

SWOT Analysis of Ryanair

Air Scoop launches a new range of articles called 'SWOT Team'. Each month, we will publish a SWOT analysis of an European low-cost carrier. In this issue, we start with a global SWOT of the market.

The no-frills carriers have created new markets, and opened up air travel. A greater proportion of their passengers are people who previously were using other modes of transport for travel, while a certain proportion are from traditional carriers. Relying as they do on linking region to region and by-passing expensive big-city hubs, low-cost carriers have caused rise in local employment. There is parallel growth in tourism; a rise in property investment and new businesses credited to good, cheap logistic connections.

One of the strongest characteristics of the no-frills business model is the ability to adapt rapidly to circumstances. Cost savings of the no-frills business was achieved by effectively supplying a single standard service on all routes and improving both labor and aircraft productivity.

Ryanair's Chief Executive, *Michael O'Leary's*, once claimed that "Low-cost airlines are the new Europe". This seems to have been amply proved by the tremendous impact LCC have had on Europe.

Ryanair and *easyJet* are the leading low cost players owning around 50% of the share in the European LCC market.

Ryanair is an Irish airline headquartered in Dublin. Its biggest operational base, however, is at London Stansted Airport. It is Europe's largest low-cost carrier and one of the world's largest and most successful airlines in terms of profits, number of flights and number of passengers flown.

Ryanair is also one of Europe's most controversial companies, praised and criticized in equal measure; praise for its commitment to low fares, radical management, and its willingness to challenge the 'establishment' within the airline industry and criticized for its trade union policies, hidden «taxes» and fees, and limited customer services, and misleading advertising. In October 2006, *Ryanair* was voted the world's most disliked airline in a survey conducted among 4,000 of its users by *TripAdvisor* website.

Overview of Ryanair:

History and Growth: *Ryanair*, founded in 1985 by Irish businessman *Tony Ryan*, started operations as a regio-

nal flight with a 15 seat turboprop aircraft flying between Waterford and London Gatwick. In 1986, adding a second route between Dublin-London Luton, they carried 82,000 passengers in one year.

Today, *Ryanair* is Europe's largest low fares airline with 19 bases and 456 low fare routes across 25 countries. It will have 19 European bases by the first quarter of this year.

Michael O' Leary, the current CEO of *Ryanair* was responsible for launching the first unique low fares, 'no-frills' airlines in Europe. Flights were scheduled into regional airports that were keen to attract new airlines, and offered lower landing and handling charges than larger established international airports. *Michael O'Leary*, known for his pugnacious and aggressive management style, employed a flat management hierarchy and vigorously followed the low cost policy, on all fronts.

The EU deregulation of aviation industry in 1997 helped *Ryanair's* growth and expansion into Central and Northern Europe. It made a successful floatation on the Dublin Stock exchange and NASDAQ, making it rich in capital enabling it to place a massive US\$2 billion order for 45 new Boeing 737-800 series aircraft in 1998. Since then *Ryanair* has not looked back, but grown stronger and currently is the most dynamic airline in the European markets.

Current Status: This year *Ryanair Holdings plc* (on Feb.12, 2007) has a NASDAQ listed market capitalization of \$5.6 billion, which will be used in the NASDAQ-100 Index weighting, and a worldwide market capitalization of \$12.3 billion.

In the year ending December 2006, *Ryanair's* average revenue was \$2,190 million, with a growth rate of 28%. Its net income was about \$314 million with a 5-year growth rate of 23% approx. The increase in passengers for the rolling 12 month period ending February 2007 was 24%. Over the period Oct 06 - Feb 07, stock value rose by nearly 50%. Increase in EPS was 29% in Q3, 2006.

Ryanair currently employs a team of 4200 people and expects to carry approximately 45 million passengers this year, making it the world's largest international scheduled airline. It operates 134 new Boeing 737-800 aircrafts with firm orders for further 117 new aircraft to be delivered

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over next 5 years. This increase in fleet would permit **Ryanair** to expand passenger base from 45 million in 2007 to 85 million in 2012.

Among **Ryanair's** main low-cost competitors are *easyJet*, *Monarch Airlines*, *Bmibaby*, *Air Berlin*, *Germanwings*, *Transavia*, *Jet2*, *SkyEurope*, *Vueling*, *WizzAir*, *Flybe*, *Thomsonfly* and *TUIfly*. In 2004 approximately 60 new low-cost airlines were formed. Despite traditionally being a full-service airline, **Aer Lingus** moved to a low-fares strategy from 2002, leading to much more intense competition with **Ryanair** on Irish routes.

On Oct 5, 2006 **Ryanair** launched a €1.48bn (GB£1bn; US\$1.9bn) bid to buy Irish carrier **Aer Lingus**. **Aer Lingus** rejected the offer as unsolicited, opportunistic and too low and later EU stalled it. **Ryanair** has raised its stake in **Aer Lingus** to 25% in Nov 2006 and plans to make a second bid later this year. Alliance of **Aer Lingus** shareholders - including the government, **Aer Lingus** pilots and an employee trust hold more than 45%.

Business Model of Ryanair: **Ryanair's** business model is stated to be a disruptive model within the European aviation sector. A disruptive business model challenges the strategies used by the existing, often well-established businesses in the market. Its primary focus has been on price sensitivity of customers.

The major features of this LCC are:

1. Lowest ticket prices to any place in Europe.
2. Differential pricing of fares.
3. Usage of secondary and smaller airports.
4. 100% E-tailing of air tickets.
5. Flying only single model of aircraft
6. Increased capacity of airplanes and lowest threshold to travel to achieve highest seat density
7. Short turnaround and maximum utilization of aircrafts.
8. Every additional service is charged
9. A flat management structure
10. Non-unionized labor force
11. Aggressive fuel hedging
12. Continuous innovative measures to increase ancillary earnings*
13. Stringent cost-cutting measures employed.
14. Main Base location in high traffic zone (London-UK)
15. Focus on routes with large non-business potential

*Ancillary income generation and cost cutting measures:

Money generated by tickets has never been sufficient to

cover operating expenses of **Ryanair**. To sustain growth of operating margins and reassure shareholders, **Ryanair** has adopted stringent cost cutting measures and strengthened ancillary activities.

Some of the cost cutting measures are:

1. There are no window shades, no seat-back reclines and seat-back pockets, thus leading to increased number of seats and reduced cleaning and repair costs.
2. The staff has to pay for their own training, uniforms and meals and the staff is not allowed to unionize.
3. Very short turnarounds of aircraft which increases aircraft utilization.
4. Staff takes on multiple responsibilities like cleaning the passenger cabins and also welcoming passengers on board.
5. Aggressive fuel hedging to offset fluctuating fuel prices.

Sources of ancillary income are:

1. Customers are charged for priority boarding and assigned seating. Families would end up paying priority boarding fee as they would wish to sit near each other.
2. Food, water and drinks are sold to passengers at a price on flights. There are no exceptions in catering services even when passengers are stranded due to flight delays or cancellations.
3. **Ryanair** was the first airline to charge a fee for check-in baggage. This deters passengers from carrying extra luggage and reduces baggage handling costs. Charges are increased for checking in baggage over telephone or in person.
4. There is an 'Irs & Wchr' levy (insurance & wheelchair) added to all passenger ticket fares.
5. A new 'pay as you weigh' policy has been introduced this year. Under this policy, passengers exceeding the airline's recommended flying weight will be charged an increasing scale of penalty charges for the extra fuel costs they incur the airline. **Ryanair** customers will be required to give details of their height and weight at the point of booking.
6. **Ryanair** earns from its website, (15 million unique visitors each month), commissions from sales of Hertz rental cars, hotel rooms, ski packages, and travel insurance.
7. **Ryanair** planes have become giant billboards, displaying ads for **Vodafone Group**, **Jaguar**, and **Hertz**. Ads will also be featured on seat back trays.
8. Flight attendants sell everything from scratch-card games to perfumes and digital cameras.
9. On arrival at any of its secondary airports, the passengers can buy a bus or train ticket to travel to city/town centre from **Ryanair**.
10. It has also launched online gambling on its website and plans to offer them on flights, after the introduction of on-

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board mobile phone service this year.

All these extra-revenues are essential to *Ryanair* to meet rising fuel prices, to offset low revenues from the tickets and to show good results at the stock market.

ISSUES:

Ryanair has transformed itself from an industry minnow into one of Europe's biggest airlines over two decades. However, its obsessive focus on the bottom line has dented its public image. Chief executive *Michael O'Leary* has been an outspoken critic of rivals and the industry. The airline refuses to recognize trade unions and has opted not to join industry groups such as the *International Air Transport Association*, which accounts for 94% of the world's air traffic. *Ryanair* does not recognize the *Irish Airline Pilots' Association (IALPA)*, although it is the largest pilots' union in Ireland. It prefers to plough a lone furrow, targeting rivals with relentlessly aggressive advertising campaigns.

Some of its major issues are:

1. Misleading advertisements and cluttered website
2. Its negative public image contributed equally by both its aggressive CEO and unfriendly staff.
3. Immature handling of sensitive issues (environmental

impact, criticizing politicians, disabled passengers)

4. Latest absurd ancillary charges (fat tax, wheelchair charge, check-in baggage charges, refund handling charges etc.)
5. Its strict policy of communication to passengers only through e-mail, while passengers can reach it only by premium rate phone line
6. Poor services to passengers in and off the flights
7. Leadership succession issue

SWOT ANALYSIS:

The SWOT analysis given below should help *Ryanair* to achieve their mission and goals by capitalizing on opportunities using their strengths and eliminating their weaknesses and threats.

The vision and goals of *Ryanair* are:

- to be the biggest and most profitable low fares airline in Europe".
- to make Low cost is a "management religion" and be air fare passive.
- to target growth, actively manage load factors and the cost base, and
- growth will be based on opening new airports.

The Institute of Economic Affairs' 2nd Annual

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For further information:



+ 44 (0)20 7608 0541



conferences@marketforce.eu.com



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STRENGTHS

1. First to launch low cost flights in Europe and has vigorously maintained the 'low fare' policy
2. Has the first-mover advantage in the following aspects:
 - Brand image and recall
 - Strong bargaining power in airport deals
 - Reduces barriers to its entry into new markets and airports
 - Increases barriers to new entrants
3. Aggressive and Innovative leadership (Michael O' Leary)
4. Has its main operational base in the busiest aviation traffic zones (London-Stansted airport)
5. Lowest fares leading to greater seat occupancy
6. Highest seat density leading to high efficiency in operations.
7. Increased capacity in new fleets leading to lower fares but higher total plane income
8. New fleets result in enhanced safety and high fuel efficiency
9. Single model of aircraft reducing training, maintenance and supervisory costs
10. High turnarounds resulting in maximum aircraft utilization.
11. Very high market capitalization and operating margins which:
 - increases ability to attract finance
 - aids in acquisition of new aircrafts
 - enhances ability to take risks and face new challenges
12. 100% e-tailing eliminating intermediaries and distribution costs
13. Lowest labor costs due to non-unionized labor force
14. Low overheads due to flat-structured and simple form of organization
15. Aggressive fuel hedging keeping impact of fuel price fluctuations to the minimum
16. Point-to-point flights eliminating through-travel service costs
17. Major earnings from innovative ancillary schemes
18. 737-800(189 seats) has the lowest seat-mile costs in the short-haul business

WEAKNESSES

1. Continued sustenance of cost-based business operations in a dynamic market
2. Earns publicity through negative press reporting which affects brand image in the long term
3. Very poor customer relations which is detrimental to success in any services industry
4. Long distances of its airports from city centers can become less attractive as markets mature
5. Increased seat capacity can be a problem when flying to less popular tourist or business destinations
6. Currently has limited access to landing slots in major airports becoming less attractive to business travelers
7. Decrease in availability of airports/landing slots in popular or frequently traveled destinations.
8. High sensitivity to any new taxes that may be imposed
9. Increasing demand for skilled aircraft personnel where supply is less than demand
10. Low level of empathy for employees
11. Low employee morale
12. Cluttered and often misleading website for customers
13. Very high levels of innovation needed to sustain low fares
14. Misleading advertisements about ticket fares and destinations
15. Ancillary sources of income getting absurd by the day
16. In-flight mobile phones and gambling can deter some customers
17. High turnarounds would increase fuel consumption and CO₂ emissions.

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OPPORTUNITIES	THREATS
<ol style="list-style-type: none">1. Mergers/acquisitions could be a way to stretch its operations to popular business routes and leisure destinations2. Complete deregulation of aviation industry in all EU markets3. Recent additions to the EU is an immense opportunity for Ryanair as its low fares policy will increase movement of job seekers across borders and also aid tourism industry, promoting economic growth.4. The US-European 'open skies' agreement could be source for increased routes and passenger traffic inwards5. Consolidation could help Ryanair to offset pressure on its costs and fares6. Upward mobility in mode of travel is expected as the middle-class population and income grows and time becomes a scarce commodity.7. Increasing entrepreneurial activities will be a source for economy air travel8. Plan for expanding operations into non-European markets in the near future9. Immigration into Europe could increase due to instability in the Middle-East10. Vertical and horizontal integration would become necessary to grow further in maturing markets11. Withdrawal of traditional players from most of the less traffic-intense point-to-point routes using regional airports12. During any financial downturns, the new fleet could be leased out, undercutting other sources	<ol style="list-style-type: none">1. Direct competition with other LCC players in the near future is inevitable2. Traditional airlines are also cutting fares and costs which could affect the market share of Ryanair3. The upper middle-class economy traveler may seek greater value proposition than just low fares.4. Limited or no slot availability at major airports could be a hurdle to expansion plans5. Mergers/acquisitions could threaten the existing low cost structures and make the decision process more complex6. The increase in market share at the cost of network airlines could also increase airport service charges which is currently low7. Impending legislations for environment protection and customer compensations will increase service costs8. War tensions and strife causes companies to cut down on business trips, they being apprehensive about security9. Threat of war in the Middle-East could affect oil prices and reduce air-travel in general10. Excess capacity and retaliation by competitors through cost cutting can affect growth in some popular routes.11. In middle and south European regions, Ryanair comes in direct competition with other modes of transport, where logistics could become the deciding factor12. As price differentials for secondary airport over main hubs reduce, operating margins can be affected13. Low fares do not stimulate demand for low leisure travel potential destinations as there is always the choice for substituting other destinations14. Additional fleets may require new terminals and secondary airports which means Ryanair would need to bear higher costs15. A low cost image that has become its brand tag will be difficult to erase when it wishes to moves up the value chain16. Upcoming contract negotiations with in-demand secondary airports

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Challenges and Recommendations for the future:

1. Low-cost carrier market expansion will probably slow significantly in the next five years as new opportunities become more limited. As this growth slows, labor costs will continue to rise for the low-cost carriers, in all likelihood reducing the advantage they once enjoyed. **Ryanair** must be prepared for the inevitable convergence of costs and conditions, but it will still retain the 'no-frills' advantage of high seat density and aircraft utilization coupled with lowest fares in any market.
2. **Ryanair's** domination in the low-price market segment will continue but to become the biggest player it will have to expand into more popular routes which will entail better service and good customer relations. This will require high employee retention which is key to customer satisfaction. The business philosophy should be 'smile, charge and serve'.
3. Stock market earnings are totally based on growth, expansion and high operating margins. This can be sustained by **Ryanair** in the existing market conditions. But these conditions are dynamic. Competitions with other established modes of transport in the low price segment will intensify in certain regions. Hence growth will slow down. The current major growth areas in Europe are in the Eastern regions. So it will have to launch new operations in non-European territories like Russia and Turkey. This would require off-base (like crew lodging in areas not having home bases) service operations increasing operational costs. This will cut into its operating margins. On the other hand, improved service image can have a positive impact on share prices. Hence the Stock market earnings will continue to be vulnerable to market dynamics.
4. Rapid growth of secondary airports will definitely increase noise pollution and carbon emissions in remote areas

which is an environmental hazard. Hence **Ryanair** has to combat it with pro-nature conservation moves.

5. The economy traveler segment can be divided into lowest price segment and value-price segment. **Ryanair** is already the leader in the lower price segment, but would have to cater to the rapidly growing value segment for total domination in the economy segment. The value segment constitute travelers interested to optimize time, comfort and price. This would mean preference for city-centric airports, convenient departure and arrival times, and basic service coupled with the willingness to pay little more for the comfort.

6. Competitors like **easyJet**, **Air Berlin**, **Basic Air**, **BMIBaby** are catering to the Value market segment and have established slots at some primary airports and providing basic cost effective services. Acquisition of **Aer Lingus** or a merger with a similar airline would enhance **Ryanair's** showing in stock markets and also facilitate quicker expansion into value-oriented market segments without comprising its top position in the low-price segment.

Conclusions

Ryanair is the only airline that has been completely focusing on Low Price segment and with the creation of this segment has shown staggering growth rates of 30% and more. Combined with an excellently executed low cost business model and high profitability, **Ryanair** will emerge as one of the clear winners from future market consolidations.

The key challenge for **Ryanair** in the next couple of years therefore is developing a successful strategy for not only winning the war in the Low Price segment but gaining a solid position in the Value segment and in new non-European markets.

EVENTS

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