels might favour rail and road transportation. Rail travel has the advantage of being localised in more accessible places, providing transportation around the main cities in contrast to *Ryanair*, which does not serve major airports.

In rather large countries, air travel makes it easier to overcome long distances and has certain benefits such as shorter travel time than rail travel, even including the time to check in. However, in smaller countries, domestic air travel may not be so appropriate, and rail and road transportation become more attractive alternatives. However, “*since Ryanair is so cheap, substitutes make little threat*” (Interview with Jacob Pedersen, CFA senior analyst). In continuation of this, Per Hvid argues that, “*choosing another way of transport is due to other reasons than the price*” (Interview with Per Hvid, Head of Foreign Equities).

The threat of substitutes for airlines is considered to be moderate (Datamonitor, 2009).

Generic Strategies

“It seemed blindingly obvious that if we couldn’t out-service Aer Lingus with better business class and better service, we could certainly offer better fares.”
(Interview with Michael O’Leary cited in Creaton, 2004, p. 89.)

As this quote indicates, *Ryanair*’s initial efforts as a low-cost carrier turned out to be a failure, as management did not focus on cost and their strategy was unclear (Creaton, 2004). *Ryanair* had started as a low-cost, no-frills airline, but did not fully stick to that model, as they also offered business-class service and other expensive features such as a frequent-flier programme, no booking restrictions or penalties for cancellation as well as offering lower prices than their competitors (ibid.). *Ryanair* was thus “stuck in the middle” of differentiation and cost leadership, which is a pitfall according to Porter’s (1980) theoretical framework. This pitfall resulted in great financial losses, and at this point O’Leary was very sceptical about the company’s future, believing it should close down, as it would never make money (Creaton, 2004). Nevertheless, O’Leary managed to turn the companies around from failing as an FSC into the most cost-conscious and profitable airline in Europe (Calder, 2008).

O'Leary's ability to shift generic strategy towards becoming a cost-leader has in terms of Porter (1980) given the company a competitive advantage. However, in order to sustain this position, the company has to continuously maximize its operational efficiency (Lawton, 1999). This means that *Ryanair* has to continuously look for improvements in order to achieve low operating costs. Since the company re-launched itself in 1990, *Ryanair* has managed to become the largest and most successful European low fare airline as well as the longest established (Lawton, 1999). Accordingly, *Ryanair* has managed to sustain its position as “(...)Europe's most profitable, lowest cost scheduled airline by providing its low fares/no frills service in all markets in which it operates to the benefit of our passengers, people and shareholders” (corporate mission statement, 1997 cited in Lawton, 1999). In addition, the way in which *Ryanair* has managed to sustain this position is: “Firstly, the ability to keep their costs lower than their competitors. Secondly, their ability to market themselves with such a great success. *Ryanair's* volume in terms of passengers and revenue cannot be matched by any competitor. *Ryanair* simply fly with the lowest costs and that is difficult to beat. *Ryanair* is the cheapest, so if you want the cheapest you go with *Ryanair*” (Interview with Jacob Pedersen, CFA senior analyst).

In the following we will go deeper into the discussion of how *Ryanair* has managed to pursue and sustain their low-cost strategy by continuously finding new ways to lower their operating costs:

Economies of density: Economies of density in the airline industry means increasing the use of aeroplanes and/or their capacity within a network of a given size (Dobruszkes, 2006). *Ryanair* has achieved density economies by making maximum use of their aircraft (Barbot, 2006; Dennis, 2004; Graham and Vowles, 2006; Hunter, 2006 cited in Dobruszkes, 2006). In 2004 *Ryanair* flew 11 hours per day on average, whereas FCC like BA and SN Brussels Airlines in comparison flew 9.2 hours per day on average (Dobruszkes, 2006). As *Ryanair* uses secondary airports, where turnaround is often limited to 25 minutes, the company can benefit from higher rates of departures and fewer terminal delays (ibid.) In addition, economies of density are argued to be much more effective in reducing costs than economies of scale in the case of airlines (Sorensen, 1991; Caves et al., 1984 cited in Dobruszkes, 2006).

Pressure on the workforce: “The information collected by various researchers, organizations, trade unions and journalists show that the LCCs' workers are paid less than

their fellow workers FSNC¹ although having a heavier workload". (Dobruszkes, 2006, p. 250) In addition, in 2002 the gross annual income of a pilot of short-distance carriers was 28% lower than that of the FSNC, in spite of the fact that their flying time was 25 % higher (European Cockpit Association, 2002 cited in Dobruszkes, 2006). In addition, *"Ryanair's employees are rewarded through productivity rather than on the pay. Accordingly, Ryanair has the ability to keep their unit costs at industry low"* (Interview with Joe Gill, Director of Equity Research).

Moreover, *Ryanair* benefits from being an Irish airline, due to the fact that the Irish legislation is more favourable to airlines than that of other European countries (Dobruszkes, 2006). So, even if *Ryanair* hires workers from e.g. Germany, they will still work under Irish contracts, thus giving *Ryanair* an advantage compared to its competitors. In addition, the company does not recognize workers' associations and unions, thus allowing the company to minimize costs (Interview with Per Hvid, Head of Foreign Equities). Consequently, *Ryanair* provides lower salaries, inferior vacation conditions and shift arrangements than its competitors (Creaton, 2004, p. 135).

High occupation rate: Due to the low prices, *Ryanair* has achieved a high load factor compared to other airlines. Their average load factor in 1999 was 72 %, whereas the average load factor of European airlines was 62 % (Lawton, 1999). In 2009, *Ryanair's* average load factor had increased to 81% (*Ryanair Holdings PLC, 2009*). The load factor measures the percentage of the output that the airline has sold (ibid.). *Ryanair's* manager is constantly working on increasing the load factor *"we do not manage yields, we manage the load factor (...) our budgets are based on driving costs down by x percent next year"* (Michael O'Leary cited in Lawton, 1999). As *Ryanair* attains break-even by filling just half of the seats on every flight, keeping a high load factor gives the company a considerable profit margin in every airplane (Creaton, 2004 p. 213).

Standardizing fleet: Through the years *Ryanair* has managed to standardize their fleet of Boeing 737, which is a fleet that reduces operating and maintenance costs (boeing.com). Moreover, standardizing the fleet reduces the costs regarding training staff, maintenance and purchase and storage of spare parts.

¹ FSNC: Full Service Network Carriers (Dobruszkes, 2006)

Standardizing service: *Ryanair* offers the same service to all their customers. Whether it is business people, students, or families, they are all handled by the same procedures. Tickets are only available online or through calling centres, thus eliminating costs regarding travel agents. There is a non-assigned seating arrangement (Lawton, 1999), and tickets are only sold point-to-point, which means that no connections are possible. This simplifies luggage handling and aircraft turnaround. In addition, the airline charges extra for everything (McGinn, 2004), thus enabling the company to offer the lowest fares.

Moreover, the airline reduces costs by not printing tickets, not having frequent flyer programmes and not offering compensation when flights are cancelled or delayed. However, since 1995, EU regulations have increased the rights of air travellers in case they are being denied boarding or in case of cancellation or long delay of flights². However, in spite of these EU regulations, *Ryanair* still holds a strict policy in relation to customer service. The company still refuses to offer any support or assistance when flights are delayed or cancelled (Creaton, 2004, p. 245).

On the other hand, *Ryanair* offers a higher customer service than that of its competitors in regard of punctuality, fewer lost bags and fewer cancellations (Ryanair.com/da/about).

Public financing: *Ryanair* is the only airline that requires directly or indirect financing during the planning of the servicing of new airports (Dobruszkes, 2006). *Ryanair's* policy is to serve airports only where authorities give them preferential treatment. For example, in Belgium, the authorities have given *Ryanair* free office space and staff training (Noakes, 2003). As another example, *Ryanair* does not fly to Nice in France, because the authorities are not willing to give the airline better treatment than its competitors (Dobruszkes, 2006).

The advantage of public financing can, however, be of concern for the airline in the future, as the EU forbids deals where airports are owned by the public. In 2003, the Danish authorities gave the city Aarhus orders to end a 50 per cent passenger charge subsidy paid to *Ryanair* (Noakes, 2003).

² Regulation (EC) No. 261/2004, Official Journal L 046, 17/02/2004, 0001-0008, cited in Dobruszkes (2006)

Dynamic pricing: Whereas FCC use price discrimination techniques in terms of class differentiation, complex systems of discounts with limited access, customer loyalty schemes as well as overbooking techniques, *Ryanair* use dynamic pricing (Malighetti et al., 2009). Dynamic pricing means that flight fares increase until the last moment before closing of bookings. According to this technique, prices mainly depend on the trade of between the option of waiting for a potential lower price on one hand, and the risk of seats becoming unavailable on the other hand (ibid.) According to Malighetti et al., *Ryanair's* pricing technique enables the company to maximize its profit.

4.2.2 Components from RBV

Emphasis will now shift from an industry focus towards a resource focus in order to clarify whether or not *Ryanair* possesses a competitive advantage according to Barney (1991). Consequently, if *Ryanair* has been able to implement a value creating strategy which a current or potential competitor has not been able to implement at the same time and if other firms have been unable to duplicate the benefits of this strategy, the company is said to possess a sustained competitive advantage.

In addition, the resources the firm holds should enable the firm to conceive and implement strategies that improve its efficiency and effectiveness. Accordingly, if *Ryanair* possesses and exploits resources that are valuable, rare, inimitable and non-substitutable (Barney, 1991) it has the potential of giving the company a sustained competitive advantage.

In the following, we will make an analysis based on *Ryanair's* physical resources, human resources and financial resources in order to examine which resources they hold are valuable, rare, inimitable and non-substitutable, thus giving *Ryanair* a sustained competitive advantage according to Barney (1991).

Physical Resources

Ryanair's physical resources includes its geographic location, its website, access to fuel and aircraft.

Geographic Location

Ryanair's geographic location is spread on 39 bases with the home base located in Ireland, Dublin (*Ryanair Holdings PLC*, 2010). Secondary and regional airports are chosen as bases. Airport terminals away from the usual travel destinations are more on the outlook for new

business, so *Ryanair* can negotiate favorable fees and get marketing and training support for as long as 20 years. Compared to terms at Europe's major hubs, this suggests a shift in bargaining balance in *Ryanair's* favor, and serving secondary airports is one of *Ryanair's* biggest cost-saving choices (Capell et al., 2001). According to Barney (1991), *Ryanair's* strategy of focusing on secondary airports is a valuable resource as it enables the company to reduce cost. Moreover, the value of the resource is enforced as it responds to environmental opportunities and threats (Barney, 1991). As argued in the industry analysis, due to infrastructure constraints, where FCC hold the monopoly over slots at many major hubs, it is difficult for new entrants to get attractive hours and destinations. However, *Ryanair* has managed to respond to this threat by seeing secondary airports as a window of opportunity as well as taking advantage of the liberalization of the airline industry (Harbison, 2006). "*Airports crave for aircraft. The new terminal Swift in Copenhagen Airport, is a way to attract low-cost airlines like Ryanair*" (Interview with Jacob Pedersen, CFA senior analyst). As a result, *Ryanair* avoids infrastructure constraints and negotiation of slots to a great extent, thus making this resource even more valuable (1991). In addition, as *Ryanair's* policy is to serve those airports only where authorities give them preferential treatment, they have neutralized a potential threat which their competitors cannot easily imitate (Barney, 1991). Accordingly, this makes the resource rare in the sense that it prohibits perfect competition (ibid). The strategy of choosing primary airports is a substitute to this strategy, thus making this resource in terms of Barney substitutable (1991). However, the strategy of choosing primary airports is normally the strategy of FSC, who has a differentiation strategy as opposed to *Ryanair's* low-cost strategy. Nevertheless, as FSC's to a higher extent are responding to the highly competitive market by integrating LCC characteristics (Hvass, 2006), it can be argued that the resource is substitutable.

Website

Ryanair's website also makes out a significant physical resource in terms of revenue generation as 99 % of all sales are generated through the website where the customer has direct access to *Ryanair's* host reservation system (*Ryanair* Holdings PLC, 2009). Consequently, *Ryanair* has eliminated the cost of commissions to travel agents. Also, the airline plans to make check-in available exclusively through the website (ibid), thus eliminating the costs of airport kiosks and staff. Consequently, the website is *valuable* as it improves the company's efficiency and effectiveness by taking advantage of the opportunities the internet offers.

As appendix 2 shows, the website of *Ryanair* illustrates that it is a LCC. The color yellow stands for 'low priced' (billiondollarincome.com) and in contrast to the dark blue, it attracts attention very effectively (ibid). But the appearance of the website can easily be copied by competing companies; however they can have difficulties imitating the benefits of the website in terms of revenue generation. *Ryanair's* website is the most searched for airline in Europe according to a Google survey (ibid) and according to the customers, it is the easiest travel website to book from (Ray, 2003). This indicates that competing companies have not yet been able to exploit their website in the same way as *Ryanair*, thus making this resource *rare*.

In addition, the website allows the company to gain additional revenue stream from supplementary services which was not possible previously.

Ryanair works with a vast array of partners to offer these ancillary services. Ancillary services include in-flight sale of beverages, food, and merchandise, as well as car rental, accommodation services, travel insurance, credit cards, airport transfer and so on (see appendix 1). Benefits derived from selling and marketing these services via the website, might easily be copied by competing LCC. However, since the extent of the benefits and the attractiveness to partners depend on traffic numbers, i.e. the amount of potential customers entering the website, *imitation* is also subject to the competing airline's passenger numbers and website success. The *substitutability* of this resource depends on whether or not a competing firm is able to duplicate the benefits of this resource with a different management team.

Aircraft

"Ryanair has a broad range of aircraft at the cheapest price (...). They make favorable contracts with secondary airports." (Interview with Joe Gill, Director of Equity Research)

Ryanair carries a fleet of aircraft, which today is made up of 218 Boeing 737-800 (*Ryanair* Holdings PLC, 2010). *Ryanair's* fleet is a *valuable* resource as it enables the firm to conceive their low-cost strategy because a standardized fleet of only one aircraft type limits the costs of personnel training as well as the costs of maintenance and spare parts, and it also creates greater flexibility in the scheduling of crew and equipment (*Ryanair* Holdings PLC). Moreover, *Ryanair* has previously been successful in negotiating very favorable contract terms with *Boeing* that included price savings close to 33% per aircraft (Capell et al., 2003).

Competing firms can easily imitate the strategy of focusing on one aircraft type, however, *Ryanair's* ability to negotiate such a favorable contract, is argued to be difficult to copy. This strategy is *rare*, as it is not possessed by a large number of firms, thus giving *Ryanair* the capability of exploiting the resource. As the benefits of this resource is based on unique historical conditions, the resource is argued to be *imperfectly imitable*. This is explained by the fact that *Ryanair's* negotiation of favorable contract terms has a correlation with the company chairman, David Bonderman, who had previously been involved in the turnaround of Continental Airlines and had close ties with the aircraft producer. This relationship was central to negotiations (Airline Business, 2009). Whether or not this resource is *substitutable* depends on the ability of a competing firm to make a similar favorable contract with *Airbus*.

Fuel

One of an airline's key, and potentially volatile, costs is fuel. In 2009 fuel accounted for 45% of *Ryanair's* operating costs (*Ryanair Holdings PLC*, 2009). Obviously, with fuel costs accounting for such a substantial part of *Ryanair's* operating costs and considering the airline's low-cost strategy and no-surcharge policy, the purchase of fuel at the lowest possible price or elimination of risk of heavy price fluctuations are imperative. Hedging fuel prices, i.e. taking positions in the crude oil market, is a way of bringing stability to this cost area (Dunn, 2009). However, *Ryanair's* fuel strategy has been speculative as illustrated by the company's hedging policy. Below is a quote from O'Leary, which describes very well the gambling nature of the company's stance on hedging:

"We lost on it (i.e. hedging) compared with where we would have been if we hedged, but by losing on that, we gained this year because we were unhedged when oil prices were falling. You only gain on hedging in a rising market, but if you're hedged in a falling market - which most of the airlines have been in the last months - you lose. It's not possible to beat the market for oil, but what we try to do is that if we see some kind of cost certainty out there into the future [we take it]. For example, at the moment, we said that if it goes below \$70 per barrel, next year we'll hedge. If it goes above that, we won't hedge. We'll take our chances." (Interview with Michael O'Leary cited in Airline Business, 2009)

As this quote indicates, it is not possible to beat the market for oil, just as it is not possible to foresee stock prices. Furthermore, when an airline hedges fuel costs, fuel suppliers become anonymous in the sense that these financial transactions are traded in the open market, just as when trading stocks or Forex (Dunn, 2009). Hence, the airline that creates the most value for the company is the airline with the best hedging strategy, which can be argued to be

completely arbitrary or at least vulnerable and constantly subject to unpredictable events. A fuel strategy can therefore hardly be a source of competitive advantage, even though some might perform better than others in the long run. A hedging program that makes suppliers anonymous to the airline further neutralizes any opportunity to make access to fuel a valuable or rare resource.

Human Resources

“One firm resource required in the implementation of almost all strategies is managerial talent.” (Hambrick, 1987 cited in Barney, 1991, p. 106)

Ryanair is certainly no exception, as the company did not succeed with their low-cost strategy until they hired the talented CEO, Michael O’Leary in 1990. As concluded in section 4.2.1.6, O’Leary managed to turn the company from failing as an FSC into the most cost-conscious and profitable airline in Europe (Calder, 2008). Michael O’Leary is probably the most successful airline leader ever (Airline Business, 2009), and his record speaks for itself. According to industry magazine Airline Business’ records, he has managed to create a net profit of € 2.4 billion from 1998 to 2009 (ibid). Moreover, through the years his personality and *Ryanair’s* values and approach have become inseparable (ibid). In addition, Michael O’Leary is said to have a big ego, he is outspoken and has an unwavering focus on cost.

“When it comes to interviews, O’Leary’s characteristically blunt approach comes into force. Asked if he would do the traditional sit-down interview with Airline Business, O’Leary questioned: “How much will it cost me?” Our reply: “About an hour of your time.” His response: “Too much.”” (Interview with Michael O’Leary cited in Airline Business, 2009)

Moreover, the interviewer from Airline Business concludes that whether you are a competitor, supplier or journalist, O’Leary has an intimidating figure, where his direct and aggressive approach repeatedly makes him get it his way with suppliers.

This argument is enforced by Jacob Pedersen who argues that, *“O’Leary’s rhetoric has created the successful airline (...)He is so straightforward and says it as it is. That definitely creates an identity in the organization - to have a manager who speaks up and demands everybody to do what he says”* (Interview with Jacob Pedersen, CFA senior analyst).

In conclusion, there is no doubt that Michael O'Leary has enabled the company to conceive and implement strategies that has improved the company's efficiency and effectiveness. His focus on cost is what makes *Ryanair* stand out from every other airline.

Obviously, Michael O'Leary is a unique resource among competing and potentially competing firms, as his skills and talent to implement and sustain a low-cost strategy are rare. Moreover, O'Leary's reputation among suppliers (Porter, 1980 cited in Barney) and customers as well as his relationship to partners is *imperfectly imitable* due to social complexity (Barney, 1991).

So far, there has not been a strategically equivalent *valuable* resource, as *Ryanair* is still the airline with the lowest-cost in Europe. Putting this in figures, *Ryanair's* unit cost gap in 2009 compared with budget rival *EasyJet* was €23 and €33 in comparison to *Aer Lingus* (Airline Business, 2009). In conclusion, Michael O'Leary is a resource that is valuable, rare, imperfectly imitable and non-substitutable, thus giving the company a competitive advantage.

Beside Michael O'Leary, the company currently employs 7,000 persons (Ryanair Holdings PLC, 2010). The skills of their cabin crew within the field of sales make out an important resource, as they are imperative to the generation of ancillary revenues comprising around a fifth of the company's total revenue. However, even though *Ryanair* relies heavily on the high productivity of their staff (European Low Fares Airline Association (ELFAA), 2004), the productivity is usually an effect of management's implementation of efficient rosters meaning fewer overnight stops, and remuneration packages structured to include a large part of payment from productivity performance (Kaberry, 2007).

Financial Resources

Ryanair would not have existed today if it wasn't for the Ryan family's deep pockets so to speak. As mentioned in the case description, *Ryanair* had accumulated a loss of £20 million in 1990, where they proceeded to invest further £20 million in the company. Whereas most companies would have been forced out of business due to liquidity problems, *Ryanair* got a second chance, due to their financial resources. Since then, the company has managed to create a net profit of € 2.4 billion from 1998 to 2009 (Kaberry, 2007) under the management of O'Leary. In addition, *Ryanair* is the largest airline in Spain, larger than *Iberia*, the largest

airline in Italy, bigger than *Alitalia*, and the largest airline in the UK, bigger than *BA* and *EasyJet* (Airline Business, 2009).

Consequently, if it had not been for the Ryan family's financial resources, *Ryanair* could have been used as a case study of how lack of clear strategic direction and poor management ultimately leads to failure as opposed to the success story the company is today.

Additionally, *Ryanair* is the most cost-conscious and profitable airline in Europe (Calder, 2008) due to Michael O'Leary's ability to implement and sustain their low-cost strategy. However, due to rising oil prices and the financial crisis, the airline has been less profitable in recent years as shown in table 4.1 below.

Year ending March:	2003	2004	2005	2006	2007	2008	2009
Scheduled Revenue	728	1,088	1,420	1,745	2,406	3,155	3,337
Revenue Growth (%)	32.8%	26.3%	22.0%	27.1%	30.8%	18.7%	5.3%
Car Hire Revenue	28	41	20	24	30	35	46
Inflight Revenue	23	35	44	55	77	103	118
Internet Revenue	12	21	30	33	47	78	81
Non Flight Scheduled Revenue	35	79	146	203	311	475	607
Charter Revenue	12	0	0	0	0	0	0
Total Ancillary Revenue	110	176	241	315	465	692	851
Total Revenue	838	1,263	1,661	2,062	2,871	3,847	4,189
Revenue Growth (%)	35.0%	27.5%	22.8%	28.3%	32.2%	21.3%	8.4%
Staff Costs	(92)	(146)	(179)	(208)	(291)	(404)	(440)
Executive Bonus	0	0	0	0	0	0	0
Depreciation	(77)	(115)	(125)	(138)	(185)	(249)	(290)
Fuel and Oil	(128)	(206)	(334)	(563)	(889)	(1,121)	(1,790)
Maintenance	(30)	(51)	(48)	(60)	(54)	(81)	(95)
Marketing	(15)	(19)	(25)	(17)	(31)	(24)	(19)
Aircraft Rentals	0	(14)	(42)	(57)	(74)	(103)	(111)
Route charges	(68)	(129)	(171)	(201)	(255)	(367)	(409)
Airport charges	(107)	(173)	(224)	(263)	(352)	(561)	(631)
Other	(60)	(92)	(99)	(105)	(135)	(173)	(198)
Total Operating Expenses	(576)	(944)	(1,247)	(1,611)	(2,265)	(3,086)	(3,984)
Operating Profit	261	319	414	449	606	761	205
Operating Margin (%)	31.3%	25.2%	24.9%	21.8%	21.1%	19.8%	4.9%
Other Income	0	0	0	0	0	0	0
Net Interest Receivable/(Payable)	0	(28)	(37)	(44)	(26)	(18)	(78)
FX gains/(losses)	1	4	(3)	(1)	(1)	(9)	6
Gain on sale of fixed assets	0	0	0	1	0	17	(1)
Total Other Income/(Expenses)	1	(24)	(40)	(44)	(27)	(10)	(74)
Goodwill Amortisation	0	(2)	0	0	0	0	0
Exceptional Items	0	(24)	15	7	0	(130)	(390)
Profit Before Tax	263	268	389	413	579	622	(259)

Table 4.1 Profit and Loss 2003-2009 (\$ millions)

(Source: Citi Investment Research & Analysis, 2002)

As the table above shows, *Ryanair's* revenue has grown more than 400% during the last 7 years, however in 2009 it ended in a loss of US \$ 259 million. However, in the years to come, the company is expected to turn their losses into a net profit of US \$ 373 in 2010 (Butcher et al., 2010).

In conclusion, *Ryanair's* financial resources are *valuable* as they initially allowed the company to re-establish themselves as Europe's first low fares airline. Moreover, the company's financial resources has given the company an upper hand compared to potential new entrants, since the industry is highly capital intensive, as argued in the industry analysis. Accordingly, leasing or buying aircraft and skilled staff to run the airline are high investment cost, which can be a difficult barrier to overcome for many new entrants (ibid). Accordingly, this resource is *rare* as it is not held by a large number of firms. In addition, it can be difficult for new entrants to make a profit in the short run in this industry since fixed costs and operating costs are high, while *Ryanair* forces prices down. Moreover, as *Ryanair's* financial resources initially come from the Ryan family, they are built on unique historical conditions, thus making them difficult to imitate. Accordingly, this makes the resources *imperfectly imitable*. Moreover, there is *no substitute* for the required financial investment cost required to enter and operate in this industry.

In conclusion, the financial resources have played a significant role in creating a competitive advantage for *Ryanair*, since the resource lives up to Barney's 4 attributes in order to be a source of competitive advantage, i.e. valuable, rare, imperfectly imitable and non-substitutable.

Core Competence

Ryanair's physical resources i.e. its geographic location, website, aircraft and access to fuel are like most other physical resources typically imitable in themselves (Barney, 1991) Accordingly, if one firm is able to purchase the necessary physical resources in order to implement some strategies, then other firms should be able to purchase the same physical resources. On the one hand, this implicates that physical resources cannot be a source of competitive advantage. On the other hand, Barney (1991) argues that it often requires socially complex firm resources in order to exploit physical technology in a firm. Accordingly, even though several firms may possess the same physical technology, it might only be one of these

firms that possess the social relations, culture, traditions etc. in order to fully exploit this technology in implementing strategies (Wilkins, 1989 cited in Barney, 1991). Obviously, as Michael O’Leary is not subject to imitation as well as being valuable, rare and the fact that no substitutes exist, *Ryanair* may obtain a sustained competitive advantage from exploiting its physical technology more completely than other firms, even though competing firms do not vary in terms of the physical technology they possess.

Taking this argument further, *Ryanair* can be said to have the potential of possessing a core competence in terms of Hamel & Prahalad (1994). Accordingly, a core competence is the collective learning in the organization, especially the coordination of production skills and the integration of technologies. O’Leary’s knowledge within cost reduction gathered through the past 20 years, becoming an integrated part of *Ryanair*’s culture, brand and traditions, has facilitated the sophisticated technology that supports the management and marketing operations.

However, in order for this competence, i.e. O’Leary’s knowledge within and constant adherence to cost reduction, to become a core competence it has to 1) provide access to more than one market, 2) give a significant contribution to the end product/products and 3) be difficult for competitors to imitate (Hamel & Prahalad, 1994).

Regarding the first criterion, it is argued that Michael O’Leary has been fundamental in negotiating the favorable contracts and circumstances in order to keep costs lower than its competitors in all the markets they have entered. Accordingly, this resource lives up to the first criterion. Should they be successful with future plans of a transatlantic route as presented in chapter 4 (4.2.4.4), this also applies to the first criterion. Regarding the second criterion, the competence is argued to give significant contribution to the end products, as it is precisely this knowledge within cost reduction that has contributed to *Ryanair*’s low-cost offerings and which enables the company to consistently lower prices. The third criterion, as discussed previously, is difficult for competitors to imitate as it is an intangible asset.

Accordingly, *Ryanair* possesses a core competence, as O’Leary’s knowledge within cost reduction lives up to the three criteria and our three interviews confirm this argument. Jacob Pedersen argues that, “*Well, Ryanair carries their customers cheaper than their competitors because they have the competencies to do this. They have a fast turnaround which involves*

complex processes to succeed in order to get it all to work out. Ryanair has invented a concept which can be rolled out and where O’Leary is the figure head” (Interview with Jacob Pedersen, CFA senior analyst). Moreover, Per Hvid argues that, *“O’Leary can decide everything, in comparison to conventional airlines, whose processes is a drag on them. Compared to other low cost airlines, they definitely have a core competence – they can do something which others cannot”* (Interview with Per Hvid, Head of Foreign Equities). Joe Gill argued that *Ryanair* core competence is, *“Their excellent management team with O’Leary in the front – they are consistent and do not compromise in cost cutting. No competitor can match their ability to get the cheapest prices in the market.”* (Interview with Joe Gill, Director of Equity Research).

Nevertheless, a future threat is that their core competence becomes their ‘core rigidity’ (Tidd et al., 2005), when Michael O’Leary eventually leaves the company. According to him by this time, the company will not need him anymore *“Our growth and airport deals are handled by the wider management team that doesn't need me anymore. I think that at a certain point, once you've got those last big conquests: Dublin, Stansted, aircraft, it's the right time for me to go because Ryanair needs to change from being a cost-aggressive, confrontational airline into being a more corporately, caring, sharing company by getting rid of the hated chief executive.”* (Michael O’Leary in *Airline Business*, 2009).

Continuity

As argued in the business model proposition, continuity along the generic strategy, resources and core competence is essential in order for a firm to sustain a competitive advantage. Without continuity, the company will lack strategic direction, thus making it difficult to develop “uniqueness” and accordingly survive in the long run. As argued by Porter (2001), frequent corporate “reinvention” is often a sign of bad strategic thinking and will most likely lead to failure. *Ryanair* has, as shown in the previous analysis, benefitted greatly by pursuing and sustaining their low cost strategy since 1990. In addition, this has shown to be a value creating strategy (Barney, 1991).

The fact that *Ryanair* initially failed with their low cost strategy shows evidence of lack of continuity of direction. At this point, *Ryanair* offered the lowest prices compared to its competitors on one hand, while not focusing on cost reduction on the other. When the company did not have continuity of direction, they did not possess any unique skills or assets,

and their reputation among customers was unclear. Consequently, continuity of direction has been essential for *Ryanair's* success for the last 20 years, as shown in the previous analysis.

As a result of continuity of direction, *Ryanair* has obtained economies of density, pressure on workforce, high load factor, standardized fleet and service, public finance and dynamic pricing. Moreover, *Ryanair's* physical and human resources have enabled the company to reduce cost by keeping focus on their low cost strategy.

The roots to their continuity of direction, lie in the company's core competence which is argued to be O'Leary's knowledge within cost reduction. Accordingly, *Ryanair's* position as Europe's most profitable, lowest cost scheduled airline has been sustained so far, as their competitors have yet not succeeded in duplicating the benefits of their low-cost strategy. In conclusion, *Ryanair* has in terms of Porter (1996) managed to establish and preserve a difference from its rivals, which has allowed the company to outperform competitors.

4.2.3 Components from the Business Model literature

As depicted in the business model proposition (figure 3.2), the value network consists of suppliers, partners and customers, and, as argued previously, the value network is a central component of the business model proposition, as this is where taking advantage of resources, capabilities, and industry positioning makes unique relationships. To begin with, we will analyze *Ryanair's* relationship with the actors in the value network. Hereafter, we move on to the component "openness" in order to analyze the extent to which *Ryanair* operates an open business model. After this, we move on to the component "continuous change and experimentation", in order to analyze the extent to which *Ryanair* has been able to change and adapt their value network and thus sustain their competitive position.

The analysis should contribute to our understanding of the company's way of doing business, in the sense that it helps reveal the entire system that the firm employs for providing consistent value to customers while earning a profit and benefiting its broader stakeholders (Davenport et al., 2006). These benefits derive in part from the fact that, as proposed by Amit & Zott (2001), a business model is a crucial source of value, not only for the firm itself but also for suppliers, customers and partners. Also, we should be able to see how the application of firm specific core competencies, capabilities, and positional advantages create unique relationships in the value network, which are important to differentiate *Ryanair* from the

competition (Shafer et al., 2005). Furthermore, when these capabilities and resources are considered as a bundle, and not as individual factors, they become harder to imitate, harder to transfer and more complementary (Schweizer, 2005), hence contributing substantially to the company's competitive advantage.

Suppliers

Cost-containment and operating efficiencies are key elements in *Ryanair's* pursuit to firmly establish itself as Europe's leading low-fares airline. Obviously, the airline's choice of suppliers plays a major part to this end (Interview with Joe Gill, Director of Equity Research). In the following, we will analyze relations with the network of suppliers who provide major contributions to *Ryanair's* low-cost strategy. *Ryanair's* relations with and choice of their supplier network contributes to a very high degree to create a unique combination of what Morris et al. (2005) call the foundation level of the business model. While the foundation level includes the product as such, the choice of market segments, growth models and other factors that are easy to replicate, the proprietary level is where interaction occurs, hence creating a unique combination leading to sustainable advantage (Morris et al., 2005). As the following analysis will show, *Ryanair's* supplier network allows the airline to develop this proprietary level in a way that lets the airline deliver some of the characteristics that make it industry leader, e.g. the high-frequency flight schedule, flight operation bases and airport locations, on-time arrivals, aircraft models and growth potential.

Airports

As concluded earlier, *Ryanair's* focus on secondary and regional airports is a valuable resource. The relationship with and operation from these airports in and around major cities and travel destinations has major cost-saving consequences and it assists *Ryanair* in the achievement of the best customer service performance in the company's peer group (*Ryanair Holdings PLC*). These airports are less congested than major airports and consequently, deliver more precise departures, less aircraft time spent at gate, and competitive airport access and handling costs. When possible, the airline chooses less expensive gate locations and outdoor boarding stairs as opposed to *jetways*. Other operating expenses and limits to the number of take-offs and landings are also avoided by the choice of airports.

When benchmarking against the competition, the choice of airports is said to help improve some of *Ryanair's* key performance indicators, for example the so-called “on time” performance, i.e. arrivals within 15 minutes of schedule:

Year	2003	2004	2005	2006	2007	2008	2009
Airline							
Ryanair	92.5%	93%	89.4%	81%	85%	88%	88%
Lufthansa	86.5%	87.1%	79.3%	n.a.	81%	81%	84%
Air France	72.4%	88.3%	80.5%	74%	80%	84%	84%
easyJet	71.7%	88%	78.3%	73%	73%	80%	71%
British Airways	79.3%	82.6%	74.2%	67%	70%	58%	78%
Alitalia	67.3%	86.8%	82.5%	n.a.	n.a.	84%	76%
Aer Lingus	n.a.	n.a.	n.a.	72%	79%	72%	73%

Table 4.2: On time performance for Ryanair and principle competitors³:

Also, because there is little congestion at secondary locations, the airline can have its planes back in the air within 25 minutes of landing, and this allows *Ryanair* to operate two more flights a day per plane compared to competitors using major hubs (Capell et al., 2001).

In general, according to the airline, the volume of passenger traffic delivered by *Ryanair* also allows the company to negotiate favorable contracts (Interview with Joe Gill, Director of Equity Research). This is, of course, because airports – like all other businesses – are always looking for attractive customers. Airports realize that hosting home carriers with good operating results and feasible growth plans can be crucial to the airport’s own success (Harbison, 2006). Airport hubs compete with other facilities for passengers and service, and it has great impact when a city is considered a destination point or point of origin. Industry liberalization, which has already occurred but will continue for years to come, is changing the way airlines are using airports, and one effect is an immense growth in the point-to-point service that *Ryanair* delivers as opposed to the transfer traffic common to FSC (ibid). Liberalization also means a shift in power balance in the sense that airlines continuously obtain a greater influence on which airports to operate from and at what frequency, something

³ Numbers compiled from Ryanair’s annual reports. Statistics are Ryanair’s and Association of European Airline’s. Earliest available data is from 2002.

that has been imperative to the growth of *Ryanair* and other low cost airlines, and this can be exemplified by recent infrastructure additions to airports in Geneva and Singapore, areas of wealthy communities, adding austere, bare-bones terminals to attract LCC's and accommodate their cost-policies which favor only basic facilities (ibid).

In fact, a new market for "low cost airports" has emerged as a consequence of the profit potential for regional airports willing to accommodate efficiency and cost structure to attract the low cost airlines (ELFFA, 2004). Attraction of airlines such as *Ryanair* and others carrying a high volume of passengers increase both direct income from the airlines but also income from related commercial revenue directed from an increased businesses activity in the areas of terminal shopping (car rental, restaurants, banks, etc.), car parking, shuttle transportation, and airport advertising by hotels, tourist attractions and others targeting the travelling segment (ibid). To give an example of the value that a low cost airline can add to an airport as a consequence of increased passenger numbers, Glasgow Prestwick Airport, a *Ryanair* base, experienced its enterprise value increasing from €2.9 million in 1992 to €48 million in 2001 (ibid). During this period there was an increase in passenger numbers from 10,000 to 1.3 million with the vast majority contributing by traffic from *Ryanair*.

Aircraft Equipment

Ryanair purchases aircraft from a single supplier, namely *Boeing* (Ryanair Holdings PLC, 2010). *Ryanair* speculates that the terms of the contract with *Boeing* are "very favorable" (ibid). This assessment may be more than mere speculations, though. In 1997, David Bonderman CEO of investment fund Texas Pacific Group and previously involved in the turnaround of American airline Continental Airlines, became chairman of *Ryanair*. He added a certain credibility to the company, and according to the business magazine *BusinessWeek*, this was a key to the negotiation of contracts including savings close to US \$15 million off the US \$45 million price per aircraft (Capell et al., 2001). For *Boeing*, a relationship the size of the one with Europe-based *Ryanair* was an important step in the competition with the European competitor *Airbus* (ibid).

Boeing, however, won *Ryanair* as a customer only after a close battle with *Airbus* (Airline Business, 2009). And even if the company stresses that it is an important part of their cost minimization to have only one supplier of aircraft equipment, relations with *Airbus* could be closer than they appear. *Ryanair* has on several occasions made bids to acquire a long time

fiend and Irish national airline, *Aer Lingus*. Should the company succeed in purchasing the latter mentioned, which they already own part of via a large stock holding, this would make them an *Airbus* customer by default (ibid). Adding to this, *Ryanair* announced in December 2009 that it had unsuccessfully terminated negotiations with *Boeing* regarding an order of new aircraft (*Ryanair*, 18 December 2009). In October 2009 the airline said it wanted to complete an order for 200 aircraft before the year-end with *Boeing* or, alternatively, *Airbus* if they offered a better deal (Sandle, 2009). The aircraft were planned for delivery after 2012, when *Ryanair's* current delivery stream will run out. Now that the company could not conclude any negotiations, O'Leary has announced that *Ryanair* will scale back investment in planes from 2011 and, hence, reduce growth and expansion plans and instead distribute the consequent cash build up to shareholders between 2012 and 2015 (Kollewe, 2009). This turn of events has had analysts quarreling whether we are witnessing an end to the era of fast growth for the low cost airline carriers or not (ibid). Others speculate whether there is an actual possibility that Michael O'Leary can turn the aircraft market upside down by ordering additions to his fleet from producers *Embraer* and *Bombardier*, which industry experts say are making an increasing challenge to the duopoly of *Airbus* and *Boeing* (Centre for Asia Pacific Aviation (CAPA), 2010). Though this would require *Ryanair* acceptance of higher costs and complexity in terms of operations, it might, on the other hand, be offset by the possibility of entering and building new markets with these types of plane (Schonland, 2009).

Fuel

As mentioned, fuel accounted for 45% of *Ryanair's* operating costs in 2009 (*Ryanair Holdings PLC*, 2009). While this specific financial year may present unusually high oil prices, fuel is always a substantial cost for the airline, which – as opposed to competitors - maintain a policy of never imposing fuel surcharges to their ticket prices. Hence, when oil prices go up, costs must be reduced in other areas of business. However, oil prices are hard to predict and in 2005 prices rose substantially, which made *Ryanair* opt to start taking positions in the crude oil market to accommodate the financial risk of future fuel costs (Lea, 2009). A way to do this is by hedging, which brings the benefit of stability (Dunn, 2009). There are essentially two views on hedging, which decides how an airline acts (Reals, 2008):

1. The view that hedging is a strategic device and a type of insurance policy, which enables the company to foresee fuel prices exactly. This leads the company to implement long-term fuel hedging strategies and has the benefit of avoiding severe shocks to the cost base. However, it also bears the risk of paying too much, if prices fall drastically during the period for which the company has fixed oil prices. In this category, US carrier, and *Ryanair* role model, Southwest Airlines has long been renowned for a successful hedging strategy which is valued to be important in the company's position as one of the few profitable US airlines. In spite of this, they have had to adjust aggressively in recent years' collapsing markets and have also incurred heavy losses (Dunn, 2009).
2. The other view is speculative and sees hedging as a tactical device. It is a short-term evaluation of the price level in the market and trading is done on the basis of volatility. Hence, the speculation involves trying to assess whether there is a low-price market or not, and then hedge positions accordingly. *Ryanair* is the example of a company which has gambled on oil prices and allowed its hedges to run out because they believed prices went too high (Reals, 2008).

This explains why *Ryanair's* hedging program has been off for a period, and then on again, and the company's hedging transactions creates some turmoil. Numerous business articles and investment banks point to the fact that *Ryanair* has had bad luck in transferring the risk of unpredictable fuel prices to its hedging positions. One article reports of €150 million in lost profits in one financial year due to *Ryanair's* unfavorable hedging positions (Lea, 2009). Another business correspondent reports how *Ryanair's* chief executive O'Leary confessed that he "screwed up" the company's fuel strategy by remaining largely unhedged through a period of rising oil prices in the summer of 2008 (Robertson, 2009). A Morgan Stanley report shows that *Ryanair* is currently heavily hedged for FY 2011 but no further (Butcher et al., 2010). The report also assesses that the development of fuel prices is likely to put pressure on the airline's margins, unless they are able to push surcharges onto customers through ticket prices.

Skilled Employees

Although savings on crew costs are generally assessed to account for only 3% of the cost advantage of low fares airlines, employment in the sector is a major issue in the public because of allegations of lower standards of pay, benefits, and working conditions (Kaberry,

2007). This is also the case for *Ryanair*. But with CEO O’Leary’s so-called anti-union strategies on the one hand these discussions are highly political (International Transport Workers Federation (ITF), 2002; (Interview with Per Hvid, Head of Foreign Equities). On the other, with labor unions’ pressure via its traditional labor strength in the airline industry (Citi Investment Research & Analysis, 2002), it is hard to decipher the nature of the relations between *Ryanair*’s employees and the company. According to one industry magazine, “[v]igorous internal pilot debate about employment and operational issues is common to all airlines. It is just a matter of degree” (Learmount, 2006).

Yet, studies of the social benefits of low fares airlines in Europe go against the before mentioned allegations as they document how the pay rates and terms of employment are both attractive and competitive (Kaberry, 2007).

The following benefits are offered to *Ryanair*’s employees (ibid):

- Combination of basic pay and payment based on number of hours flown
- Average salary of €52,499
- Entitlement to share options
- Pension scheme/stakeholder pension scheme
- Travel concessions to staff and relatives
- No overnight stays away from home base
- Certainty in shift roster (5/4 = five days on, four days off)
- Training opportunities
- Rapid promotion possibilities (Pilots typically advance to Captains after only three years compared to ten years at FSC)
- Opportunities to engage in company charity work

For cabin crew, who are not regarded as skilled employees, an added benefit is the transferable skills they receive for example in the sense of sales training (ibid). *Ryanair* relies greatly on these skills and employees, as these are imperative to the generation of ancillary revenues comprising around a fifth of the company’s total revenue. For cabin crew, the sales skills can be used in a different job if they choose to pursue other careers some time.

Furthermore, the roster; or shift pattern; which applies to *Ryanair* pilots proves highly productive, and is also an “excellent” combination of stability, rest opportunity and duty limits when evaluated by industry specialists and aviation authorities (Learmount, 2006). This assessment is applied to the 5/3 system, which means that pilots fly five days and are off duty for three days. But because crews reach their flight time limit before the year-end, most bases have now adopted a 5/4 system, which is even more popular. As *Ryanair* operates under Irish

authorities, this is a rostering system that all competitors (e.g. easyJet) are not able to imitate (ibid). Furthermore, *Ryanair's* flight network is short-haul and it operates from several bases across Europe, using locally based crew and aircraft. This means that pilots return home after a workday instead of having to spend the night at other destinations. The downsides to *Ryanair* pilots are the fast turnarounds, which mean they have very limited time to leave their seats between flights, and also the congested, complex and multinational airspaces that they are operating in. This workload intensity has an effect on pilot fatigue (ibid).

As mentioned in section 4.2.2.2, though *Ryanair* relies heavily on the high productivity of its staff (ELFFA, 2004), this is usually an effect of the above-mentioned more efficient rosters, fewer overnight stops, and remuneration packages based on productivity performance (Kaberry, 2007). Despite the perception that there is a high degree of operational pressure on the crew of an LCC airline, there is no evidence for this and, furthermore, overall flying hours are strictly regulated (ibid). Adding to this, an aircraft fleet as young as *Ryanair's* features the latest flight-deck technology and equipment designed to reduce pilot workload pressure.

Third Party Contractors

Services such as passenger and aircraft handling, ticketing etc. are outsourced to third party contractors, when *Ryanair's* management believes that this is more cost efficient (*Ryanair* Holdings PLC, 2009). Competitive rates are obtained by negotiating multi-year contracts at fixed/inflation-adjusted prices. This way of viewing business activities,- i.e. if a step in the value chain is better performed by the market and does not belong to the core competencies of the company, the activity is outsourced,- is typical for the Orchestrator Model, which is the business model with the best long-term potential to become successful (Schweizer, 2005). This argument is further elaborated in the following section where *Ryanair's* relationship with business partners is analyzed.

Partners

Ryanair works with business partners, playing a key role in the company's generation of ancillary revenue (Interview with Jacob Pedersen, CFA senior analyst), i.e. revenue from services and activities that are connected with delivery of their core product. With their strong focus on stripping the product down to basics and selling only the flight ticket, and then constantly working to develop new sources of revenues, *Ryanair* has introduced a new logic to the traditional airline business. As mentioned above, Schweizer (2005) argues that this is

typical for the Orchestrator Model. The Orchestrator Model focuses on few core steps of the value chain and gain competitive advantage from superior coordinating capabilities and management of the network of partners and suppliers. *Ryanair* has an active relationship with both suppliers and partners, and constantly works to obtain the most cost-effective agreements as will be seen in the following analysis of *Ryanair* partners. See also section 4.2.4.1 for an analysis of *Ryanair*'s network of suppliers.

Ancillary Services and Other Sources of Revenue

Ancillary services and other revenue generating activities include in-flight sales, car rental, and insurance, but are not limited to these. Ancillary services are provided in order to reduce per-unit costs; and, hence, contribute to delivering airline passengers the lowest fares possible (*Ryanair* Holdings PLC). According to a Morgan Stanley report, development of ancillary products is a key value driver for *Ryanair*, because revenues from these services and activities generate higher margins than the core business (Butcher et al., 2006). In the financial year (FY) 2009, ancillary services provided for 20.3 percent of *Ryanair*'s total operating revenues (*Ryanair* Holdings PLC, 2009) and as seen from table 4.3, supplementary business has provided continuous enhancements to the company's operating results over the years.

Financial Year Revenue Type	2001 (€'000 / %)		2002		2003		2004		2005		2006		2007		2008		2009	
	Total	487	100	624	100	842	100	1,074	100	1,319	100	1,692	100	2,236	100	2,713	100	2,941
Scheduled	432	89	550	88	731	87	924	86	1,128	86	1,433	85	1,874	83.8	2,225	82	2,343	79.7
Ancillary	54	11	73	12	110	13	149	14	190	14	259	15	362	16.2	488	18	598	20.3

Table 4.3: Total, Scheduled and Ancillary Revenue in Ryanair
Source: Own illustration, figures collected from Ryanair Annual Reports

Ryanair works with a vast array of partners offering ancillary services (See appendix 1). One of the airline's biggest partners is *Hertz* Car Rental, handling all *Ryanair*'s car rental services marketed to passengers. *Ryanair* also has agreements with credit card issuers and promote special *Ryanair*-branded Visa and Mastercards. The latest ancillary service added to the airline's portfolio is in-flight communications service.

Partner *On Air* provides mobile voice and data solutions for aircraft, which enables passengers to use mobile phones and other devices while they are on board the plane. The table below shows a breakdown of the airline’s ancillary revenue to highlight how the various services contribute. An explanation of the items is found below table 4.4.

	Fiscal Year ended March 31,			
	2008		2007	
	(in thousands of Euro, except percentage data)			
Non-flight Scheduled	€334,580	68.5%	€241,990	66.8%
Car Rental.....	€25,266	5.2%	€22,972	6.4%
In-flight Sales	€73,314	15.0%	€60,079	16.6%
Internet-related	€54,970	11.3%	€37,063	10.2%
Total	€488,130	100.0%	€362,104	100.0%

Table 4.4: Breakdown of revenue generated by ancillary services and activities

Source: Ryanair Holdings PLC, Annual Report 2009

The “Non-flight Scheduled” revenue, which accounts for more than two thirds of total ancillary revenue, is comprised by excess baggage charges, debit and credit card transaction fees, sales of rail and bus tickets, hotel accommodations, and travel insurance. “Car Rental” is self-explanatory, while “In-flight Sales” refers to food, beverages, and other in-flight offerings. The item called “Internet-related” is primarily commissions from products sold on websites linked to *Ryanair’s* main webpage.

While contract details for the partnerships that *Ryanair* engages in are not readily available, there are indications that *Ryanair* holds the upper hand. Most partnerships entail the exclusive right to sell and market a product directly through the *Ryanair* website, which offers a substantial traffic load. Often it appears that the partnerships do not offer particular price reductions to *Ryanair* customers, but just ease access to travel extras. Since the partner company usually gains exclusive access to *Ryanair’s* customers, the partnership bears more the characteristics of being a sort of exclusive advertising deal. For this lucrative deal, the partner company also pays a substantial amount to *Ryanair*; at least this is what is suggested by travel bloggers and other commentators. Partnerships usually run 5 years and are then renegotiated. Often this leads to *Ryanair’s* negotiating a better deal by choosing a different partner. And sometimes, relationships end unhappily. Previous hotel provider, *Expedia*, who had exclusive rights to sell hotel accommodations on *Ryanair.com* (Associated Press (AP), 2008) and access to *Ryanair’s* 58 million passengers (*Ryanair*, 14 October 2008), ended

prematurely in 2008 as a result of *Expedia*'s alleged breach of payment terms. The £4million dispute was settled out of court in February 2010 (Cowen, 2010).

The aim with *Ryanair*'s business partnerships, advertising, and the airline's putting a price on everything except the actual flight ticket is, according to CEO O'Leary, to make flying free one day (Maier, 2006) - or at least to lower fares constantly - with the primary revenue stream coming from ancillary services and activities (Airline Business, 2009).

Customers

"[Mr O'Leary's] cavalier treatment of passengers left stranded by flight cancellations and the yelling of obscenities at people who, in sometimes tragic circumstances, make the mistake of asking for a refund have given Ryanair a deserved reputation for nastiness."

(The Economist, 2007)

"I think half our passengers would like to see me dead and buried, actually, and eventually they'll get what they want. Frankly, I couldn't care less as long as they fly with us."

(Michael O'Leary, *Ryanair*'s CEO, 2009)

Business practices in *Ryanair* are testament to a consistent adherence to constant cost-cutting, no-frills, no-extras and no-special treatment elements, which all form part of the overall low-fare airline strategy. And while customers and media commentators often find awe and astonishment in, for example, this "cavalier treatment of passengers", as quoted above, the adherence to a basic set of operating rules may be central to the success of the airline. As argued by Morris et al. (2005), company guidelines ensure that the business model and its unique application are reflected in ongoing strategic actions. Consistent adherence to these basic principles is what may distinguish companies with otherwise similar business models (Morris et al., 2005). *Ryanair*'s approach to customers in general and CEO Michael O'Leary's almost religious devotion to the company's cost leadership strategy in specific are reflections of this consistent adherence as the following analysis will show.

Customer Segmentation and Customer Service

Ryanair makes no attempt to distinguish between different passenger groups as the company takes an "egalitarian" approach to its customers: *Ryanair*'s target market includes all groups (Lawton, 2002). It is general characteristics of the low-fares airlines that they do not just cater to leisure passengers, but to a very high degree they also serve business travelers who simply

wish to pay lower fares or who take advantage of the increased choice of routes from regional airports (Kaberry, 2007). All passengers, including business travelers, students, visiting families and relatives, pay the same price and share the same non-assigned seating arrangement. This can be viewed in stark contrast to the traditional airlines' "segregated" approach dividing passengers into different groups and offering special loyalty programs and different service levels. By way of their low-fare service, *Ryanair* has inducted a growth into the total air market and continues to do so by reaching passengers otherwise unable to travel by air due to either geographical location or economic constraints (Lawton, 2002). This ability to create a new market matters to firm successfulness and when coupled with a cost leadership strategy, as is the case with *Ryanair*, it enhances firm performance (Zott & Amit, 2008).

However, it is the paradox of *Ryanair* that, in spite of the huge success of the airline, its proven ability to live up economic prospects for the outskirts of Europe, and the conquest of bringing the traveling mode of flying into the reach of people of even limited means, the company's reputation in the realm of customer service is, to say the least, unfavorable. *Ryanair* is notorious for its aggressive and confrontational attitude (Interview with Joe Gill, Director of Equity Research), but in a strange way, this seems to be indistinguishable from the almost religious adherence to the immensely successful method of constantly cutting costs.

Yet, even if O'Leary recognizes that customers generally have very little sympathy for him and his business methods, he describes *Ryanair's* customer service as "industry leading" (*Ryanair* Holdings PLC, 2009), when measuring on the key elements that, according to *Ryanair*, comprise customer service: Low fares, punctuality, fleet quality, number of missing bags, and flight completions (ibid). In all of these areas *Ryanair* outperforms competition and delivers the value that customers are looking for. As previously mentioned, the airline's website is also the most popular and easy to use according to customers. Perhaps, customers return to *Ryanair* because they get used to how it works, as argued by Jacob Pedersen "Customers accept the terms and return." (Interview with Jacob Pedersen, CFA senior analyst).

Customer Choice and Active Involvement of Customers

As stated, it is part of *Ryanair's* low-cost strategy to cut costs on customer service compared to conventional airlines. On short-haul flight routes it is possible to offer less “frills” such as in-flight meals and movies, and it is the elimination of these excess services, which are otherwise expected by customers on longer flights or when flying conventional airlines that allow *Ryanair* to offer low fares and frequent service (*Ryanair Holdings PLC*, 2009). In this part of the company's value creation, customers are actively involved. One of the focal tools for *Ryanair* to do this is by offering their customers a choice. That means, in the words of *Ryanair* spokesman Stephen McNamara (*Ryanair*, 12 March 2009):

“[I]f you don't want to pay for food – don't buy it, if you don't want to pay checked in bag charges – don't bring checked in bags, if you don't want to pay handling charges – then just use Visa Electron entirely free of charge”.

Ryanair is constantly looking to increase the array of choice for the customer and in order to examine fully the possibilities of increasing the company's ancillary revenues, which are then applied to the lowering of air fares, customers have been invited to submit their most ingenious ideas on the company's website with the view to winning cash prizes (ibid). Some ideas, however, such as charging for toilet paper with the face of *Ryanair's* CEO on it, charging people for using the oxygen masks, and introducing polls for passengers to decide whether *Ryanair* and *easyJet's* CEOs should sumo wrestle in order to settle the fight over flight punctuality statistics, have travel bloggers and other commentators speculating that these are publicity stunts more than actual attempts to involve customers in the company's product development process.

However, other measures which *Ryanair* has introduced and had customers vote for on the website, could arguably be seen implemented, given the company's track record of unorthodox business methods in the industry. These include introducing a “fat tax” for extremely overweight passengers who “invade” the space of fellow flyers (*Ryanair*, 22 April 2009), and gauging demand for a “vertical seating” program for passengers who are willing to stand up during short flights with the incentive of flying free of charge or pay 50% less than seated passengers (*Ryanair*, 9 July 2009).

Ryanair's relationship with customers may need to change, though. When all the big conquests in cost-cutting have been achieved, *Ryanair* will have to morph into a more

“corporate, caring, sharing company”, according to speculations by CEO O’Leary (Airline Business, 2009). With a huge customer base and strong customer loyalty it is his opinion that *Ryanair* needs to be “a more loved, caring, attentive airline”. This argument is enforced by Joe Gill, who argues that the company might have to change, when O’Leary eventually leaves, but not before “*O’Leary will not change, that is impossible. (...) But the strategy will remain with a focus on low cost*” (Interview with Joe Gill, Director of Equity Research).

Openness

In this section, we will analyze the extent to which *Ryanair* operates an open business model (Chesbrough, 2007b). The analysis considers how *Ryanair* uses outside ideas and technologies in its internal product and business development, and how the company allows inside business intelligence to be commercialized externally.

Use of Outside Ideas and Technology

"Ryanair is the best imitation of Southwest Airlines that I have seen"
(Herbert D. Kelleher, founder of Southwest Airlines)

Companies succeed when they choose an effective business model and execute it superbly (Linder & Cantrell, 2000). One of the most radical ways in which *Ryanair* has done this is by applying an outside idea in their business development, i.e. the direct replication of Southwest Airlines’ low-cost, low-fares model. Because while it is certainly new to Europe, and represents a radical difference from earlier times’ heavily regulated industry, the airline model employed by *Ryanair* is not the company’s own invention (ELFAA, 2004). The development of the low-fares airlines sector in Europe is a replication of the American equivalent. Following deregulation and liberalization of the air transport market in the 1970ies in the United States, Southwest Airlines re-launched itself as the original low fares airline. The airline was the first to introduce the airline model, as it is known today, and they achieved a remarkable growth through pursuing low costs and high efficiency in every aspect of the business.

Yet, even if *Ryanair* was not the inventors of the low-cost and low-fares model, it was the first European airline to copy it and is perceived as the original European low fares airline (ibid). In 1989, when *Ryanair* was performing poorly and losing a lot of money, O’Leary –

who was not yet CEO of the company – advised the airline’s founder, Ryan, to shut it down (Capell et al., 2001). But instead Ryan chose to set up a meeting with his long-time friend and founder of Southwest Airlines, Herb Kelleher. The latter, in turn, made a lasting impression on O’Leary, who concluded that provided full management control, he could copy the Southwest model.

The figure below summarizes the various advantages which lead to the low fares and high volumes central to the success of Southwest Airlines and, following their example, other American low-cost carriers.

LFAs	Traditional airlines		LFA advantages
Operate from mostly secondary, underutilised, regional airports	Operate from mostly primary international hub airports	➔	Lower airport charges, faster turnaround times, less air traffic control-related delays
Fast turnarounds (25 min.)	Slow turnarounds due to use of congested hub airports	➔	Better fleet utilisation
Direct point-to-point flights, no transfers, short-haul routes	Mix of long, medium and short haul routes with transfers ("connecting flights")	➔	Lower complexity, higher capacity utilisation
Standardised fleet (only one aircraft type), higher seating density	Various aircraft types, low seating density	➔	Cheaper aircraft financing; Lower maintenance and training costs; Simpler swapping around of flight and maintenance staff; Higher capacity utilisation
Distribution primarily through direct channels (internet, call centres)	Most tickets sold via travel agencies (high GDS costs, travel agent commissions, etc.)	➔	Lower distribution costs, lower complexity
No "frills", extras paid for (e.g. catering, excess baggage)	Entertainment programmes, express check-in, VIP lounges, paper tickets, business class, "free" catering	➔	Lower ancillary costs, less complexity; Additional revenues
Highly incentivised work force (variable proportion of salary up to 40%)	High basic salaries (variable proportion less than 10 %)	➔	High employee productivity

Figure 4.1: Low-cost model advantages

Source: ELFAA (2004)

Another outside idea that Ryanair has benefited greatly from, is the logic behind open source software, where the product, i.e. the software, offered is free, and money is made from value adding services (Williamson, 2008). Ryanair has a mission to grow its ancillary revenues to a size that allows the company to constantly offer lower fares and with the aim to offer all passengers free seats one day (Maier, 2006). The airline has successfully replicated and

translated this idea across industries and has experienced a continuously growing revenue stream from supplementary services (cf. table 4.3 in previous section). One of the primary ways in which the company does this, is by working closely with outside partners and sharing the revenue generated by the thousands of passengers travelling with the airline and purchasing partner products marketed through *Ryanair*'s website and on board the plane.

In general, *Ryanair* systematically takes advantage of working with business partners to exploit and capture value from ideas that are not developed internally by the airline (see section 4.2.4.2). Its various partnerships let *Ryanair* appropriate a portion of the value created by innovative companies, in many cases even without bearing any of the business risks involved. For example, *Ryanair* has a partnership with Booking.com (see appendix 1) who has successfully used informational advantages to create a new layer in the traveling industry value chain and, can therefore, be characterized as a Market Maker (Schweizer, 2005). Booking.com pays a fee to *Ryanair* for an exclusive five year partnership to handle hotel services directly via the airline's website. Hence, *Ryanair* can choose the most successful partner and product without taking any risks in the innovation process and business development, and yet, the company can still add value to its own product by offering travel extras, competitive accommodation prices, and convenience to customers.

Ryanair works with business partners to create value-adding services, and it also outsources activities to third parties. However, according to an industry analyst, and as opposed to the rest of the airline industry, *Ryanair* does not see strategic partnerships or strategic development as the reason for this open attitude towards external contributions to the business (Jenner, 2009). Instead, it looks at the relationships from a pure cost perspective and target its partners allowing the company to save or make money. But bearing this in mind, *Ryanair* is acutely open to outside technology that enables it to innovate, focus, and enhance operations. For example, in 2008 the company signed a deal with an IT company to deliver on-board sales technology, providing *Ryanair* with electronic point of sale devices to be used by cabin crews in-flight (Thomsom, 2008). The introduction of this technology enabled the company to work more effectively, launch more products and, thus, increase revenues. In another cost-saving exercise, *Ryanair* has over the years eliminated the use of commission-making travel agents by switching computer-reservation systems and later introducing the Ryanair.com website (Capell et al., 2001).

External Commercialization of Business Intelligence

At present, there are no obvious examples of external commercialization of inside business intelligence at *Ryanair*. However, one of the company's future bold moves could be to introduce a low cost, long-haul airline offering flights as cheap as €10 (Morrison & Learmount, 2007). This would entail transatlantic routes from Europe to the United States using the same underlying logic that *Ryanair* is built on but as a distinct venture, i.e. as a business with a separate name and management (Morrison et al., 2007). A spin-off to the company would be a guard against any negative influence that the new business venture could possibly infer on the well established short haul operations. A possible spin-off to *Ryanair*, would not be the first to offer this product, but may in turn benefit from the substantial cost advantages and simple point-to-point operations that established airlines do not have. Furthermore, CEO O'Leary expects ancillary services to be a substantial revenue driver, as the company would be able to sell a range of products during a long flight, such as movies, food and drinks, duty-free and other merchandise (ibid). Though he realizes that his plan will not materialize in the current economic environment, because it is not possible to get delivery of a full fleet of aircraft, O'Leary speculates about a transatlantic fleet of 50-60 aircraft with bases throughout Europe flying to 12 or 15 destinations in the USA (Airline Business, 2009).

Continuous Change and Experimentation

As argued previously, continuous change and experimentation along the business model level is essential in order to sustain a competitive advantage, since the perfect fit does not last forever. The analysis of *Ryanair's* business model confirms this hypothesis as *Ryanair* has managed to continuously change and adapt its value network in order to attract new customers and look for new ways to generate revenue from its customers (Hvass, 2006).

As shown in the value network analysis, *Ryanair's* suppliers of airports, aircraft equipment, fuel, skilled employees and third party contractors contribute to creating what Morris et al. (2005) call the foundation level of the business model. Accordingly, the foundation level allows *Ryanair* to develop a proprietary level where the actual interaction occurs, thus leading to sustainable advantage (Morris et al., 2005). So, while the choice of suppliers might be easy to imitate for competitors, it is the interaction between the company and its suppliers which gives the company an advantage. In addition, it is the proprietary level, facilitating high-frequency flight schedule, flight operation bases and airport locations, on-time arrivals, aircraft models and growth potential that are argued to be difficult to imitate. Consequently,

Ryanair's network of suppliers provides a major contribution to the company's low-cost strategy.

Moreover, *Ryanair's* key suppliers allow the company in terms of Chesbrough (2007a) to share both technical and business risks. For example, *Ryanair's* suppliers of airports are highly dependent on the success of the company due to the high volume of passenger traffic delivered by *Ryanair*. Accordingly, many secondary airports are willing to negotiate attractive contracts with the company as their own survival is dependent on this relationship. Also, their very favorable contract with *Boeing* reflects *Ryanair's* powerful role in this relationship. *Boeing's* risk of losing *Ryanair* to their biggest competitor *Airbus* has given *Ryanair* the upper hand in this relationship.

Ryanair's fuel strategy on the one hand is, as argued in the RBV analysis, a strategy that makes suppliers anonymous, and thus neutralizes any opportunity of making this physical resource lead to competitive advantage. On the other hand, the company's continuous change and experimentation in this area has made the company gain, as opposed to competitors, when oil prices were falling. As stated by O'Leary, "*We'll take our chances.*" (Airline Business, 2009) this illustrates *Ryanair's* hedging strategy, as well as its general philosophy in the pursuit of continuously sustaining its position as Europe's lowest cost carrier.

Ryanair's employees are, as argued in the previous analysis, imperative to the generation of ancillary revenues comprising around a fifth of the company's total revenue. Accordingly, *Ryanair* relies on its skilled employees as well as on its pilots' productivity. However, it is not as much its employees as such who add to the company's successful business model. It is to a higher extent its continuous look for new ways of using its resources and core competence in order to support its generic strategy, which has led to its efficient rosters, i.e. fewer overnight stops, and remuneration packages based on productivity performance (Kaberry, 2007), all together being difficult to imitate.

In addition, whereas the general perception is that there is a high degree of operational pressure on the employees at *Ryanair*, it is argued that it is the company's continuous pursuit for the latest flight-deck technology and equipment which has led to its efficient rosters, thus giving *Ryanair* a competitive advantage.

Moreover, continuous change and experimentation along the business model level is shown through *Ryanair's* pursuit of outsourcing the business activities which are performed more satisfactory by outside contractors and partners. As long as these activities do not belong to the company's core competence, the business model has the potential of belonging to the Orchestrator Model, i.e. the business model with the best long-term potential to become successful (Schweizer, 2005). This argument is shown in *Ryanair's* relationship with its partners in order to constantly obtain the most cost-effective agreement. In terms of Schweizer (2005), this allows the company to gain competitive advantage by superior coordinating capabilities and management of the network of partners and suppliers. In fact, as shown in the previous analysis of *Ryanair's* partner network, ancillary revenue generates higher margins than its core business, thus showing the contribution of openness, continuous change and experimentation along the business model level.

In addition, *Ryanair's* continuous change and experimentation along the business model level has the potential of making flying free one day by putting a price on anything but the actual flight ticket.

Ryanair's customers play an active and critical role to this end, as they are the ones deciding what to pay for, as opposed to conventional airlines where many services are included in the ticket price. Accordingly, the customers are constantly challenged as *Ryanair* is persistently looking for new ways to increase the customer's choices by increasing ancillary revenue. As stated previously, *Ryanair's* website allows customers to submit their ideas with the incentive of winning cash prizes. Accordingly, customers' ideas should allow the company to lower ticket prices. However, it is argued that continuous change and experimentation along the component "customer" will eventually reach a point where all big conquests in cost-cutting are reached. As a consequence, *Ryanair's* competitive advantage as a cost leader can be threatened, and require a change towards a more loving, caring and attentive airline, as argued by O'Leary.

Beside the customers' active role in *Ryanair's* business model, the company continuously involves external partners in order to exploit and capture ideas which can create value for the company. As argued by Chesbrough (2007b), a business model is likely to be very profitable and hard to imitate, when it exploits outside ideas as opposed to only focusing on internal core competencies and resources as the key to competitive advantage.

In conclusion, *Ryanair's* ability to continuously change and experiment along the business model level allows the company to speed off in a better direction while competitors continue to follow their old direction and are in terms of Mitchell & Coles (2003) “*left choking in their dust*” .

4.2.5 Performance of Ryanair’s Business Model

As argued in the business model proposition, strategic fit is fundamental to the sustainability of competitive advantage since it is harder to imitate a position based on a variety of related and mutually reinforcing activities than it is to replicate single product features or processes (Porter, 1996; 2001). Based on the previous analysis, we can now confirm or reject our hypothesis of what leads to sustained competitive advantage, by plotting the components from the case analysis into our chart as shown below.

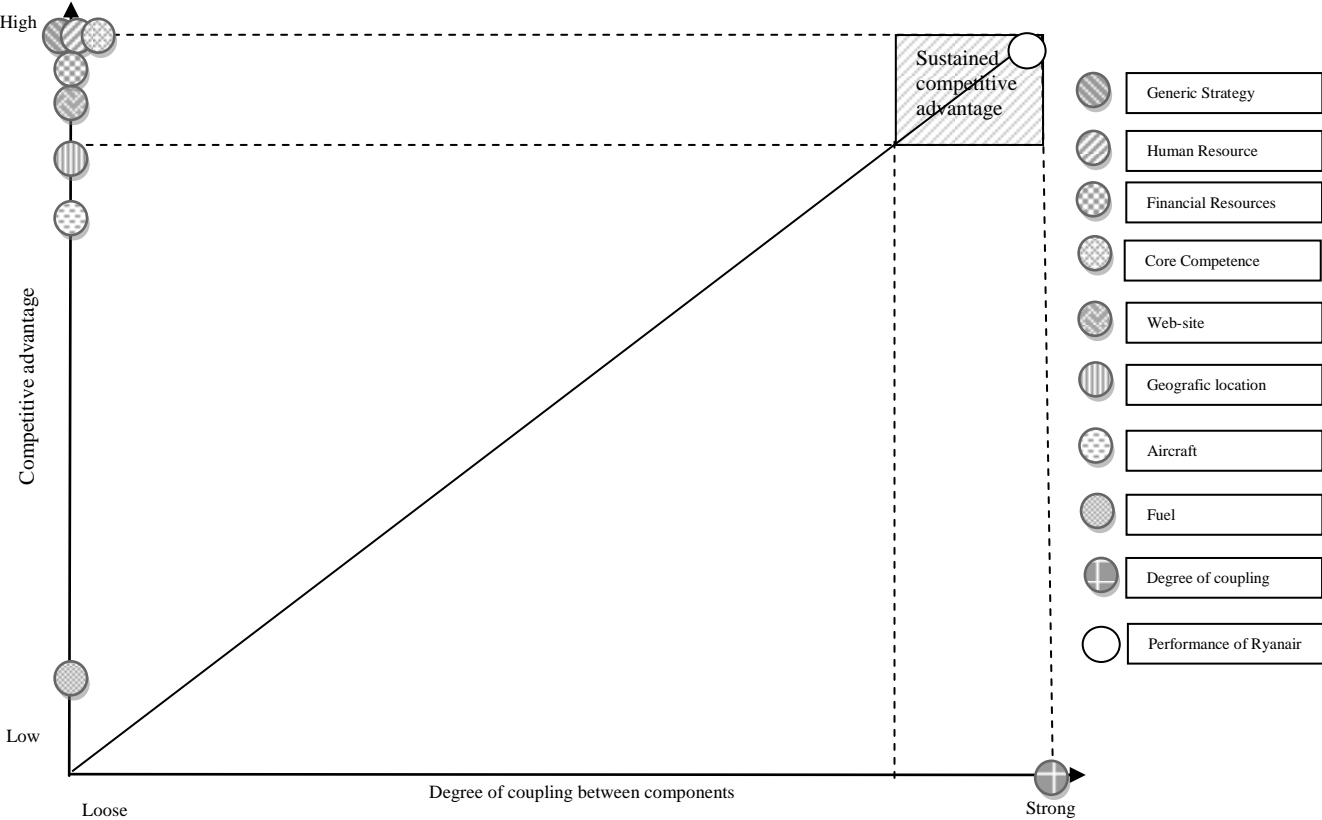


Chart 4.1 Performance of Ryanair’s Business Model (Strategic Fit)

As shown in chart 4.1, our hypothesis of what leads to sustained competitive advantage is confirmed. Accordingly, *Ryanair's* strategic fit is positioned in the highest level in the graph, thus giving the company a sustained competitive advantage.

If we start with the Y axis, *Ryanair* is argued to possess a high degree of competitive advantage, as the accumulated strength of its generic strategy, internal resources and core competence is high.

As shown in the previous analysis, *Ryanair* has managed to pursue and sustain its low-cost strategy since its re-launch in 1990. Accordingly, after failing with its “stuck in the middle” strategy, the company has managed to continuously beat competitors on price. This was done by maximizing the use of aircraft, putting pressure on the workforce, increasing the load factor, standardizing the fleet, making favourable contracts with authorities as well as making use of dynamic pricing. As a result, we place *Ryanair's* generic strategy on the highest level on the Y axis.

Moreover, *Ryanair's* resources were argued to enable the firm to conceive and implement strategies that improve its efficiency and effectiveness. Starting with its physical resources, i.e. its geographic location, website, aircraft and fuel strategy, it was argued that none of these resources in itself could lead to sustained competitive advantage, as purchasing physical resources and thereby implementing some strategies, most likely can be copied by competing firms (Barney, 1991). However, *Ryanair's* geographic location, and more specifically, its choice of secondary airports as its bases were argued to be valuable, rare and difficult to imitate. As choosing primary airports was argued to be a substitute to this strategy, this resource is not positioned in the highest level in the Y axis. Furthermore, the company's website was argued to be valuable, rare, and since no competitor has managed to imitate the benefits from its website in the same way as *Ryanair*, it is argued to be difficult to imitate. In addition, no substitute exists which is also valuable, rare and difficult to imitate. Accordingly, this resource is placed in the high level in the Y axis.

Moreover, the agreement with its aircraft supplier was argued to be valuable, rare, imperfectly imitable; but since a similar contract with *Airbus* could be made by a competing firm, it is argued to be substitutable. Accordingly, we place this resource lower than the former. The company's fuel strategy is furthermore placed in the lower end of the Y axis, as this resource

did not live up to any of Barney's criteria. Accordingly, this resource can hardly be a source of competitive advantage. In conclusion, *Ryanair's* physical resources are not in themselves a source of competitive advantage.

Moving on to *Ryanair's* human resource, it was concluded that Michael O'Leary is a rare, valuable, imperfectly imitable and non-substitutable CEO. His skills and talent to implement and sustain a low-cost strategy is the key reason why *Ryanair* has been able to sustain its position as the airline with the lowest-cost in Europe. Accordingly, this resource is placed in the highest level in the Y axis.

Ryanair's financial resources were argued to play a critical role as a means to pursuit and sustain its strategies. Accordingly, the company's financial resources were argued to be valuable, rare, imperfectly imitable and non-substitutable, thus being a source of competitive advantage, as shown in the Y axis.

In addition, it was argued that *Ryanair* possesses a core competence in terms of Hamel & Prahalad (1994), which in addition facilitates the exploitation of the company's physical resource in a way that makes it difficult for competing companies to benefit in the same way. Accordingly, O'Leary's knowledge within cost reduction has become an integrated part of *Ryanair's* culture, brand and traditions and has facilitated the sophisticated and able technology that supports its management and marketing operations. In addition, as this competence lived up to the three criteria which were to 1) provide access to more than one market, 2) give a significant contribution to the end product/products and 3) be difficult for competitors to imitate (Hamel & Prahalad, 1994), we place this on the highest level in the Y axis.

In conclusion, the strength of their generic strategy, human resources, financial resources and core competence is high, thus confirming the importance of these components as the foundation for competitive advantage. However, the physical resources were argued to be less strong, as these did not in themselves fulfill the 4 criteria in order to lead to a competitive advantage (Barney, 1991).

Nevertheless, our case study shows that the physical resources play an important role as they are a direct effect of the strategic fit between all the other components. For example,

Ryanair's website serves as a platform for the integration of the value network on one hand, while taking advantage of its internal resources, core competence and generic strategy, thus reinforcing its competitive advantage. Additionally, partners are promoted through the website and customers are actively involved through the website, thus allowing the company to continuously lower ticket prices.

In continuation of this, the X axis in the chart shows that the degree of coupling between the components is very strong. In addition, all the components reinforce each other, and changes in one component have a direct impact on all the other components.

By taking advantage of its resources, core competence and sticking to its generic strategy at all times, *Ryanair* has in terms of Chesbrough (2007a) been able to share both technical and business risks with suppliers, partners, and customers. As shown in the analysis, *Ryanair's* suppliers of airports are highly dependent on the success of the company due to the high volume of passenger traffic delivered by *Ryanair*. Moreover, their favorable contract with *Boeing* reflects the sharing of risk.

Ryanair constantly obtains the most cost-effective agreement by acknowledging that the business activities which are performed more efficiently by external partners should be outsourced. As shown in the previous analysis, ancillary revenue generates higher margins than its core business, thus showing the importance of its value network and the strategic fit between all the components.

Moreover, the high degree of coupling between the components is shown through the company's continuous obtainment of the latest flight-deck technology. Accordingly, by taking advantage of its resources, core competence and generic strategy on one hand, while cooperating with external partners on the other hand, *Ryanair* has sustained its competitive advantage. Consequently, *Ryanair's* performance is a result of the strategic fit between strategy and business model, as shown in the chart.

Chapter 5: Conclusion and Discussion

In this final chapter of the thesis we return to the problem stated in the introductory part of the study, and we formulate an answer to the main question posed there. Furthermore, we discuss our findings and their limitations, which can also serve as a basis to look into areas of further research on the topic of business models.

5.1 Conclusion

The main question that this thesis set out to answer was this:

How can the business model be integrated with traditional strategic perspectives in order to better understand a firm's sustained competitive advantage?

The entirety of the study conducted in this thesis leads us to conclude that the business model can be integrated with traditional strategic perspectives by taking views from the existing literature on sustained competitive advantage and applying new contributions from authors writing in the context of the business model as such. Together these insights form the basis for an approach to evaluate firm performance, which is inclusive of important elements from otherwise differing perspectives and, thus, allow us to see a greater complexity. The disclosure of this complexity in firm performance, as it is sketched out in various components of the business model, enables us to better understand what constitutes a firm's sustained competitive advantage.

In the following, we describe in further detail how the study of our four supporting research questions leads us to the main conclusion as just stated above.

Traditional strategic perspectives consider competitive advantage as being ascribed to external characteristics such as industry forces and choice of generic strategies (I/O), or as being ascribed to distinctive competencies and resources, giving the firm an edge over competition (RBV). Both views are criticized for an implicit assumption of static equilibrium and, hence, a deficiency in addressing the requirements for continued success in a dynamic environment. The business model literature offers insights which accommodate for these limitations, as it is recognized that a dynamic attitude is important. This entails the constant experimentation with the firm's business model to ensure that fundamental improvements are installed when competition threatens. Furthermore, an openness towards ideas and technology

from the outside can have great impact on performance, just as the willingness to let information from the firm flow to the outside. Other contributions from the business model literature add to the discussion about competitive advantage. First of all, the business model is conceptualized as a promising integrator of disparate views on strategy, namely the I/O and the RBV. Whereas the I/O school of thought is based on the assumptions, that resources in an industry are homogeneous (Porter, 1981) the RBV is based on the assumptions that firms are fundamentally heterogeneous regarding their resources and internal competencies. (Barney, 1991; Hamel & Prahalad, 1994). Nevertheless, business model proposals are presented including Porter's value chain and competitive positioning as well as resources and competencies. As an overall point, what in the literature has been known as the value network seems to portray the linkages between firm resources and the environment, as the value network includes not only the firm itself, but also the collaboration with partners, suppliers, and customers. These various elements have an impact on creating and sustaining competitive advantage, and are called "components" in the business model literature. Working with components permits the testing and modeling of a business and makes it possible to pull apart aspects of the firm in order to look more closely at the fundamental functions required for differentiation from competition and successfulness.

With these theoretical insights it is possible to propose a business model which integrates components from the different perspectives and functions as a unit of analysis to evaluate competitive advantage. However, this naturally increases the complexity as the focus will change to a wider scope of analysis, i.e. the whole value network of suppliers, partners, and customers. When looking to explain the sustainability of competitive advantage, it is not sufficient to look either at the firm's generic strategy or to focus explicitly on internal resources or core competences. Hence, the degree of strategic fit is evaluated. The fit depends upon the competitive advantages held by the firm but it also depends on the degree to which the various components of the business model are coupled. Accordingly, a firm's performance is dependent upon this integration between strategy and business model. In addition, the sustainability of competitive advantage requires an outstanding strategic fit, which means that firm's must have both high competitive advantages and a strong coupling of components in the business model. The relation between competitive advantage and the coupling of business model components as just described was tested empirically on the Irish airline company *Ryanair*. This was done by first evaluating the firm's competitive advantages cf. the traditional strategic perspectives, then by analyzing the firm's value network, openness and

ability to change and experiment, and then a final test was made to determine the sustainability of competitive advantage according to the method set out above.

5.2 Discussion of Findings and Directions for Further Research

This thesis argues that integrating traditional strategic perspectives on sustained competitive advantage with literature on business models allows for an evaluation of firm performance which is inclusive of important elements from otherwise differing approaches to the subject; and, furthermore, that this allows us to reveal a greater complexity than when applying insights that look solely at e.g. external factors (I/O) or firm specific attributes (RBV). At the same time, however, this “greater complexity” can also be a source of increased confusion as to whether it is possible to state a generalization of what leads to competitive advantage. When so many different factors are taken into account, it can be difficult to pinpoint which of these are the actual determining causes. Furthermore, the airline industry – as most other industries - is highly dynamic and the rules of the game change quickly when regulation is altered or when new technology, sales techniques, booking methods, and other features are introduced.

The hypothesis presented in this thesis was that a strategic fit is required for a firm’s business model to lead to sustained competitive advantage and our case study of *Ryanair* confirmed this assertion. The case study gave strong indications that components included in our business model proposition are key to the firm’s competitive advantage. However, as stated in our research philosophy a verification of a hypothesis is not enough to confirm it. This does not mean that we can determine how many case studies, which would all confirm our proposition, should be carried out in order to turn our hypothesis into objective knowledge. But it does mean that repeated experiments would be interesting in order to strengthen our “qualified guess” of what leads to sustained competitive advantage. The purpose of these repeated experiments, however, would not be verification as such, but the falsification of the hypothesis or parts thereof, so that enhancements could continuously be made to the underlying assumptions. Direct replications of the *Ryanair* case study could be carried out with firms that are industry leaders in other sectors in order to see if the results would differ. Also, case studies of underperformers in the same industry (airline) would be interesting, as they would provide alternative perspectives on the conclusions drawn here.

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6.5 Interviews

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7. Appendices

Appendix 1: Overview of Ryanair's Partners

Partners ¹	Product delivered cf. <i>Ryanair</i> website	Type of Partnership	Available contract information
Hertz	Cheap Car Hire	Hertz is exclusive car rental partner of <i>Ryanair</i> . Partnership “designed to deliver ultimate car hire convenience to <i>Ryanair</i> customers” ² . Includes an integrated online booking system and exclusive special offers.	Partnership began 1998 ³ . Current agreement running to 2014. Hertz pays per passenger fee to <i>Ryanair</i> for sole rights to market car hire services via airline website. Deal generated €25.2m for <i>Ryanair</i> in FY2007-8 ⁴ .
Booking.com	Cheap Hotels	Customers can book hotels via <i>Ryanair's</i> website with a choice of Booking.com's more than 57,000 hotels, as they are directed to a <i>Ryanair</i> -Booking.com branded microsite, which includes the same functionality as the hotel reservation company's main site.	5 year exclusive partnership, announced in January 2009. Booking.com pays “a fee” to <i>Ryanair</i> for handling hotel services ⁵ .
Hostelworld.com	Hostels and B&Bs	Provides hostel, B&B, and guesthouse deals to passengers through <i>Ryanair's</i> website.	Partnership initiated in 2003 and renewed in 2007. Exclusive five year deal, with the aim to “drive down the cost of travel for millions of European consumers” ⁶ . In the years 2003-2007 the partnership generated Hostelworld.com business worth more than €28m, and this amount is expected to increase as passenger numbers with <i>Ryanair</i> increase ⁷ .
Perfect Getaways Ltd.	Villas & Apartments: <i>Ryanair</i> Lettings	Co-branded microsite which offer access to the holiday home search engine for self-catering accommodation, i.e. private letters of villas, apartments etc.	“ <i>Ryanair</i> gives owners access to over 73 million passengers looking to purchase holiday accommodation in the area they are flying to” ⁸ .

AXA Travel Insurance	<i>Ryanair</i> Travel Insurance	The partnership offers passengers access to “a competitively priced, tailor-made travel insurance product”. Insurances available are single-trip, multi-trip and annual travel insurance policies. ⁹	Five-year partnership commencing 2009. No financial terms of the deal disclosed. Previous partner was Mondial Assistance Group (2003-2009). Product is restricted to citizens of certain countries.
MBNA and Santander Cards UK Limited (GE Capital Bank)	<i>Ryanair</i> Credit Card	Co-branded Mastercards available to citizens of some countries. Earns the passenger bonus on flights, savings on booking fees, and other rewards and benefits. Sold via website, on-board, and via direct marketing at airports.	Initially a partnerships with GE Money, which is now acquired by Santander Cards UK. <i>Ryanair</i> generates revenue from the card issuers on the basis of number of cards issued and revenues generated through use of the cards ¹⁰ .
Costa Cruises	Cruise Holidays	<i>Ryanair</i> passengers book cruises directly via the airlines website. Of <i>Ryanair</i> 's routes, 50 are connected to port destinations offered by Costa Cruises.	Exclusive cruise partnership initiated 2008 in which Costa Cruises handles all cruise bookings made via the airlines website and pays <i>Ryanair</i> a per passenger fee ¹¹ . <i>Ryanair</i> aims to reduce their passenger's cost of traditionally expensive cruise holidays, while Costa Cruises expand their potential customer base substantially. ¹²
Jackpotjoy.com	Get £100 Free!	Online gaming	Initiated 2006. The partnership enables Jackpotjoy.com to reach millions of customers through <i>Ryanair.com</i> , while the aim for <i>Ryanair</i> is for the partnership to assist in leveraging the margin in offering the lowest fares of any airline in Europe. ¹³
SHUTTLEDIRECT / Viajes Alameda, s.a.	Airport Transfer (Private Transfers)	Booking of airport transfer via <i>Ryanair.com</i> microsites. Also sold onboard.	N/a
Terravision	Airport Transfer (Airport Coach)		
Hispano Igualadina	Airport Transfer (Reus Airport Bus)		

Stansted Express / London Eastern Railway Limited	Airport Transfer (Stansted Train)		
Alan Rogers Guides Ltd.	Campsite Holidays	<i>Ryanair</i> passengers can book campsites via the “ <i>Ryanair</i> camping” microsite. Also features exclusive <i>Ryanair</i> offers.	The partnership, which was announced in February 2009, “will lower the cost of camping for millions of European consumers by forcing high-price camping operators to cut prices to compete with [Alan Rogers] and <i>Ryanair</i> ” ¹⁴ .
BCP	Airport Parking, Airport Lounges	Passengers enjoy discounted airport parking and access to airport lounges.	<i>Ryanair</i> customers save up to 60% when pre-booking via <i>Ryanair.com</i>
Arrivalguides.com	Free City Guides	Tourist guides to download for free from the <i>Ryanair</i> website.	N/a
Ink Publishing	Inflight Magazine		
Brandforce Marketing	Scratch Cards		
OnAir / SITA	Mobiles on Board	In-flight communications service, which allows passengers to use mobile phones and other electronic equipment.	<i>Ryanair</i> pays a one-off fee to On Air and bears the cost of installation on the aircraft. The aircraft then receives commissions on mobile calls, text messages and emails sent and paid for by passengers.
Buy As You Fly	Online shopping		
AD2ONE	Global advertising	http://www.Ryanair.com/en/news/Ryanair-website-targets-advertising-partners	
Various/Ground Service Providers	Baggage handling	<i>Ryanair</i> 's ground service providers at all airports levy and collect excess baggage charges.	Ground service providers are paid by incentive for the excess baggage they charge in accordance with <i>Ryanair</i> 's terms and conditions ¹⁵ .

- ¹ Ryanair Ltd., <https://www.ryanair.com/en>. [Accessed March 2010. All information from this site unless otherwise noted].
- ² Ryanair Ltd., 2009. Ryanair And Hertz Extend Car Hire Partnership; Hertz's Ryanair Bookings Grow 70% In Last 4 Years. *Press release via M2 PressWIRE*. 14 April.
- ³ *ibid*
- ⁴ Mulligan, J., 2009. Exclusive Ryanair-Hertz deal is extended. *The Belfast Telegraph*, 15 April. p.30,31.
- ⁵ Ryanair Ltd. *Annual Report 2009*. [Online] Available at: <http://www.ryanair.com/en/investor/download/2009> [Accessed 13 March 2010].
- ⁶ Ryanair Collaborates with Hostelworld.com, *Travel Business Review*, 30 August 2007.
- ⁷ *ibid*
- ⁸ Ryanair Ltd., 2010. Ryanair signs deal with perfect getaways ADVERTISE YOUR HOLIDAY HOME on Ryanair.com. *Press release via M2 PressWIRE*, 12 January.
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- ¹⁰ Ryanair Ltd. *Annual Report 2009*. [Online] Available at: <http://www.ryanair.com/en/investor/download/2009> [Accessed 13 March 2010].
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- ¹³ Ryanair Ltd., 2006. Ryanair launches online bingo & gaming partnership with Jackpot Joy. *Ryanair.com* [internet]. 1 November. Available at: <http://www.ryanair.com/en/news/gen-en-011106>. [Accessed 8 March 2010].
- ¹⁴ Ryanair Ltd., 2009. Ryanair Announces New Partnership With Camping Specialist Alan Rogers Travel. *Press release via M2 PressWIRE*, 10 February.
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Appendix 2: Ryanair's Website

The screenshot shows the Ryanair website homepage in Internet Explorer. The browser's address bar displays <http://www.ryanair.com/en>. The website's main navigation menu includes links for HOME, CHEAP CAR HIRE, CHEAP HOTELS, HOSTELS AND B&BS, VILLAS & APARTMENTS, TRAVEL INSURANCE, CREDIT CARD, CRUISE HOLIDAYS, GET £100 FREE!, AIRPORT TRANSFER, SKI ROUTES, GIFT VOUCHERS, and CAMPSITE HOLIDAYS. A search bar is located at the top right, and a language dropdown menu is set to UK (English).

The main content area is divided into several sections:

- Flights:** A search form with options for Return or One Way flights. The search criteria are: Departing from (dropdown), 04 Apr 2010 (calendar icon), 1 Adult (dropdown), 04 Apr 2010 (calendar icon), 0 Children (under 16 years) (dropdown), and 0 Infants (under 2 years) (dropdown). A "BOOK CHEAP FLIGHTS" button is visible.
- Online Check-In:** A link for online check-in.
- Hotels:** A link for hotel bookings.
- Hertz:** A link for car hire.
- Guaranteed:** A large yellow banner with the word "GUARANTEED" in a red, jagged font.
- News Updates:** A section titled "NEWS UPDATES" with a bullet point: "Call centres opening hours - Easter".
- Flights from Liverpool:** A table listing flight prices from Liverpool:

FROM LIVERPOOL	
Belfast (City)	£6.00
Bratislava	£6.00
Bremen	£6.00

Other promotional banners include:

- "Up to 1/3* off car hire" (Cheap Car Hire)
- "Pay at the hotel" (Cheap Hotels)
- "£10 or less" (beds for)
- "Pre-book and Save up to 60%"
- "EASTER GIFT VOUCHERS"
- "AT UNBEATABLE PRICES!" (Airport Coach)
- "Summer Sun" (FIV)

The Windows taskbar at the bottom shows several open applications, including Case Anal..., speciale b..., Adobe Ac..., Dansk En..., Indbakke..., Dokument..., alfred invi..., and Cheap Fli... The system clock shows 11:13.

Appendix 3: Interview Guide

Date:

Company name:

Name and position of the interviewed:

Sustained Competitive Advantage:

Would you argue, that *Ryanair* has managed to create and sustain a competitive position since their re-launch as Europe’s first low fares airline in 1990?

Industry Structure

1. How would you assess the degree of rivalry within the airline industry ?

2. How would you assess the likelihood of new entrants for this industry ?

3. Do *Ryanair’s* main suppliers (e.g. *Boeing*, fuel suppliers, airports) have a high or low bargaining power?

4. Do *Ryanair*'s customers (B2B and B2C) have a high or low bargaining power?

5. How strong do you consider the threat of substitutes (e.g. road, rail, marine) for *Ryanair*?

Generic strategies

1. In relation to Porter's generic strategies i.e. Cost leadership, Differentiation or Focus, *Ryanair* has chosen to pursue the strategy of cost leadership and thus managed to differentiate itself from competitors.

a. How has *Ryanair* managed to sustain their position as Europe's lowest cost airline in spite of the increase in competition?

Resources

1. If we define *Ryanair*'s physical resources as e.g. plant and equipment, geographic location, access to raw materials etc.: Could you mention physical resources of *Ryanair*, which are valuable, rare, difficult to imitate, difficult to substitute?

2. Concerning *Ryanair's* human resources, i.e. intangible assets include the training, experience, judgment, intelligence, relationships, and insight of individual managers and workers in the firm: Could you mention human resources in the company, which are valuable, rare, difficult to imitate, difficult to substitute?

3. Concerning *Ryanair's* Financial resources, how big a role would you argue that the Ryan family's financial resources have played in *Ryanair's* ability to pursue their competitive position as Europe's lowest cost airline?

Core competence

1. Does *Ryanair* possess a core competence (a core competence is the collective learning in the organization, especially the coordination of production skills and the integration of technologies)?

2. If yes, could you describe, what *Ryanair's* core competence is?

Continuity

Porter (2001) argues that frequent corporate “reinvention” often is a sign of bad strategic thinking and will most likely lead to failure.

1. Has *Ryanair* changed business strategy since its foundation?

2. If yes, when did *Ryanair* change strategy? And for how many years did *Ryanair* keep the same strategy?

3. Would you argue that *Ryanair* has managed to establish and preserve a difference from its rivals, which has allowed the company to outperform competitors?

4. Does *Ryanair* reconsider its strategy?

Value Network

The application of firm specific core competencies, resources, and positional advantages are argued to create unique relationships in a value network. Furthermore, when these competencies and resources are considered as a bundle, as opposed to on their own, they become harder to imitate, harder to transfer and more complementary. Accordingly, they contribute substantially to the company's competitive advantage.

1. Does *Ryanair's* relationship with suppliers contribute positively to *Ryanair's* low-cost strategy?

2. Do they share knowledge with suppliers?

3. Is *Ryanair* highly dependent on suppliers and are suppliers dependent on *Ryanair*?

4. Does *Ryanair* share business risks with suppliers?

5. Would you agree that *Ryanair* has an active relationship with both suppliers and partners, and constantly works to obtain the most cost-effective agreements?

6. Does *Ryanair's* relationship with its business partners facilitate the airline's putting a price on everything other than the actual flight ticket?

7. Does *Ryanair* change business partners often?

8. Does *Ryanair* share business risks with partners?

9. Do *Ryanair's* customers play an active role in the cost cutting strategy?

10. Does *Ryanair* interact with customers and how do they do this?

11. Does *Ryanair* listen to customers? If yes how?

12. Does *Ryanair's* customers provide valuable knowledge to the company?

13. Do you think, that *Ryanair's* relationship with customers needs to change eventually towards a more “caring and sharing” company?

Appendix 4:
Transcription of Interview with
Jacob Pedersen, CFA senior analyst from Sydbank/Denmark

Date:

June 14, 2010

Company name:

Sydbank
Kapitalforvaltning
Peberlyk 4
DK-6200 Aabenraa

Name and position of the interviewed:

Jacob Pedersen, CFA senior analyst

Sustained Competitive Advantage:

Would you argue, that Ryanair has managed to create and sustain a competitive position since their re-launch as Europe's first low fares airline in 1990?

Absolutely, moreover they have managed to develop and improve their position through the years. They have found a new niche as they today deliver a product which is highly demanded in the market. Their business model is streamlined, where their point-to-point strategy plays an important role to this end.

Industry Structure

6. *How would you assess the degree of rivalry within the airline industry ?*

Competition in the airline industry is extremely tough. One problem is, that it is very easy to get access to aircraft. Especially leasing aircraft is a cheap and easy way to enter the industry, thus attracting many new entrants.

7. *How would you assess the likelihood of new entrants for this industry ?*

Entry barriers are low especially for point-to-point. Especially good periods are characterized with over-investment which ruins the markets many years in advance.

8. *Do Ryanair's main suppliers (e.g. Boeing, fuel suppliers, airports) have a high or low bargaining power?*

They have a low bargaining power. *Ryanair* has the absolute power because they purchase big volume. *Ryanair* make money and buy when others cannot afford to. Airports crave for aircraft. The new terminal Swift in Copenhagen Airport, is a way to attract low-cost airlines like *Ryanair*.

9. *Do Ryanair's customers (B2B and B2C) have a high or low bargaining power?*

Generally, I would argue that customers do not have much to say. If you want to be carried this way, this is how it is. Due to their low costs *Ryanair* have a high bargaining power. Moreover, *Ryanair* cannot cover the entire market. It is the cheapest part of the market that they cover which is especially B2C customers. I don't see that B2B customers would chose *Ryanair*. In this way, *Ryanair* cover their customer's needs, which is delivering the lowest prices.

10. *How strong do you consider the threat of substitutes (e.g. road, rail, marine) for Ryanair?*

Since *Ryanair* is so cheap they make a little threat. *Ryanair's* choice of secondary airports among other things makes it possible to lower prices. However, their pricing structure is rather complex and the price they advertise is not reliable, as they inform exactly what they have to and nothing more. Extra fees are not included in the advertised prices and can therefore come as a surprise when you have to pay.

Generic strategies

2. In relation to Porter's generic strategies i.e. Cost leadership, Differentiation or Focus, *Ryanair* has chosen to pursue the strategy of cost leadership and thus managed to differentiate itself from competitors.

a. *How has Ryanair managed to sustain their position as Europe's lowest cost airline in spite of the increase in competition?*

Firstly, the ability to keep their costs lower than competitors. Secondly, their ability to market themselves with such a great success. *Ryanair's* volume in terms of passengers and revenue cannot be matched by any competitor. *Ryanair* simply fly with the lowest costs and that it difficult to beat. *Ryanair* are the cheapest, so if you want the cheapest you go with *Ryanair*.

Resources

4. *If we define Ryanair's physical resources as e.g. plant and equipment, geographic location, access to raw materials etc.: Could you mention physical resources of Ryanair, which are valuable, rare, difficult to imitate, difficult to substitute?*

Well, their young fleet of standard aircraft gives *Ryanair* great flexibility in terms of personnel and so on. *Ryanair* is already the most profitable airline. They buy their aircraft when they are cheapest – when the order books are small at *Boeing*.

5. *Concerning Ryanair's human resources, i.e. intangible assets include the training, experience, judgment, intelligence, relationships, and insight of individual managers and workers in the firm: Could you mention human resources in the company, which are valuable, rare, difficult to imitate, difficult to substitute?*

O'Leary's rhetoric has created the successful airline. It is always a pleasure to read *Ryanair's* accounts. He is so straightforward and says it as it is. That definitely creates an identity in the organization, to have a manager who speaks up and demands everybody to do what he demands – whether it is the employees or governments. However, the employees are not treated very well.

6. *Concerning Ryanair's Financial resources, how big a role would you argue that the Ryan family's financial resources have played in Ryanair's ability to pursue their competitive position as Europe's lowest cost airline?*

Of course at the outset it had an importance what they had to enter with in terms of cash. However, it is to a great extent their business model which is unique. They could have leased aircraft cheaper. It is their streamlined business and O'Leary which is their main reason for their competitive position.

Core competence

3. *Does Ryanair possess a core competence (a core competence is the collective learning in the organization, especially the coordination of production skills and the integration of technologies)?*

Well, *Ryanair* carries their customers cheaper than their competitors because they have the competencies to do this. They have a fast turnaround which involves complex processes to succeed in order to get it all to work out. *Ryanair* has invented a concept which can be rolled out and where O’Leary is the figurehead.

Continuity

Porter (2001) argues that frequent corporate “reinvention” often is a sign of bad strategic thinking and will most likely lead to failure.

5. *Has Ryanair changed business strategy since its foundation?*

No, low cost is the concept since the beginning

6. *Would you argue that Ryanair has managed to establish and preserve a difference from its rivals, which has allowed the company to outperform competitors?*

Yes

7. *Does Ryanair reconsider its strategy?*

No, it would be unwise to reconsider its strategy. Moreover, *Ryanair* should stick to their short-haul routes. Long distance flights does not fit into *Ryanair’s* way of doing things.

Value Network

The application of firm specific core competencies, resources, and positional advantages are argued to create unique relationships in a value network. Furthermore, when these competencies and resources are considered as a bundle, as opposed to on their own, they become harder to imitate, harder to transfer and more complementary. Accordingly, they contribute substantially to the company’s competitive advantage.

14. *Does Ryanair's relationship with suppliers contribute positively to Ryanair's low-cost strategy?*

Yes, of course they do. *Ryanair* is dependent upon the cost levels. The only thing, that *Ryanair* does not have the power over is the oil price.

15. *Do they share knowledge with suppliers?*

I don't know.

16. *Is Ryanair highly dependent on suppliers and are suppliers dependent on Ryanair?*

Suppliers are more dependent upon *Ryanair* than reverse.

17. *Does Ryanair share business risks with suppliers?*

I don't know

18. *Would you agree that Ryanair has an active relationship with both suppliers and partners, and constantly works to obtain the most cost-effective agreements?*

Absolutely, they are always looking for new ways to keep prices low. You have to work hard to get it.

19. *Does Ryanair's relationship with its business partners facilitate the airline's putting a price on everything other than the actual flight ticket?*

Yes

20. *Does Ryanair change business partners often?*

I don't know how often, but they will not hesitate to change if they get a better offer.

21. *Does Ryanair share business risks with partners?*

As said before, *Ryanair* has the upper hand in their relationship to partners and suppliers.

22. *Do Ryanair's customers play an active role in the cost cutting strategy?*

They are the ones deciding to fly with *Ryanair*.

23. *Does Ryanair interact with customers and how do they do this?*

I don't know

24. *Does Ryanair listen to customers? If yes how?*

I think, that when the customers have got used to the way it works. They accept the terms and return.

25. Does Ryanair's customers provide valuable knowledge to the company?

As long as tickets are bought it indicates that customers are satisfied.

26. Do you think, that Ryanair's relationship with customers needs to change eventually towards a more "caring and sharing" company?

I don't think so. In that case it would come as customers would stay away. This would be observed from month to month. I think that when customers are used to the way it works, they accept it. *Ryanair* has a strong business concept which will work in many years ahead.

Appendix 5:
Transcription of Interview with
Per Hvid, Head of Foreign Equities from
Svenska Handelsbanken/Denmark

Date:

14. June, 2010

Company name:

Svenska Handelsbanken
Østergade 2
7400 Herning
Danmark

Name and position of the interviewed:

Per Hvid, Head of Foreign Equities

Sustained Competitive Advantage:

Would you argue, that Ryanair has managed to create and sustain a competitive position since their re-launch as Europe's first low fares airline in 1990?

Yes, absolutely

Industry Structure

11. How would you assess the degree of rivalry within the airline industry ?

Competition is cutthroat. *Ryanair's* advantage is that they do not have a huge service machinery. SAS and others have many expenses i comparison. Også their expenses to salaries are lower than their competitors. Moreover, *Ryanair* do not make agreements with labor unions and other collective associations. Accordingly, they save a lot of money compared to their competitors.

12. How would you assess the likelihood of new entrants for this industry ?

Many new airlines have appeared during the last couple of years. However, many have gone under again. Earlier, before the liberalization of the industry, there was a monopoly situation, where SAS was the big player. Today competition is very fears and SAS is becoming the loser.

13. Do Ryanair's main suppliers (e.g. Boeing, fuel suppliers, airports) have a high or low bargaining power?

Maybe they have a higher bargaining power today especially *Boeing*, since they are the only supplier of aircraft. They are much more dependent on *Boeing* today, since it would be very costly to change supplier and getting spare parts. However, *Boeing* is also very dependent upon *Ryanair* as they are their biggest customer.

14. Do Ryanair's customers (B2B and B2C) have a high or low bargaining power?

Customers have become very disloyal. Price is the offsetting factor, so the customer has become less demanding. Nevertheless, I would never fly with *Ryanair* again. I tried it once and it was a very bad experience.

15. How strong do you consider the threat of substitutes (e.g. road, rail, marine) for Ryanair?

I don't see the substitutes for flying with *Ryanair* as any threat. It is so cheap to fly, that choosing another way of transport is due to other reasons than the price.

Generic strategies

3. In relation to Porter's generic strategies i.e. Cost leadership, Differentiation or Focus, *Ryanair* has chosen to pursue the strategy of cost leadership and thus managed to differentiate itself from competitors.

a. How has *Ryanair* managed to sustain their position as Europe's lowest cost airline in spite of the increase in competition?

Due to their ability to save money and not having a huge service machinery.

Resources

7. If we define *Ryanair*'s physical resources as e.g. plant and equipment, geographic location, access to raw materials etc.: Could you mention physical resources of *Ryanair*, which are valuable, rare, difficult to imitate, difficult to substitute?

Their geographic location. *Ryanair* add a lot of traffic to airports and they even receive public support. An example is the Danish airport. On one hand, these practices distort competition, as other airlines cannot compete on the same conditions. On the other hand, customers benefit as they can deliver the lowest prices in the market.

8. *Concerning Ryanair's human resources, i.e. intangible assets include the training, experience, judgment, intelligence, relationships, and insight of individual managers and workers in the firm: Could you mention human resources in the company, which are valuable, rare, difficult to imitate, difficult to substitute?*

O'Leary is a very strong personality, who invades the turfs of authorities and everybody else. In terms of policy, he is very aggressive. Everybody has to obey his orders. The other employees are thus not as admired as employees in other airlines.

9. *Concerning Ryanair's Financial resources, how big a role would you argue that the Ryan family's financial resources have played in Ryanair's ability to pursue their competitive position as Europe's lowest cost airline?*

I don't know.

Core competence

4. *Does Ryanair possess a core competence (a core competence is the collective learning in the organization, especially the coordination of production skills and the integration of technologies)?*

O'Leary can decide everything. In comparison to conventional airlines, who's processes is a drag on them. Compared to other low cost airlines, they definitely have a core competence – they can do something which others cannot.

5. *If yes, could you describe, what Ryanair's core competence is?*

Ibid.

Continuity

Porter (2001) argues that frequent corporate "reinvention" often is a sign of bad strategic thinking and will most likely lead to failure.

8. *Has Ryanair changed business strategy since its foundation?*

Low cost is the concept, which they have had all along.

9. *If yes, when did Ryanair change strategy? And for how many years did Ryanair keep the same strategy?*

(Not relevant)

10. *Would you argue that Ryanair has managed to establish and preserve a difference from its rivals, which has allowed the company to outperform competitors?*

Yes, definitely. As said before they are better than their competitors.

11. *Does Ryanair reconsider its strategy?*

No

Value Network

The application of firm specific core competencies, resources, and positional advantages are argued to create unique relationships in a value network. Furthermore, when these competencies and resources are considered as a bundle, as opposed to on their own, they become harder to imitate, harder to transfer and more complementary. Accordingly, they contribute substantially to the company's competitive advantage.

27. *Does Ryanair's relationship with suppliers contribute positively to Ryanair's low-cost strategy?*

Yes, but *Ryanair* demands what will happen in most cases. However, when *Ryanair* wanted to implement payment for going to the toilet on the aircraft, *Boeing* refused to implement it. But in general, you can compare *Ryanair* with Walmart in terms of their strategy. They make big orders and thereby their bargaining power is big.

28. *Do they share knowledge with suppliers?*

I don't know.

29. *Is Ryanair highly dependent on suppliers and are suppliers dependent on Ryanair?*

Ryanair is not as dependent as the suppliers. *Boeing* might be the exception.

30. *Does Ryanair share business risks with suppliers?*

I don't know

31. *Would you agree that Ryanair has an active relationship with both suppliers and partners, and constantly works to obtain the most cost-effective agreements?*

Yes, definitely.

32. *Does Ryanair's relationship with its business partners facilitate the airline's putting a price on everything other than the actual flight ticket?*

Yes

33. *Does Ryanair change business partners often?*

They go for the best deal in order to get the lowest cost.

34. *Does Ryanair share business risks with partners?*

Don't know

35. *Do Ryanair's customers play an active role in the cost cutting strategy?*

Ryanair's customers are primary retired people or young people, who only care about the price. I would argue that using secondary airports should have a negative effect on the company, but this is how they can sustain their low costs.

36. *Does Ryanair interact with customers and how do they do this?*

(Not discussed)

37. *Does Ryanair listen to customers? If yes how?*

As long as the concept works and customers return there is no need to listen too much.

38. *Does Ryanair's customers provide valuable knowledge to the company?*

(Not discussed)

39. *Do you think, that Ryanair's relationship with customers needs to change eventually towards a more "caring and sharing" company?*

Perhaps there will come a time when they have to change, but right now they should not. At a point, customers might have had enough of *Ryanair's* way of doing things and then they need to listen and change accordingly.

Appendix 6:
Transcription of Interview with
Joe Gill, Director of Equity Research with
Bloxham Stockbrokers/Ireland

Date:

16. June, 2010

Company name:

Bloxham Stockbrokers
2/3 Exchange Place
IFSC, Dublin 1
Ireland

Name and position of the interviewed:

Joe Gill, Director of Equity Research

Sustained Competitive Advantage:

Would you argue, that Ryanair has managed to create and sustain a competitive position since their re-launch as Europe's first low fares airline in 1990?

Yes they did, but the sustainability of their competitive position was created through their constant obtainment of the lowest prices in the market.

Industry Structure

16. How would you assess the degree of rivalry within the airline industry ?

(Not discussed)

17. How would you assess the likelihood of new entrants for this industry ?

(Not discussed)

18. Do Ryanair's main suppliers (e.g. Boeing, fuel suppliers, airports) have a high or low bargaining power?

(Not discussed)

19. Do Ryanair's customers (B2B and B2C) have a high or low bargaining power?

(Not discussed)

20. *How strong do you consider the threat of substitutes (e.g. road, rail, marine) for Ryanair?*
(Not discussed)

Generic strategies

4. *In relation to Porter's generic strategies i.e. Cost leadership, Differentiation or Focus, Ryanair has chosen to pursue the strategy of cost leadership and thus managed to differentiate itself from competitors.*

a. How has Ryanair managed to sustain their position as Europe's lowest cost airline in spite of the increase in competition?

The industry cost is very important. In the case of *Ryanair* it has been consistent for the past 20 years. They understand how to secure their financials. For example, *Ryanair* has a broad range of aircraft at the cheapest price. They make favorable contracts with secondary airports, and their employees are rewarded through productivity rather than on the pay. *Ryanair* has the ability to keep their unit costs at industry lows.

Resources

10. *If we define Ryanair's physical resources as e.g. plant and equipment, geographic location, access to raw materials etc.: Could you mention physical resources of Ryanair, which are valuable, rare, difficult to imitate, difficult to substitute?'*

(Not discussed)

11. *Concerning Ryanair's human resources, i.e. intangible assets include the training, experience, judgment, intelligence, relationships, and insight of individual managers and workers in the firm: Could you mention human resources in the company, which are valuable, rare, difficult to imitate, difficult to substitute?*

(Not discussed)

12. *Concerning Ryanair's Financial resources, how big a role would you argue that the Ryan family's financial resources have played in Ryanair's ability to pursue their competitive position as Europe's lowest cost airline?*

(Not discussed)

Core competence

6. *Does Ryanair possess a core competence (a core competence is the collective learning in the organization, especially the coordination of production skills and the integration of technologies)?*

I think they do - yes.

7. *If yes, could you describe, what Ryanair's core competence is?*

Their excellent management team with O'Leary in the front – they are consistent and do not compromise in cost cutting. No competitor can match their ability to get the cheapest prices in the market.

Continuity

Porter (2001) argues that frequent corporate "reinvention" often is a sign of bad strategic thinking and will most likely lead to failure.

12. *Has Ryanair changed business strategy since its foundation?*

No

13. *If yes, when did Ryanair change strategy? And for how many years did Ryanair keep the same strategy?*

(Not relevant)

14. *Would you argue that Ryanair has managed to establish and preserve a difference from its rivals, which has allowed the company to outperform competitors?*

(Answered previously)

15. *Does Ryanair reconsider its strategy?*

No they are going to continue with their low cost strategy.

Value Network

The application of firm specific core competencies, resources, and positional advantages are argued to create unique relationships in a value network. Furthermore, when these competencies and resources are considered as a bundle, as opposed to on their own, they become harder to imitate, harder to transfer and more complementary. Accordingly, they contribute substantially to the company's competitive advantage.

40. Does Ryanair's relationship with suppliers contribute positively to Ryanair's low-cost strategy?

Yes, *Ryanair* has a very aggressive approach towards their suppliers and partners. Everybody has to be prepared to lower prices in order to win a contract with *Ryanair*

41. Do they share knowledge with suppliers?

They do share some knowledge, but they are also aware of keeping some matters private.

42. Is Ryanair highly dependent on suppliers and are suppliers dependent on Ryanair?

Suppliers are much more dependent on *Ryanair*

43. Does Ryanair share business risks with suppliers?

(Not discussed)

44. Would you agree that Ryanair has an active relationship with both suppliers and partners, and constantly works to obtain the most cost-effective agreements?

Yes

45. Does Ryanair's relationship with its business partners facilitate the airline's putting a price on everything other than the actual flight ticket?

Yes

46. Does Ryanair change business partners often?

Not terribly, but they do have regular processes in order to evaluate their partnerships. When a contract is about to expire, *Ryanair* reconsiders the terms in order to continuously sustain the lowest prices. *HERTZ* is a partner which *Ryanair* continuously renews its contract with.

47. Does Ryanair share business risks with partners?

Yes, some risks.

Do Ryanair's customers play an active role in the cost cutting strategy?

The customers buy the tickets, but they do not play a big role as such for the company. Low cost is the focus.

48. Does Ryanair interact with customers and how do they do this?

They have a customer manager, but customer care is not core for the operation.

49. Does Ryanair listen to customers? If yes how?

They have customer service, but they would not spend too much money on it.

50. Does Ryanair's customers provide valuable knowledge to the company?

They don't spend too much money in creating a relationship with their customers. Focus is on cost at any time.

51. Do you think, that Ryanair's relationship with customers needs to change eventually towards a more "caring and sharing" company?

Yes I think so. But O'Leary will not change, that is impossible. It will be when he leaves the company, then they will have to evolve towards a more caring company. But the strategy will remain with a focus on low cost.