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Ryanair Holdings

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"The customer is nearly always wrong" – Michael O'Leary, CEO of Ryanair (2012)

Sitting on the stage of a popular late night Irish television show, Michael O'Leary, CEO of Ryanair since 1994, insolently defended his company against criticism. Despite media outrage over subpar safety, poor customer service, and controversial business decisions, Ryanair has excelled in the European airline industry. Its profit margins regularly surpass those of other European airlines. Ryanair went from 5,000 passengers in 1984 to over 81,000,000 in 2014, achieving one of the greatest business successes in the airline industry.

THE RYANAIR STORY

With a staff of just 25 people, the Ryan family started Ryanair in 1985 in Dublin, Ireland, with the sole purpose of creating an airline with the lowest fares in all of Europe. The first route was with a 15-seat Bandeirante aircraft that flew from Waterford, Ireland to London Gatwick, England. The aircraft was so small that the cabin crew had to be shorter than 5 feet 2 inches in order to operate in the cabin. By the end of the first year, Ryanair had serviced 82,000 passengers with only two routes in operation. The airline was an instant success because of its ability to keep its prices less than half of competing fares. For instance, in 1986, Ryanair was able to charge £99 for a flight from Dublin to London, while British Airways' lowest fare for the same flight was £209. As a result, Europe's first airfare war broke out, and Aer Lingus and British Airways began cutting prices in order to compete.

Growth continued until 1990, when Ryanair ended the year with £20 million in losses due to intense competition with Aer Lingus and British Airways. The Ryan family decided it was time to reinvest in the business and strategize ways to compete in the European airfare market. Ryanair chose to follow the lead of Southwest Airlines in the United States, and rebranded themselves as Europe's first low fare airline. They also gained an entirely new management team and disposed of unnecessary expenses such as free inflight drinks and expensive meals. By cutting costs, Ryanair was able to get the same £99 ticket down to £59, which led to customers lining up for three days straight in order to claim tickets at the lowest rate ever.

In 1995 Ryanair successfully beat out Aer Lingus and British Airways by becoming the largest passenger airline on the Dublin-London route. It also became the largest Irish airline operating in and out of Dublin. Continued accomplishments led to the company going public on the Dublin and NASDAQ Stock Exchanges in 1997. The share price more than doubled on the first day of trading. In 1999, Ryanair financial reporting switched from pounds to euros.[1]

Due to continued success, Ryanair grew its fleet of Boeing 737-800 series aircraft and expanded its European routes. In 2000 it launched www.ryanair.com, which became Europe's largest booking site, with over 50,000 bookings per week.

The September 11, 2001 terrorist attacks in the United States caused problems for Ryanair's as well as other airlines. Oil prices shot up and customers were wary of traveling by air due to global terrorist activities. However, despite the fact that many airlines were having extreme difficulties or even going bankrupt at this time, Ryanair was still able to steadily grow by maintaining its low price reputation and creating more accessible routes throughout Europe.

THE COMPANY

Ryanair owns and operates about 300 Boeing 737-800 aircraft and has 1,600 service routes spanning across Europe and North Africa. There are approximately 9,500 Ryanair employees, including over 1,200 pilots. The company sets itself apart from competitors not only in terms of low prices, but also by its excellent on-time flight record. It provides "no-frills," just the most basic services that will get a customer from point A to point B.

Management Team

Director and Chief Executive Officer: Michael O'Leary

O'Leary, age 53, is an Irish businessman who began his career at Ryanair as a Director in 1988, and became Deputy Chief Executive in 1991. In three short years, O'Leary was promoted to Chief Executive Officer, where he used his studies of Southwest Airlines' business model to further develop Ryanair's low-cost pricing model.

O'Leary was projected to earn a salary of €968,425 and bonuses of €783,000 in 2014.[2] Much of O'Leary's money is invested in Ryanair stock.[3] As the largest individual shareholder, O'Leary is likely the most controversial character in the industry.[4] He is known for saying outrageous things, and is quoted regularly. In one of his most controversial comments, O'Leary is quoted as stating, "I'm Europe's most underpaid and underappreciated boss. I'm paid about 20 times more than the average Ryanair employee and I think the gap should be wider."[5]

Chief Financial Officer and Deputy Chief Executive: Neil Sorahan

Sorahan joined Ryanair in 2003 as the Treasurer and was promoted to Finance Director in 2006. Prior to Ryanair, Sorahan spent 11 years as the Deputy Treasurer for Castle Peak Holdings PLC, a sportswear clothing company. In 2014, Howard Millar, Ryanair's CFO, announced that he would be stepping down in December, so Sorahan began his role as CFO in October 2014.[6] Sorahan has worked closely with Millar for eight years.

Chief Pilot: Ray Conway

Conway, age 58, joined Ryanair in 1987 and was appointed Chief Pilot in 2002. Prior to Ryanair, Conway was an officer with the Irish Air Corps for 14 years. He has held several senior management positions with Ryanair in his 27-year career.

Director of Customer Service: Caroline Green

Green, age 49, has served Ryanair since 1996. She began her career at Ryanair as the Chief Executive Officer of Ryanair.com and in 2003 was appointed the Director of Customer Service. Her professional background is in airline computerized reservation systems.

Director of Engineering: Michael Hickey

Hickey, age 50, has served as the Director of Engineering since 2000, but he began his career in Ryanair's Engineering Department in 1988. His background prior to Ryanair was as an engineer with Fields Aircraft Services, an aircraft company specializing in structural modifications.

Director of Legal & Regulatory Affairs and Company Secretary: Juliusz Komorek

Komorek, age 35, joined Ryanair in 2004 and was appointed to his current role in 2009. Komorek is a lawyer who worked in the European Commission's Directorate General for Competition and in the Polish Embassy prior to working at Ryanair.

Chief Marketing Officer: Kenny Jacobs

Jacobs, age 40, spent the early part of his career in retail, and was a high level executive at Moneysupermarket plc. He currently oversees customer service, sales, and marketing at Ryanair.

Director of Flight Operations and Ground Operations: David O'Brien

O'Brien, age 49, first served Ryanair as the Director of U.K. Operations in 1998. In 2002 O'Brien transitioned into his role as Director of Flight Operations and Ground Operations. Prior to Ryanair, O'Brien served as Chief Intelligence Security Manager for Aer Rianta International.

Director of Personnel and In-Flight: Edward Wilson

Wilson, age 49, first served Ryanair as the Head of Personnel in 1997. In 2002 he was appointed Director of Personnel and In-Flight. His previous experience was as a Human Resources Manager for Gateway 2000.[7]

Other participants in the governance structure of Ryanair are found in Exhibits 1 and 2.

Employees

Ryanair employs approximately 9,500 people, which is an increase of 5% from 2013. In 2014, Ryanair was scheduled for 81.7 million customers, up 3% from 2013, which results in an average of 8,599 passengers per employee. Through collective bargaining agreements with groups of employees, which include pilots and cabin crew, Ryanair negotiates working conditions, employee pay, and work practices. Employee compensation is also based on "productivity-based pay incentives."[8] This includes anything from in-flight sales by flight attendants to the number of hours pilots fly, which industry regulators set at no more than 18 hours per week.[9]

Among many requirements, Ryanair employees must be between 5'2" and 6'2" in height, and of a "proportionate" weight. They must also have normal vision, or utilize contact lenses, and be able to swim well. During the first year of employment, employees can expect to make between €900 – €1,400 per month, after tax. There is also a New Joiners Allowance available for full-time employees, which is between €1,000 – €1,200 and spread out during the first six months. After a year of employment, employees will begin to receive an additional €250 – €325 annually to help pay for uniforms and ID's.[10]

Cabin crew employees are expected to pay for their own training, which may cost up to €2,000 total. Ryanair hires their cabin crew through a third party, such as Crewlink, who accepts people who have completed training through St. James Management Services. Once hired by Ryanair, the employees enter a probationary period; once the probationary period is completed, they enter into a contract with Ryanair directly.[11] The low-cost company-wide strategy and constant push for ways to make or save money seem to result in fairly low employee motivation, resulting in fairly low attentiveness to customers, at least from the customer's perspective.[12]

Mission and Strategies

Ryanair's mission is "to offer low fares that generate increased passenger traffic while maintaining a continuous focus on cost containment and efficiency operation."

"Ryanair's objective is to firmly establish itself as Europe's leading low-fare scheduled passenger airline through continued improvements and expanded offerings of its low-fare service."

Ryanair has been extremely successful gaining customers and growing rapidly since its inception in 1985. The airline industry is competitive, but because of Ryanair's ability to keep fare prices extremely low, it has survived the turbulent times that many airlines have not. Ryanair's outlined strategy focuses on eight different strategies, as found on their website:

- Maintain low fares
- Deliver best customer service performance
- Provide frequent point-to-point service on short haul routes
- Achieve lowest operating costs in the industry
- Take advantage of the Internet
- Commit to safety and quality maintenance
- Enhance operating results through ancillary services
- Focus on growth in targeted specific markets

These strategies focus on the core competency of Ryanair to ensure that it offers exceptional value in the saturated airline market.[13] By continuously providing the best value, growth is expected to continue for years to come.

Evolving Focus on Customer Service

Customer service has been a difficult area for Ryanair over the years. Research shows that Ryanair's poor reputation for customer service may have contributed to its success early in its history. Consumers tend to associate price and quality, and Ryanair wanted to be known as *the* low fare airline, so they provided poor customer service to serve as a "mental-shortcut" for consumers. Its reputation helped reinforce the "cheap" brand into consumer's minds.[14]

However, times have changed and Ryanair can no longer afford to have such a poor reputation for customer service. In the September 2014 Global Brand Survey by Siegel + Gale, Ryanair was ranked the second worst brand in the world. One passenger stated in the survey that Ryanair has “complex booking with all the onus on the passenger.” Another stated it is “irritating and generally misleading.”[15] Therefore, Ryanair’s claims that it is the number one customer service company are not yet palatable in the eyes of its passengers.

It appears O’Leary has taken note, as he has recently decided it is time to put the customer first and stop “unnecessarily pissing people off.”[16] To combat customer perception, Ryanair launched an “Always Getting Better” program that focuses on customer service improvements for the entire family. After launching the initiative, Ryanair received less than one complaint per 1,000 travelers in a month. Additionally, 99% of the complaints were answered within seven days and 92% of the 50,000 flights were on time. Customer service improvements include allowing customers to bring a second small carry-on bag and slashing the boarding card reissue fee. It will also start allocating seating in February 2015, rather than free boarding.[17] O’Leary announced that being nice has turned out to be a winning strategy.[18]

Functional Resource Areas

Human Resources Systems

In 2006, Ryanair streamlined its payroll and human resources services by entering into a contract to use ResourceLink. Ryanair staff operates the system. It consists of different programs for payroll, recruitment, health, safety, personnel, expenses, and training.[19]

Ryanair did not implement an internal communication system until 2011. They chose Signagelive as their provider. The system provides daily programming lists to 44 Ryanair bases across Europe.[20]

Financial Strategies

Ryanair’s financials are found in Exhibits 3 and 4. Ultimately Ryanair’s financial strategy is to keep costs low. They use small, low-cost airports with a quick turn around time. This cuts back on delays most carriers endure at the larger airports, decreasing the amount of wasted time. Historically, Ryanair also charges a fee for bags and check-in. This encourages passengers to travel light and check in prior to arriving to the airport, thus reducing baggage handling and check-in costs that Ryanair would normally incur.

A flexible labor force also contributes to cost reduction, since half of Ryanair’s flight crew are contractors, and only paid when needed. A large amount of Ryanair’s revenue comes from ancillary services, such as travel insurance, in-flight sales, and other fees. Other cost reducing efforts include no free, in-flight food and selling advertising space on boarding passes and inside the planes.[21]

Due to the uncertain cost of fuel, Ryanair enters into forward contracts, providing the company with protection against fluctuating prices for up to 18 months. Currently Ryanair has approximately 90% of its fuel requirements hedged through March 31, 2015, and approximately 55% through March 31, 2016. The cost of the fuel is set at approximately $950 per ton. It is estimated that for every $10 change in the cost of a ton of jet fuel, Ryanair's costs are impacted by approximately €2 million.[22]

Controversial Marketing

Ryanair has managed to make news headlines regarding its controversial marketing tactics that objectify women and celebrities. For example, in 2008 France's President Nicolas Sarkozy and his girlfriend Carla Bruni filed a lawsuit against the airline for violating privacy laws and using their photograph in an advertisement. Ryanair attempted to correct its wrongdoing by donating €5,000 to Sarkozy and Bruni's favorite charities.

Also in 2008, Ryanair began offering calendars featuring semi-naked cabin crew members in suggestive positions.[23] Even though thousands objected to the calendars, Ryanair decided not to discontinue the series because of O'Leary's reluctance to stop the charity fundraising effort with which they were associated. In 2011, the Advertising Standards Authority banned advertisements created from photographs from the calendars.[24]

More broadly, always emphasizing low-cost, Ryanair's marketing strategy focuses on the variety of low fares available, while attempting to provide exceptional customer service.[25] Historically, Ryanair has let the low-cost fares market themselves but, moving forward, it appears the company would like to focus on improving brand perceptions and customer loyalty. Ryanair has recently improved its website to make it more appealing and user-friendly.[26]

Ryanair's advertising focuses mainly on regional areas across Europe. The company also likes to use social media, press conferences, and various publicity stunts to gain visibility.[27] Ryanair is behind with regard to technology, and will focus on updating its digital platform so it can better study customer information and perform target research.[28]

Financial Summary

In 2014, Ryanair generated €5,036.7 million in revenue, up by 3.03% from the previous year. Sales consisted of 75.2% from scheduled operations (i.e., passenger transport) and 24.8% from ancillary operations (i.e., baggage fees, in-flight purchases). These numbers varied slightly from 2013, when 78.2% of the business's revenue was generated from scheduled operations and 21.8% of revenue from ancillary operations. Ryanair spent €4,378.1 million on business operational expenses in 2014, which was up from the previous year by 4.8%. The business's largest expenses for the year included fuel and oil (45.0%), airport and handling charges (14.1%), and route charges (11.9%). Of the business's expenses, route charges and fuel and oil expenses increased the most from 2013—up 6.8% and 6.3%, respectively.

Despite the increase in operational revenue, the business's profit after taxes was down by approximately 9% from 2014 (down to €522.8 million from €569.3 million). This was attributed to the €127.5 million increase in fuel and oil expenses from the previous year. This loss of profit translated to a decrease in earnings per share from the previous year, a decrease of €2.49 for basic shares and €2.47 for diluted shares.[29]

EXTERNAL ENVIRONMENT

The Airline Industry

The 2007 financial crisis severely hurt profits for most airline carriers operating in Europe, driving negative earnings. However, the recovery process has started with 2013 global profits reaching $1.7 billion in 2013 compared to $400 million in 2012, and 2014 profits expected to follow that trend, with a surge to $3.1 billion in profits for the industry. Although these figures combine cargo and passenger results, this section will focus on the European passenger industry in which Ryanair competes.[30]

Airline Industry Market Trends

The European airline market has dramatically changed since the deregulation of the industry in the mid-90s. Deregulation provided a great opportunity for the surge of low-cost airlines based on Southwest Airlines' business model, shaping the European airline industry into what it is today.

Another major trend within the industry, on a global scale, is consolidation. However, consolidation efforts are not very prominent in Europe, relative to other regions, for several reasons. First, most European airline carriers have undergone restructuring over the last several years, focusing on a defensive strategy in order to stay in business, rather than trying to expand. Second, most targets for major acquisitions are located outside of the European Common Aviation Zone, or are too small to represent a significant change if taken over. Third, barriers to acquisitions are very high, especially due to government regulation. For example, Ryanair failed to acquire Aer Lingus in 2013 because of the European Commission's intervention, intent on preventing a monopoly in Ireland.[31] Finally, since the emergence of low-cost carriers, barriers to entry have become very high in the European market, given low potential profit margins.[32]

Analysts acknowledge a strong correlation between consolidation and profit margins. For example, in the American airline industry, the top five airline carriers represented 76% of the market share in 2010,[33] and forecasted a profit margin for the year 2014 of 4.3%. On the other hand, the top five European airline carriers only represent 41% market share in 2014, with an expected profit margin of 1.3% for the same year.

In spite of deterrents, the consolidation process has started in Europe. Lufthansa, the industry leader, announced this year the creation of a new low-cost label, Wing, which will group its low-cost subsidiary companies.[34] Additionally, there is speculation among some analysts that Ryanair may be thinking about an acquisition.[22]

Direct Industry Competition

Exhibits 5-8 contain a wealth of information about the European airline industry. This section contains a description of the major competitors.

Lufthansa Group

Founded in 1954, Lufthansa Group (also known as Deutsche Lufthansa AG) is the largest airline in Europe, with over 620 aircraft servicing 18 regional and 197 international routes in over 80 countries.[35] The airline is based in Cologne, Germany, and as of 2014, owns 11% of the market share of European airlines.[36] In 2013, the airline sold the most seats in the European market—over 1.362 million (Ryanair sold 1.32 million seats in the same year).[37] Lufthansa Group owns many subsidiaries, including three passenger airline services: Swiss International Airlines, Austrian Airlines, and Germanwings, as well as Lufthansa Technik (airline maintenance services), Lufthansa Cargo (cargo transportation), LSG Sky Chefs (culinary services), and Lufthansa Systems (IT services). As of 2013, passenger airline services comprised the largest percentage of the business (78.3%), followed by maintenance services (14.5%), culinary services (9.5%), cargo transit (8.1%), and IT services (2.9%). Lufthansa Group employs 114,233 employees, with the majority of them working within passenger services (48%).

Lufthansa suffered significant financial losses in 2013 compared to the previous year. Revenue was down by 0.4% to €30,028 million. Operating profit was €697 million, down from €839 million the previous year – a loss of 20.4%. However, most dramatic was the business' net income, which was €313 million, down from €1,228 million the previous year. The business attributed these losses to a number of issues, including organizational restructuring, union strikes, and the purchase of 168 additional aircrafts to handle short-, medium-, and long-distance transit.[38]

British Airways plc

British Airways plc is a subsidiary of International Consolidated Airlines Group, who also owns Iberia and Vueling. British Airways owns 50.5% of the market share for air transportation in the United Kingdom.[39] Founded in 1974 and located in London, the business has a significant presence in Heathrow, Gatwick, and London City airports. The airline also services flights to over 400 destinations worldwide.[40] British Airways has two key business segments – passenger transportation and cargo transportation. Passenger transportation accounted for 88.6% of the business's revenue in 2013.[41] That same year, the airline sold 658,386 seats in Europe – which is 8% of the total seats sold in the European market.[42] The airline employed 38,592 employees (excluding part-time workers and contractors) in 2013, slightly less than the previous year.

From 2012 to 2013, British Airways saw an increase in revenue of 5.5%, and a dramatic increase in operating profit, up 203.9%. This resulted in a 149.1% increase in net income in 2013.[43] The business attributes these financial gains to the following events: addition of new airplanes to inventory; acquisition of British Midland International (BMI) from Lufthansa for £172.5 million in April 2012; price and fee hikes on consumer purchases; increased traffic and capacity volume; and restructuring of long-haul freighter operations and other cost savings initiatives.

EasyJet plc

Founded in 1995, EasyJet is Ryanair's largest competitor in the U.K. budget airline segment, with 18.3% of the market share for air transportation in the U.K. region.[44] Headquartered in London, EasyJet has over 600 routes internationally in 32 countries. The airline employed 8,945 employees (excluding part-time workers and contractors) in 2013 – approximately 500 employees less than the previous year.[45] The business has pursued two key strategies: acquisitions and cost-cutting operations. In 2008, EasyJet purchased GB Airways, which allowed EasyJet to expand destination offerings in Southern Europe and North Africa.[46]

EasyJet saw an increase in revenue of 9.5% from 2012 to 2013 and an increase in operating profit of 14.6%.[47] This resulted in a 35.9% increase in net income for 2013. The business credits these financial gains to the following: maturity in routes and bases introduced in previous years; increased proportion of larger A320 aircraft in production, which increases operational efficiency; reallocation of bases from lower performing locations to higher performing locations; and the introduction of allocated seating within aircrafts.[48]

Wizz Air Group

Founded in 2003, Wizz Air Group is a privately owned airline consisting of Wizz Air Hungary and Wizz Air Ukraine. It is located in Budapest, Hungary. The airline has a strong market presence in both Central and Eastern Europe, with 16 bases in nine countries in this region, and it serves 85 destinations in 28 countries. The airline has over 270 routes.

Keeping expenses low and maintaining high profitability is critical to Wizz Air's business strategy. The airline has the second lowest per unit cost among European air carriers and has a proven record of reducing fuel unit costs. The business also benefits from Europe's highly productive, low cost labor force.

Wizz Air is a booming airline, with its number of passengers growing at a compound average rate of 39% annually from 2005 to 2013. The business is the top competitor (by share of seats) in 9 out of 11 of its most strategic airport locations. In 2012, Wizz Air was the largest airline in Central and Eastern Europe (32.1%), followed by Ryanair (29.5%) and EasyJet (7.4%). It is also the top air transportation provider in Romania, Bulgaria, Serbia, Macedonia and Ukraine, and the number two provider in Poland, Hungary and Lithuania. Wizz Air and Ryanair share over 67 routes, with Ryanair overlapping an astounding 25% of Wizz Air's routes, and Wizz Air overlapping a mere 5% of Ryanair's routes.

In addition to remarkable market growth, Wizz Air has had solid profits. From 2011 to 2012, the business' revenue increased by 30% and its net income grew from HUF8.7 million to HUF41.9 million. During the same period, the company developed a strong cash position and decreased debt by 45%.[49]

Indirect Industry Competition

Trains

Rail transit has always been a formidable opponent for the European airline industry. Consumers may opt for rail transit over air transit for many reasons. First, rail transit is environmentally friendly, demanding less oil usage and releasing less CO_2 emissions than air or car travel. This has resulted in various legislative movements to encourage rail travel. The European Commission's Roadmap for the Future of Transport 2050 includes initiatives aimed at reducing Europe's dependency on oil and cutting greenhouse gas emissions from the transport sector by 60%, which means less road and air travel.[50] Moreover, to support the industry, the European Union successively launched EURNEX, the European Rail Research Network of Excellence, which is a research cluster specializing in the areas of transport and mobility.[51] It also developed INESS, Integrated European Signaling System, to improve the infrastructures and interoperability across the EU member countries to improve the rail industry.[52]

Second, rail travel is more convenient for city-to-city travel, as opposed to the time loss associated with traveling to out-of-town airports. According to a 2011 study by SilverRail Technologies, 90% of respondents would prefer short-rail travel over air transit; of these same respondents, 86% of them would incur an extra hour in travel time to by-pass the inconvenience associated with air travel.[53]

High-speed rail accounts for approximately 30% of total passenger rail traffic in Europe; this number is higher in France and Germany, where high-speed services account for 63% and 65%, respectively. Expansion of rail service is a key provision in the European Council's Future of Transport 2050 legislation, which calls for 5,000 kilometers of new high-speed lines by 2020, tripling the length of the existing network by 2030.[54]

Suppliers

Aircraft suppliers have a lot of bargaining power in the airline industry. A duopoly exists, with Airbus and Boeing sharing 51% and 49% market share respectively.[55] As such, airlines do not have many choices regarding aircraft equipment. However, by only utilizing one type of aircraft, older Boeing 737-800s, Ryanair has been able to contain its cost of aircraft equipment to some degree. Aircraft have a very long practical life span of several decades. Moreover, Ryanair has entered into favorable contracts with Boeing, reducing costs associated with spare parts storage, training, and maintenance.

In June 2013, Ryanair acquired 175 Boeing 737-800s, Boeing's historically largest order from a European airline carrier. When closing the deal, CEO O'Leary challenged the aircraft manufacturer, through an interview to CNBC, to increase the number of seats available and decrease room for luggage as a way to sustain their business relationship.[56]

As the overall industry grows, airports, which were primarily government or region owned, are progressively becoming private through "build, operate and transfer" (BOT) agreements. More inclined for profit making rather than seeking international recognition, these airports have more flexibility in setting landing fees. Because Ryanair deals mainly with smaller airports, which charge lower fees, the company has been able to better manage costs. In some instances, Ryanair is essential for the survival of the smaller airports. For example, out of 82 flights landing or taking off in one day at Aéroport de Beauveais-Tillé (smaller airport close to Paris, France), 62 are from Ryanair![57]

Customers

With the development of the Internet, transaction platforms such as Trip Advisor, Expedia, Kayak, and Orbitz have become unavoidable. These websites are growing and becoming more attractive to leisure customers, offering them the opportunity to book their entire trips from flights, hotel, and car rental to local attractions. As a result, loyalty to airline companies is jeopardized, especially as the websites are able to guarantee the best price across all airlines. The growing number of these types of transaction platforms has forced partnerships with airline carriers and increased an already fierce competition.[58]

Even though loyalty programs for business travelers have proven to be effective, variables such as personalization and cost are increasingly important to corporations and business travelers. This represents a great opportunity for the transaction platforms to reach customers directly, thus increasing price competition among airline companies and continuously decreasing their bargaining power.[59]

To circumvent this growing threat, in July 2014 Ryanair launched its digital and IT innovation hub. The objective of this platform is to "change the world of online travel" and build new online "strategy, architecture, design and content" through the hiring of "200 new staff to develop a world class online travel platform."[60]

Industry Regulations

Prior to the early 1990s, industry regulation made it difficult for new airlines to enter the European market. However, as a result of legislation associated with the formation of the European Union, 20 new airline companies have entered the market since that time. The increased competition led to a decrease in flight fares and a surge in European air travel.[61] Nevertheless, in spite of legislative reforms, regulation in the European airline industry is still considered onerous. This regulation can lead to increased costs. For example, air traffic control costs are about double in Europe what they are in the U.S., and European carriers are often required to compensate passengers for flight delays.[62]

Recently price competition in the European airline industry has increased to the point at which there could be a threat to safety. In order to address this issue, the European Commission developed the Single European Sky Initiative, also known as SES2+ (building on SES and SES2), which is seeking to establish a roadmap for the next 20 years for the airline industry on matters such as Air Travel Management efficiency, sustainable development, flight safety, and overall competitiveness of the European airline market.[63] The initiative received strong criticism from industry professionals and unions for not being able to ease the price war launched by low-cost airline carriers, at the cost of safety.[64] Moreover, Ryanair often challenges existing regulations in order to drive its cost reduction strategy. In November 2012, in an interview for the RTÉ, CEO O'Leary advocated against seatbelts on planes, having people stand as they would on trains.[65] These demands were promptly ruled out by European Aviation Safety Agency (EASA), as it states that passengers must be seated during take-off and landing.

Ryanair is often called before the European Commission for a variety of issues, contributing to its image as an aggressive company. In July 2014, for example, Ryanair was ordered to pay back approximately $10 million of French state subsidies, which were granted for improved service in three of its regional airports located in France. The argument was that this arrangement gave Ryanair an unfair competitive advantage.[66]

WHAT'S NEXT?

Michael O'Leary is clearly a high profile CEO. He is known for his controversial quotes (see Exhibit 9), but even more for his successes at Ryanair. He has led the airline through a period of rapid growth and success, yet the volatile European airline industry seems to be undergoing fundamental changes, again. Certainly, Ryanair no longer "owns" the low price segment in Europe, and the EU's plan to promote rail travel could threaten the future growth of air travel. As 2014 comes to an end, he ponders what strategies Ryanair might pursue to continue its record of success.

EXHIBIT 1: Ryanair Governance

Board of Directors

Michael O'Leary (age 53)	Director and Chief Executive Officer
David Bonderman (age 71)	Chairman and Director
Michael Horgan (age 77)	Director
Charles McCreevy (age 64)	Director
Declan McKeon (age 62)	Director
Kyran McLaughlin (age 70)	Director
Dick Milliken (age 63)	Director
Julie O'Neill (age 59)	Director
James Osborne (age 64)	Director
Louise Phelan (age 47)	Director

Member Committees

Executive Committee:
David Bonderman
Michael O'Leary
Kyran McLaughlin
James Osborne

Air Safety Committee:
Michael Horgan

Nomination Committee:
David Bonderman
Kyran McLaughlin
Michael O'Leary

Remuneration Committee:
Julie O'Neill
James Osborne
Louise Phelan

Audit Committee:
Charles McCreevy
Declan McKeon
Dick Milliken

Executive Officers

Michael O'Leary	Chief Executive Officer
Ray Conway	Chief Pilot
Caroline Green	Director of Customer Service
Michael Hickey	Group Director of Operations
Juliusz Komorek	Director of Legal & Regulatory; Secretary
Neil Sorahan	Deputy Chief Executive; Chief Financial Officer
David O'Brien	Chief Commercial Officer
Edward Wilson	Director of Personnel and In-flight
Kenny Jacobs	Chief Marketing Officer

Source: Ryanair. 2014. Annual Report.
Source: http://corporate.ryanair.com

EXHIBIT 2: Board of Directors (Directors' Background Information)

Chairman of the Board and Director: David Bonderman
Bonderman, age 71, is a United States citizen who has served as a Ryanair Director and the Chairman of the Board of Directors since 1996. Nicknamed "Bondo", Bonderman studied at University of Washington then Harvard Law, which led to a career with the Department of Justice as a civil rights attorney. After returning to school for Islamic Law in Cairo, Egypt, Bonderman co-founded Texas Pacific Group (TPG), which is a successful private equity investment firm that made large investments in the airline industry. As of November 9, 2014, Bonderman was ranked 249 on the Forbes 400 richest people.

Director: Michael Horgan
Horgan, age 77, has an extensive background in the airline industry. He previously served as Chief Pilot of Ryanair's competitor Aer Lingus and a consultant to many international and European airlines. Horgan has been a director of Ryanair since 2001 and is the Chairman of the Air Safety Committee.

Director: Charles McCreevy
McCreevy, age 64, served as Finance Minister of the EU from 1997 – 2004 and is a former audit partner at PricewaterhouseCoopers. In May of 2010, McCreevy joined Ryanair as a director under strict guidelines from the EU Commission restricting McCreevy from offering any advice about cases that were handled by the Commission about Ryanair while he was a commissioner. His role on the board is to help ensure profitability, despite low-cost fares.

Director: Declan McKeon
McKeon, age 62, joined Ryanair as a director in May 2010. Like McCreevy, McKeon is a former audit partner with PricewaterhouseCoopers and remains as a consultant for the accounting firm. At Ryanair, McKeon serves as the chairman of the audit committee.

Director: Dick Milliken
Milliken, age 63, was appointed to Ryanair's board in July 2013. Formerly, Milliken served as the Chief Financial Officer of the Almac Group and the Chief Executive Office of Lamont plc. He is a qualified Chartered Accountant who currently serves on the board of a variety of organizations such as the Bank of Ireland Mortgage Bank and NI Science Park Foundation.

Director: Julie O'Neill
O'Neill, age 59, became a director at Ryanair in December 2012. She had a 37-year career in Irish public service in the strategic policy development and implementation of eight different government departments.

Director: James Osborne
Osborne, age 64, has served as a consultant for Ryanair since 1994. In 1995, Osborne became a director of Ryanair and has served the company ever since. Osborne is a commercial and litigation lawyer by profession and serves on the board of 10 different organizations.

Director: Louise Phelan
Phelan, age 47, joined Ryanair in December of 2012. She is also currently the vice president of global operations for PayPal. Phelan also serves as the President of the American Chamber of Commerce Ireland, which represents the interests of 700 US companies in Ireland.

Director: Kyran McLaughlin
McLaughlin, age 70, joined the Board in 2001, and also serves on the Board for a number of other Irish companies, and is currently Deputy Chairman and Head of Capital Markets for Davy Stockbrokers.

Source: Ryanair. 2014. ***Annual Report.***

EXHIBIT 3: Ryanair's Consolidated Income Statement, 2010 to 2014

	as of March 31st, annually				
	in millions (€)				
	2014	**2013**	**2012**	**2011**	**2010**
Operating Revenues					
Schedule revenues	3,789.5	3,819.8	3,504.0	2,827.9	2,324.5
Ancillary revenues	1,247.2	1,064.2	886.2	801.6	663.6
Total operating revenues - continuing operations	5,036.7	4,884.0	4,390.2	3,629.5	2,988.2
Operating expenses					
Fuel and oil	2,013.1	1,885.6	1,593.6	1,227.0	893.9
Airport and handling charges	617.2	611.6	554.0	491.8	459.1
Route charges	522.0	486.6	460.5	410.6	33.6
Staff costs	463.6	435.6	415.0	376.1	335.0
Depreciation	351.8	329.6	309.2	277.7	235.4
Marketing, distribution & other	192.8	197.9	180.0	154.6	144.8
Maintenance, materials and repairs	116.1	120.7	104.0	93.9	86.0
Aircraft rentals	101.5	98.2	90.7	97.2	95.5
Other	--	--	--	12.4	--
Total operating expenses	4378.1	4165.8	3,707.0	3,141.3	2,586.0
Operating profit - continuing operations	658.6	718.2	683.2	488.2	402.1
Other income/ (expense)					
Finance expense	(83.20)	(99.30)	(109.2)	(93.9)	(72.1)
Finance income	16.5	27.4	44.3	27.2	23.5
Foreign exchange (loss)/gain	(0.50)	4.6	4.3	(0.6)	(1.0)
Other	--	--	--	--	(11.5)
Total other expense	(67.20)	(67.30)	(50.2)	(67.3)	(61.1)
Profit before tax	591.4	650.9	633.0	420.9	341.0
Tax expense on profit on ordinary activities	(68.6)	(81.6)	(72.6)	(46.3)	(35.7)
Profit for the period - all attributable to equity holders of parent	522.8	569.3	560.4	374.6	305.3
Earnings per ordinary share (in € cent)					
Basic	36.96	39.45	38.03	25.21	20.68
Diluted	36.86	39.33	37.94	25.14	20.60
Weighted avg. no. of ordinary shares (in M's)					
Basic	1,414.6	1,443.1	1,473.7	1,485.7	1,476.4
Diluted	1,418.2	1,447.4	1,477.0	1,490.1	1,481.7

Source: Ryanair. 2014. ***Annual Report.***

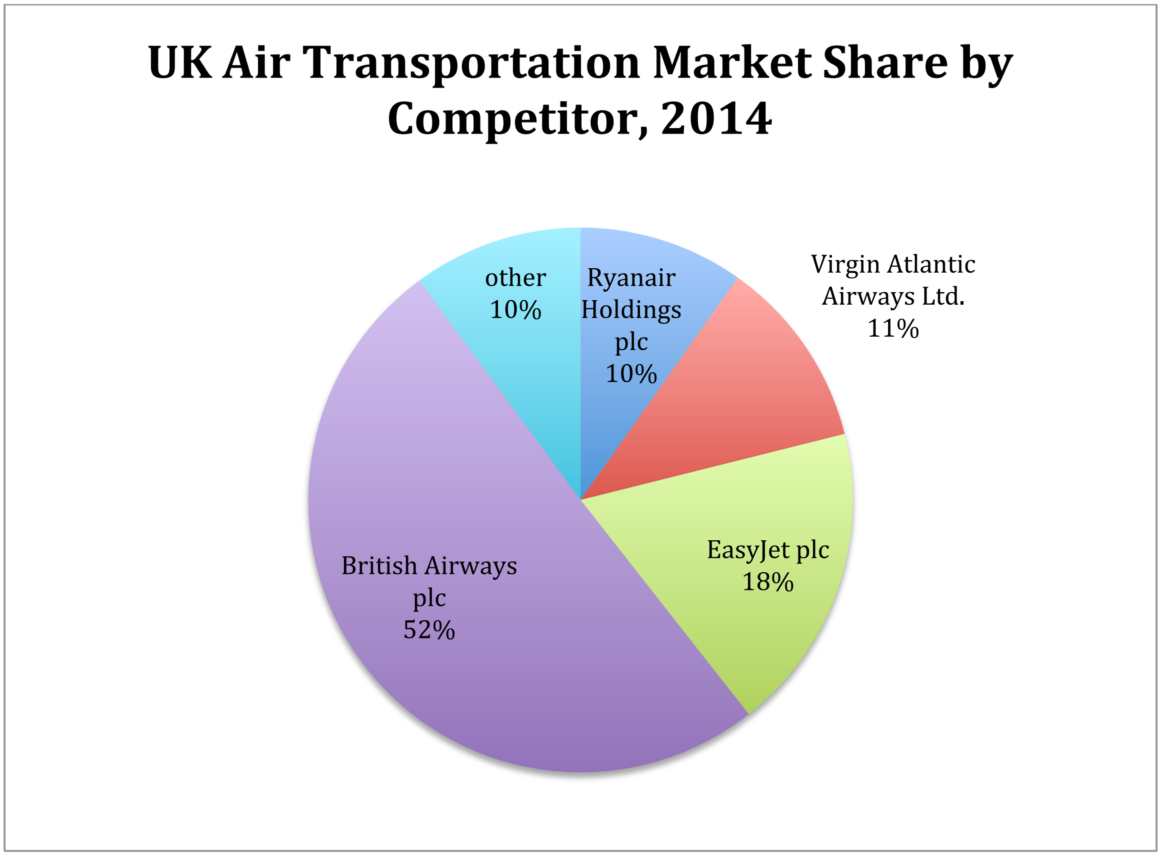
EXHIBIT 4: Ryanair's Balance Sheet, 2010 to 2014

	as of March 31st, annually				
	in millions (€)				
	2014	2013	2012	2011	2010
Non-current assets					
Property, plant and equipment	5,060.3	4,906.3	4,925.2	4,933.7	4,314.2
Intangible assets	46.8	46.8	46.8	46.8	46.8
Available for sale financial assets	260.3	221.2	149.7	114.0	116.2
Derivative financial instruments	0.4	5.1	3.3	23.9	22.8
Total non-current assets	5,367.8	5,179.4	5,125.0	5,118.4	4,500.0
Current assets					
Inventories	2.5	2.7	2.8	2.7	2.5
Other assets	124.2	67.7	64.9	99.4	80.6
Current tax	1.1	--	9.3	0.5	--
Trade receivables	58.1	56.1	51.5	50.6	44.3
Derivative financial instruments	16.7	78.1	231.9	383.8	122.6
Restricted cash	13.3	24.7	35.1	42.9	67.8
Financial assets : cash >3 months	1,498.3	2,293.4	772.2	869.4	1,267.7
Cash and cash equivalents	1,730.1	1,240.9	2,708.3	2,028.3	1,477.9
Total current assets	3,444.3	37,636.0	3,876.0	3,477.6	3,063.4
Total assets	8,812.1	8,943.0	9,001.0	8,596.0	7,563.4
Current liabilities					
Trade payables	150.0	138.3	181.2	150.8	154.0
Accrued expenses and other liabilities	1,561.2	1,341.4	1,237.2	1,224.3	1,088.2
Current maturities of debt	467.9	399.9	368.4	336.7	265.5
Current tax	--	0.3	--	--	0.9
Derivative financial instruments	95.4	31.8	28.2	125.4	41.0
Total current liabilities	2,274.5	1,911.7	1,815.0	1,837.2	1,549.6
Non-current liabilities					
Provisions	133.9	135.9	103.2	89.6	102.9
Derivative financial instruments	43.2	50.1	53.6	8.3	35.4
Deferred tax	368.6	346.5	319.4	267.7	199.6
Other creditors	90.4	127.8	146.3	126.6	136.6
non-current maturities of debt	2,615.7	3,098.4	3,256.8	3,312.7	2,690.7

Total non-current liabilities	3,251.8	3,758.7	3,879.3	3,804.9	3,165.2
Shareholders' equity					
Issued share capital	8.8	9.2	9.3	9.5	9.4
Share premium account	704.2	687.8	666.4	659.3	631.9
Capital redemption reserve	1.2	0.8	0.7	0.5	0.5
Retained earnings	2,465.1	2,418.6	2,400.1	1,967.6	2,083.5
Other reserves	106.5	156.2	230.2	317.0	123.3
Shareholders' equity	3,285.8	3,272.6	3,306.7	2,953.9	2,848.6
Total liabilities and shareholders' equity	8,812.1	8,943.0	9,001.0	8,596.0	7,563.4

Source: Ryanair. 2014. ***Annual Report.***

EXHIBIT 5: UK Air Transportation – Market Share by Competitor, 2014



Business	Market Share
Ryanair Holdings plc	9.8%
Virgin Atlantic Airways Ltd.	11.3%
EasyJet plc	18.3%
British Airways plc	50.5%
Other	10.1%
Total	100.0%

Source: IBISWorld. **UK Industry Reports (UK SIC): Scheduled Passenger Air Transport.**

EXHIBIT 6: Ryanair's Market Share by Country, as of 2013

County	Ryanair's Market share	Competitor Ranking in Country		
		No. 1	No. 2	No. 3
Spain	21%	Ryanair	IAG	Vueling
Italy	22%	Ryanair	Alitalia	easyJet
Ireland	44%	Ryanair	Aer Lingus	AirFrance
Poland	23%	Ryanair	LOT	Wizz
Morocco	15%	RAM	Ryanair	easyJet
UK	16%	easyJet	IAG	Ryanair
Germany	5%	Lufthansa	Air Berlin	Ryanair
France	7%	Air France	easyJet	Ryanair

Source: Ryanair. 2013. ***Investor Report***

EXHIBIT 7: Competitors' Financials

Lufthansa Group

	2013	2012	2011	2010	2009
Revenue (€ million)	30,028	30,135	28,734	26,459	22,283
Operating Profit	697	839	820	1,020	130
Net Income	313	1,228	(13.0)	1,131	(112.0)

British Airways PLC

	2013	2012	2011	2010	2009
Revenue (£ million)	11,421.0	10,837.0	9,987.0	8,537.0	8,040.0
Operating Profit	651.0	274.0	518.0	197.0	(395.0)
Net Income	281.0	(100.0)	672.0	(381.0)	(358.0)

EasyJet PLC

	2013	2012	2011	2010	2009
Revenue (£ million)	4,258.0	3,854.0	3,452.0	2,973.1	2,667.0
Operating Profit	582.0	497.0	331.0	269.0	60.0
Net Income	398.0	255.0	225.0	121.0	71.2

Virgin Atlantic Airways

	2013	2012	2011	2010	2009
Revenue (£ million)	2233.9	2505.2	2402.1	2271.3	1984.1
Operating Profit	(11.6)	(84.9)	(92.1)	9.7	(147.5)
Net Income	n/a	n/a	n/a	n/a	n/a

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EXHIBIT 8: Top 12 Airline Groups in Europe, ranked by seats, 2014

Rank	Airline Group	Share of total seats in Europe
1	Deutsche Lufthansa AG	11%
2	Air France-KLM S.A.	8%
3	Ryanair	8%
4	International Airlines Group	8%
5	EasyJet plc	6%
6	Turkish Airlines Group	5%
7	Etihad Aviation Group	5%
8	SAS Group	4%
9	Aeroflot - Russian Airlines Group	3%
10	Norwegian Air Shuttle	3%
11	Alitalia - Compagnia Aerea Italiana S.P.A.	2%
12	Pegasus Airlines Group	2%

Source: Center for Aviation. 2014. **"Airline consolidation: could Europe follow North America's path to improved margins?"** http://centreforaviation.com/analysis/airline-consolidation-could-europe-follow-north-americas-path-to-improved-margins-170975, Accessed date: November 20, 2014.

EXHIBIT 9: Michael O'Leary's Best Quotes

1. "If drink sales are falling off, we get the pilots to engineer a bit of turbulence. That usually spikes sales."

2. On passengers who forget to print their boarding passes: "We think they should pay €60 for being so stupid."

3. "Anyone who thinks Ryanair flights are some sort of bastion of sanctity where you can contemplate your navel is wrong. We already bombard you with as many in-flight announcements and trolleys as we can. Anyone who looks like sleeping, we wake them up to sell them things."

4. "Ryanair brings lots of different cultures to the beaches of Spain, Greece and Italy, where they couple and copulate in the interests of pan-European peace."

5. "One thing we have looked at is maybe putting a coin slot on the toilet door, so that people might actually have to spend a pound to spend a penny in the future. Pay-per-pee. If someone wanted to pay £5 to go to the toilet, I'd carry them myself. I would wipe their bums for a fiver."

6. "Do we carry rich people on our flights? Yes, I flew on one this morning and I'm very rich."

7. To a Ryanair employee who dared to join the Twitter Q&A: "Get back to work you slacker or you're fired."

8. "MBA students come out with: 'My staff is my most important asset.' Bull****. Staff is usually your biggest cost. We all employ some lazy bastards who needs a kick up the backside, but no one can bring themselves to admit it."

9. "Ryanair's biggest achievement? Bringing low fares to Europe and still lowering 'em. Biggest failure? Hiring me."

Source: Hogan, Michael. The Guardian. "Michael O'Leary's 33 Daftest Quotes". November 8. 2013. http://www.theguardian.com/business/shortcuts/2013/nov/08/michael-o-leary-33-daftest-quotes. Assessed December 5, 2014.

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RYANAIR HOLDINGS

DISCUSSION QUESTIONS

1. Ryanair has been highly successful in the past with its low cost leadership strategy in spite of poor customer service. What conditions in the market most likely facilitated this successful strategy? Are those conditions changing? In other words, is Ryanair's strategy likely to continue to be as successful in the future?
2. Does Ryanair possess any unique and hard-to-imitate resources that give the company a sustainable competitive advantage over other European airlines?
3. What are the most important factors in the external environment that are relevant to the European airline market? How does the company deal with each of these factors at present?
4. Briefly describe the strategies of each of the major competitors included in the case, making assumptions where necessary. Can you make a case that any of these companies is in an especially strong position moving into the future? An especially weak position?
5. The case mentions that Ryanair may be considering an acquisition. From among the competitors described in the case, who do you think Ryanair should consider and why? Would you expect that company to be interested in merging with Ryanair? What would Ryanair offer that they don't already have?
6. To what extent does size seem to matter in this industry? In other words, are economies of scale important?
7. The case mentions that government regulation is strong in the European airline industry. Does a high level of regulation favor a particular type of strategy over another?
8. What are the greatest risks Ryanair is facing?
9. Would you invest in Ryanair as of the time of the case? Why or why not?