

WHAT IS BEHIND RYANAIR'S SUCCESS?

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A low-cost carrier, the Ryanair, has managed to overhaul from to one of the major world airlines. The article attempts to analyse and reveal what is behind this extraordinary success, what business strategies or methods of operation were used. It focuses on the questions of marketing, public relations, relations to competitors and employees not only from official sources but using also conjectures and speculations of investigative journalists to reveal ways how Ryanair reduces its operating costs.

K e y w o r d s: Ryanair, operations of LCC, backstage practices of Ryanair, operation costs of LCC

1 INTRODUCTION

LC airlines have experienced a lot of publicity and had dramatic impact on various aviation markets. The origin of the low-cost revolution has its roots in the U.S., the basis of it become high-density flights operation on short routes. Ryanair become a typical representative of LC model airline in Europe, also one of the most successful in aviation. Although it was originally established as a full service carrier, its success is due to accepting a low-cost strategy.

The purpose of this paper is to analyse the reasons of development and success of the low-cost model through monitoring of Ryanair's operation. Article discusses the operation of LC airline as on theoretical level – through characteristics, operation and employment strategy, as well as through practical examples and offers a comprehensive view on LC carrier also with help of can be said backstage information.

2 GENERAL CHARACTERISTICS OF LCC

The basic philosophy of low-cost carriers is to offer a product for significantly lower cost and therefore bring it to a wider range of customers. The operation of LC model is achieved through set of methods in order to reduce unit costs and increase performance and productivity. All aspects – from employees to business policy are fully involved in it.

Price of product is reduced by a number of measures, which ultimately affect the cost (point to point flights, depriving travel from “classical” services on board, increasing aircraft capacity, using secondary airports, etc.) and which LC carriers apply in all areas of their business.

- Bookings are conducted mostly through internet
- Operation type point-to-point
- Standardization of all services on board (1 class)
- Flight tickets in non-printed (passengers printing boarding pass themselves)
- Paid baggage of all categories
- Minimum frills on board
- Free seat policy (in order to faster turnarounds)
- Maximum seat capacity of aircraft
- Offer of paid services and products at website/during booking/on board
- The use of secondary airports with lower commissions but far away from big cities
- Lack of Frequent flyer programme

- Not participating in alliances
- Standardization of fleet (reducing repair costs, spare parts, crew training, etc.)
- Increasing aircraft's turnaround
- Increasing performance and productivity (human resource strategy, aircraft capacity, etc.)

Ryanair become an important player in European sky - thanks to its strict LC philosophy could average price of its tickets move down to incredible 45,36 € for flight, what made possible to obtain a large number of new customers for which the classical airlines are too expensive. Such travel fares permit to travel also to less wealthy people and opened routes on market which was less attractive for traditional airlines.

3 RYANAIR

Ryanair was founded by Ryan family in 1985 with participative capital £1 and 25 employees. Its operation started by aircraft Bandeirante with capacity of 15 passengers on route from Waterford to London Gatwick. A year later carrier gains the permission to operate on the Dublin – London route, which meant direct competition for Aer Lingus and British Airways. In the first year of operation Ryanair carried 82 000 passengers.

A breakthrough year for company was year 1990, after three years of competition with Aer Lingus and British Airways, Ryanair reported 20 million dollar losses and underwent a comprehensive restructuring. By copying Southwest Airlines low-cost model Ryanair accepted new identity as first low-cost carrier in Europe.

The basic principles were faster turnarounds, cost reduction, cancellation of catering and unification of fleet. Three years later the number of passengers exceeded the one million and the number of employees rose to 503 people. [1]

First delivery of Boeing 737 was conducted in January 1994 and marked the further development. In January 2000 Ryanair launched the largest website for online booking in Europe - www.ryanair.com. During three months of its service it performed more than 50 000 bookings per week. In the same year new Boeing 737-800 aircraft were added to the fleet and sponsorship of Skynews Weather Reports teleported Ryanair into millions of homes via television. [1]

Current traffic record of Ryanair is more than 75 million of passengers and company's operation revenue is amounted to 4 390, 2 million in Euros. It offers more than

1500 scheduled flights on short distances in a single day serving about 160 airports across Europe with fleet consisting of 294 aircrafts. [1]

3.1 The strategy and cost reduction

Keys of Ryanair long-term strategy and cost reduction are:

- Low fares

These prices stimulate demand, especially from the cost-dependent customers as well as in holiday sector and business sector or customers which would otherwise choose other means of transport or not to travel at all. Ryanair sets fares based on demand for individual flights and on the time remaining until the date of departure, higher fares are paid on flights with higher demand and booking closer to date of departure.

- On time flights

The aim is to bring the passengers to the destination place on the time as planned. According to data from the Association of European Airlines AEA and from own records of carrier – Ryanair achieved higher accuracy, less lost luggage and cancelled flights than other European carriers. This is because of using unsaturated airports without necessary slot times (as at Hub airports).

- High frequency of short haul flights

In the fiscal year 2012 was an average distance length 771 miles and average flight duration approximately 1.77 hours. Lines to short distances afford to offer low prices and high frequency while eliminating the need of “frills” on board as catering, in-flight entertainment or higher costs of services for transfer and transit passengers.

- The fleet

Ryanair has one of the youngest fleets among the world airlines and there are rumours that Ryanair bought its Boeings for an extraordinary good price. Although the price is unknown, what is known is period when was aircraft purchased. It was a year after the attacks on the WTC what was a perfect market for buying while other airlines were cutting flights or went bust. Operation of one aircraft type fleet (Boeing 737-800) allows lowering of operating costs in field of crew training, maintenance, purchase and storage of spare parts and allows higher flexibility in crew and equipment planning management.

- The labour costs

The workforce measure is highlighted by a performance-orientated salary. These incentives include commissions from sold products on board for flight crew or salaries based on the number of flown hours or sectors for pilots and stewards within the limits set by industry standards regarding maximum working hours.

- The customer service costs

The way of reducing these costs is using agreements with outside contractors at individual airports for dispensing tickets, aircraft handling, passenger handling and other services which are more cost effective when carried out by a third party. The Ryanair management is trying to negotiate such services at a fixed price for several years. Development of own booking website helped eliminate

the travel agencies commissions, through direct sales via internet this LC carrier receives over 99% of all bookings. [2]

- Using of unsaturated airports

The most of regional airports are not using system of airport slot times or other operating restrictions what leads to increase the limit of authorized flights and landings, carried departures and arrivals on time, accelerates the aircraft turnarounds and resulting in fewer delays and lower handling fees. Ryanair believes that for the benefits coming with bringing higher number of passengers to airport has the right to negotiate significantly lower airport handling fees and easier access to airport's facilities. Regards the use of the less expensive gates as well as using own aircraft boarding stairs and mobile stairs during the boarding rather than boarding bridges, which are less efficient to use and more expensive. It should be added that from October 2009 Ryanair requires all passengers to check-in online. This reduces waiting time at check-in desks and also makes passenger way from arrival at the airport to boarding the plane significantly quicker, reduces handling fees as well as checked baggage fees, which are paid during booking and purchasing of flight via internet.

- The adoption of advantages of internet

Carrier in 2002 converted its booking system to the new one which is run by Navitaire under agreement which was extended from 2011 until 2020. As result the current bookings via internet represent 99% of all bookings made in recent years

- The revenue from ancillary services

Ryanair distributes services for accommodation, travel insurance and car hire (Hertz Corporation) through its website. For accommodation has a contract with Hostels Combined Pty Ltd., of every accommodation booking made via Ryanair.com carrier receives a commission. But it is not only provider offering accommodation via Ryanair website – customers have wide range of hostels, hotels, camping or apartments, besides offer of train or bus tickets. For FY 2012 these additional services generally credited 20% of total operating revenues. [2]

- The focusing on the growth

Building on success from Irish and British markets and expansion into Europe and Morocco Ryanair continues in intentions to grow steadily and focuses on specific markets by building new routes, extending to countries of European Common Aviation Agreement and EU which are yet served only by FSC, increasing flight frequencies on existing routes, setting up domestic routes within individual EU countries, linking airports within and existing network and establishing new bases and new routes on which does not fly any carrier yet.

In 2009 this low-cost airline acquired 29.8% stake in Aer Lingus total in € 407.2 million and subsequently tried to purchase additional shares, what was rejected by European Commission. Ryanair wants to retain Aer Lingus as a separate brand, increase its traffic from 9.5 million to 14.5 million passengers in the 5 year period after merger, to expand operations on short haul

lines at some European airports which are not currently served even by Ryanair and also intends to increase transatlantic flights from Ireland which have fallen in recent years. If the offer is approved the Irish government receive € 273 million in cash. [2]

4 MARKETING AND ADVERTISEMENT

The primary marketing strategy is the wide availability and low fares guarantee. For making it visible by using aggressive advertising campaigns Ryanair become really famous around the world. Often it literally mocks and attacks on rival companies, does not hesitate to use ambiguity or vulgar expressions. Its ads are shocking with element of arrogance, ridicule and humour.

During the visit of the Pope in UK in September 2010 Ryanair published in the Guardian advertisement just behind article about visit of head of the Catholic Church. The advertisement says: "The costs of Pope's travel and organizing his events will be £15 million" Just below is the Pope speaking: "Shudda flown Ryanair!" Ryanair's advertising is focused on educated people who are knowledgeable in the politics and world affairs.



Figure 1. Posters of Ryanair

To promote new flights at the new base opened in Brussels Charleroi and achieve goal to transport one million of passengers through this new hub Ryanair published two controversial advertisements in Belgian national newspapers in April 2001. One of it was showing famous Brussels's fountain with vulgar text expressing flury from expensive Sabena's flights.

After verbal exchange with CEO of Sabena – Christopher Mueller, followed by legal proceedings for provocation, slander, misleading the customers and abusing Sabena's trademark Belgian court ruled that advertisings are offensive and misleading and Ryanair had to publish an apology in newspapers and website as well. Ryanair did this apology in way good for them: "We are soooooooooo sorry Sabena!" with following sentence that Ryanair is about 89% cheaper again. [3]

This is just one example out of many when Ryanair faced legal proceedings, for similar advertisement campaigns launched against Aer Lingus,

easy Jet and British Airways. Majority of companies are trying to build positive image in the public eyes but contrary Ryanair uses crime activities (defamation of competitors) and engaging competitors in advertising disputes.

5 BACKSTAGE PRACTICES IN COSTS REDUCTION

5.1 Hidden fees during booking

Maybe these fees cannot be called explicitly as hidden, but ultimately the final ticket price paid when purchasing always differs from price in selection of flight when booking. The question arises, therefore, what final price of ticket consist from and what final price of total transport is. The price of ticket consists of the actual fare, charge for compensation for passengers which flights were delayed or cancelled (EU 261 Levy), the online check-in fee, the emissions trading scheme fee (ETS Levy) and the administration fee.

Interesting is the fact that customer is obliged to check-in online and print own boarding pass while using own computer, own printer, colour and paper, while doing it in own free time and Ryanair charges for this duty €7 (€14 for return ticket). This is the total price when booking, but it is just ticket itself without baggage, which will increase it about €30.

When paying with credit or debit card customers meet another fee – payment handling fee – customer must pay in order to pay. For using Visa card from Slovakia it is €2.16 fee. There is insurance, bus or train tickets, care hire, luggage or lottery offered to customer, at carelessness can easily happen that he can buy a product in which he is not interested in.

Airports are mostly away from the hub city the price of bus connections to which can be in some cases around even €30. If passenger forgets to print a boarding pass Ryanair accounted for its exposure at the airport €40 (or £40), for family of 3 can be cost of tickets about €160 more because of that. Similarly if passenger's cabin luggage exceeds the prescribed size, it will be charged €20 for each extra kilo. [4]

5.2 The attitude to the workforce

Usually airlines pay training of their employees, but every employee of Ryanair pays for own cabin crew training from £1 400 to £2 000 and another £25 each month for their uniform. This is a really interesting approach, when a candidate has to pay the actual training costs and in case he cannot finish his training money will not be returned to him. [2]

Fast aircraft turnarounds are reducing operating costs, but how it affects workforce? Turnaround in 25 minutes creates huge pressure on the staff. Among this time staff need to distract people from the aircraft, unload luggage, carry out safety checks (e.g. checking lifejackets), clean the aircraft, load new luggage, check-in

and seat new passengers and make sure everything is in order. Ryanair cabin crew argue that all these activities cannot be done in 25 minutes. Rush makes that safety checks are not even started and new passengers are already boarding the plane. European Security Inspection already published a security breach on Ryanair's board – report spoke about suspicious package which was placed on board in order to test the cabin crew, but Ryanair's stewards did not find it.

Each airline must fully examine persons who have access to the aircraft. The flight crew must have a clean criminal record, a certified employee's 5 years of working history and personal references, only then will have full security licence. However there are some allegations that Ryanair leaves many of its cabin crew members to work on temporary security licence which does not require any background checks of the employee. An anonymous flight attendant claimed that she is working with temporary security licence more than 3 months. To be able to move in airport airside with this type of licence there has to be always someone with full security licence accompanied with, but stewardess says that this rule is commonly ignored and when airport security ask on this her colleagues always cover things up as in case of obtaining false recommendations. [5]

To gain it her colleague claimed that she knows her for two years from vacation in Italy what was not true but this colleague also got recommendation like this from other crew member. It means that, in case it is true, recommendations are given to people who are known hardly for two months. This is done because of fear from losing job. Unconfirmed sources say that 2 out of 4 stewards on each plane work only with temporary security licenses. It all this is true whole processes of basic security control is completely ignored and raises issues of how can it be seriously abused. Ryanair argues that all employees undergo a full safety inspection in 60 days after commencement of employment what is the maximum period provided by law. Ryanair's low fare depends on getting the most out of the personnel and aircrafts but evidence suggests that staff is sometimes pushed to the limits.

Staff work on 10 hour shifts sometimes 5-6 days in a row and this is the hard physical work under pressure and at heights. Stewards earn only when they are in the air. They receive a salary of £14 for short and £19 for long flight. Average working day starts in early morning, they have to arrive often around 4 am and shift usually ends after 7 pm. They do not get enough sleep and have lot of exhausting work. While pilots are allowed a maximum of 100 flight hours per 28 days and 900 flight hours during the year, flight attendants are left at the mercy of employers. Hidden camera of BBC reporters often caught crew members sleeping during the flight.

Pilots are forced to work despite of great fatigue if someone of them decides to delay the flight because he and his crew were tired, the pilot will be dismissed from the company. Unofficial case talked about the captain of

the aircraft who was working for Ryanair for 10 years and was demoted to first officer (related with significant salary reduction as well) because he refused to fly 2 more flights. Many pilots turned to the Irish authorities with concern over their power to carry out important decisions. These facts are not official and Ryanair's reaction on it denies any allegations about non-compliance.

The information collected by different researchers, organisations or trade unions and journalists show that LCC employees are paid less than their colleagues from FSC segment, despite the fact that they work more. According to ECA (2002) gross annual salary of pilots of short distances airlines is lower than average by 28% compared to the salary of FSC pilots, despite they flown about 25% hours more. In addition, about a quarter of them have not fixed salaries. According to the International Transport Workers Federation (ITF, 2002) were fixed salaries lower about 5-40%, depending on the airline. [6][7]

5.3 The issue of employment contracts

Ryanair employees work under the terms and conditions of the Irish Labour Code, despite of the fact that it may be workers of different nationalities who work in their native country. These practices have already been dealt several times in court. On 22nd March 2005 Ryanair was convicted for violation of employee rights when released three Belgian employees in conflict with the Belgian regulations. Staffs were released under Irish law after the trial period. The discrepancy occurred that under the laws of Belgium the trial period lasts six months, therefore they should be entitled to annual contract. Ryanair referred to the practice under Irish legislation and the fact that the contract was signed in Dublin. However, employees are entitled to protection by Belgian law as actually lived and worked on the base in Charleroi. [8]

The similar case also happened in Marseille, France, but with far-reaching consequences. Ryanair back in 2007 filled a complaint with the French courts against the decision setting out those foreign airlines with employees living and working in France shall be treated in accordance with French labour and tax laws. Defence of Ryanair has always been the same – these are workers of Irish company working on boards of Irish airplanes as defined by EU regulations as Irish territory.

Ryanair has based the Marseille base as an operational hub in 2006, claiming that its opens Provence to the tourists and save French from the high fares of Air France. The low-cost carrier becomes the second largest carrier in Marseille with annual traffic record of 1.7 million of passengers (2010). However, the French pilots union complained that the employees are not paying any taxes in France. O'Leary, CEO of Ryanair who saved 30% of costs on social tariffs using the Irish laws in France, argued that Ryanair operates according to EU laws because his employees are mobile and work on planes registered in Ireland defined as Irish territory. [9]

The result of the process was that carrier has decided to leave base in Marseille. “Unfortunately, loss of four aircraft, 200 jobs and 13 destinations in Marseille is the high price necessary to pay to demonstrate that these are mobile Irish workers – said O’Leary before he brought the matter at the European Court of Human Rights and chopped down half of its Marseilles flights. [10]

The whole case showed how seriously the economies of the smaller towns depend on low-cost airline connections. Case received political context when right-wing parliamentarians and Economy Chamber have taken to the side of Ryanair against trade union, claimed that France is becoming reactionary and uncompetitive. Mayor of Marseille Jean-Claude Gaudin asked the president to withdraw the decree of employees of foreign airlines arguing that the law is out dated, protecting Air France from competition and trade unions are irresponsible. Unions contrary tagged Gaudin for O’Leary’s puppet.

The presence of Ryanair poured into the regional economy €550 million over 4 years. Ryanair cancelled base in Marseille in 2011, however still operates 10 routes there but with aircraft and manpower from another base.

6 SELECTED FINANCIAL INDICATORS

According to the data from Table 1 it can be seen that after year 2008 net income from operations decreased about 82.7%. It was not as result of the weak operating performance but rapidly increasing operating, for example price of fuel. Even other non-operating costs were significantly raised, together - this resulted in a total loss of €169.2 million. But Ryanair recovered itself very quickly and already in following year reached a net profit of €305.3 million and in March 2012 was net profit in amount of €560.4 million after tax. [2]

Total company’s assets are moving in the value of €9 001million, from the data above company is growing significantly each year at what long-term liabilities are predominantly fixed. Ryanair collects from ancillary services in average €11.69 per passenger – including sale on board as catering, cosmetics, calendars, or car rentals, sale of train tickets etc. [2]

Average revenue per passenger per mile in 2012 was €0.059; this yield was gradually increased now reached almost the level of year 2009. According to these indicators, at average distance of 771 miles per flight with average 183 passengers on board per flight at frequency of 1500 flights per day for 350 days a year is possible average operating income around €8 324.42 per flight.

Interesting is the average fare per flight is around €45. This is significant difference compared to the prices of classic carriers. Ryanair pushes the air transport to wider range of people for whom it becomes financially affordable. Especially in times of financial crisis it can be assumed that the demand for cheaper flights will even grow.

Table.1. Profit and loss account, source: Ryanair, 2012

Profit and loss account	FY ended in 31 st March				
	2008	2009	2010	2011	2012
	(in millions)				
Total operating income	€2,713.8	€2,942.0	€2,988.1	€3,629.5	€4,390.2
Total operating costs	(2,176.7)	(2,849.4)	(2,586.0)	(3,141.3)	(3,707.0)
Operating income	537.1	92.6	402.1	488.2	683.2
Net interest income (expenses)	(13.2)	(55.0)	(48.6)	(66.7)	(64.9)
Other non-operating income (expenses)	(85.0)	(218.1)	(12.5)	(0.6)	14.7
Profit (loss) before tax	438.9	(180.5)	341.0	420.9	633.0
Taxation	(48.2)	11.3	(35.7)	(46.3)	(72.6)
Profit (loss) after tax	€390.7	€(169.2)	€305.3	€374.6	€560.4

Table 2. Balance sheet, source: Ryanair, 2012

Balance sheet	FY ended in 31 st March				
	2008	2009	2010	2011	2012
	(in millions)				
Money	1,470.8	1,583.2	1,477.9	2,028.3	2,708.3
Total assets	6,327.6	6,387.9	7,563.4	8,596.0	9,001.0
Lon-term debt, including obligations of the fin. lease	2,266.5	2,398.4	2,956.2	3,649.4	3,625.2
Total equity	2,502.2	2,425.1	2,848.6	2,953.9	3,306.7

7 CONCLUSIONS

The LCC model exclusively focused on simplicity and efficiency. Many of their cost is transferred directly on passengers, as an example for all talks obligation of online check-in and printing own boarding pass. The basic points of success are therefore simplicity, efficiency, maximal utilization of resources both either the human or material. But in this context, other issues arise again – fairness to employees and customers and the related moral responsibility with image of company.

While other carriers have been building a name of loyal partner, ensure the care about customers, with low-cost Ryanair these values receding into the background. The carrier has become the one which people love or hate. Many travellers admit they do not like the company, but using it because it’s low fares. Their aggressive and cheeky ways to competitors or dismissive

approach to complaints have earned a special image for Ryanair.

Passengers suffer incorrect behaviour only because cheap flights and somehow they forgive all sins of carrier as soon as they reach final destination on time so cheaply. They do not have any great expectations from airline. For Ryanair this may on one hand considerably simplify the situation – carrier has greater freedom in deciding like it has no moral responsibility for its actions (case of cancellation of Marseille base), but on the other hand – it is building a negative reputation and not only in the way of its attacks at competitors (marketing) but also in attitude to the workforce, relations to region and airports and ultimately also to the customers. To a certain extent why is such behaviour tolerated can be extraordinary personality of CEO of Ryanair – Michael O’Leary and his unique charisma, the ability to achieve his goals without compromise and still retain the public favour.

But outside of these issues, low-cost carriers have made crucial thing – they allowed to air travel became widely available. It is no longer true, that air travelling is a matter of the wealthy social groups, it could be said that this is the most fundamental change that low-cost carriers brought to aviation. They managed to open markets where traditional carriers would not be normally interested in; they brought travelling by air to students, less wealthy people, entrepreneurs of small businesses or families and middle class for work or leisure. They are fundamentally affecting the region’s economy which they become part of through bringing tourists to the region, passengers to the airports, providing jobs for people as well as directly in their services or indirectly in field of ancillary services.

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