

THE RATIONALE BEHIND RYANAIR SUCCESS

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The goal of the following article is an analysis of fundamental reasons of success of low-cost Irish airline – Ryanair. It explains steps and changes which were undertaken by the company in its air transport process and other parts of its operations which as a consequence led to resounding economic results and winning overall dominant position in the current European air traffic market.

K e y w o r d s: Ryanair, airline, air industry, low-cost

1 INTRODUCTION

Ryanair was found in 1985, as a classic, with frills airline which goal was to compete with air carriers as British Airways or Aer Lingus on international routes between Ireland and the United Kingdom, Germany, France and so on. Its position at this market segment was complicated since the early start. Rival companies had their positions secured and Ryanair pushed itself through with much difficulty. Thanks to the outlined situation and also because of the Ryanair's efforts to follow the same business model as its competitors, it nearly came to a bankruptcy after only after five years on the market.

In 1990, after three years of rapid expansion of its fleet and routes and intensive price war with rival airlines, Ryanair suffered a financial loss of almost twenty million pounds and it was time for a complete restructuring. Company has gone through substantial changes in its strategy and it began to conquer the European air traffic market.

Michael O'Leary progresses to the head of the company, becoming its CEO and also its face for the public and media. The company began its transformation into a low cost airline. Its marketing strategy becomes more aggressive and it exploits the experiences gained from the innovator of low cost air traffic, the Southwest Airlines.

2 THE REASONS BEHIND RYANAIR'S SUCCESS

Ryanair had to change its strategy completely during the transformation. This change had to come in all aspects of its operations. Beginning with the structure of the fleet, marketing

strategy, route management or revenue management and last but not least the individual phases of air transport process. All of these changes had a single goal – lower costs and higher profits.

2.1 The fleet

In the beginnings of its activities, Ryanair operated more than one type of aircraft at the same time. After the transformation, company decided to operate a uniformed fleet. The decision finally brought desirable effect. It is important to say that Ryanair brought the unification of its fleet to a possible maximum. Nowadays company operates 272 aircrafts (6/2011) of the same type, series and even a version. The aircraft mentioned aircraft is the Boeing 737-8AS. They are equipped with economical engines CFM56-7B26 manufactured by CFM International offering thrust of 117 kN. Aircrafts are also certified for 180 ETOPS. Each aircraft is equipped with winglets contributing to lower fuel consumption and generally to more economical operations. The average age of the aircraft fleet is 3,4 years ranking it the youngest fleet of Europe and even in the world. By the number of its planes, Ryanair has the biggest fleet in Europe.

The uniform fleet has many advantages. It allows lower costs in personnel training and also in operational planning, because either flight or technical crew are subject to identical qualification standards. It also saves costs in maintenance and operations of airplanes same as in spare parts management and it provides higher flexibility in planning of crew workload and usage of other important equipment.

Another advantage, even though it could be a disadvantage in the same time, is a sole aircraft provider. Therefore, Ryanair has been able

to apply for quantity discount. Another factor was the Ryanair's strategy in negotiating with manufacturers and also the time when the company decided to start negotiations talks with Boeing and Airbus respectively. Ryanair made best use of the depression in air traffic industry in the wake of the terrorist attacks in New York and Washington in 2001 to its benefit and bought a large amount of aircrafts below market price.

2.2 Destinations

One of the basic attributes of business model of low-cost airline while building a route network is so-called point-to-point route system. It is based on selling one-way tickets on routes from one destination to another, nothing more. Passengers wishing to continue to another airport have to buy another separate flight ticket. This system helped reduce huge costs connected with complex reservation systems, luggage handling which exists at connection flights, with planning of flight schedule and also with potential problems with delayed flights which are frequent when using elaborate route system.

While the legacy carriers concentrate to hub airports, Ryanair put its stake on small regional airports. Even though these aerodromes are tens or hundreds of kilometres away from city centres, many benefits can be gained from their utilization. Firstly, airport taxes are notably lower and their levels can be kept low over a longer period of time thanks to Ryanair's bargaining power. Secondly, Ryanair can avoid slot system and chances to delayed flights decreasing rapidly. And last but not least, the company can obviate the competition of big airlines.

However, the biggest advance in using these small airports is the subsidy scheme. With raising number of passengers also raises the negotiating power of an airline, most of all with smaller airports. Arrival of an airline has a positive influence on the whole region, it brings thousands of travellers and other customers which in consequently will boost local economy. In reality, Ryanair pays the airport taxes in exchange for services, on the other hand airports or local government pays to Ryanair for coming there and putting them on its route map in the first place. The actual price for services is the difference of

these two sums. And hence it often happens that Ryanair get to use some of these airports for free.

Another significant fact is a number of destinations in Ryanair's route map. The company is very aggressive and aims for their rapid growth. This strategy allows it to penetrate new markets in a short time, where it is mostly a new player so the company can set up profitable preliminary conditions and create favourable position against future competition.

2.3 Income diversification

One of the most important parts of the Ryanair's strategy is the importance of income diversification. The reason behind Ryanair's low fares is that the revenue from transporting of passengers is not a sole and primary income of the company. Air transportation is still a core of its activities, but it also became an important tool for ancillary income generation.

The price of an airline ticket is not primarily set to gain the highest yield, but to attract the highest possible amount of passengers. Thanks to continuing increase in the number of passengers, the company has a great leverage to negotiate the best conditions in cooperation with other commercial subjects from which the Ryanair can obtain other income. This often refers to advertisement, car hire, hotel or hostel booking, selling of travel insurances and so on.

Needless to say that Ryanair uses profound revenue management thanks to which the price of the flight ticket is primarily determined in connection with remaining time to an actual flight and also to current trends linked to a demand for a specific flight.

2.4 The air transport process

As with other airlines, Ryanair's air transport process is the sum of individual stages every passenger must go through while travelling by air. Similarly to other processes and activities within the company, there is also an effort for maximization of cost savings and reaching a maximal effectiveness.

Due to these reasons, Ryanair tries to outsource most of these processes. Even those relating to passenger check-in are passed on passengers themselves. In reality, every passenger

has to make an online check-in and print their own boarding pass. Luggage can be dropped off at the drop-off desk in the terminal building. When arriving at the airport without the boarding pass, Ryanair will issue the passenger a new one for a considerable fee.

Fee strategy is also interesting and very important source of ancillary income for the company. It allows the company to earn money not only thanks to services it provides but also it allows to earn money on mistakes made by passengers, or, to be precise, when they do not meet the requirements laid out in conditions for carriage. Fulfilment of these rules is tightly monitored and their violations are heavily fined. It is necessary to say that these rules are quite transparent and Ryanair passengers are reminded of them several times while purchasing the ticket and boarding the plane.

However, the key factor in Ryanair's air transport process, where they can considerably affect costs, is utilization of their aircrafts. It is well known fact that an airplane does not earn money for the airline when it is not flying. Due to this reason, Ryanair puts strong emphasis on aircraft's turnarounds, which is the time between the arrival of the aircraft on the apron and leaving it again for another flight sector. In comparison to other airlines, Ryanair adopted a very different approach.

Firstly, Ryanair does not allow pre-assigned seats. It is a common practice at legacy airlines, some low-cost airlines, for example SkyEurope in the past, apply certain fee for such a service, but neither Ryanair nor easyJet, offer this. It has been tested and proven that if passengers choose their seats at the time of boarding the airplane, they can be seated at considerably shorter time rather than if they would use pre-assigned seats. Aircraft can be then balanced by excluding certain amount of row of seats from usage according to the relevant needs. If the passenger wishes increase his or her chance to occupy a longed-for seat, he or she can make use of the priority boarding service. This would allow the passenger to board the plane in the first wave, when the airplane is still empty. This again is a chargeable service and therefore it generates further income for the company.

Secondly, we can mention processes during boarding and disembarkment of the plane. Due to a no class differentiation, seats are not pre-assigned and the airline does not use the air bridges, the aircrafts can be boarded or disembarked from both ends at the same time. This also decreases the time of the whole process substantially. Costs are saved due to avoidance of using the air bridges, which would otherwise had to be rented out. Because of the average flight sector is only 75 minutes long, which follows a high number of turnarounds, every saving, money or time, is important and it shows itself particularly on the big scale. Ryanair equipped its aircrafts with inbuilt front stairs which also saves costs and time because the company does not have to use mobile steps for the front door any longer.

Another significant step in the air transport process has also been concerned with luggage policy. A fee for hold luggage has two functions. It first serves as an additional income and secondly it should motivate passengers to travel with hand luggage only. It decreases the average cargo weight, hence the costs saving and it allows reduces the time needed to load and unload the cargo itself. It also decreases chances for misplaced check-in luggage. All of these steps help shorten the turn-around process significantly.

Further interesting point is on utilization of the cabin crew. Apart from fulfilling their duties during a flight, the cabin crew also have secondary assignments whilst on the ground. They are responsible for cleaning up the plane in between the flight sectors and they are also used, particularly on the smaller airports, as gate agents.

Consequently, Ryanair have managed to make their aircraft turnarounds as short as 25 minutes. That allows it to maximize the rate of return on its investments and cut the costs to a minimum.

2.5 Advertisement

Another innovative change brought by the company was the concept of advertisement and the communication with a media, which is very different from those of rival airlines and from all standards of corporate communication altogether. It was the CEO of the company, Michael O'Leary himself, who has had a great influence in bringing

about this change. The company invests very little in advertising. O'Leary makes controversial announcements instead, which has great impact on today's media and they provide it a large space. He also does not hold himself from any opportunity to criticize public institutions as civil aviation authorities, governments or airport authorities if their measures go against Ryanair's plans. The company in its statements never forgets to mention that their only effort in the case is the lowest air fares, flights on time and the best passenger services, which subsequently help create a good image in the eyes of the public.

With Ryanair, more than with anyone else, the saying holds that even a negative advertisement is a good advertisement. It is caused mainly because of the fee strategy and strict control of keeping of travel agreement which can and often lead to outraged passengers. Nevertheless, even then is the company able to use some of these cases to its advantage and gain some free media space.

On the other hand, Ryanair is very successful in using its planes and web portal for selling the advertisement space itself to third parties. Every single thinkable space of the aircraft is used. Passengers come across with advertisement for diverse products or services on overhead lockers, seats, through the audio system during boarding of the plane, on the fuselage of the aircraft or even on the convenience bags.

Thanks to a vast number of passengers carried, due to its prices, Ryanair is asked for advertisement spaces, The income generated by this section is of significant importance to the company.

3 CONCLUSION

Today, whilst reviewing the performance and financial results, there cannot be any doubt that the company has become very successful not only through copying the low-cost airline model from the Southwest Airlines, but in most cases, also innovating and adapting it in to the European air traffic market. High credit goes to the CEO Michael O'Leary who gave the company distinctive style and the face which have made a huge impact on the public.

One of the biggest changes, which were brought by the company into the air traffic market, is the relationship between an airport and airline. In the past, it was airlines that competed amongst each other for the airport slots. Today we see on many occasions the reversed situations where airports compete and strive to attract airlines to become part of their route maps. Ryanair was also successful to change how the passengers perceive the air traffic. Before, it was interpreted as highly luxurious and unattainable, whereas today it is perceived as low-cost, low fare and ordinary, almost as traveling by bus. Passengers gradually learned, thanks to Ryanair, easyJet and others, to accept and exploit this new concept massively. It is essential to mention that the arrival of low-cost airlines contributed to reduction of prices of air travel throughout the European market

Ryanair with all of those measures has been and in the near future always will be trying to minimize its costs connected to the air travel and air transportation process respectively, with maximization of its profits in mind. And, we must say that the company is doing it pretty well.

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