

Ryanair MarketBuster

Summary

Before the advent of low cost-low frill airlines, major companies such as British Airways dominated the European airline industry. Other industry trends included the European Union's strict regulations on the industry; until 1997, an airline from one member nation could not fly passengers within another nation's domestic market.¹ Thus, Ryanair entered an industry with large obstacles to overcome. Nonetheless, it was able to bust the market by operating with low-costs while maintaining profits, differentiating itself with superior customer service, and achieving cost savings through its use of the internet.

As a result of its MarketBusting strategies, Ryanair has become the largest low fare carrier in Europe. For its fiscal year 2004, the company brought in revenues of \$1.32 billion, an increase of 44% from the previous year. Ryanair currently provides service to 93 cities across Europe, carrying over 15 million passengers per year. The company has 45 aircraft, with hopes of increasing this total to 100 aircraft by 2008. As of early 2005, Ryanair had 12 bases serving over 19 countries across Europe.²

The Story

Ryanair began operations in 1985, carrying over 5,000 passengers on its lone route between Waterford Airport (South Eastern Ireland) and London Gatwick in its first year. The company continued to expand over the following years and by 1989, the company had 350 employees, 14 aircraft, and carried 600,000 passengers a year. However, Ryanair's costs rose dramatically and it recorded losses of £20 Million over four years despite its growth.³ Although consumers were continuing to fly Ryanair due to its low costs, some type of change was needed in order to revamp the company.

In 1990-91, Ryanair came under new management and conducted a major overhaul of the company. Ryanair adopted Southwest Airline's low fares-low frills concept and cut back its routes from 19 to 5. By 1991, Ryanair had 6 aircraft, 350 employees, and carried 700,000 passengers per year on just five routes. From 1991-1997, the company increased its fleet from 6 to 21 and also increased its routes from Ireland to the United Kingdom. Throughout this period, Ryanair continued to see a growing number of passengers due to its low fares.⁴ The only obstacle now holding Ryanair back from exploding onto the market was the strict regulations imposed on European airlines.

1997 marked a turning point in both the European airline industry as well as for Ryanair due to the deregulation of European Union air transportation; airlines were now free to open up new routes to Continental Europe. Ryanair took full advantage of this opportunity as it opened routes from London Stansted to Stockholm and Oslo as well as routes from Dublin to Paris and Brussels. By 2001, Ryanair was publicly traded and also had Europe's largest travel website. Within three months of its launch in 2000, the website received over 50,000 bookings per week.

MarketBusting Moves

Ryanair gained success and outperformed its competitors by busting the market. The company employed several marketbusting strategies including:

¹ 'The Airline Industry', 2005.

² 'Airlines in Europe', 2005.

³ 'Ryanair Holdings, plc.', 2004.

⁴ Ibid.

- #29: Redirect, Disrupt, or Alter the Evolutionary Trajectory
- #6: Dramatically Improve Positives
- #7: Eliminate Tolerables or Emerging Dissatisfiers
- #2: Digitize to combine or replace links in an existing chain

#29: Redirect, Disrupt, or Alter the Evolutionary Trajectory

Ryanair realized that consumers desire transportation that was fast and inexpensive. In order to provide such a cheap method of transportation, low costs and efficiency were essential. Thus, Ryanair transformed the industry business model by becoming a low cost carrier which was still able to maintain profits via reduced costs. Based on the Southwest low cost-low frills model, Ryanair created a strategy that drastically differed from the likes of British Airways, Lufthansa and Air France.

For example, Ryanair used a single fleet of aircraft which allows for economies of scale in scheduling and training crews, maintenance, and stocking of spare parts. The company is currently transitioning from the B737-200s and B737-300s, that Ryanair bought secondhand, to new B737-800s. The B737-200s have been under much scrutiny due to their age,⁵ so the transition to newer aircraft should serve Ryanair well. The introduction of new aircraft should reduce maintenance costs.

Ryanair's use of point to point secondary airports has helped it maintain low costs as well. Secondary airports offer lower landing and gate fees than larger traditional airports. Also, these airports are less congested and thereby provide for a greater turnaround and aircraft utilization time.⁶ Despite the fact that consumers are often placed outside the cities of destination, passengers enjoy on-time flights; 93% of Ryanair's 180,000 flights were on-time in 2004. Competitors like easyJet and British Airways stood at 88% and 82.6%, respectively.⁷

Ryanair's no-frills methodology has also improved efficiency and productivity. Traditional in-flight services such as seat allocation, complimentary meals and drinks, and newspapers have been eliminated. Instead, Ryanair reaps the profits from such secondary services by charging customers for in-flight services and other travel expenses such as travel insurance. Employees are compensated for sales and thus Ryanair benefits through higher profits and efficiency.⁸

Overall, Ryanair's cost advantages are very significant. In 2001, the costs per available seat mile (ASK) were only 4.5 with the next lowest value for European carriers being 7.1 (easyJet).⁹ By maintaining low costs through various means, Ryanair can focus on high volumes (quantity of passengers) rather than large margins (per passenger) like other major airlines. By having low fares, individuals who would otherwise have chosen an alternative method of transportation (i.e. driving or trains) now choose to fly.¹⁰ Thus, Ryanair's passenger base has grown from 6.1 million in 2000 to 23.1 million in 2004.¹¹ Over the same time, profits have increased from €72.5 million to €226.5 million, despite a loss from 2003 to 2004.

As a result, Ryanair's low-cost-low frills strategy changed the competitive landscape of the European airline industry. Other low-cost operators began to emerge and throughout the years these companies have pushed both traditional operators and charter airlines to adopt the idea of short-haul routes.¹²

#6 & #7: Dramatically Improve Positives & Eliminate Tolerables/Emerging Dissatisfiers

By improving Positives and Eliminating Tolerables and Dissatisfiers, a firm can drastically differentiate itself in an industry which can be commoditized. Ryanair has been able to differentiate itself by satisfying its customers. As mentioned earlier, customers want flights to be cheap and quick. Ryanair has provided and improved upon both these positives. In 2004, Ryanair was #1 in the following categories: Lowest Fares, On-Time Flights, Least Cancellations,

⁵ Butcher, 2004.

⁶ Ibid.

⁷ 'Annual Report 2004', 2004.

⁸ Ibid.

⁹ Binggeli & Pompeo, 2002.

¹⁰ Butcher, 2004.

¹¹ 'Annual Report 2004', 2004

¹² 'Airlines in Europe', 2004.

and Fewest Lost Bags.¹³ Customers are thus not only paying less but also receiving better service than Ryanair's competitors. Thus, Ryanair has improved both the positives that customers want when flying but also reduced many of the tolerables and dissatisfiers.

#2: Digitize to Combine or Replace Links in an Existing Chain

Ryanair is able to reach its customers at a low expense because of its successful website. 96% of the company's ticket distribution is through the web, which compares to 2% each for its telephone sales and counter sales. It is estimated that Ryanair's low marketing and distribution costs account for roughly 10-15% of its cost advantage over other airlines. On a per passenger basis, costs are only €70 per passenger.¹⁴ According to Ryanair's Commercial Director and Chief Financial Officer, Michael Cawley, saves over €40 million annually due to its e-business.¹⁵

Key Lessons

Ryanair's MarketBusting strategies have made it one of the premier airlines in Europe. Its low-cost, no-frills strategy was put into place in 1991 by new management, but it was not until the industry was deregulated in 1997 before Ryanair could take full advantage of its low cost advantages. Ryanair's success and ingenuity has sparked and changed the trajectory of the European airline industry. The company hopes to be the largest airline within 8 years.¹⁶

¹³ 'Annual Report 2004', 2004.

¹⁴ Butcher, 2004.

¹⁵ Grassley, 2002.

¹⁶ 'History of Ryanair', 2005.

DRAT Table, Ryanair**SOURCE**

External

Powerful Incumbents	Large, established competitors: British Airways, Lufthansa and Air France
Opposition from advocacy groups	Concern over Ryanair's aging fleet
Risk to key external stakeholders	NA
Inertia	Finding way to opening new routes and enter new markets
Disruption of customer's system or process	Unwillingness of customers to fly into airports outside of large cities [destination]
Changes in standards or regulations required	NA

Internal

Internal political maneuvering	Maintaining low costs while expanding
Reluctance or resistance by those needed for active implementation	NA
Resource Constraints	Increases in oil prices

Platform changes required

Human resource and skills platform	Justifying the long hours demanded of employees and pilots
Logistics platforms	Acquiring new aircraft while maintaining low costs
Distributor platforms	Maintaining large online sales
IT and database platforms	Continual improvement of website and coordination of flights
Technology platforms	NA
Assets, operations, and systems platforms	Increase interaction between passengers and Ryanair employees via feedback

Marketbusting Kite

Element	Needed to Support the Marketbusting System
Agenda The key things that the critical people spend time on	1. Minimize costs throughout all operations 2. Maximize productivity from aircraft/employees 3. Improving customer needs 4. Eliminate dislikes of customers 5. Expand routes and destinations (growth)
Norms What principles and behaviors are valued?	1. Customer satisfaction 2. Upbeat and personal image 3. Innovation & Progress 4. Spreading low cost mentality 5. Safety on flights
News What information and measures are paramount?	1. Gross margins 2. Oil prices 3. Customer feedback 4. News affecting tourism (i.e. terrorist attacks) 5. Overall economy
Allocations What gets resourced and how are people rewarded?	Resources go to 1. Acquiring new aircraft 2. Improving services Rewards and recognition for successes go to 1. Adding new routes 2. Achieving customer satisfaction 3. Employee share option
Structure Power, authority, responsibility structure	1. Standard Board of Directors 2. Mostly un-unionized workforce
History Key routines that have developed and drive activities	1. Pilots fly long hours 2. Online Ticket Sales 3. Cross promotional sales online
Symbols Meaningful actions, ceremonies, icons	1. The Low Cost Carrier 2. Michael O'Leary, CEO 3. Quarterly Newsletter for employees

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