

CASE 6.1 Ryanair's Strategy

Ryanair is an Irish-owned and European-based short haul airline. Growth of the company has been spectacular – it was founded by Tony Ryan in 1985 and in 2008 it was operating in 26 countries and carried around 22m passengers over 730 routes.

During its early years, Ryanair was unable to turn rapidly rising passenger numbers into profits. Ryan brought in his personal assistant, Michael O'Leary, an accountant, to investigate the airline's problems. 'Scrabbling through the undergrowth of the company, O'Leary started to work out where the money was flowing to, and how it could be saved. He had yet to formulate the rigorous business model that would transform Ryanair into the leanest and most profitable airline in the world, but he could identify waste and he could identify ways of doing business more cheaply'.¹

It took him about two years to work out where the money was going, and at one point, he was pessimistic enough to suggest to Ryan that the company should be sold. In the end O'Leary became CEO and saved the company.

Two things stand out about O'Leary's strategic management: (1) a cost-based strategy, which is used as a discipline to focus everybody (including

customers) on Ryanair's competitive advantage; and (2) a set of business activities, or business model, that is consistent with, and sustains, this strategy.

O'Leary always attributed Ryanair's success to its 'simple' business model. 'We have the lowest cost base of any airline in Europe. Business is simple. You buy it for this, you sell it for that, and the bit in the middle is ultimately your profit or loss. We have low-cost aircraft, low-cost airport deals, we don't provide frills, we pay travel agents less [*than other airlines*], our people are well paid but work hard and we deal in efficiencies.' Other airlines were failing to implement the same formula with success because, he said, 'nobody else has our discipline'.²

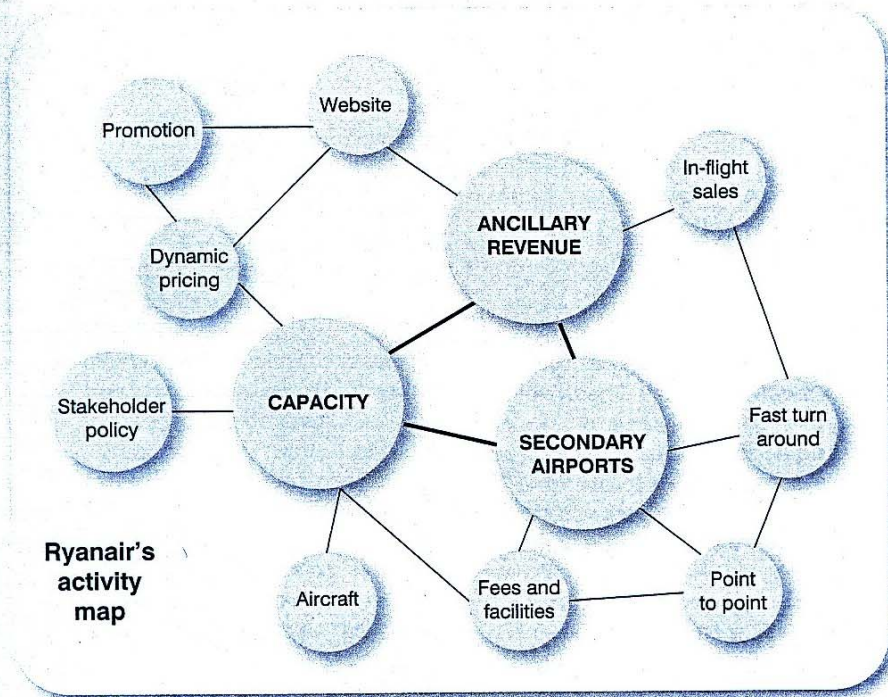
According to O'Leary strategy is about focus and discipline ... It was not, he says, about saving paper clips but about instilling discipline. 'It's the decision that one guy down in operations can make on one Friday evening on leasing in an aircraft that can cost you £10 000 or £20 000 at a stroke,' he says. 'It's those decisions that we have to clarify and clear up in people's minds'.³

If Ryanair could have lower costs than anyone else, it could also have lower prices. And if prices were low enough, it could fill seats on almost any route ... led Mr O'Leary to three further conclusions. The first was to increase capacity relentlessly, even during downturns in a notoriously cyclical industry. The second was that there are all manner of ways of wringing money from the business other than selling tickets. Passengers were not only captive customers for food and drink but, from Ryanair.com, they could be sold car hire, insurance, hotel bookings and airport transfers. The third was that those marginal, out-of-the-way airports would pay Ryanair to bring them passengers.⁴

If these three 'conclusions' can be thought about as strategic themes it is possible to illustrate how these link Ryanair's key activities by using Porter's activity map (see Exhibit 6.1). The three themes are the emboldened circles, and the other circles are the



EXHIBIT 6.1 Ryanair's activity mapping system



aggression also makes it seem a formidable competitor and negotiator. O'Leary likes to project himself as the underdog scrapping for a fair chance to take on the big guys. That sense of smallness, of being an entrepreneurial company in a world of state-owned or recently privatized behemoths, is critical to the company's cost conscious culture and low fares corporate image.

Website

No travel agents are used to sell tickets and there are no Ryanair retail ticket outlets. Passengers have to book their flights through the company's website. This saves on the costs of using travel agents and gives Ryanair an immediate flexibility to adjust prices as needed. In September 2007, the airline ended its on-line booking fee (although there is a significant credit card charge), and introduced extra charges for

passengers choosing to use the check-in facilities at the airport (travellers with limited mobility, or who are visually impaired, families with infants, and groups of more than nine, must check-in). Passengers are encouraged to check flights and print boarding passes from the website. The website is also used to raise ancillary revenue, such as hotel accommodation, car hire and insurance.

In-flight sales

Ryanair does not offer in-flight free services such as free sweets, newspapers, food and beverages. This, and the sale of on-board items, such as insurance, adds to revenue. Passengers have to pay for in-flight services and this reduces the quantity of items and helps to simplify cleaning and speed up turnaround.



Michael O'Leary

supporting activities. Ryanair seeks to increase its profits not only simply by saving costs, but also by raising ancillary revenue, achieving favourable conditions at airports, and maximizing the number of passengers.

Dynamic pricing

Fares vary according to purchase dates. Around 70 per cent of passengers get low fares for early booking, but late bookings are expensive. A dynamic pricing system allows Ryanair to price up to its rivals when they raise their prices, and also offer relatively low prices when it is necessary to gain market share. This process is facilitated by the absence of travel agents and the ability of Ryanair through its website to react immediately to prevailing market conditions. There are no special programmes such as a frequent flyer programme and penalties for 'no show'

passengers. However, there is no airline policy of over-booking and so there is no risk to the passenger of missing the flight.

Promotion

This is low cost promotion, with the same simple message of cheap fares. Its advertising is often controversial, involving attention-grabbing issues. The emphasis is on promotions that advertise special deals, discounts via the web, and email advertisements. Ryanair has an uncompromising corporate image – cheap, but no concessions. Ryanair has a history of bad publicity, such as charging for wheel-chairs and uncompensated damage to baggage. Many of these incidents are trivial cost concerns, but they reinforce the company's image that Ryanair is cheap, and offers no concessions. The company's

Point to point

Ryanair is a basic, point to point service and no arrangements can be made for passengers to connect to other destinations and airlines. For each additional leg of a journey passengers must collect their bags, clear customs and check in again. For Ryanair the absence of interlining simplifies check-ins and avoids any need for interlining alliances with other airlines.

Fees and facilities

Landing fees and the costs associated with large airports are lower at secondary airports. There may also be opportunities for negotiated concessions. Ryanair believes that if it operates its routes from the cheapest airports, then passengers will follow. While the airports are typically located away from major urban destinations they offer to customers ease of access, fewer delays to flights and relatively low costs from congestion. To Ryanair this creates opportunities for deals with bus and hire-car firms, and hotels.

Fast turnaround

Check-in is kept simple and there are no seat allocations. The relative lack of congestion and delay at secondary airports, and their smaller size, which enables passengers to walk directly on to their planes, helps to speed up Ryanair's aircraft turnaround time. This is typically under 25 minutes and compares very favourably with about one hour for the major airlines using large airports. O'Leary is very clear about the advantage: 'We can fly six aircraft a day where Aer Lingus or British Airways could fly four...Where they get six in the air, we fly eight. So we're 20–25 per cent more efficient from the very start. It's so simple a four-year-old could work it out.'⁵

Aircraft

Ryanair uses one class of plane: the Boeing 737–800, and accommodates only the ordinary traveller (there is no business class), which facilitates more seats per aircraft and a higher load factor. The single

plane means that staff training time and maintenance costs are simplified. It is also believed that Ryanair has effectively timed and negotiated its purchases to achieve favourable discounts from Boeing.

Stakeholder policy

Ryanair has amassed large cash reserves, which it argues is necessary to pursue capacity and organic growth. The company has pursued a no-dividend policy; its shareholders have, however, benefited from the rise in the capital value of Ryanair shares, which is based on the company's growth record and promise of future revenues. There are similar incentives for Ryanair's staff, who are shareholders, and whose promotion prospects also depend upon the profitable growth of the company.

O'Leary obtained many of his ideas from Southwest Airlines. However, there are some differences, notably the greater use of secondary airports. Also, Ryanair did not adopt the above activities all at once. Changes were introduced slowly and opportunistically, and today's low-cost model took time to evolve and continues to change. Some ideas were tried, but failed: for example, in-flight entertainment was announced at the end of 2004, but was soon abandoned when it was found passengers would not pay over short flights. The Ryanair offer is not a low quality one in the sense that its service represents low customer value; rather it is a choice of high fares and a full flight service of the traditional airline, against a no-frills service and low fares offered by the low-cost model.

Discussion questions

- 1 O'Leary describes his business model and strategy. Do you agree with O'Leary's description of these concepts, and what kind of generic strategy is he following?
- 2 Is Ryanair really very different from easyJet and the other low budget airlines competing with Ryanair in the European market? What is the company's competitive advantage?
- 3 Compose a value chain for Ryanair. Note the differences from Ryanair's strategy activity map. How might the two tools be used to fulfil different roles in the airline's strategic management?

Case references

- 1 Ruddock, A. (2007) *Michael O'Leary: A Life in Full Flight*, Dublin: Penguin, p. 75.
- 2 Ruddock (2007) *op cit.* p. 223.
- 3 Ruddock (2007) *op cit.* p. 75.
- 4 *Economist* (2007) 'Snarling all the way to the bank'. Review of Ruddock (2007) *Michael O'Leary: A Life in Full Flight*, Penguin, August 23.
- 5 Ruddock (2007) *op cit.* p. 223.

This case study was prepared using only publicly available sources of information for the purposes of classroom discussion; it does not intend to illustrate either effective or ineffective handling of a managerial situation.