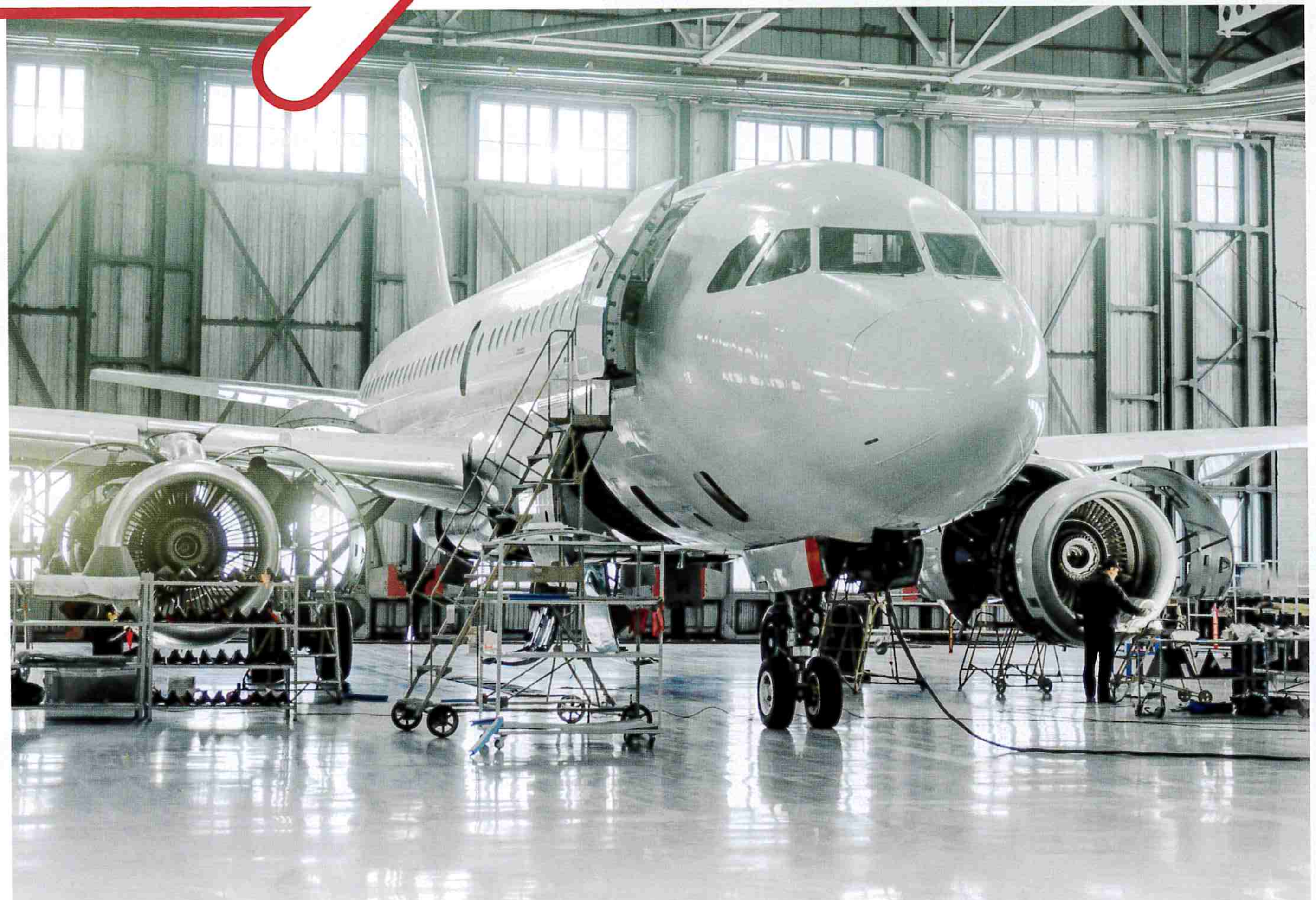
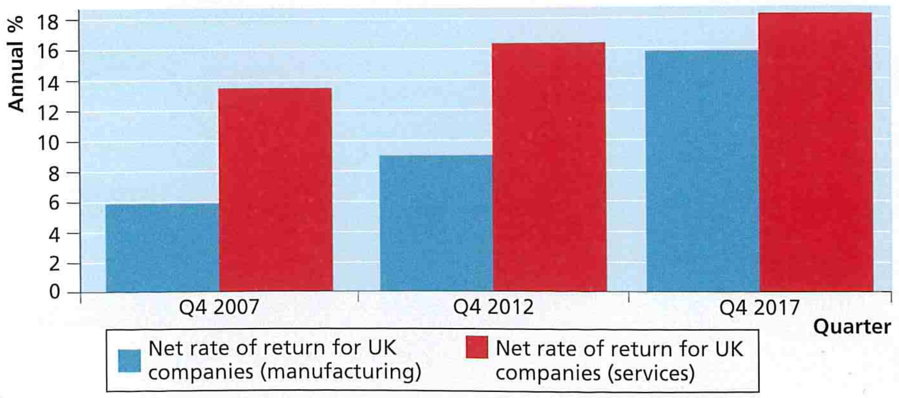


Competitiveness
A key business concept

Ian Marcousé uses the examples of Ryanair, GKN and Burberry to explain how different companies achieve competitiveness

Rarely in business history have UK companies been as profitable as they are now. Figure 1 shows the dramatic improvement since the pre-recession quarter: autumn 2007. Yet a series of large companies have collapsed, and several other major ones are under severe financial and operational pressure, notably Marks and Spencer and Debenhams.

The reason is that the boundary between being competitive and uncompetitive is narrowing. Companies can be darlings one moment and dogs the next. The businesses that have collapsed, such as Maplin, Poundworld and Gaucho restaurants, have struggled to stay competitive in tricky markets. Competitiveness must be won when opening a restaurant — and then fought for constantly.



Source: ONS

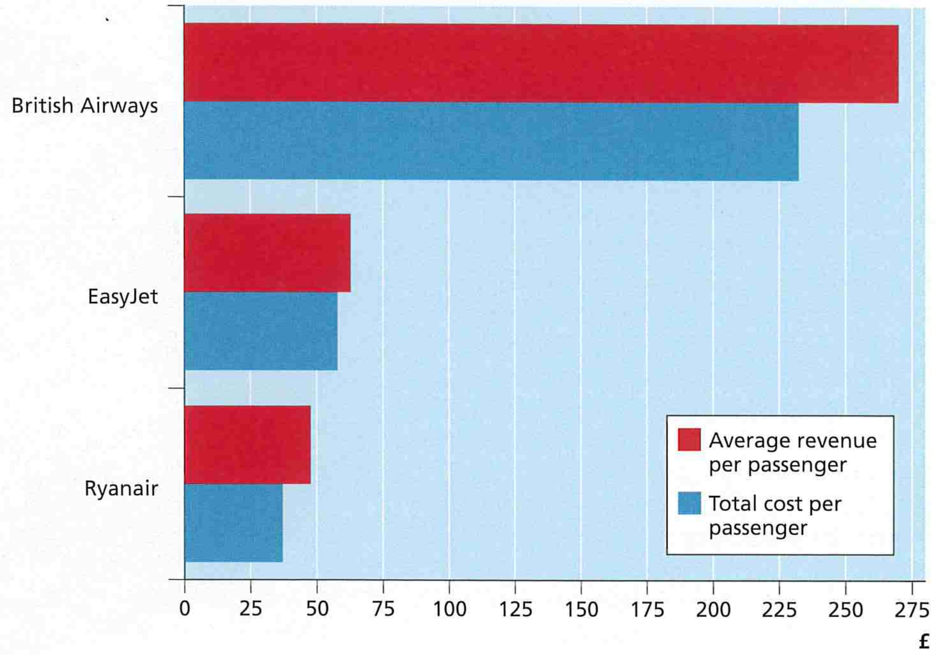
Figure 1 UK profitability boom 2007–17

Achieving competitiveness

Cost competitiveness

One way to become competitive is through high efficiency. The business guru Michael Porter says that 'competitiveness is defined by the productivity with which human and capital resources are managed'. Few companies have focused as much on operational efficiency as Ryanair. Figure 2 shows how remarkably low Ryanair's unit costs are compared with British Airways and — more relevantly — its low-cost rival EasyJet.

Ryanair achieves such low costs by being unusually single-minded about cost minimisation. It achieves this in two ways: long-term strategy and clever short-term tactics.



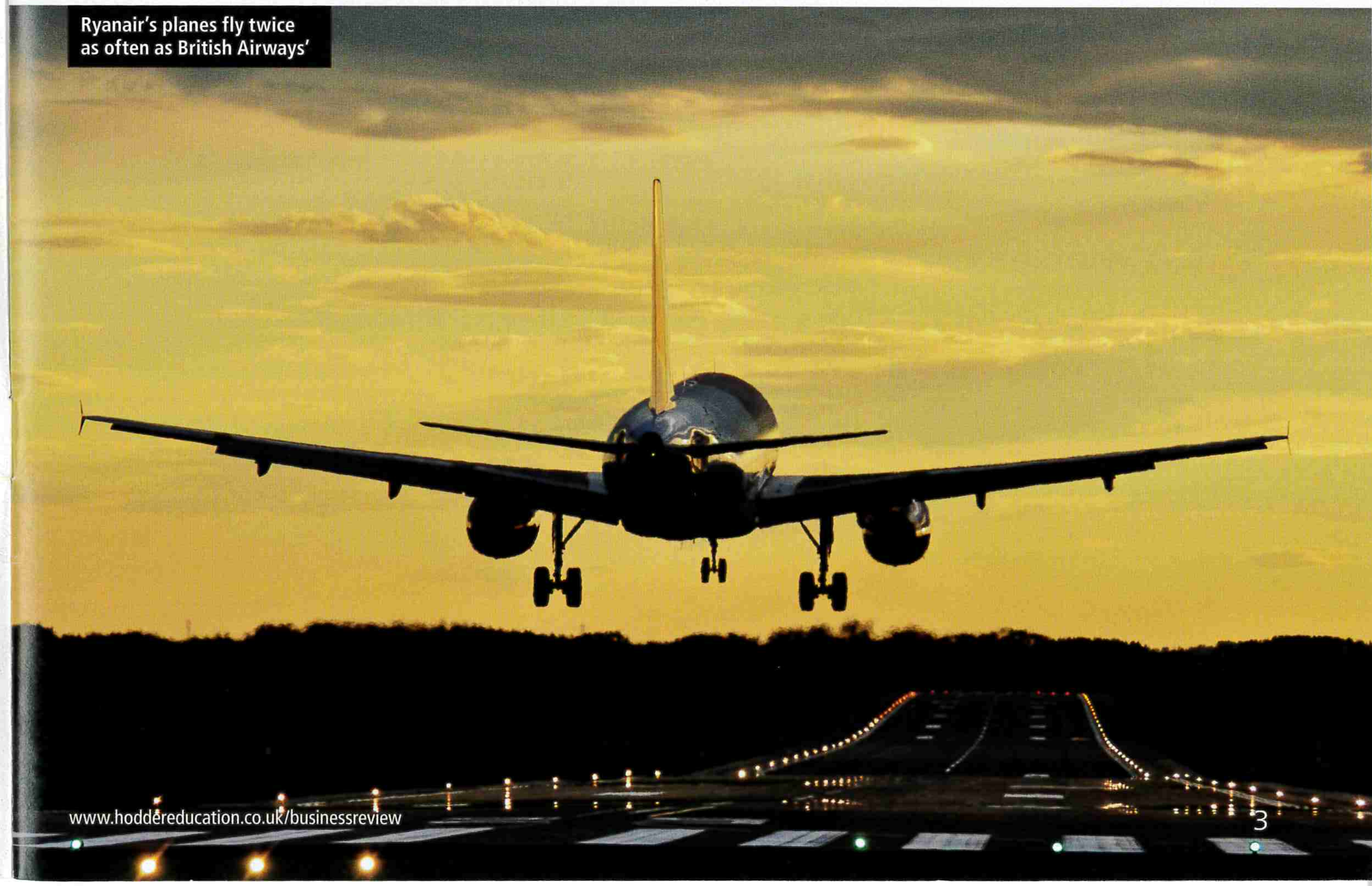
Source: annual reports and accounts

Figure 2 Airline revenues and operating costs per passenger 2017/18

Long-term strategy

Ryanair's cleverest long-term moves have been:

- Tight timetabling (and ruthless time-keeping), which allows expensive assets (the planes) to be used as many times as possible during the day and night. On a day that a British Airways plane operating in Europe might manage two return trips, Ryanair is flying twice as often. This increases Ryanair's capital productivity and therefore cost efficiency.
- Purchasing one type of aircraft: Ryanair has recently placed an order for another 25 Boeing 737 planes, pushing its fleet total



Ryanair's planes fly twice as often as British Airways' beyond 400. Other airlines buy a wide range of planes from the two main producers (Boeing and Airbus). Ryanair's focus on one plane minimises the training time and cost for pilots and maintenance engineers.

- Identifying new, undeveloped airports that are eager for Ryanair to come, and so offer generous deals on landing fees. Passengers may find that a plane to 'Berlin' lands 80 km away, but the company's marketing success (it is Europe's number one in terms of passenger numbers) shows that this has not been a constraint.

Short-term tactics

In addition to its thoughtful strategies, Ryanair is the master of tactics. In the past these were designed to create publicity along the lines of 'New Ryanair shock: standing room only'. Today it is trying harder to present a warmer, cuddlier face to travellers.

In spring 2018 Ryanair pulled out of Glasgow Airport, blaming rising costs. In recent years it has often threatened to withdraw completely from an airport, even if it has invested in engineering and maintenance facilities locally. In this way it presses airports to keep its landing charges the lowest in Europe.

The overall plan is uncomplicated. By succeeding in being the lowest-cost operator, Ryanair is able to control pricing in the mass sector of the market. Nobody can undercut Ryanair's prices for long, so Ryanair can work out what price levels give it the best chance of making a good profit. As shown in Table 1, even though Ryanair flies far more people than EasyJet for the same level of revenue, it is able to make far higher operating profits. That is a result of its obsessive focus on cost competitiveness.

Table 1 Efficiency and competitiveness: EasyJet vs Ryanair

2017/18 accounts	EasyJet	Ryanair
Revenue (£m)	5,047	6,218
Employee costs (£m)	717	642
Operating profit (£m)	404	1,450
Passengers (millions)	80.2	130.3

Source: annual accounts

Differentiated, high-value products

Whereas strugglers such as Marks and Spencer and Debenhams try to devise strategies to rebuild their competitiveness, others move directly towards a differentiated position. At one end of the spectrum are the pure engineering companies such as GKN and JCB. Both invest heavily in research and development (R&D) and both reap rewards in the marketplace.

GKN is behind the light synthetic materials at the heart of Boeing and Airbus's big-selling aeroplanes. Not only are GKN components and materials in every aeroplane produced today, but GKN also claims that its products are bought by all of the world's car manufacturers. So GKN adds value through design and R&D, which differentiates it from competitors, and that is the basis of its competitiveness.

Away from engineering, for some companies the brand and brand image may be as important as the products. Burberry has become a global fashion superbrand over the past 10 years, with an exceptionally strong image in China. Between 2009 and 2017 operating profits grew by 158% despite the difficult economic situation. Its competitiveness is rooted in an image strong enough to justify the prices it charges. The operating margin figures in Table 2 show what a powerful position the business has been in.

However, it's not enough to be 'in fashion' if that implies a possibility that fashion may move on. Temporary success is not a solid basis for strong competitiveness. Burberry has shown that it is a desirable brand rather than simply a fashionable one. This gives senior staff the confidence to invest heavily in the company's future.

Table 2 Burberry's recent achievements

	2009	2017
Total revenue	£1,201m	£2,733m
Operating profit	£181m	£467m
Operating margin	9.8%	17.1%

Source: Burberry annual accounts

Conclusion

Ultimately, the test of the competitiveness of a business lies in the marketplace. Just as the competitiveness of a football team rests in whether it's fighting for promotion or relegation, a company must be able to stand up to — and beat — its competitors. Some businesses choose to fight on cost grounds, to be able to undercut rivals' prices if necessary. Ryanair, Lidl, Aldi and Primark are good examples.

Others opt for a high-value, differentiated position that makes it possible to price high enough to cover the firm's costs. In addition to Burberry come businesses such as Jaguar Land Rover, Apple and Samsung. In all these cases, the company's competitiveness is based on medium-to-long-term strategy rather than tactics. Competitiveness is not about one year's profit — it needs to be sustainable in the long term.

Ian Marcousé is the director of A-Z Business Training Ltd and looking forward to running business A-level revision courses this Easter.