**For long haul flights to the Americas, Ryanair and Air Europa could use competitive pricing or `a penetration pricing strategy to maximise profit.**

**Evaluate these two strategies and recommend which one should be used by Ryanair and Air Europa to maximise profit.**

Competitive pricing refers to a business setting a price based on prices charged by competitors for a similar product. If Ryanair use a competitive pricing strategy, they can set a price that matches that of their competitors like Virgin Atlantic. This similarity in prices then allows customers to compare the two businesses and choose the business that offers a higher quality service. For example, Ryanair could offer more leg room, free parking, and a complementary meal on their flights. This will allow Ryanair to gain a competitive advantage over other airlines like Virgin Atlantic without having to charge a low price to be recognised within the market. This advantage may increase passenger numbers on their flights leading to increased profits. However, as their competitors may be more established within the market of long-haul flights, they will have a loyal customer base who are willing to pay slightly higher prices. This means that if Ryanair enter the market and offer a similar price they may struggle to draw in as many customers as they haven’t matured within the market of long-haul flights.

Penetration pricing refers to when a price is set that is lower than those of competitors. This strategy is often used by new businesses to break into the market. As Ryanair are developing a new position in the market, setting a low price initially could be beneficial to establish themselves. Their competitors who have been providing long haul flights to the Americas for a long time will be more well known for their service and so will have an established customer base who have loyalty to them. Therefore, if Ryanair enter the market, they will need to provide an incentive for customers to try their service, and so setting a low price may be a beneficial option. Once this low price is set consumers may try out Ryanair over their competitors, and if they offer a high quality service, they may become loyal to Ryanair.

This increased loyalty will increase passengers on Ryanair’s flights, helping them to maximise their profits. Although initially setting a low price may help to draw in customers, it could also cause Ryanair to only make a small profit as the price set may only just cover costs. This will mean that Ryanair aren’t maximising their profits and so penetration pricing may not be the most beneficial strategy for Ryanair.

Although using a penetration pricing strategy may be beneficial in drawing in customers and helping Ryanair to establish themselves as a business that offers long haul flights, it may not be the most appropriate in maximising the profit of Ryanair. This is because they will have to set a low price initially which may only just cover their costs. Therefore, a competitive pricing strategy may be most beneficial in helping Ryanair to maximise profit. By using competitive pricing they will set a price that is higher than what they would set with penetration pricing and so costs will be more comfortably covered. They can also use competitive pricing to help differentiate themselves from competitors using non price factors.