



Flying High at Ryanair

We don't fall over ourselves if they say, "My granny fell ill". What part of no refund don't you understand? You are not getting a refund so fuck off"

Michael O'Leary, CEO, Ryanair



Loved and hated by Europeans, Ryanair had become one of the most successful airlines in the world. In spite of its exclusive focus on European routes, the airline ranked #11 in the world on operating profit and #2 on operating margin in 2005 (see Exhibit 1). Its CEO, Michael O'Leary, had been rewarded handsomely for his efforts, holding a net worth of €636Mⁱ - just a shade behind rock band U2 in the *Sunday Times* "Rich List" for Ireland.

Yet Ryanair was a paradox. To quote *The Economist* in 2007ⁱⁱ:

[Ryanair] is hugely successful. It has brought flying within the reach of people of the most limited means. It has helped to change the economic prospects of neglected parts of Europe by bringing passengers and their money to underused provincial airports. But at the same time Ryanair has become a byword for appalling customer service, misleading advertising claims and jeering rudeness towards anyone or anything that gets in its way.

Professor David Dunne prepared this case as a basis for class discussion. It is not intended to illustrate effective or ineffective handling of a managerial situation.

Brief Historyⁱⁱⁱ

Ryanair was the brainchild of Tony Ryan, a former executive with the Irish national airline, Aer Lingus, who grew wealthy as a broker placing surplus aircraft on behalf of airlines around the world. Ryanair started in 1985 with one 15-seat aircraft ferrying passengers between Waterford, a tiny airport about 90 minutes from Dublin, and London.

In the following year, Ryanair obtained a license to fly from Dublin to London. Aer Lingus, which held a monopoly on this route, protested in vain against the granting of the license, setting the stage for years of bitter competitive conflict.

In 1986 about 800,000 passengers flew on the Dublin-London route, typically paying about £200 for a return ticket^{iv} for a one-hour flight. With a long history of emigration there were many Irish residents in the UK, but they tended to travel home only for special occasions, such as family weddings or funerals. In May 1986 Ryanair announced that it would charge £99 on its inaugural flight, prompting Aer Lingus to slash its price to £95 - and prompting Ryanair, in turn, to drop its price to £94.99.

The ensuing years were turbulent, to say the least, as Ryanair faced fierce competition from established airlines in the form of savage price cuts and lobbying to governments and the emergence of other discount airlines. By 1990, Ryanair's fare on the Dublin-London route had fallen to £59; in 1999, it was £19.99; and in 2005, Ryanair offered a fare of 99p to 100,000 passengers in celebration of its 20th birthday. In May 2007, Ryanair offered a free seat giveaway to 1m passengers and a guarantee that no other airline could match its fares.

Through this time, Ryanair's passenger traffic grew dramatically (Exhibit 2) and had reached 50m passengers on 571 routes across 26 European countries by 2007. The airline survived the Gulf War in 1991, the aftermath of Sept 11, 2001 and dramatic oil price increases, all of which created severe problems for the industry. By 2007, its route network covered most of Europe (Exhibit 3) and the International Air Transport Association (IATA) reported that Ryanair was the largest international airline in the world in terms of passenger traffic.

Business Model

Ryanair's business model was very simple: it offered the lowest fares possible to passengers. It managed to accomplish this through a relentless focus on costs (see below). However, the airline was careful not to compromise safety and as of early 2008 had an accident-free record.

Ryanair was Europe's first discount airline and benefited greatly from the emergence of "open skies" deregulation across that continent. It modeled its strategy on that of Southwest Airlines^v in the US; O'Leary was one of several airline executives who made the pilgrimage to Dallas in the early 1990's to learn at the feet of Southwest's founder Herb Kelleher.

Cost Control

Ryanair's tight cost control was the backbone of its low-price strategy. As a result of this cost focus, Ryanair had by far the lowest costs in Europe, about 40% lower than its closest competitor. The major elements of its cost-control strategy were:

1. The Use of Secondary Airports. Ryanair typically did not fly to the major "hub" airports in Europe, but instead to secondary airports which were often located some distance away from major city centres. For example, Ryanair advertised flights to Frankfurt but flew to Hahn, about 125 km away, and similarly used secondary airports near London, Brussels, Hamburg and Stockholm. In negotiations with secondary airports, often located in economically depressed areas, Ryanair bargained hard for low fees.
2. Rapid Turnaround. Ryanair maximized the utilization of its aircraft by turning around its aircraft in 25 minutes, considerably faster than the industry average. This was facilitated by the lower traffic at secondary airports, and allowed Ryanair to keep its planes in the air about 30% longer than the typical carrier.
3. Point-to-Point Routing. All Ryanair flights were point-to-point, i.e. did not connect with other flights. This avoided the costs associated with passenger and baggage transfer.
4. Aircraft. Ryanair flew a single aircraft family, the Boeing 737, and thus simplified the maintenance process. Its largest aircraft order was placed in 2001 after September 11, when there were significant bargains to be had. The aircraft themselves were "no-frills": they were ordered without window blinds, reclining seats, headrests or seat pockets.
5. Fuel. Fuels accounted for a substantial part (23%) of costs and unlike other carriers, Ryanair had a policy of not applying fuel surcharges. Fuel requirements were typically hedged for 12 to 18 months.
6. Service. There were no free snacks or drinks on Ryanair flights. These were supplied by third-party caterers who paid Ryanair a flat per-flight fee for the privilege of selling these items to passengers. Ryanair also charged passengers for checked baggage. Ryanair also had a rigid no-refund ticket policy that helped minimize administrative costs: the airline was also famous for pocketing the fees and taxes paid by "no shows" for its flights - about 8% of passenger traffic - a practice that earned €7.5m in 2003.
7. Staff and Overheads. Ryanair's staff were non-union, and subject to tight cost control measures. Pilots and cabin crew received lower salaries than their counterparts in other industries but received significant variable compensation: crew, for instance, received commissions on on-board sales. Staff were forbidden from charging their mobile phones at work, and at one point O'Leary suggested that employees take pencils from hotels rather than use new ones at work.

Service

Flying on Ryanair was truly a no-frills experience. Where traditional airlines provided extensive services on board, Ryanair eliminated snacks, newspapers, food and beverages. There was no business class or frequent flyer club.^{vi}

However, Ryanair was a pioneer in “unbundling” these services: instead of receiving them free, passengers could buy snacks and newspapers on board. In 2006, Ryanair also introduced a charge of €5.00 (€2.50 if booked in advance) for checked baggage and a further €8/kilo for baggage in excess of the 15-kilo limit. Among the many further revenue-generating services were on-board gaming, rail tickets and travel insurance: see www.ryanair.com for the full range of extra services offered by Ryanair.

On the positive side, several features of Ryanair’s operation provided superior service to passengers. Ryanair consistently beat its competition on punctuality and missing bags (Exhibit 4): passengers with Ryanair were almost always assured of getting to their destination on time with their luggage.

On the other hand, Ryanair was notorious for its brash approach to customer service. The airline fought and lost several court cases that made it the poster boy for bad service: one action was brought by a disabled passenger against Ryanair for its policy of charging a fee for wheelchairs; another by Ryanair’s millionth passenger, Jane O’Keefe, who received a “free flights for life” coupon, only to find that the airline subsequently restricted the prize to one flight per year. Ms. O’Keefe claimed that she received a torrent of abuse from O’Leary when she called his office to complain.

Ryanair’s “no refund” policy also extended to adverse incidents: in the case of delays or cancellations due to weather or equipment problems, passengers could expect to receive no hotel accommodation or meal vouchers, let alone a refund. Ryanair staff had been known to simply close the check-in desk and leave in such situations, and O’Leary himself was known for yelling four-letter words at any passenger who dared ask for a refund.

In a poll of 4,000 travelers by the travel site Tripadvisor, Ryanair was voted the “least liked” airline in the world. The main complaint was unfriendly staff, followed by delays and poor legroom.

Competition

Ryanair faced competition from traditional carriers such as Aer Lingus and British Airways, other discount carriers such as easyJet, and charter airlines that focused on package tours. Traditional carriers had tried, for the most part unsuccessfully, to launch their own discount operations. British Airways’ discount carrier, Go, was forced to shut down in the face of fierce price cutting from Ryanair, and in 2003, Ryanair acquired KLM’s discount operation, Buzz.

Discount operators were closest to Ryanair's business model, but had difficulty matching its low costs. A top executive of easyJet, its primary discount competitor in the UK and Europe, reported in 2005 that profits were below par as a result of fierce competition from Ryanair. Some charter operators were morphing into discount airlines, offering seats independent of holiday packages. One of these, Air Berlin, offered a comprehensive frequent-flier program and hot meals on longer flights.

Ryanair had never pulled its punches in pricing to eliminate competition, and its advertising - developed in-house - reflected a similarly aggressive approach. In what had once been a cozy industry, Ryanair shook up the competitive landscape with publicity stunts and ads that directly attacked competitive airlines. On one occasion, O'Leary arrived at Luton airport in a WW2 tank and led his "troops" in a chant of "I've been told and it's no lie, easyJet's fares are way too high". Samples of Ryanair's advertising are shown in Exhibit 5: many of these ads shocked both the industry and segments of the public, generating more notoriety for Ryanair. In response to the "Mannekin Pis" ad shown in Exhibit 5, Sabena successfully sued and Ryanair was ordered to discontinue the ad immediately and publish an apology. Ryanair used the apology for further price-comparative advertising.

The Future

From its scrappy beginnings as an upstart, Ryanair had become a world aviation leader. It had accomplished this in the face of fierce competition from established players and new discount operators, industry-wide shocks that put several competitors out of business, and a host of bureaucratic obstacles.

In 2006, Ryanair launched a hostile takeover bid for its arch-competitor, Aer Lingus, stating on its website, "In October ... we made an all-cash offer for the small regional airline, Aer Lingus". The bid was ultimately rejected, but Ryanair continued to hold 25% of the shares in Aer Lingus. In 2007, O'Leary indicated that a new long-haul airline, RyanAtlantic, would be launched in 2009.

As remarkable as Ryanair's meteoric rise was its sheer nastiness with customers, bureaucrats, suppliers and anyone else it dealt with. Yet the airline's success flew in the face of conventional wisdom that customer service was critically important in this industry. In effect, O'Leary adapted everything about the Southwest airlines model except customer service, and there was no sign that this approach was about to change.

Exhibit 1: Airline Profitability Ranking

Top 25 Airlines by Operating Profitability, Fiscal Year 2005

(* = Fiscal Year 2004)

<u>By Total Operating Profit</u>			<u>By Operating Margin</u>		
Rank	Airline	US \$m	Rank	Airline	%
1	FedEx*	1,414	1	Gol Airlines	23.3
2	British Airways	1,330	2	Ryanair	21.8
3	Air France-KLM	1,200	3	Air Asia	18.9
4	Lufthansa	877	4	COPA	17.3
5	Southwest	820	5	Kenya Airlines	15.6
6	Emirates	786	6	Philippine Airlines	13.7
7	All Nippon	776	7	DHL International*	12.5
8	Qantas*	775	8	Kalitta Air	12.3
9	Singapore Airlines	590	9	Emirates	11.9
10	Cathay Pacific	533	10	Mesa Airlines	11.7
11	Ryanair	459	11	American Eagle	11.3
12	Air China	458	12	SkyWest	11.2
13	Iberia	457	13	Southwest	10.8
14	Air Canada	388	14	Jet Airways*	10.3
15	UPS Airlines	293	15	Air China	9.6
16	Thai Airlines	269	16	Virgin Blue	9.6
17	Gol Airlines	266	17	TAM	9.5
18	TAM	232	18	Singapore Airlines	9.1
19	American Eagle	225	19	Royal Jordanian	9
20	SkyWest	220	20	Qantas*	8.9
21	Korean Airlines	207	21	Atlantic Southeast	8.5
22	Virgin Blue	184	22	British Airways	8.3
23	China Eastern*	179	23	Aer Lingus	8.2
24	LAN Airlines	142	24	Cathay Pacific	8.1
25	Asiana*	136	25	FedEx*	7.2

Source: IATA Economics Briefing, June 2006, "Profitability: Does Size Matter?"

Exhibit 2: Ryanair Passenger Growth (Millions)

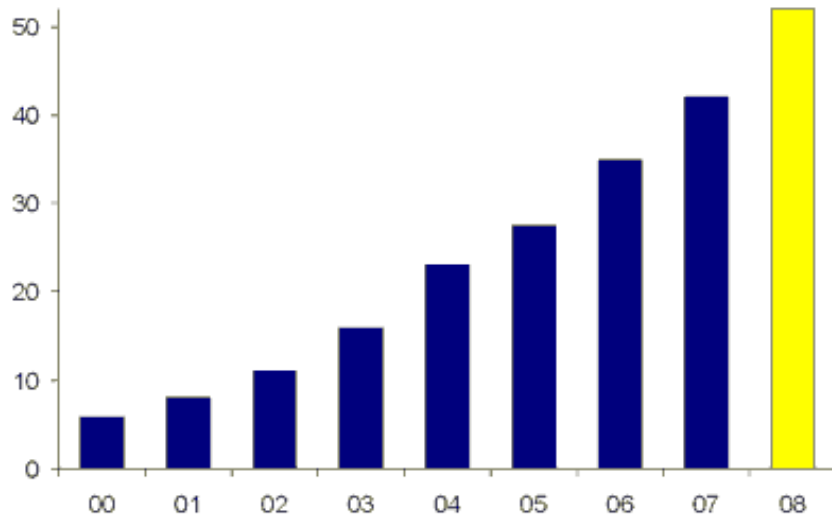


Exhibit 3: Ryanair Routes, 2007

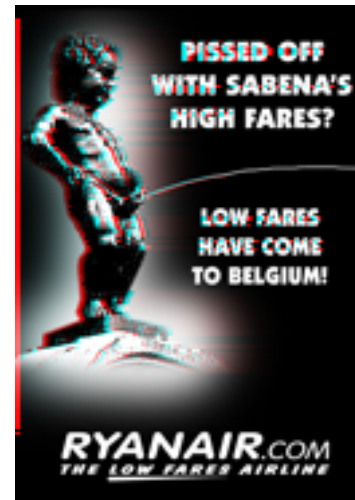


Exhibit 4: Customer Service Levels, 2004

Airline	Punctuality (%)	Missing Bags per 1,000 Passengers
Ryanair	93.0	0.6
SAS	90.6	10.0
Air France	84.7	12.8
Lufthansa	83.6	16.9
easyJet	82.5	n.a.
Iberia	81.9	9.9
British Airways	80.5	16.7
Alitalia	75.5	11.6
Austrian	65.1	22.5

Source: Association of European Airlines, cited in Barrett, S.D. (2004), "The Sustainability of the Ryanair Model", *International Journal of Transport Management*, 2, 89-98.

Exhibit 5: Samples of Ryanair Advertising



Endnotes

ⁱ €1 = C\$1.46 approx

ⁱⁱ "Snarling all the way to the bank", *The Economist*, August 23rd 2007.

ⁱⁱⁱ For more details see <http://www.ryanair.com/site/EN/about.php?page=About&sec=story>

^{iv} About €280, or €527 in 2007 currency.

^v Heskett, James, "Southwest Airlines 2002: AN Industry Under Siege", Harvard Business School, Case 9-803-133.

^{vi} A business class and frequent flyer club were launched in 1988, but proved unsuccessful. A Ryanair/MBNA credit card was launched in 2003, offering points that could be redeemed for Ryanair flights.