

*The Impact of the Recession on
Companies' Strategies in the Irish
Airline Industry*

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A dissertation prepared in partial fulfilment of the
requirement of Masters of Business in Strategy and
Innovation Management

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Honesty Statement

I, Sacha Curran hereby declare that the material contained in this dissertation is the end result of my own work and due acknowledgement has been given in the bibliography to all sources used.

Signed: Sacha Curran

Date: 1st Sept. 2010

Acknowledgements

I would like to take this opportunity to extend my heartfelt thanks and appreciation to all the following people for their help, guidance, and support in making this dissertation possible:

To my supervisor, Mr. Nicholas Canny, thank you for your constant support, advice and guidance throughout the year.

To my wonderful mum, Claire, thank you for always believing in me. Your constant interest in my studies has given me great encouragement throughout my academic years. Thank you for all your guidance and support always.

To my sister, Emma and brother-in law, Sean. Thank you both for your constant positivity, support and encouragement.

To Dave, for his love, understanding, support and encouragement. Thank you for always listening to me and cheering me up when I needed it.

To my great friends, Laura and Therese who were always at hand with a listening ear throughout this whole process and cheered me up with a social outing when it was needed.

To all the members of the first MBS class in GMIT, thank you for making it an enjoyable and fun year. Best of luck to you all for the future.

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Abstract

The airline industry is an industry characterised by rapid change, innovation and new technology. It is a dynamic growth industry which has undergone enormous change in recent years. The airline industry is inherently unstable as it is constantly affected by new developments and constraints. Increasing regulation, new low-cost carriers, on-line selling, growing competition and a worldwide recession are some of the challenges impacting the airline business at this time. In response, airlines have had to develop and implement new strategies in order to compete and survive in the current environment.

This dissertation sets out to examine the challenges faced by the three Irish airlines; Aer Lingus, Ryanair and Aer Arann as a result of the current economic recession. The principle objective of this dissertation is to investigate and compare the strategic changes these three Irish airlines have implemented in response to the ever changing market place in which they operate. Management at these airlines must ensure that they employ effective policies and strategies in order to survive the current economic recession. The research for this thesis was conducted over a period of three months and it was conducted from a qualitative perspective due to the subjective nature of the research focus.

The findings of this research indicate that the current economic recession has had a major impact on companies' strategies in the Irish airline industry. Aer Lingus, Ryanair, and Aer Arann have all implemented changes to their strategies in an attempt to survive the current economic climate. Recommendations are then proposed to facilitate the airlines in their strategic making decisions, particularly during turbulent periods. However, such recommendations can also be adapted and used in other service industries. This dissertation concludes with the suggestion that changes in the external environment can have a major impact on companies' performance and all external forces must be indentified and dealt with to ensure success. Proposals for future research in this field are also indentified.

Chapter One

Chapter 1 - Introduction

1.1 Introduction

Aviation is one of the fastest growing industries in the world. However, many airline companies are still experiencing difficulties due to their inability to react and respond to change. It is imperative for airlines to acknowledge and take action in order to survive and prosper in an every changing business environment.

The airline industry has undergone enormous change in recent years as a result of increasing regulation, continued real reductions in air fares, growing competition and a worldwide recession.

Ireland experienced challenging times during the 1980's recession; as economic activity declined, companies were forced to make strategic changes in an attempt to survive. A common plan implemented by most companies in an effort to lower costs was to reduce their workforce. This led to an increase in unemployment rates, which reached a high of 17.2% in Ireland during this period (Central Statistics Office Ireland, 2010).

During the 1990's, Japan endured a difficult period which resulted in unemployment levels reaching a high of 4.9%. This was a turbulent time for a country, who prior to 1990 had a near zero level of unemployment.

From 1995 to 2007, Ireland experienced a period of rapid economic growth, which is commonly referred to as the "The Celtic Tiger" era. However, in 2008 things began to deteriorate and Ireland entered into recession for the first time in over twenty five years. As oil prices stagnated, interest rates increased and the construction sector contracted, unemployment rates rose and GDP declined.

The economic environment can have a critical impact on the success of companies through its effect on supply and demand. The airline industry is just one of the many industries affected by the current economic crisis. It is important for companies to acknowledge their external environment and monitor influences which affect them. At this present time, demand for flights has decreased as both business and leisure passengers have less disposable income to spend on air travel. Airline companies must identify this shift in demand and respond in order to remain successful. Companies in the aviation industry must be innovative and willing to make changes to their strategies if they intend to survive and grow during this period of economic turmoil.

Business strategies play an important role in the daily operations of all companies. Strategy has been defined by various authors within the field of strategy. However the definition that includes all aspects is derived from Johnson et al. (2008, p.7) who define strategy as “*the direction and scope of an organisation over the long term: which achieves advantage for the organisation through its configuration of resources within a changing environment, to meet the needs of markets and to fulfil stakeholder expectations*”. At this present time, the Irish airline companies, Aer Lingus, Ryanair and Aer Arann must evaluate their strategies and adapt or change them to ensure success. Cost-cutting measures and organisational re-structuring plans must now be introduced if these airlines are to overcome the impact of the current economic recession.

This dissertation will analyse these three companies’ strategies and the changes they have had to make since the current economic recession. Previous strategies that have been utilized by Irish and Japanese airlines in an attempt to avoid the negative organizational impact of recession will also be examined. Through investigating airlines during past recessionary periods, the researcher hopes to identify trends and patterns which may facilitate airlines today and enable them to implement the necessary transformation.

1.2 Background to research

The basis of this research is to evaluate the different strategies used to survive recession in the airline industry. To conduct this research the author has examined previous recessions in Ireland and Japan and also the current worldwide recession to gain a better understanding of the difficulties faced by airline companies during times of economic downturn. By researching what changes were implemented in the past, the writer intends to propose suggestions which airline companies could pursue today in an attempt to combat the current recession.

Strategy is fundamental to ensure business success. During this time of economic recession, the author believes this would be a very interesting and appropriate topic to research. It is a very topical issue at present. Everyday on the TV, radio and in newspapers there are stories about numerous companies facing difficulties. In order to survive and grow these companies must implement changes in their current strategies.

The airline industry has been faced with several changes in the past, one such change was the introduction of the internet and online bookings a few years ago. Competition has increased in this industry and strategies have become imperative to survival. The reasoning in undertaking this research is that with the number of different airlines it is fascinating to look at the different strategies they use to gain competitive advantage, particularly during periods of economic downturn.

In Ireland during the 1980's Aer Lingus was the national flag carrier. Competition increased with the launch of Ryanair in 1985. Both companies experienced difficult challenges as the recession progressed, which forced them to re-think their corporate strategies and make necessary changes in order to survive. Re-structuring plans and cost-cutting measures were introduced in an effort to overcome the turbulent period of recession.

The 1990's is referred to as the 'lost decade' in Japan (Bayoumi, T. 1999). Unemployment rates rose and JAL, Asia's most successful airline company incurred huge losses. JAL responded to the economic crisis by launching a lower-cost international charter subsidiary and employing lower paid staff.

During the 'Celtic Tiger' years, marketing and advertising strategies were not top priority for airline companies. These companies were more concerned about not having enough seats to meet demand. However, in recent years, people have less disposal income for air travel resulting in the demand for flights decreasing. Passengers have become more price sensitive and are searching for bargains before they book. Companies must be innovative and quick to implement new marketing strategies to attract customers and stay competitive.

1.3 Focus of the Research

The prime focus of the author's research is to analyse the Irish airline companies; Aer Lingus, Ryanair and Aer Arann and to examine their strategies and the changes they have implemented to survive the current economic recession. Cost-cutting measures, new marketing strategies and strategic alliances will all be investigated to gain a greater understanding of how these companies intend to cope during such challenging times.

To conduct this research, the writer intends to analyse what happened during the Irish 1980's recession and the Japanese recession of the 1990's. The author will evaluate the strategic changes made by airline companies in an attempt to understand how these companies survived in the past during periods of economic recession.

By researching the impact of the recession on companies' strategies, it would highlight the importance of these strategies in gaining competitive advantage. In researching this topic; the author feels it will be beneficially to companies in the future to illustrate how to implement effective strategies for business success.

1.4 Research Objectives:

The primary objective of this dissertation is to investigate and compare the strategic changes the three Irish airlines; Aer Lingus, Ryanair and Aer Arann have implemented to survive the current recession.

The secondary objectives which will form a basis for chapter two are:

- To investigate Irish companies' strategies during the 1980's recession in relation to strategies used today.
- To investigate the Japanese airlines and the strategies they used to survive the recessionary period of the 1990's.
- To investigate and compare the Irish airlines' cost-cutting strategies in the present recession which incorporates; strategic alliances, labour cuts and changes in pay structures.
- To investigate and compare the Irish companies' marketing techniques during the current recession and the special offers and price reductions being offered by these companies.

1.5 Summary of Findings

The findings of this research indicate that the current economic recession has had a major impact on companies' strategies in the Irish airline industry. Aer Lingus, Ryanair, and Aer Arann have all implemented changes to their strategies in an attempt to survive the current economic climate. As a result of the current economic downturn, cost-cutting measures, re-structuring plans, and strategic alliances have all emerged as effective survival strategies for the Irish airlines. The Irish airlines investigated for this study were found to have increased advertising and marketing

activities in an effort to attract more consumers and boost sales during this period of economic recession.

From the research conducted, it was discovered that similar survival tactics are being utilized today by the airlines that were also employed by companies during the 1980's recession in Ireland. Aer Lingus emerged from the 1980's recession as a result of implementing an effective re-structuring plan which saw a reduction in employee numbers. A comparable plan, which will eventually lead to the loss of 676 jobs, has been employed at Aer Lingus as a result of the present day recession. Aer Lingus survived the turbulent period of the 1980's by continuing to grow through acquisitions. Recently, the CEO of Aer Lingus announced that he is considering entering a strategic alliance in attempt to gain a better market position.

Staff reduction, which was implemented by all three airlines investigated, was found to be the most effective cost-cutting measure at this time of recession. Research revealed that this survival technique was also used by JAL airlines during the 'lost decade' of the 1990's. This cost-cutting plan proved successful as JAL emerged from recession and re-gained its competitive market position.

1.6 Structure of Thesis

This dissertation will analyse the Irish airline industry during times of economic downturn. It will focus specifically on the three main Irish airlines; Aer Lingus, Ryanair and Aer Arann. The Japanese airline, JAL will also be investigated and examined to gain a greater understanding of this research topic.

This thesis is divided into five chapters and is structured as follows:

Chapter One: Introduction

Chapter one introduces the research topic and explains the focus of the research. It clearly indentifies the research question and highlights the author's objectives. A

summary of the research findings and a brief synopsis of each chapter are also presented.

Chapter Two: Literature Review

Chapter two provides a detailed and critical literature review examining the relevant existing literature on the topic of recession and the above mentioned airlines. Firstly, the Irish 1980's recession, the Japanese 'lost-decade' of the 1990's and the current recession are reviewed. The strategies previously used by the airlines during these times of economic downturn are then discussed. The literature then proceeds by focusing on the new strategies implemented by the Irish airlines in an attempt to survive the current economic climate. The writer's concluding comments in relation to the wealth of information on this topic are offered and their personal viewpoint is shared.

Chapter Three: Research Methodology

Chapter three gives details on the various stages of background research that was conducted before deciding on the specific research methodology. The reasons for choosing particular research methodology are justified and the mechanisms of collecting data under this research process are detailed. Limitations encountered or that are likely to occur during studies of this kind are discussed and justified.

Chapter Four: Findings and Discussion

Chapter four contains the research results and analysis. The target population is described in detail. Michael Porter's five forces framework is used to provide an analysis of the airline industry. Findings from data gathered are presented and discussed.

Chapter Five: Conclusions and Recommendations

Chapter five contains an overall review of the research from which final conclusions and recommendations are drawn. Suggestions for further research are also proposed.

1.7 Summary and Conclusion

This chapter introduced the research topic, giving the reader an insight into the dynamic environment of the airline industry. The background to and the focus of the research were explained. The research question was identified and the objectives of this dissertation were stated. A summary of the research findings and the structure of the thesis and what each chapter contains were also presented.

In recent years, the current economic recession has had huge effect on companies in many different industries. The airline industry is no different. Many changes occur in this industry all the time but the current economic downturn has had huge impact on the airlines and the way in which they operate. Strategies have been adapted and restructuring plans have been introduced, making it an interesting topic to research at this present time.

Before the primary research is conducted the researcher must first identify and discuss the literature, which currently exists, on this current topical issue of recession and its effect on companies' strategies in the Irish airline industry. This existing literature will now be discussed and presented in the next chapter.

Chapter Two

Chapter 2 - The Literature Review:

2.1 Introduction

As the author has previously discussed their objectives in undertaking this study, it is now appropriate in order to progress with the research that they identify and discuss the literature which currently exists on the topic of strategies used by companies in the airline industry to survive recession. Therefore, the purpose of this literature review is to introduce previous literature on the research topic.

Baker (2001) states that “*the first step in any research project must be to establish what is already known about the topic or the problem in which we are interested in and a secondary research, or a review of the existing literature is the place to begin*”. Accordingly this literature review will account for the wealth of knowledge and ideas that have been established on the topic of strategies used in the airline industry, and also an exploration of the context from which strategies have changed or emerged as result of recession. This area will then proceed with an examination of literature in the following areas;

1. The Recession.
2. Airline companies in Ireland and their strategies during the 1980’s recession.
3. Strategies utilized by Japanese airlines in an attempt to survive the recession during the 1990’s.
4. Irish airline companies’ strategies and the new strategies they have implemented to survive the current economic recession.

control and profit margins. Companies that implement this advice will detect any losses immediately and it will enable them to be proactive and implement change where necessary. It is imperative for businesses to eliminate costs, and to try boost sales and profits in order to survive periods of recession. Pádraig O' Ceidigh, owner of Aer Arann (cited in Bate, 2008) states "*entrepreneurs prefer to work when the economy is in recession, because the recession creates better opportunities*". This is an interesting statement and one which many business people should consider if they intend to grow and prosper in the current economic climate.

Recessions are generally viewed as troubled periods, however in the business world this may not always be the case. If management are clever and innovative they can implement strategies which can in fact lead to business success. Some business people consider a long-term plan essential - particularly during challenging times. However, O' Ceidigh (cited in Bate, 2008) portrays a different view, "*I focus on the journey; I've never looked long term. In fact, in business and in life, I think it can be dangerous to look too much at the long term*". It is essential for companies to focus on the present-day and to develop strategies in order to adapt to the changes in their environment and to survive the current recession.

2.2.1 1980's Recession in Ireland

Ireland experienced a turbulent period during the 1980's, which resulted in recession. This long-lasting recession which was characterised by high unemployment rates and mass emigration had a devastating impact on the Irish economy. Mac Sharry and White (2000) describe the situation by saying "*As recession intensified, unemployment rose, and the battle for investment between European countries became more aggressive and much 'dirtier'*".

During the 1980's recession Gross Domestic Product (GDP) per capita was only 63% of the United Kingdom (Central Statistics Office Ireland, 2010). Ireland was heavily depending on the international situation, as seventy percent of everything that was produced was exported. In the early 1980's foreign investment declined and

indigenous firms focused on their core business and home markets. However, domestic demand decreased as consumers did not have disposable income. As a result such companies had to make changes; one common survival tactic was to reduce their workforce. *“In 1980, one out of four jobs was lost and in the bigger companies with over 500 hundred employees, the losses were even more devastating – one out of two jobs disappeared”* (Mac Sharry and White, 2000). Unemployment rates in Ireland reached a high of 17.2% by the mid 1980's (Central Statistics Office Ireland, 2010).

Throughout the 1980's the Irish Government ran a current budget deficit. This resulted in a huge drain on the economy's resources as national debt rose from €12,945 million in 1981 to €30,085million in 1987 (National Management Treasury Agency, 2010). National Debt is defined by the National Management Treasury Agency (2010) as *“the total outstanding amount of principal borrowed by Central Government and not repaid to date less liquid assets available for redemption of those liabilities at the same date”*. Ireland had the highest debt per head in the world during the 1980's recession.

However after years of economic turmoil, in 1995 things began to improve and Ireland was transformed into one of the wealthiest countries in Europe. GDP growth rates increased, unemployment levels fell and consumers had more disposable income. This period of rapid economic growth up until to 2007 is commonly referred to as 'The Celtic Tiger'.

2.2.2 Japanese Recession in the 1990's

During the 1970's and 1980's, Japan was a wealthy country recognised for its prosperous economic growth. Real estate and stock exchange prices continued to increase and unemployment was unheard of. The people of Japan enjoyed a high-quality standard of living.

However, in the beginning of the early 1990's the so-called "pricing bubble" burst. Real estate prices fell, and stock exchange prices also began to follow a downward trend. Japan experienced a "lost decade" of economic stagnation during the 1990s as their banks were left with trillions of yen in loans that were practically worthless (Bayoumi, T. 1999).

Inflation rates were kept very low throughout Japan's period of slow economic growth, which continued into 2001. According to statistics, annual rates in 1997 were 1.8%, -0.3% in 1999, and -0.6% in 2000.

As a result of the decline in the Japanese financial sector, unemployment levels increased from 2.2% in 1992, to 3.5% in 1995 and then to 4.7% in 1999. In March 2000, the unemployment rate in Japan reached a high of 4.9% (Economic Report – Japan, 2000 p.2). These rates are not very high in comparison to Ireland, where unemployment rates reached a high of 17.2% in the 1980's. However, for a country like Japan that had near zero-levels of unemployment prior to 1990 this posed a huge dilemma. Japan is a country which has prided itself on its traditions of lifetime employment and strong employee loyalty for years. In an effort to minimise the number of redundancies and layoffs, many companies initiated a cost cutting strategy of reducing salaries, wages, and bonuses. As a result the living standards of many employees and their spending decreased, which, in turn, prolonged the economic downturn in Japan.

To combat the recession, Japan tried to restructure the financial sector with the introduction of the 'Big Bang' reform process in 1996. The Bank of Japan lowered interest rates to near 0%, which kept the yen low and made exports competitively priced. This contributed to a short-term rise in GDP to 5.1%. From 2002 - 2007, Japan experienced average growth of 2.1% in GDP (Bayoumi, T. 1999).

2.2.3 The Current Recession in Ireland

Ireland is a small, trade-dependent economy. According to the Central Statistics Office, Ireland (2010), Ireland's GDP growth rate averaged at 6% during a twelve year period from 1995 to 2007. Unemployment rates fell and consumer spending increased during this period. However in 2008 economic activity declined and Ireland entered a recession for the first time in over twenty five years. Stagnating oil prices, contracting construction sector, rise in interest rates by the European Central Bank, government spending and an increase in the rate of unemployment are all factors which contributed to Ireland's economic downturn.

The Central Statistics Office Ireland, (2010) confirms that GDP was down 7.1% in 2009, when compared to 2008. Gross National Product (GNP), which is deemed a more relevant indicator for the Irish economy showed a real growth of -11.3 per cent in 2009, against -2.8 per cent during 2008 (Central Statistics Office Ireland, 2010). This was the largest decline in output recorded in a single year since 1950. In 2009, Irish full time employment fell by 193,200. According to the Central Statistics Office, as of May 2010, the unemployment rate in Ireland has risen to 13.7%. The national debt at end of May 2010 reached €82,900 million (National Management Treasury Agency, 2010).

As the world financial crisis continues, and the building sector contracts, the Irish economy must find a way to regain a competitive position. New activities in the manufacturing, export and the services sectors may provide potential growth for Ireland's economy. According to Economists at Goodbody stockbrokers as of May 2010, "*Ireland saw economic growth in the first quarter of this year*". They predict Ireland's GDP to be flat in 2010, as opposed to its previous forecast of a -1% decline in GDP. This provides positive news of economic stability for the Irish economy.

2.3 Irish airline companies and their strategies during the 1980's recession

McNamee, (2000) suggests that *“the success of any organisation ultimately depends upon the quality of its strategic and marketing management, i.e. how effectively its long-run strategies and operations fit with and shapes its environment in general and in particular how adroitly it positions and markets its products or services.”* He believes that drive and strategic vision of management are core elements of a successful company. This viewpoint proves the importance of management's role in the effective strategic decision making and executing of strategy within an organisation.

Aer Lingus is Ireland's oldest airline, incorporated in Dublin as a state owned company in April 1936. As per its company profile, its mission is *“to be the first choice airline serving business and leisure passengers and customers of its cargo services, in a safe and reliable manner on all of its chosen routes. It will also strive to attain a position in which its subsidiaries are profitable and viable within themselves, are strategic to the core airline business and the ownership of which enhances the achievability of the airline's objectives. Aer Lingus will operate a commercial and profitable business and will reinvest in the development of its people, its fleet and its products to achieve these ends”* (International Directory of Company Histories, 2000).

In October 2006, Aer Lingus became a shareholder owned publicly traded Corporation. Aer Lingus is listed on the Irish and London Stock Exchanges, under ticker EIR1 on the Irish Stock Exchange and ticker AERL on the London Stock Exchange. Following the refusal of a takeover bid of Aer Lingus by Ryanair in 2008, Ryanair now own 29.4% of Aer Lingus and the Government owns 25.4%.

During the mid-1970's Aer Lingus Teoranta merged with Aerlinte Eireann and all operations were conducted under the umbrella of Aer Lingus. As the airline business grew, Aer Lingus decided to diversify. The company acquired a major stake in the

Irish Intercontinental Hotels, invested in engineering firms and aircraft brokerage companies, and also actively developed its own air-charter business.

The airline industry is a dynamic industry. Following deregulation of U.S. air carriers and open skies agreements around the world, complications arose for the competitive situation of Aer Lingus, which posted an IR£11.2 million loss in 1981 (Aer Lingus Plc Group, 2000). Within a few years the company had to close high-profile offices in Paris and New York City and also sales offices in North America and the United Kingdom. In attempt to survive the challenging times of the 1980's management at Aer Lingus decided to focus on the airline's core business.

However, even during a period of economic downturn the company continued to grow internally and by acquisition. A new commuter service subsidiary was launched in May 1983 to keep routes between Dublin and provincial cities open in the face of deteriorating economic climate.

In 1993, as a result of financial losses incurred, management at Aer Lingus believed fundamental reappraisal of the group's business strategy, cost base, management structure and operating practices was necessary. To ensure future profitability of the company a re-structuring plan - "*strategy for the future*" was introduced. This plan covered all the commercial and operational areas of the business. The government supported the implementation of this plan by injecting £175 million in capital over a three-year period. This new initiative enabled Aer Lingus to perform strongly and gain competitive advantage as the industry conditions began to improve (Aer Lingus Plc Group, 2000).

The launch of independent Irish carrier Ryanair in 1985 brought Aer Lingus intense low-fare competition in the European market. This was one reason which forced Aer Lingus to change their strategy from legacy to overall cost leadership (low fares & cost) in 2002.

Ryanair, Europe's leading "low fares/no frills" airline is a public company which was set up during the last recession in Ireland in 1985. Ryanair, with headquarters at Dublin Airport, operates more than 200 Boeing 737-800 aircraft from its forty bases on over 1000 routes across Europe and Morocco.

Ryanair's low-cost strategy enabled them to become a fast growing airline company, proving a huge threat to Aer Lingus. A core element of Ryanair's strategy is to operate frequent point-to-point flights on short-haul flights. To save costs, the airline used secondary airports, including four in the West Country. In its first year, the company broke even. This was an impressive achievement considering the economic climate and narrow margins of the airline industry.

However, during the early 1990's Ryanair experienced some difficulties as a result of rapid growth and intense competition in the airline industry. The company also incurred huge losses due to poor cost management. A restructuring plan was implemented to make the required changes. A new management team was brought in to revitalise the company. Ryanair was re-launched and it was then that it commenced a no-frills low cost strategy, imitating the Southwest Airlines model in the USA. In 1994, Michael O' Leary was appointed CEO of Ryanair. The strategies Mr. O'Leary has implemented since 1994 to the present day will be analysed at a later stage in this literature review.

Aer Arann is a regional commuter airline. Its operations include scheduled services to 18 locations across Ireland and the United Kingdom. Aer Arann is currently owned by Pádraig Ó Céidigh and has expanded from a single aircraft to becoming Ireland's third largest airline behind Ryanair and Aer Lingus.

Aer Arann was established in 1970 and its first service was a route between Galway and the Aran Islands off the west coast of Ireland. The 1980's recession did not have huge affect on Aer Arann or cause them to change strategies, as it was only a small regional airline providing an 'island hopping' service. However there was a turning point for this company in 1994, when it was taken over by Mr. O' Céidigh,

who began laying foundations for a feeder air service for Ireland and the UK. In February 1998, Aer Arann established a base at Dublin airport. In March of that same year the Department of Public Enterprise chose Aer Arann to operate the Donegal to Dublin route, thus becoming a regional airline.

The strategies implemented under Mr. O' Céidigh's management will be discussed at a later in this literature review and the current strategy changes this airline has made to survive the present recession will also be investigated.

2.4 Strategies used by Japanese airlines to survive the recession in the 1990's

Japanese Air Lines (JAL) is Japan and Asia's largest airline company, operating extensive international rights and routes. JAL commenced business as a private carrier in 1951. In 1953 JAL was incorporated and renamed Japan Airline. JAL was the nation's flag carrier, before it was privatised in 1987. Operating a worldwide airline system, JAL set the standards for the other Asian airlines that followed.

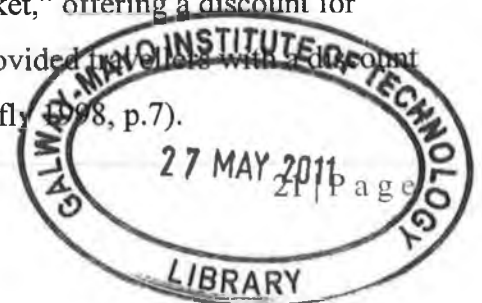
JAL experienced hardship due to increasing competition and economic recession during what the Japanese refer to as the 'lost decade' during the 1990's. During this time of economic turmoil, many Japanese companies cut back dramatically on highly profitable business and first class fares. History of the company accounts shows JAL experienced a loss of US\$100.2 million in 1992, its first loss since 1985. For fiscal 1993, company accounts show JAL posted a net loss of ¥54.9 billion (US\$416.8 million) on revenues of ¥1.28 trillion (US\$11.18 billion). The company stayed in the red through fiscal 1998.

JAL responded to the Japanese economic crisis by launching a lower-cost international charter subsidiary called Japan Air Charter in 1992. An element of its cost-saving strategy was the employment of Thai stewardesses who were paid less than a quarter of the salary paid to Japanese staff. In 1993, another cost-cutting measure was introduced when JAL and All Nippon Airways reached a co-operation

agreement in the area of aircraft maintenance. In an attempt to further reduce its costs JAL initiated a staff reduction plan with the aim of reducing its 22,000 workforce to 17,000 from 1994 to 1998 (Chan, 2000, p.474).

As a result of concluded air agreements in the 1950's US carriers experienced great success, gaining competitive advantage in the Asian market. According to Porter, (1979, p.93) "*the essence of strategy formulation is coping with competition*". JAL portrayed this in their proactive response to US competition. As competition increased during the 1990's JAL reacted by implementing the necessary strategic changes. Customer service was enhanced, to encourage more people to travel. JAL differentiated themselves on their Asian hospitality and charm. To remain competitive, cost-cutting measures were introduced, which resulted in prices being lowered. In a further attempt to attract travellers, in-flight service, such as amenities and meals, were improved. JAL launched frequent flyer programmes to further boost their competitive position during the 1990's (Chan, 2000, p.476).

Consumer requirements and demands vary from time to time; therefore in business it is imperative that management identify such changes to remain competitive during challenging times. JAL, renowned for its quick response to change, acknowledged changes in how people were travelling and introduced new fares to address these new emerging needs. In the early 1990's, group tours were being replaced by international travellers preferring to travel independently. At the end of March 1995, the "JAL Goku" fare (a regular discount fare) was introduced. As a result of its success the "Advance Purchase Discount Goku 28" fare system was launched in 1996. Passengers, who purchased tickets under this system up to 28 days prior to departure, were eligible for fares even lower than "JAL Goku". As both schemes grew steadily, JAL began to generate new ideas to boost sales. In September 1997, two new special offer plans were combined to target the demand for discount flights. These new tickets were called the "early morning ticket," offering a discount for early flights, and the "special flight ticket," which provided travellers with a discount for designated flights (The airline customers want to fly (Chan, 1998, p.7).



According to Mak and Go, (1995) alliances emerged as a key strategy for airlines struggling to survive in the competitive environment of the 1990s. Japan Airlines adapted this strategy in an attempt to survive this turbulent period. They entered into a marketing alliance with American Airlines in 1995. To strengthen this alliance a wide-ranging code sharing tie-up was introduced in 1998. This meant JAL flights from Japan to destinations in the US would use both JAL and AA flight numbers. This large alliance gave great advantage to both companies, enabling them to offer an extensive range of routes and also a wide choice of departure and arrival times.

JAL were effective in their strategic decision making during the 'lost decade' of the 1990's. This enabled them to combat the impact of recession on their company and ensured their survival. In 1999, Japan Airlines returned to profitability and continue to grow today having survived the 'lost decade'.

2.5 Irish airline companies' and the new strategies they have implemented to survive the current recession

Since the decline of the Irish economy in 2008, people are not travelling as frequently as before and therefore this has had an adverse effect on the airline industry. In an attempt to combat and survive the recession Irish airline companies have undergone serious transformation. Cost-cutting measures have been introduced and new marketing and advertising strategies have been implemented. Mintzberg, (1987, p.67) states that "*strategies are both plans for the future and patterns from the past*". Airline management at this time must acknowledge past strategies and adapt or change them in an effort to survive and grow in the future.

According to The Irish Independent on Friday, 4th of June 2010, "*The biggest increase in activity was recorded in the technology, media and telecoms sector with a reading of 58.2. Only transport and leisure recorded a decline last month. NCB said the weak euro should be a boost for tourism in coming months*". It is imperative for the Irish airline companies at this time to use this information in attempt to boost

sales. The Irish airline companies must generate publicity through effective advertisements and special offers in the coming months to attract passengers and increase sales.

The Irish Examiner, in an article titled “Impact: Aer Lingus cuts 'draconian and severe” on Monday, October 06, 2008 revealed after reporting losses of €22 Million for the first half of the year, in October 2008, Aer Lingus announced a €74 Million cost saving plan. This plan involved up to 1500 job cuts including the loss of cabin crew bases in Shannon and Heathrow. The airline intended to scale back ground operations in Cork and Shannon Airport as well as outsourcing check-in, baggage handling - cargo and catering services in Dublin. Transatlantic services were to be reduced and staff would be replaced with US-based cabin crew. A pay freeze was introduced to run until the end of 2009. This was met with a largely negative response particularly from trade unions. However, these cut backs have since been cancelled, and new cut backs including lower pay and a change in working conditions for ground staff have been implemented.

In July 2009, Christoph Mueller was appointed as the new CEO of Aer Lingus. According to Aer Lingus chairman, Colm Barrington, in The Irish Times on the 17th July 2009, “*Mr. Mueller had the experience and skill-set to lead the airline through an unprecedented operating environment and make the changes that are required at Aer Lingus.*” On the 1st of October 2009, Mr. Mueller began his new post, introducing new ideas to help transform the Irish airline company.

The current challenges Aer Lingus is facing, which include; tough market conditions, increasing airport charges and declining load factors have forced management to make necessary changes in an attempt to survive and regain profitability. In a response to the recession, Mr. Mueller announced a radical cost cutting plan that would lead to the loss of 676 jobs at the company. Pay and pension reductions were introduced for employees being retained. He discarded unprofitable routes, making the route network more cost-effective and focused. He has also postponed the delivery of nine new Airbus aircraft to further reduce costs. The total plan is aimed to

achieve savings of €97 million between 2009 and 2011, in an effort to return to profitability in early 2011.

Mr. Mueller was quoted in The Irish Times on Wednesday 27th Jan 2010 saying “*It’s [the market] bad, bad, bad,*” “*I haven’t seen such a thing in my entire life in the sector.*” He believes that the low-cost model is “broken”, due to the lack of available aircraft at low prices. The new strategy introduced at Aer Lingus early this year aims to design a middle course between offering the services of a low cost carrier and that of a full service airline. Aer Lingus will operate by offering competitive fares, excellent customer service, frequent-flyer miles and access to airport lounges. The new business model adopted by Aer Lingus represents a professional but affordable airline, offering a quality product and excellent services. Its target audience is a combination of business and pleasure passengers. It has centrally-located airports, and a degree of network connectivity. The airline anticipates that this connectivity will deliver passenger growth in 2010 and lay the foundation for route expansion in 2011. Although this growth is expected at a much more moderate pace than that experienced over the past few years when the airline averaged +13% annual capacity growth.

In September 2007, Aer Lingus entered into an online partnership with JetBlue in the US. This allowed passengers to book flights via the company website from Dublin and Shannon to 51 US east coast destinations in one go. This web merge did not create any additional costs for Aer Lingus, as it was developed in-house. The results showed a boost to revenue and it gave access to millions of US passengers.

Strategic alliances have emerged as key survival tactic for airline companies during this current period of economic downturn. In 2008, Aer Lingus, having experience in this area entered an interline agreement with Aer Arann. In January 2010, Aer Lingus and Aer Arann established a franchise arrangement between the two airlines; “Aer Lingus Regional”, which uses Aer Arann ATR 72-500 aircraft and crew. This partnership will offer some potential route expansion using smaller aircraft, as Aer Arann operates twelve routes from Dublin and Cork under this franchise agreement.

These routes include existing Aer Lingus and Aer Arann routes and also three new routes. Tickets for all franchise flights are sold and distributed through the Aer Lingus website. However, Aer Arann manages full operational and commercial responsibility for the services covered by the franchise agreement. In return for providing its brand and product suite to Aer Arann, Aer Lingus receives a franchise fee.

This new agreement increases Aer Lingus' presence in the Ireland-UK market, adding routes to Ireland from Bristol, Blackpool, Cardiff, Doncaster/Sheffield, Durham, Glasgow and Edinburgh. New seasonal services between Cork and Jersey in the Channel Islands and La Rochelle in France are also available under this franchise. Additional advantages for Aer Lingus are; it improves network frequency, serves regional business markets and it consolidates long haul traffic in Dublin hub. All of which are achieved at no cost to the airline. According to the Irish Times on the 26th of Jan 2010, Christoph Mueller said *"This franchise agreement is good news for all stakeholders in Aer Lingus as it will allow us to serve key regional destinations, linking them with our Dublin transatlantic network as well as offering our business and leisure customers improved schedule and frequency options"*.

Since his appointment as CEO of Ryanair in 1994, Michael O'Leary has continued to transform the low-cost airline and made it the huge success it is today. Selling fares direct to passengers via the company website, charging additional costs for services and creating deliberately controversial advertising are key ingredients to Ryanair's success. The Irish Times on the 6th of July 2009 reported that Ryanair *"may offer free flights to passengers willing to stand up during flights of less than 90 minutes"*. This is just an example of the random ideas Mr. O'Leary formulates to generate free publicity for the company.

On 31 August 2008, the Sunday Times reported that Ryanair was saving money by pressuring pilots to limit their discretionary fuel reserves. The discretionary reserves are in addition to the legal requirement for 5% extra fuel to be carried as a contingency, plus adequate fuel reserves to divert to an alternative airport, plus

enough fuel to hold for 30 minutes at the destination airport. This type of move was popular at all airlines because of the high cost of fuel in the summer of 2008. Carrying lower reserves allows the plane to get better mileage than when it is overloaded with the excess weight of unused fuel.

Management expert Peter Drucker (cited in Kotler and Caslione, 2009, p.41) advises “*in turbulent times, an enterprise has to be managed to withstand sudden blows and avail itself of sudden opportunities*”. Since the decline of the Irish economy, Ryanair has introduced additional cost-cutting measures to combat the effect of recession on company profits. In February 2009, Ryanair announced that all airport check-in services would be abolished and replaced with a fast bag drop for those passengers checking in bags. By October 2009, the option of checking in at the airport at a cost of €10 was discontinued and all passengers are now required to check-in online and print their own boarding pass. This innovative cost-saving strategy by Ryanair reduces the number of employees required at airports. Passengers arriving at the airport without a pre-printed online check-in must now pay €40 for their boarding pass to be re-issued. Ryanair have also replaced the free online check-in with a €5 online check-in fee which is charged per person, per flight. Ryanair passengers must also pay an added fee if they require priority boarding. To eliminate further costs Ryanair has terminated less profitable routes.

In an attempt to boost revenue during a period of economic recession, Michael O’Leary has once again produced a controversial concept which he believes will reduce fares, increase efficiencies and reduce costs. Ryanair has come up with a plan to charge passengers €1 to use toilets on board. O’ Leary intends to remove two of the three toilets so that they can add six additional seats to each aircraft.

In 1994 when Pádraig Ó Céidigh purchased Aer Arann, this airline company began to experience major change. Mr. Ó Céidigh began to expand the airline's routes and fleet, launching scheduled services in 1998. Also in 1998, the government awarded the airline the PSO route between Donegal and Dublin followed by the route between

Sligo and Dublin. In 2002, additional services were introduced to the United Kingdom and Jersey, and were later followed by service to Lorient and Nantes in Brittany in 2004.

In 2007, Aer Arann had a turnover of €100 million and passenger numbers in excess of 1.15 million, becoming one of the world's fastest growing regional airlines. It was evident that these strategic changes were creating a positive effect for the business. This further encouraged the airline and in early 2008, Aer Arann entered into a franchise agreement with Nex Aviation. As a result they introduced international service to Bordeaux, Malaga and Faro, during the summer months.

In October 2008, Aer Arann announced a further change to its business model to better position itself in the current difficult environment in which it operates. As a result of the decline in passenger traffic, Aer Arann declared that they would be implementing a cost saving programme. This would involve some focus on charter flights and leasing of their crews and aircraft to other airlines. In October 2008, the airline stated that up to one hundred redundancies would be needed, but this was later revised to seventy.

On January 1st 2009, Mr. Paul Schultz took over from Gary Cullen as CEO of Aer Arann. In an effort to survive such challenging times a number of cost-effective changes were introduced at Aer Arann. As a result 57 employees were made redundant and pay was cut by on average 7% at Aer Arann in 2009.

During periods of economic downturn advertising and special offers can play a vital role in the survival of a company. Therefore it is imperative that management implement effective advertising strategies that have positive effects on sales without incurring too much expense. To generate consumer awareness and increase profits Aer Arann adopted an online marketing scheme which has proven successful. E-mail marketing is a very effective method of one-to-one communication with potential customers without creating huge costs for the company. Aer Arann has a client database of over 500,000 people to which they send special offers on a regular basis.

For example, the “Happy Hour” offer which was first sent out by email in Nov 2009, resulted in Aer Arann recording its highest ever number of sales in one hour.

2.6 Concluding Comments

The thorough analysis of some of the main theoretical viewpoints on strategies introduced by companies in the airline industry during recessionary times has encouraged the researcher to look forward with great anticipation to reaching their own research based conclusions on this current topical issue.

Having explored literature on the aviation industry it is clear to see that it is an industry which has undergone huge change in recent years. However, the airline companies still continue to survive, grow and compete in this vigorous industry which has been largely affected by the present and past recessions.

It is evident from the literature examined to see that strategy plays a pivotal role in the daily operations and the success of a company. The writer concurs with Mc Namee’s viewpoint that company success can be achieved as a result of the quality of strategic and marketing management in an organization and decisions they pursue. This indicates that effective strategic decision making by management will enable the airline companies to survive the current turbulent period of recession.

The researched literature reveals that management at the airlines have acknowledged the importance of strategies and have responded to their ever changing environment by adapting their strategies in an attempt to survive through the current economic crisis.

How the investigation into the world of the three Irish airline companies’ strategies was conducted will be discussed in the next chapter where the author’s research journey is described in detail.

Chapter Three

Chapter 3 – The Research Methodology

3.1 Introduction:

This chapter will discuss the research methodology that was used to complete this dissertation. The purpose of this chapter is to provide an insight into the author's research design and the research methods implemented in order to conduct effective research for the purpose of this thesis.

This chapter is divided as follows; firstly the research question and objectives are stated to set a clear and concise framework of what the author intends to achieve from the research. Next an overview of the nature of research and different approaches to obtaining research objectives are examined. The research approach used by the author and the research process undertaken is then justified. Details of the data collection instruments and procedures which were used are explained and how the data was managed is then outlined.

Finally, like any good researcher the author is honest in the discussion of any limitations that were encountered throughout this research process and then an overall research conclusion is presented.

3.2 Research Question and Research Objectives:

3.2.1 Research Question

To effectively begin the research process, the author must start by choosing a research question. Bryman and Bell (2003, p.37) state that "*research questions are crucial because they will:*

- *Guide your literature search*
- *Guide your decisions about what data to collect and from who*

- *Guide your analysis of the data and*
- *Stop you from going off in unnecessary directions and tangents”.*

The purpose of this dissertation is to review the literature on the subject of recession and more specifically focusing on the Irish airline industry and the strategies these airline companies implement to survive periods of economic recession.

To conduct the research the Irish recession in the 1980's and the strategies used by airline companies to survive will be examined. JAL, a Japanese airline will be investigated to understand how they coped with recession in the 1990's. The three main Irish airlines; Aer Lingus, Ryanair and Aer Arann will be investigated and analysed. The innovative strategies these companies have introduced in order to endure the present economic climate will then be discussed.

The author concurs with Bryman and Bell (2003, p.37) on the importance of choosing an effective research question. For this reason an appropriate research question was chosen before the research journey commenced. To guide the writer through the research process and to facilitate research findings focus was placed on the following question:

What is:

‘The Impact of the Recession on Companies’ Strategies in the Irish Airline Industry’?

It was this above question that structured the research throughout this thesis and enabled the writer to clearly set out the research objectives.

3.2.2 Research Objectives:

In order to effectively answer the research question and reach a conclusion, the author has listed the main objectives which will allow the research to take a clearer focus.

The research objectives of this dissertation are:

1. To investigate and compare the strategic changes the three Irish airlines; Aer Lingus, Ryanair and Aer Arann have implemented to survive the current recession.
2. To investigate Irish companies' strategies during the 1980's recession in relation to strategies used today.
3. To investigate the Japanese airlines and the strategies they used to survive the recessionary period of the 1990's.
4. To investigate and compare the Irish airlines' cost-cutting strategies in the present recession which incorporates; strategic alliances, labour cuts and changes in pay structures.
5. To investigate and compare the Irish companies' marketing techniques during the current recession and the special offers and price reductions being offered by these companies.

These research objectives acted as drivers behind the writers chosen research methodology and the various procedures implemented throughout the research process.

3.3 The Research Process:

3.3.1 Quantitative Vs. Qualitative Research

Researchers have the option to choose a qualitative or quantitative research method. Hussey and Hussey (1997, p.12) state that quantitative research is "*objective in nature and concentrates on measuring phenomena*". This research technique is very structured and involves using statistical test to analyse data from surveys. The information gathered is often presented in table, chart or graph format. As this study

relates to strategies, which are more subjective, the researcher did not feel that this method would be appropriate for this study. It would prove too difficult to obtain the necessary information from surveys which could result in inconclusive findings.

Qualitative research is “*more subjective in nature and involves examining and reflecting on perceptions in order to gain understanding of social and human activities*” (Hussey and Hussey, 1997, p.12). Researchers using the qualitative research method gather data from conducting interviews or from using secondary data sources.

The author of this thesis used qualitative research to compile the required information. The reason for choosing this research method was based on the information that was necessary to attain to enable the writer to access the issue of strategies employed in the airline industry. Given that strategies are more subjective, and therefore more difficult to quantify as opposed to measurable data, the author decided that a qualitative approach would be the most appropriate option. For this study, conducting interviews and researching secondary data would provide more accurate information in relation to the research question as opposed to carrying out surveys.

The researcher of this study wanted to speak to people first hand who deal with company strategies on a daily basis and document their opinions regarding the impact of the recession on airline companies’ strategies. For this reason senior management at Aer Arann were interviewed. As qualitative research is subjective, individuals’ interpretation of events is important. This explains the author’s reason for choosing qualitative research over quantitative research.

In quantitative research the instrument is the questionnaire, test or measure, however in qualitative research the instrument is the researcher. According to Kane & O’Reilly De Brun (2001, p.198) “*used properly, qualitative techniques can give you a richness and dept that you are not likely to get through other methods*”.

Qualitative research focuses on an in-dept understanding of human behaviour and the reasons that govern human behaviour. Denscombe (2003, p.267) gives two main distinguishing features of qualitative research these are “*a concern with meaning and the way people understand things*” and “*a concern with patterns of behaviour*”.

Unlike quantitative research, qualitative research relies on reasons behind various aspects of behaviour. It investigates the why and how of decision making, as compared to the what, the where, and the when of quantitative research. Hence, the need is for smaller but focused samples rather than larger samples. The main advantages and disadvantages of adopting a qualitative approach as outlined by Denscombe (2003, p. 280-281) are presented in table 3.1 below.

Table: 3.1 The Advantages and Disadvantages of Qualitative Research

Advantages:	Disadvantages:
<ol style="list-style-type: none"> 1. The data and the analysis are ‘grounded in reality’. 2. There is a richness and detail to the data. 3. There is a tolerance of ambiguity and contradictions. 4. There is the prospect of alternative explanations. 	<ol style="list-style-type: none"> 1. The data may be less representative. 2. Interpretation is bound up with the ‘self’ of the researcher. 3. There is a possibility of de-contextualizing the meaning. 4. There is a danger of over simplifying the meaning.

Although there is the same number of advantages as there are disadvantages of qualitative research, the author believes that conducting qualitative research will

provide the best results for this study. It is evident that this research topic is more subjective and descriptive and by using qualitative research the author will obtain detailed information which will provide more conclusive research results.

To carry out qualitative studies on the topic of strategies implemented to survive recession in the aviation industry semi-structured interviews were conducted. These interviews will be discussed in more detail at a later stage of this chapter.

3.4 Research Design:

A research design is a time based plan, which focuses on the research question (Cooper and Schlinder, 2003). Having a research design provides the author with a framework which enables them to collect and analyse the required data with greater ease. The research design is the string of logic that ultimately links the data to be collected and the conclusions to be drawn to the initial question of the study. This is achieved by selecting the subjects, selecting the most suitable method of collecting data and providing some considerations to the composition of the final report.

It is imperative when conducting a research study that the researcher chooses the most appropriate design for their research, as it has profound effects on how the actual research is carried out. There are three types of research design that the author had the option to choose from; exploratory, casual and descriptive.

3.4.1 Research Design No.1: Exploratory

“Exploratory studies tend towards loose structures with the objective of discovering future research tasks” (Cooper and Schlinder, 2003, p.146). This research design would be suitable for a research topic that has very little existing literature published. However as a wide and varied body of literature about strategy and recessions exist, the author of this study would not find this research design useful.

3.4.2 Research Design No.2: Casual

This research design describes the effect that one variable has on another. It studies

the changes of a variable that can be attributed to another variable (Cooper and Schlinder, 2003, p.282). This design will be appropriate for this study as the writer intends to investigate the effects that recession has on companies' strategies in the airline industry, whether or not they implement change in an attempt to survive recession. Therefore, recession will be the variable that will be examined to discover the impact it has on airline companies' strategies.

3.4.3 Research Design No.3: Descriptive

Descriptive research designs are typically quite formal and structured. They have clear priorities and specific hypotheses that they plan to investigate. Generally the size, form, distribution, or the existence of a variable is stated (Cooper and Schlinder, 2003, p.282). This type of research design makes it easier to estimate the percentages of a population that hold a particular variable. The author feels that this research design will also be suitable for this dissertation. Recession and strategy will be the variables that are stated and examined; the research question has clear priorities and the researcher plans to investigate three specific companies in the Irish aviation industry.

3.5 Research Approaches:

There are two principal types of research approach: deduction and induction. An inductive or deductive approach is used to describe the relationship between theory and research.

3.5.1 Research Approach No.1: Deduction

A deductive approach relates to the collection of quantitative data. Deduction represents proof and facts. A researcher employing a deductive research approach usually develops a theory (after a thorough study of relevant facts); they will then convert the theory into operational terms and finally, will subject the theory to empirical scrutiny (Bryman and Bell, 2003). This approach has been deemed unsuitable for the study in question, as the researcher will not be conducting

quantitative research.

3.5.2 Research Approach No.2: Induction

An inductive approach is usually undertaken when a qualitative research method is conducted. Cooper and Schlinder (2003, p.37) explain this approach by stating that “*the conclusion explains the facts and the facts explain the conclusion*”. This study will take an inductive approach as the researcher will conduct qualitative research which will follow Cooper and Schlinder’s theory.

3.6 Data Collection Methods

Two predominant data collection methods exist: primary research and secondary research. In order to choose the most appropriate source it is necessary to explore each of these methods to ensure it would be complimentary to and support the qualitative and inductive approach of researching.

3.6.1 Data Collection Method No.1: Primary Sources

Cooper and Schinder, (2001 p.260) define primary sources of data as “*original works of research or raw material without interpretation or pronouncements that represent an official opinion or position*”. Some data such as customers’ and CEOs’ perceptions and attitudes are not readily available and can only be obtained through primary sources such as questionnaires and interviews. Information from primary sources are obtained first hand by the researcher and therefore such sources are arguably the most reliable, as there is minimal chance of the data being altered by any other party. For this reason the author of this dissertation chose primary sources to collect data. Interviews with senior management of Aer Arann were conducted to obtain the required information which was not available elsewhere.

3.6.2 Data collection Method No.2: Secondary Sources

According to Cooper and Schinder (2003, p. 282) secondary sources of data are “*interpretations of primary data*”. Information that is referenced from previously

published literature is considered a secondary source. To compile this thesis the author will rely heavily on secondary sources, as access to all three airlines companies for interviews will be difficult to achieve. Secondary sources will assist the writer to gather the required data and justify their findings. Some sources of secondary data that were consulted during this research process include:

- Various relevant textbooks sourced at James Hardiman Library, National University Ireland Galway and the Galway Mayo Institute of Technology Library.
- Numerous academic journals which were accessed through the library at Galway Mayo Institute of Technology.
- Magazine and newspaper articles published which provide information from interviews conducted with senior management of the airline companies.

The main advantage for any researcher in gathering knowledge from secondary sources is that it saves time and effort of performing the research, which is clearly impossible due to the limited time and resources. Investigating secondary data has saved researchers from “*reinventing the wheel*” (Zikmund, 2000, p.58).

3.7 The Research Methods Undertaken:

3.7.1 Case Study

To carry out this research the author decided that a case study approach would be the most suitable as this method generates a vast selection of information using many sources. According to Bryman and Bell (2003, p. 53) case studies allow for “*detailed and intensive analysis of a single case*”.

This thesis will examine the current topical issue of recession and the impact it has had on the strategies of three Irish airlines. As access to all airlines proved difficult for the researcher, the emphasis will be on the airline company based in the west of Ireland, ‘Aer Arann’. Investigating Aer Arann, using primary data collection

methods will provide the researcher with a greater insight into the airline. It will also enable the researcher to analyse this topic further to reach a possible conclusion. Both primary and secondary sources will be used, all of which will be discussed in more detail during the course of this chapter.

3.7.2 Documents

Secondary sources were researched to gain background knowledge of Aer Arann, Aer Lingus and Ryanair. Secondary data can include documentary, multi source or survey analysis. The author found documentary analysis to be most appropriate source for this study, as access to Ryanair and Aer Lingus proved difficult.

“Documentary secondary data include written documents such as notices, correspondence... Written documents can also include books, journals and magazine articles and newspapers” (Saunders et al., 2003, p.190). The airline companies’ websites, newspaper articles featuring Aer Arann, Aer Lingus and Ryanair in addition to interviews with members of senior management which have appeared in the media were all examined to carry out this research.

3.7.3 Interviews

According to Remenyi et al (1998) one of the most important sources of research is interviews. *“An interview is a purposeful discussion between two or more people”* (Kahn and Cannell, 1957 cited in Saunders et. al., 2003, p.48). For this dissertation interviews were used as the main form of primary data collection. Interviews allow researchers to obtain information of extreme importance that may not be available else where. As the researcher conducts the interview, information is received first hand and therefore cannot be altered. The interview questions will be solely related to the research question which will enable the author to obtain the necessary data and provide the reader with precise findings and conclusions.

Interviews can be structured, semi-structured or unstructured. Semi-structured interview were conducted for the purpose of this study. *“Semi-structured interviews are used in order to conduct discussions not only to reveal and understand the what*

and the how, but also to place more emphasis on exploring the why" (Saunders et al., 2003 p.248). Conducting semi-structured interviews permits the researcher to ask open ended questions. The author chose this method as it facilitates the interviewees to talk freely and discuss their opinions. These semi-structured interviews were conducted on a one to one basis. The researcher also ensured that each question referred to the last, which made the conversation flow and guaranteed that the interview did not deviate too much from what was relevant. Thus, the researcher will only obtain information which is relevant to this study.

For this study the author felt that interviews would be more effective as opposed to using questionnaires for the following reasons:

- Interviews give the researcher the freedom to prompt the interviewee if it is felt that their answers are short and did not provide the level of detail required to facilitate the interviewer with their study.
- When interviewing people, you must arrange a designated time in order to conduct the interview. Therefore the interviewee will have the time to think about the question and to respond effectively. However with a questionnaire, respondents may be more inclined to rush when completing it, as they would not have allocated specific time to fill it in. Thus, the researcher would not receive the necessary information.

When considering all the options with regards interviews and surveys, the writer compiled the advantages and disadvantages of each method, which are presented in table 3.2 on the following page. All options were analysed before carefully selecting the most appropriate technique for this study.

Table 3.2 The Advantages and Disadvantages of Interview and Survey Types

	<u>Advantages</u>	<u>Disadvantages</u>
<u>Personal Interview</u>	<ol style="list-style-type: none"> 1. Interviewer can ask questions, use probing and follow up questions. 2. Respondents can be pre-screened. 3. Can create scenarios more descriptively. 	<ol style="list-style-type: none"> 1. High costs. 2. Longer period needed in the field of collecting data. 3. Not all respondents are available or accessible for interview.
<u>Telephone Interview</u>	<ol style="list-style-type: none"> 1. Large Geographic coverage. 2. Fastest completion time. 3. Better access for hard-to-reach respondents. 4. Can use computerised random digit dialling. 	<ol style="list-style-type: none"> 1. Lower response rate. 2. Interview length limited. 3. Directory listing can be unreliable. 4. Responses may be less complete. 5. Visual aids cannot be used.
	<ol style="list-style-type: none"> 1. Allow contact with otherwise 	<ol style="list-style-type: none"> 1. No interviewer intervention

<p><u>Self-Administered</u> <u>Surveys</u></p>	<p>inaccessible respondents.</p> <p>2. Often Lowest cost.</p> <p>3. Large geographic coverage.</p> <p>4. Allows respondents to think about questions.</p>	<p>available.</p> <p>2. Cannot be long or complex.</p> <p>3. Often respondents returning survey represents extremes of population.</p> <p>4. Not able to specify characteristics of respondent.</p>
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After analysing all the possible methods, personal interviews proved to be the most efficient technique to use to gather data for this particular study. Conducting one-to-one interviews with senior management members enabled the researcher to acquire the exact information that was required for the purpose of this dissertation.

3.8 Research Limitations:

No research is without limitations and this study was no exception. It is imperative that this section is not overlooked and that the researcher acknowledges that all research has its problems. Cooper and Schlinder, (2003, p.664) state that a “*sincere investigator [must] recognise that readers need aid in judging the study’s validity*”. Validity (construct, internal and external validity), reliability, finance, access and time constraints are limitations which are relevant to this dissertation.

3.8.1 Limitation No.1: Validity

Validity deals with measuring the weight and legitimacy that the research carries (Bryman and Bell, 2003). Validity can be tested on three aspects; Construct validity (also known as measurement validity), internal validity and external validity.

1. Construct Validity: is concerned with “*the question of whether a measure that is devised of a concept really does reflect the concept that it is supposed to be denoting*” (Bryman and Bell, 2003, p.33). Construct validity was delivered in this study as the author ensured that each research objective was related to the topic under investigation.
2. Internal Validity: relates to causality. It implies a relationship between two or more variables. This is of great relevance to this study as there is a relationship between two variables; recession and strategy. There is a definite argument that one variable; the recession was the cause of companies changing their strategies.
3. External Validity: focuses on how likely it will be to generalise the results. Given financial, time and access constraints it was not possible for the author to conduct in dept research into other airline industries, such as the European and US. Therefore this may pose a problem for generalisation.

3.8.2 Limitation No. 2: Reliability

Reliability focuses on whether or not “*the results of a study are repeatable*” and as to “*whether the measures that are devised for business and management are consistent*” (Bryman and Bell, 2003, p.33). This means that if a researcher followed the procedures and applied it to another case study, the results should be the same. To ensure the reliability of this study, the semi-structure interview questions have been included in the appendices (See appendix B). This should assist in a test of reliability should one be carried out in the future.

3.8.3 Limitation No. 3: Financial, Access and Time Constraints

As a college student, the author will be faced with financial, access and time constraints. This research must be compiled and completed by the 1st of September, 2010. While management at Aer Arann proved relatively straightforward to contact and access, trying to access the other Irish airlines proved to be difficult; access was denied due to time constraints. As a result of time constraints interviews will only be conducted once and analysed and reported on shortly afterwards. Therefore this dissertation will represent a picture of Aer Arann and their strategies at this present time. As the current economic climate is unstable and the aviation industry is dynamic, it will be important to acknowledge that the respondents' attitudes and opinions may differ should subsequent interviews ever be conducted.

3.9 Concluding Comments

To effectively conduct research on this topic the author explored all the possible methods available before choosing the most adequate methodology for this study. According to Blumberg et al, (2005, p14) "*good research generates dependable data, which is derived through practices that are conducted professionally and that can be used and relied upon*". To conclude, the author of this dissertation deems that all data obtained through the utilisation of the above research methods is relevant and reliable and that the study was conducted with sincere professionalism.

Chapter Four

Chapter 4 – Research Findings and Discussion

4.1 Introduction

This chapter presents the research findings based on an analysis of the data collected from interviews conducted and the examination of documentary secondary data. Firstly the target population will be described using background information on each of the three Irish airlines. Porter's five forces framework will then be used to provide an analysis of the airline industry. Finally, an analysis of the data which addresses the research question will be presented. According to Kane and O'Reilly de Brun (2001, p.287) "*analysis of qualitative data involves getting the information (collecting), boiling it down (reducing), organising it in various ways to help you see patterns and relationships (displaying), deciding what you have got (drawing conclusions), and satisfying yourself and others that you have found what you think you have (verifying)*".

4.2 Target Population

Before the research findings are presented it is important to first give an overall description of the target population. Aer Lingus, Ryanair and Aer Arann are the three main airlines in Ireland. These three companies were investigated and analysed in order to conduct this study. Tables 4.1, 4.2 and 4.3 on the following pages will provide a summary of the key facts on Aer Lingus, Ryanair and Aer Arann.

Table 4.1 Key Facts on Aer Lingus

Chairman	Colm Barrington
CEO:	Christoph Mueller
Founded:	1936
Head Office:	Dublin Airport, Co. Dublin, Ireland
Operating and Engineering Bases:	Ireland, the UK, the US, Germany, Switzerland and Austria.
Number of employees:	3,844 (2009)
Destinations:	Ireland, the UK, mainland Europe, the US and the Middle East
Number of Routes:	78
Number of Passengers:	10,382,000 (2009)
Annual Turnover:	€1,205,739,000 (2009)
Code Share Agreement with:	United Airlines, British Airways, KLM
Franchise:	Aer Lingus Regional, Jet Blue
Current Strategy:	Hybrid

(Aer Lingus Plc, Company Profile, 2010)

Table 4.2 Key Facts on Ryanair

Chairman:	David Bonderman
CEO:	Michael O'Leary
Founded:	1985

Head Office:	Dublin Airport, Dublin, Ireland.
Number of Bases:	43
Number of employees:	6,616 (Mar 2010)
Number of Destinations:	145 across Europe and Morocco
Number of Routes:	Over 1,100
Number of Passengers:	58.6 million (2009)
Number of flights per day:	1,200 (2009)
Annual Turnover:	€2,942,000,000 (Mar 2010)
Current Strategy:	Low Cost, No Frills

(Ryanair Holdings Plc, Company Profile, 2010)

Table 4.3: Key Facts on Aer Arann

Owner/Chairman:	Pádraig O' Ceidigh
CEO:	Paul Schutz
Founded:	1970
Head Office:	1 Northwood Avenue, Santry, Dublin 9, Ireland
Operating and Engineering Bases:	Dublin, Cork, Waterford, Galway and The Isle of Man
Number of employees:	450
Destinations:	Ireland, the UK and France,

Number of Routes:	40
Number of Passengers:	800,000 (2009)
Number of flights per week:	600
Annual Turnover:	€88million (2009)
Code Share Agreement with:	Etihad Airways
Franchise:	Aer Lingus Regional
Current Strategy:	Low Price

(Aer Arann, 2010)

Passengers are a key revenue source for all airline companies and therefore to survive and grow it is imperative to target all market segments; businesspeople, families, tourists, students and commuters. Strategy has always been an important element in the aviation industry as companies adapted their offerings to facilitate different customers' needs. Some companies, such as Ryanair offer minimum services in exchange for low-cost fares and other companies, such as Aer Lingus and Aer Arann charge a more expensive rate as they provide a higher standard service.

These three Irish companies are competing in a fragile industry where external influences have a major impact on the success of the company. Air travel is extremely sensitive to changes in the economy. Unfavourable economic conditions such as the current recession can result in discretionary travel being cut by both business and leisure passengers. Towards the end of 2008 and for the first half of 2009, the airline industry experienced a decline in the demand for European air travel. According to Ryanair's annual report (2009) "*this can be primarily attributed to the crisis experienced in the worldwide credit markets, high oil prices, and the global recession*". It is understood that "*a continued recessionary environment will likely negatively impact Ryanair's operating results. It could also restrict the*

company's ability to grow passenger volumes, secure new airports and launch new routes and bases, and could have a material adverse impact on its financial results".

To avoid such external influences from having a negative effect on companies' performance, it is imperative that such pressures are indentified and changes are implemented to ensure business success. Porter's five forces framework is a useful tool which highlights factors which can have an impact on companies' strategies within an industry. Conducting an industry analysis using Porter's five forces framework enables management to indentify these forces and make necessary changes within in their company.

4.3 Airline Industry Analysis – Porter's Five Forces

In the airline industry there is no one unique strategy which leads to company success. Airline companies have the option to choose from a range of strategies, however it is important that they choose one strategy and implement it well to ensure success. Porter's five forces (Porter, 1980) is an effective framework used to indentify the strategic options available to companies in a particular industry. Porter's five forces will enable readers of this study to gain a better understanding of the Irish airline industry. According to Johnson et al., (2008, p.60) the five forces framework "*can provide a starting-point for strategic analysis*". The five forces are:

1. Rivalry Among Existing Firms
2. The Bargaining Power of Buyers
3. The Bargaining Power of Suppliers
4. The Threat of New Entrants
5. The Threats of Substitutes

1. Rivalry Among Existing Firms

This force describes the intensity of competition between existing firms in an industry. According to Thompson et al. (2009, p.61) “*the strongest of the five competitive forces is nearly always the market manoeuvring for buyer patronage that goes on among rival sellers of a product or service*”. Highly competitive industries can lead to all companies experiencing pressure on prices, margins and ultimately profitability. The challenge for managers in such industries is to craft a strategy that will provide their company with a ‘competitive edge’ over their rivals. Companies in the airline industry use effective lower pricing strategies as competitive weapons in an attempt to outperform rivals. It is common practice among airline companies, in order to remain competitive to offer passengers the best (lowest) price. This can force other airlines to do the same and thus incur losses on some or most rivals.

Thompson et al. (2009, p.63) highlight the factors which influence rivalry among existing competitors, these include:

- **Rivalry intensifies as the number of rivals increase and rivals are roughly of equal size and competitive capability.**

The greater the number of competitors, the stronger the rivalry will be within an industry. Companies will be constantly implementing new and innovative ideas in an attempt to gain competitive advantage over their rivals. Although Ryanair have first-mover advantage, competition for market share in the airline industry is intensifying as more airlines are choosing the low-cost strategic option. As competitors become equal in size and capability it makes it very difficult for one company to dominate the market.

- **Rivalry is usually stronger where demand for the product is growing slowly.**

Demand in the airline industry has seen a huge shift since the current recession. People have become more price conscious and are opting for low cost airlines over the more expensive traditional airlines to travel to and from

their destination. For this reason, companies such as Aer Lingus have introduced cost-cutting measures which have resulted in price cuts in order to remain competitive.

- **Rivalry is more intense when buyer costs to switch brands are low.**

Switching costs for buyers to an alternative airline are generally low.

Passengers, particularly during times of recession will investigate all airline prices before choosing the cheapest flight available to them. This can result in increased competition within the airline industry. However, frequent flyer programmes, such as those offered by Aer Lingus on transatlantic flights can deter customers from choosing a cheaper option and increase consumer loyalty.

- **Rivalry is stronger when one or more competitors are dissatisfied with their current market position and make aggressive moves to attract customers.**

Acquiring smaller rivals, boosting marketing and advertising activities, offering discounted prices, introducing new services and forming strategic alliances are all common tactics used by airlines particularly during difficult periods in an attempt to attract more customers and gain a better market share. Each of the Irish airlines has used one if not more of these survival strategies in recent times in an attempt to outperform their rivals. This can intensify cross company competition, which is evident from the price war that currently exists between competing airlines.

2. The Bargaining power of Buyers

Whether seller-buyer relationship represents a weak or strong competitive force depends on: 1. whether some or many buyers have sufficient bargaining leverage to obtain price concessions and other favourable terms and conditions of sale.

2. Whether strategic partnerships between certain industry members and their

customers produce competitive pressures and adversely affect other industry members (Thompson et al. 2009, p.75).

Buyers in the airline industry are the passengers who buy the tickets to fly with the airline. As airline customers are infrequent purchasers, who all book their flights individually they have relatively weak bargaining power. However, they do have some degree of power as consumer preferences can dictate company margins and volume. The more information the buyer has the more bargaining power they possess. Customers can easily access the prices of each airline online and choose the best price available. Switching to an alternative airline is simple and does not involve high costs for the customers. At this time of economic recession consumers would have more bargaining power than ever before.

3. The Bargaining Power of Suppliers

Whether supplier-seller relationship represents a weak or strong competitive force depends on: 1. whether the major suppliers can exercise sufficient bargaining power to influence the terms and conditions of supply in their favour 2. the extent of supplier-seller collaboration (Thompson et al. 2009, p.70).

In the airline industry, the main suppliers are those who supply the aircrafts, fuel and catering services. Boeing and Airbus are the leading suppliers of commercial fixed-wing air carriers. Bargaining power of these suppliers is high due to supplier concentration and also because there is no substitute for aircraft.

Fuel providers also have a high bargaining power over airline companies, as airlines have no control over the ever increasing fuel prices and also because no substitute for fuel yet exists. As a result of rising fuel prices, Ryanair experienced a rise of 59% in fuel costs in 2009 in comparison to 2008 (Ryanair Annual Report, 2009) .

4. The Threat of New Entrants

New entrants to a market bring new production capacity, the desire to establish a secure place in the market and sometimes substantial resources with which to compete. Often the strongest competitive pressure comes from existing industry participants looking for growth opportunities.

The threat of new entry is high in the airline industry, especially in short haul, point-to point markets. New entry is relatively straightforward; however it is costly to set up a new business in this industry. Aircrafts must be purchased or leased and the required technology is needed. Reservation and support services must also be acquired and set up.

To assess the threat of new entrants in an industry, the barriers to entry must be indentified. Several barriers to entry exists in the airline industry, these include:

- **Economies of Scale:**

Airline companies operate in a large-scale economy environment, which means new entrants must enter on a larger scale. This may prove too costly or risky, preventing the entry of new firms.

- **Cost and Resource advantages independent of size:**

Existing airline companies may possess excellent well trained staff and have efficient resources such as aircrafts and technology, giving them a distinct advantage over new entrants which may not have such resources available to them.

- **Brand preferences and high degrees of customer loyalty:**

If existing companies have a strong brand name, it will be difficult for new entrants to compete. High customers loyalty will mean new entrants will have to attract customers by offering them very low prices, which may prove too costly.

- **High capital requirements:**

To enter the aviation industry a large amount of capital is required. This may limit the number of new entrants, particularly during a period of economic downturn as it will be difficult to persuade investors and financial institutions to part with such a large sum of money.

- **Regulatory policies:**

Airlines must meet certain government regulatory conditions, policies and rules before they can operate in the aviation industry. Such policies can limit and may even prevent new companies from entering the market.

5. The Threats of Substitutes

“Companies in one industry come under competitive pressure from the actions of companies in a closely adjoining industry whenever buyers view the products of the two industries as good substitutes” (Thompson et al. 2009, p.69).

The threat of substitutes for air travel is medium to high. There are a number of potential substitutes which pose huge threat to air travel at this present time.

Technology can be seen as one of these substitute threats. Electronic methods of communication such as video-conferencing, tele-conferencing and email all have a serious impact on the market for business air travel. During times of recession, companies are more likely to conduct business through these cheaper more cost effective methods rather than paying to send employees on flights around the world.

Cars, buses, trains and ferries all provide alternative methods of transport, and can be seen as substitutes for air travel. Time, money, personal preference and convenience all have a huge effect on the threat of substitutes in the airline industry. Air travel can reduce the time of a journey, however it can also be more expensive and people may choose a cheaper substitute option instead. If time is not an issue for passengers, airlines could be affected by such substitutes. For example to fly by regional airline,

Aer Arann from Galway to Dublin it would be more expensive than travelling by car, train or bus.

Summary of Porter's Five Forces Analysis of the Airline Industry

From the above industry analysis it is evident to see that rivalry among existing firms in the airline industry is intense. Airlines are currently fighting for market share by implementing cost-cutting measures in an attempt to outperform their rivals. The threat of access by new entrants is low due to the high barriers to entry outlined above. The threat of substitutes is medium to high, particularly now at a time of recession as customers are more likely to choose a cheaper alternative to air travel to reach their destination. It is difficult to achieve economies of scale in the airline industry due to the power of suppliers and the power of buyers and also due to high costs. In order to remain competitive and to withstand the current recession, the Irish airlines must continue to reduce costs, implement effective marketing strategies to attract more passengers and try to gain access to more capital.

Overall Porter's five forces provide a detailed analysis of the airline industry which can be used by companies to facilitate them in their strategic decision-making. In order to choose an effective strategy which will result in a successful airline, companies must identify and deal with the above conflicting forces. They must then implement the necessary changes to their strategy.

4.4 The impact of the current economic recession on the Irish airline companies' strategies

“All industries are characterised by trends and new developments that gradually or speedily produce changes that are important enough to require a strategic response from the firms that they are affecting” (Thompson, et al., 2009). The aviation industry is in a constant state process of change and revolution. Increasing competition and worldwide recession are changes which have had huge affect on airline companies' performance. Therefore it is imperative that management respond and make the necessary strategic changes to tackle and overcome these external pressures. From the research conducted it was discovered that all three Irish airlines which were investigated have implemented changes to their corporate strategies in an effort to withstand the pressures of the current economic climate.

4.4.1 Aer Lingus

Since his appointment as CEO of Aer Lingus in October 2009, Christoph Mueller has suggested a number of changes he intends to employ at the airline in order to withstand the current economic recession. He has indicated that he wants to transform the airline from a pure low cost carrier to a hybrid model with a higher emphasis on customer service. Campbell et al., (2004, p.169) suggest that *“a successful strategy can be based upon a hybrid (a mixture) of differentiation, price and cost control”*. Mr. Mueller believes that the low-cost model is *“broken”* as it limits the airline's ability to maximise revenues. Executing an effective hybrid strategy will differentiate Aer Lingus from its competitor Ryanair and enable them to target a larger market. This new strategy will facilitate Aer Lingus in reducing costs and enable them to offer passengers better food and faster check-in times.

The current challenges Aer Lingus is facing, which include; tough market conditions, increasing airport charges and declining load factors have forced management to make necessary changes in an attempt to survive and regain profitability. In a

response to the recession, Mr. Mueller has introduced a radical cost cutting plan that will lead to the loss of 676 jobs at the company. Pay and pension reductions were introduced for employees being retained. He has discarded unprofitable routes, making the route network more cost-effective and focused. He has also postponed the delivery of nine new Airbus aircraft to further reduce costs. The total plan is aimed to achieve savings of €97 million between 2009 and 2011, in an effort to return to profitability in early 2011.

In 2007, Aer Lingus exited an alliance with Oneworld, as a result of a repositioning plan under the management of former CEO Willie Walsh. However, new CEO, Mr. Mueller has initiated different plans. In June 2010, he explained that Aer Lingus was in the early stages of holding talks with SkyTeam, Oneworld and Star Alliance with the goal of joining one of them. He stated that Aer Lingus, being based on an island, *“need to offer our customers a global network; this is our raison d’etre. But we will not fly this ourselves. We will do this through an alliance”*. Under Mr. Mueller’s management Aer Lingus has also added to its number of short-haul flights through a franchise agreement with regional airline, Aer Arann. This new agreement increases Aer Lingus’ presence in the Ireland-UK market, adding routes to Ireland from Bristol, Blackpool, Cardiff, Doncaster/Sheffield, Durham, Glasgow and Edinburgh. New seasonal services between Cork and Jersey in the Channel Islands and La Rochelle in France are also available under this franchise. Additional advantages for Aer Lingus are; it improves network frequency, serves regional business markets and it consolidates long haul traffic in Dublin hub. All of which are achieved at no cost to the airline. According to the Irish Times on the 26th of Jan 2010, Christoph Mueller said *“this franchise agreement is good news for all stakeholders in Aer Lingus as it will allow us to serve key regional destinations, linking them with our Dublin transatlantic network as well as offering our business and leisure customers improved schedule and frequency options”*.

Mr. Mueller feels that strategic alliances and franchise agreements will prove to be key survival tactics for Aer Lingus, particularly at this time of recession. He feels

that implementing such strategies will enable the airline not only to withstand the current economic climate but also help it to grow and prosper in the future. It seems that trends towards airline mergers and alliances are inevitable in this industry. Creating alliances will facilitate Aer Lingus in offering customer greater benefits through a greater support network of dedicated staff.

4.4.2 Ryanair

Ryanair, which models its operations on the very successful Southwest Airlines (US) low cost leadership model, is now the largest low cost airline in Ireland, the UK and main land Europe. According to Campbell et al., (2004, p.161) “*cost leadership strategy is based upon a business organizing and managing its value- adding activities so as to be the lowest cost producer of a product (a good or service) within an industry*”. The key component to Ryanair’s success, particularly at a time of economic downturn is its effective strategy which involves reducing all of their costs. To combat the impact of the current recession, Ryanair have not changed their strategy but instead have adapted it by introducing further cost-saving measures to ensure survival.

To achieve low costs, which enable Ryanair to offer competitively low prices a number of innovative measures have been implemented by this airline. Findings show that Ryanair use just one aircraft type (Boeing 737-800), which means less maintenance expenses. All passengers’ bookings are made directly via the internet, which saves more costs as there is no sales commission. Since the current recession Ryanair has implemented further cost-cutting measures to save even more costs. Since October 2009, passengers flying with Ryanair are required to use an online check-in system, which reduces the number of staff required to work at the airports. Ryanair’s ‘low cost no frills’ strategy means that there is no free food or drinks on board and customers must pay for any additional services required.

Ryanair’s 2010 end of year results which are outlined in table 4.4 on the following page indicate that Ryanair’s low cost strategy has proven to be successful even

during a period of economic recession. The airline has continued to reduce costs and in turn it has not only survived the economic downturn but it has managed to prosper and grow at a time of economic uncertainty.

Table 4.4 Summary of Ryanair's End of Year Results 2010

Summary Table of Results in Euro Full Year Results	Mar 31, 2009	Mar 31, 2010	% Change
Passengers	58.6m	66.5m	+14%
Revenue	€2,942m	€2,988m	+2%
Adjusted Profit/(Loss) after Tax	€105m	€319m	+204%
Adjusted Basic EPS(euro cent)	7.10	21.59	+204%

(Ryanair Investor Report, 2010)

Ryanair's CEO, Michael O'Leary, stated on the announcement of these positive results that "the principal highlights of the past year include:

- Profits trebled to €319m.
- Traffic growth of 14% to 67m.
- 51 net new aircraft (y/e fleet 232xB737-800).
- 8 new bases Bari, Brindisi, Faro, Leeds, Oslo, Rygge, Pescara, Porto, and Trapani (total 42).
- 284 new routes (total 940).
- Passenger service statistics further improved (No.1 on time major airline).
- A dividend of €500m proposed (€846m returned to shareholders over the past 3 years)" (Ryanair Investor Report, 2010).

Findings suggest a bright future for Ryanair as the airline continues to grow at rapid speed. Both profits and margins are continuing to rise even at this present time when market conditions are unfavourable.

4.4.3 Aer Arann

Pádraig O'Ceidigh, owner of Aer Arann is fully aware of the dynamic industry in which he operates stating that *“regardless of how hard people work or how committed or focused they are, there will always be huge personal and financial risks in the airline industry”*. He has indentified the changes in the current economic environment and believes *“the airline industry is facing the greatest set of challenges since the 1974 oil crisis”*. These challenges include a combination of record fuel prices that has seen the price of aviation jet fuel increase by 100% in nine months, reduced demand from discretionary leisure travel due to the decline in consumer confidence related to the credit crunch and the pending increase in taxation driven by the environmental proposals. Mr. O' Ceidigh has acknowledged the impact of these challenges on the airline industry and has made necessary strategic changes to ensure survival.

Strategy at Aer Arann is formulated by Pádraig O' Ceidigh in conjunction with the Board of Directors. They agree that *“strategy is critical, but, useless unless executed effectively and assessed continuously”*. During the booming 'Celtic Tiger' era Aer Arann's main focus initially was growth (to 2007), then internal focus on productivity and process improvement. Since the current recession Aer Arann has adapted its strategy process, implementing a short-term survival plan. According to Mr. O' Céidigh short-term planning can be more effective and not only during challenging times. *“I focus on the journey; I've never looked long term. In fact, in business and in life, I think it can be dangerous to look too much at the long term”*. Mr. O' Céidigh states that at this present time there is greater focus on *“getting cash in”*. Numerous strategic changes have been introduced at the airline in an attempt to achieve this and to survive the impact of the current economic climate.

In an effort to boost sales at this time of recession, Aer Arann has increased its marketing and advertising activities. *“Customers are at the centre of the marketing philosophy and effort, and it is the task of marketing management to satisfy their needs and expectations better than the competition”* (Jobber, D. 2007, p.97). At this present time, Aer Arann is focusing on customer needs and requirements in an attempt to increase sales. As a result of the current economic downturn Aer Arann has introduced an effective advertising strategy which focuses on promoting internet sales and promoting a good customer value.

In an attempt to combat the challenges presented by very high fuel prices and pending environmental legislation, Aer Arann operates a fleet of ATR turboprop aircraft. Describing these aircrafts O’ Céidigh states *“these are highly fuel efficient, operate at lower speeds and contribute to a small fraction of aircraft emissions. They operate at lower altitudes, have no effect on the ozone layer and upper atmosphere, and provide optimised capacity allowing us to adapt frequencies to discrete customer needs on a route specific basis”*

In January this year, Aer Arann and Aer Lingus signed a new franchise agreement under which Aer Arann will operate 12 routes from Dublin and Cork. These franchise services are branded as “Aer Lingus Regional” and will be operated using Aer Arann ATR 72-500 aircraft and crew. The routes will include current Aer Lingus and Aer Arann routes and also three new routes. Aer Arann’s Pádraig O’ Céidigh described the deal as a *“major development for Irish aviation and the tourism industry”*. This agreement will offer customers new routes and a frequency of services on some of the existing routes. However findings revealed that this franchise did not occur as a result of the current recession. Mr. O’ Céidigh stated that *“we have been working on this strategy for a number of years; it only became a reality when Christoph Mueller came as CEO last September”*. However, he does believe that this agreement came into effect at a vital time and will act as an effective factor in ensuring Aer Arann’s survival during this period of economic uncertainty.

Pádraig O' Céidigh believes people to be an important asset in achieving business success. Motivated and hardworking staff is at the core of Aer Arann's current planned and deliberate strategy. Mr. O' Céidigh cited Aer Arann's competitive advantage to be its people and its ideas. However, he was not of the opinion that because this advantage had been successful to date that it would continue to be successful in the future - *"changes occur all the time, especially in the airline industry"*. Mr. O' Céidigh believes it is imperative to identify any internal or external changes and monitor the effect they can have on your business. He commented that if monitored correctly, necessary changes can be made to avoid such forces having a negative effect on business performance. He feels that by acknowledging new changes in your environment you can in fact create opportunities for the future - *"if you focus on history, you will never create a future of opportunity"*.

4.5 Concluding Comments

This chapter provided an overall description of the three Irish airline companies under investigation and the environment in which they operate. An analysis of the airline industry was presented using Porter's five forces framework. This was effective in giving the author and reader a better understanding of the industry and the forces which can affect strategic decision making in airline companies. It is imperative that such forces are identified by airlines and monitored to ensure they do not have a negative effect on business success.

Research findings proved that the current economic recession has had an impact on the three Irish airlines. Aer Lingus, Ryanair and Aer Arann have all revised their strategies in an attempt to survive the current economic climate. However, contrary to belief, findings discovered that Ryanair's effective strategic decision making has in fact led to the company increasing their annual profits.

The strategic changes that were uncovered whilst researching these three Irish airlines have been identified and presented. The principle objective of the research was achieved as the strategies implemented by the airline companies in an attempt to survive this turbulent period of economic recession were revealed and compared.

The careful analysis of the data received from interviews and secondary documentation enabled the author to propose the recommendations and conclusions that are presented in the next chapter, the final stage of the research journey.

Chapter Five

Chapter 5 – Conclusion and Recommendations

5.1 Introduction

This is the final stage of the research journey where the knowledge gained on this current topical issue will be evaluated and recommendations for the airline industry will be proposed. From the research and analysis conducted throughout this study, the author will then discuss suggestions for future research and present the final overall conclusion.

5.2 Analysis of the Research Findings

Findings from the research conducted reveal that the current economic recession has had a major impact on companies' strategies in the Irish airline industry. All three Irish airlines; Aer Lingus, Ryanair and Aer Arann have adapted their strategies and implemented necessary changes in an effort to combat the effects of the current economic climate. Cost-cutting plans have been introduced and advertising and marketing activities have been increased as a result of the current economic downturn. Airline companies are currently using special offers in an effort to attract more passengers and to increase their overall sales.

It is evident that similar survival tactics that were used during the 1980's recession have also been put into practice by these airlines in recent times. Cost-cutting measures and re-structuring plans which have been recently introduced by these three Irish airlines as a result of the current recession were contributing factors in Aer Lingus re-gaining a competitive position in the years following the 1980's recession.

Ryanair have continued to implement their low-cost strategy, making changes which have resulted in further cost reduction for the airline. The introduction of Ryanair's on-line check system has enabled the airline to reduce the number of staff required at airports. Staff reduction is a common tactic used by companies in most industries during turbulent periods. This strategy of employee reduction proved effective when used by JAL airlines during the 'lost decade' of the 1990's. Ryanair's continued cost reducing measures and effective strategic decision making have enabled the airline to not only survive this turbulent period of recession but have also allowed the company to grow and prosper. Findings revealed that Ryanair's profits trebled to €319m in the year ending March 2010 (Ryanair Investor Report, 2010).

Strategic alliances and mergers were also used by JAL airlines in an attempt to survive the 'lost decade' of the 1990's. These strategic alliances enabled JAL to offer an extensive range of routes and also a wide choice of departure and arrival times. Aer Lingus have identified the benefits of such strategic alliances. Mr. Mueller has recently announced that he is considering entering an alliance to strengthen the airline's position. He believes that creating a strategic alliance would facilitate Aer Lingus in surviving the current recession while also enabling the airline to grow in the future.

Aer Arann's short-term survival plan which focuses on "*getting cash in*" reveals that changes in the airline's external environment have been identified and management have adapted the company's strategies in an attempt to withstand the current economic climate. Marketing and advertising activities have been enhanced to boost sales and increase revenue at this time. Email marketing has proven successful for Aer Arann, as it creates extra sales without additional cost to the airline. A dedicated, motivated and hardworking workforce is also a core element of Aer Arann's survival strategy. Management at Aer Arann believe that efficient daily running of the business will ensure that the airline will survive the current economic recession.

5.3 Suggestions for Future Research

Findings presented in this study allow one to gain an insight into the impact a recession can have on companies' strategies in the Irish airline industry. This study focused on the three main Irish airlines; Aer Lingus, Ryanair and Aer Arann. However, further studies on recession and its effect on a larger sample of firms, such as those in the European or US airline industry would allow generalisation of the findings.

As the sample size of this study is too small for generalisation, however, the author does feel that they have shed some light into the world of airline companies. Some interesting conclusions in relation to the impact of the current recession on these companies' strategies have been reached. The conclusions from this study may guide another researcher should they decide to study the aviation industry or indeed the effects of recession on companies' strategies in other industries.

5.4 Limitations of this Research

This study fills some gaps in the literature on strategies implemented as a result of recession, however, the story can never be complete. Every piece of research presents a particular view of the world, and there are admittedly other lenses that could be used to examine strategy in the aviation industry. Although triangulation provided multiple perspectives from which to view airline and their strategies, increased methodological depth could certainly add weight to the findings. For example the interview with Aer Arann provided important insight; conducting interviews with management at Aer Lingus and Ryanair would have added layers of depth to the analysis.

The topic of recession is a very current issue and revelations in this study area are occurring all the time. As the present worldwide recession prolongs, strategic changes are continuing to be employed in the Irish airline industry. As the deadline

for this dissertation is the 1st of September 2010, there is a limit to the amount of up to date information which can be contained in this study.

5.5 Recommendations

The current economic recession has clearly had a huge impact on the three Irish airlines which were under investigated for the purpose of this study. Therefore, proving that is imperative that all companies must acknowledge and indentify changes in their external environment and make the necessary changes to their strategies to ensure success. Careful assessment of all the data findings enabled the author to discover ways in which these companies in the aviation industry could improve their attitudes towards the current recession and increase their awareness of the different strategic options available to them. The following recommendations which were compiled by the author should be considered by airline management as effective measures to help combat the effect of the recession on future business.

1. Take Proactive Action:

The findings reveal that each of the three airline companies reacted in response to the economic downturn. However if management in these companies had the foresight to identify and assess the changes which can occur in their external environment, and employ new strategies in time, such changes would not have such a major impact on the business.

2. Keep Costs Low:

The three airlines studied have all implemented cost-cutting measures in response to the economic downturn. In an attempt to survive this turbulent period with the view of growth in the future airlines must try to continue reducing costs. Labour costs are the largest single input cost that management have control over, therefore such costs should be monitored and altered where possible to further reduce costs within these companies.

3. Changes in Work Practices:

All three airlines have reduced their workforce in an effort to survive the current recession. Therefore less staff means there is more work for existing staff members. Management at these companies must ensure that staff cuts are matched with increased productivity. It is imperative for company survival that existing employees are more efficient in day to day running of the company.

4. Faster Turnaround Times:

Fast turnaround times of just twenty five minutes have proven successful for Ryanair. There is a serious cost advantage and shorter turnaround times also allow airlines to increase landing and take off slots and thus increase revenue. At this time of recession Aer Lingus and Aer Arann should consider increasing their turnaround time to enable their aircrafts to carry more passengers daily. This strategy would allow these airlines to boost sales without any additional costs.

5. Promotions

At this time of economic recession, customers have less disposable income and therefore are more likely to seek bargains. Airline companies should acknowledge this and increase their marketing and promotion activities. Airlines should advertise using special offers and use promotions to attract more customers to fly with them and thus increase revenue.

5.6 Conclusion

The author's research of the current economic recession and its impact on companies' strategies in the Irish airline industry has proven that all three Irish airlines have implemented strategic changes in an effort to survive the impact of the current economic downturn. It is evident that effective strategic decision making is an essential element in the survival of companies at this time of economic recession. The author fully concurs with Mc Namee's viewpoint that *"the success of any organisation ultimately depends upon the quality of its strategic and marketing management, i.e. how effectively its long-run strategies and operations fit with and shapes its environment in general and in particular how adroitly it positions and markets its products or services."*

This study shows that the strategic changes introduced by the Irish airlines to survive the current recession are similar to those that were employed during the 1980's recession. Similar survival tactics to those implemented by JAL airlines during the 'lost decade' of the 1990's are also being utilized by the Irish airlines today. Cost-cutting strategies such as; strategic alliances, labour cuts and changes in pay structures were all found to be effective strategies for the airlines to execute in an effort to survive this turbulent period. From the author's investigation into the Irish airline industry, research revealed that effective marketing and promotions have become common practice as a result of the current recession.

The recommendations suggested in this dissertation can be adapted for use in a number of service industries that are currently seeking survival as a result of the current economic recession.

It is an exciting concept to think that somehow the efforts at research which have been employed for this study have added a contribution to the existing bodies of knowledge on recession and its impact on companies' strategies in the Irish airline industry.

Appendices

Appendix A

Interview Consent Form

Appendix A: Interview Consent Form

GMIT, Galway

Masters of Business in Strategy and Innovation Management

Research Discussion Consent Form

'The Impact of the Recession on Companies' Strategies in the Irish Airline Industry'

Sacha Curran, GMIT, Email: sachacurran@hotmail.com Tel. No.: 086-1951919

Thank you for agreeing to meet with me for today's exploratory discussion. The purpose of this research is to explore the current topical issue of economic recession and the impact it has had on airline companies' strategies, with focus on the Irish airline industry.

Please feel free to contact me if you feel at any point that you would like to discuss any elements of today's recorded discussion.

CONSENT:

Please sign here if you consent to participate in a recorded exploratory discussion:

Interviewee: _____

Signed: _____

Date: _____

Company Position: _____

DISCUSSION CONTENT AND PUBLICATION:

Please tick the box if you consent to my use of this recorded conversation as research data for academic research, journal articles and other publications: []

Please tick the box if it required that your company's identity be withheld in any published research: []

Interviewer: Sacha Curran _____

Signed: _____

Date: _____

Time: _____

Length: _____

Appendix B

Semi-Structured Interview Questions

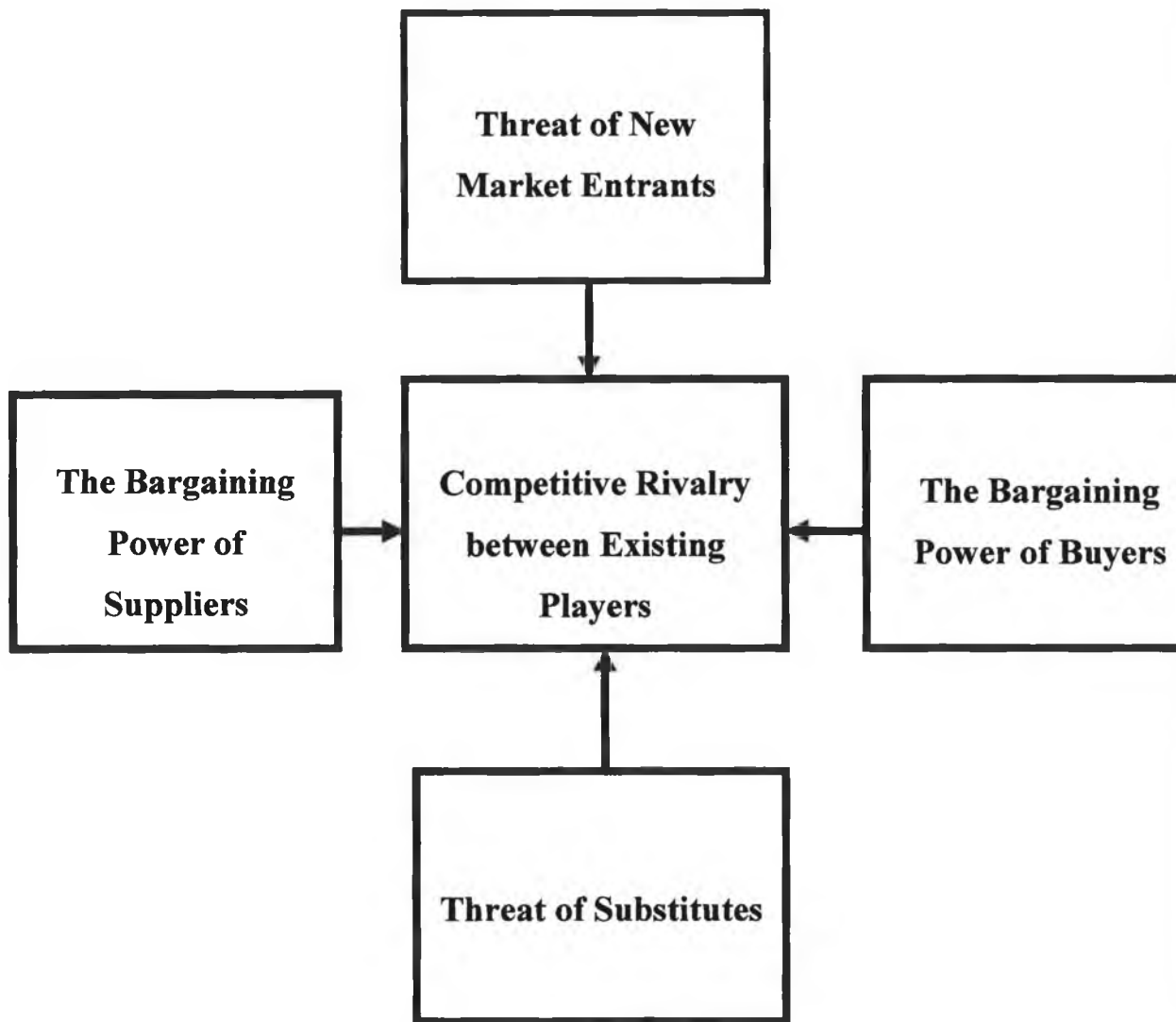
Appendix B: Semi-Structured Interview Questions

1. Who is primarily responsible for formulating strategy at Aer Arann?
2. Is there a strategic plan in place? Is it deliberate or emergent?
3. During the Celtic Tiger years what was Aer Arann's Strategy?
4. Has Aer Arann's strategy changed as a result of the economic downturn?
5. Can you describe the strategy process that Aer Arann has adopted?
6. Is Aer Arann implementing similar strategic tactics that were used during the 1980's recession? (Either by Aer Arann or other airlines)
7. Have there been changes made in the marketing/advertising activities of the company since the current recession?
8. Was the franchise with Aer Lingus developed as result of the recession?
9. How important do you believe strategy to be in the success of Aer Arann?
10. What is Aer Arann's strategic plan for the future? (To just survive or to grow?)

Appendix C

Porter's Five Forces Industry Analysis

Appendix C: Porter's Five Forces Industry Analysis

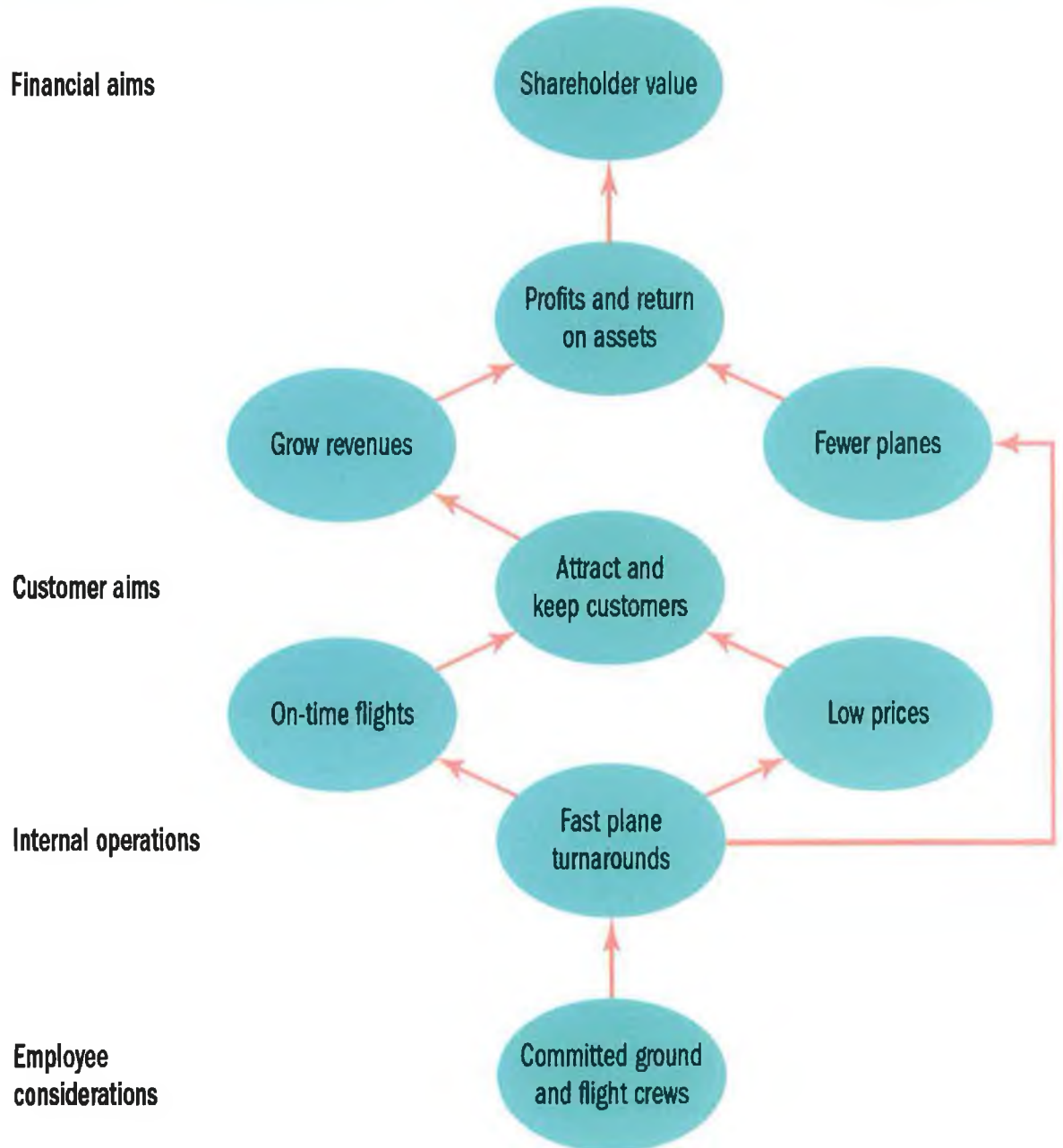


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Appendix D

Strategic Map for an Airline Company

Appendix D: Strategic Map for an Airline Company



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