

THE RYANAIR PARADOX: EUROPE'S BIGGEST AND MOST PROFITABLE AIRLINE THAT EVERYONE HATES

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The Early Years 1988-2008 (The Hunter):

The airline industry is in big trouble, yet one carrier is raking in the cash. Ryanair has done it by giving away millions of seats for free.

But what is the truth behind those free seats? Ryanair has adopted a cost-cutting and revenue generation approach that is the envy of the industry.

The company dreams up its own advertising, free of the expense of a costly agency. It has no problem with controversial slogans or images - if they create waves, and free publicity.

Initiatives include online bookings, no paper boarding passes, doing without an air bridge, instead getting passengers to walk across the airport tarmac to the aircraft, placing adverts on the side of the aircraft, doing away with free in-flight catering and using out-of-the-way airports, many of which are some way from the destination cities that they ostensibly serve.

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Ryanair boss Michael O'Leary will not say what sort of discount he is getting. But he admits it is a big one. Thanks to the Iraq crisis, SARS and the threat of terrorism, the airline manufacturers are happy to cut prices just to keep the market going. O'Leary skips over the issue with a generous helping of his self-effacing Irish charm.

O'Leary's Irish charm disguises a sharp business mind. He has built the carrier from a one-plane company to one of the most profitable airlines in Europe. It is not hard to see all the ways he has done this and attracted criticism - and there are questions as to how the big carriers' decision to get into the cut-price market may affect airlines like Ryanair. (BBC, June 9, 2004).

In exchange for discounted landing fees, Ryanair populates remote regional airports. As an example, Ryanair's use of Bologna's Forlì airport - 59 km from Bologna - and alleged that passengers thinking they were flying to the Danish capital of Copenhagen land in Malmö in Sweden (BBC, 2004).

A greater threat might come from long-established airlines, competing directly with the no-frills carriers such as Ryanair, EasyJet, or others. British Airways thinks its quality offering will win the day (BBC, June 9, 2004).

Michael O'Leary joined in 1988 as chief financial officer. O'Leary visited Southwest Airlines and ruthlessly adopted their lower cost approach. Michael O'Leary became chief executive in January 1994. O'Leary cut fares to whatever it took to get people on his planes. Michael O'Leary had "an obsession about costs" (Economist 2019).

From its early loss-making days in the late 1980s, when it fought for survival against the tactics of government-owned Aer Lingus, through its pioneering of no-frills flying in Europe's rapidly liberalizing aviation market in the 1990s, Ryanair's status today is among the most profitable carriers in the world. It is also the "least liked."

That is the paradox of Ryanair. It is hugely successful. It has brought flying within the reach of people of the most limited means and yet Ryanair's image of customer service is horrible.

But for Ryanair an unstoppable business model evolved. If Ryanair could have lower costs than anyone else, it could also have lower prices. And if prices were low enough, it could fill seats on almost any route.

Mr. O'Leary focused on conclusions. The first was to increase capacity relentlessly, even during downturns in a notoriously cyclical industry. The second was that there are ways of wringing money from the business other than selling tickets. Passengers were not only captive customers for food and drink, but car rentals, insurance, hotel bookings and airport transfers. The third was that those marginal, out-of-the-way airports would pay Ryanair to bring them passengers.

What has made Ryanair so disliked, even by customers who continue to fly with it, is Mr. O'Leary's tendency to rough up anyone who comes within range. Government ministers, union leaders and people running big airports can look after themselves even if taken aback by Mr. O'Leary's typically four-letter-word abuse. But the cavalier treatment of passengers left stranded by flight cancellations and the yelling of obscenities at people who, in sometimes tragic circumstances, make the mistake of asking for a refund have given Ryanair a deserved reputation for nastiness.

Mr. O'Leary has never complained about being a foul-mouthed bully. He maintains that there is no such thing as bad publicity and that the fights he picks are all intended to drive home the message that Ryanair's approach to costs is a war ruthlessly conducted on all fronts. However, even Mr. O'Leary seems to recognize that behavior that might have been tolerable when Ryanair was a scrappy upstart may not be appropriate now it is a 600lb gorilla (Economist, August 23, 2007).

The Transition Years 2008-2017:

Ryanair was the airline everyone loved to hate.

The internet created an opportunity for online bookings as well as to offer hotels, car rentals and other products, to help boost profit margins.

Ancillary sales are the key to the future of the business, and cheaper fares.

Ryanair cannot offer low fares without having a low-cost base.

Shares in airlines have jumped after Ryanair voted to accept International Airlines Group's (IAG) offer for its 29.8% stake in Aer Lingus and gained slots in multiple airports.

Aer Lingus was Heathrow Airport's fourth busiest operator, behind BA, Lufthansa and Virgin Atlantic, and Ryanair wanted access to those gates.

Travelers have been surprised in the past by the distance of Ryanair's airports from the city they thought they were flying to (Economist, July 10, 2015).

For a business with a reputation for treating customers with indifference, Ryanair has done well.

Newspapers across Europe eagerly print passengers' gripes about Ryanair's abrupt service and encouraged to do so by the airline's reluctance to apologize or even comment (Economist, 2013).

TODAY 2007-2023 (The Hunted):

Consider the cheap fares available on low-cost carriers. Although it no longer matches penny prices, Ryanair does offer fares of £10 (\$13) or less on its routes. And those prices are falling.

Often the Ryanair fares are lower than the passenger fare taxes, and Ryanair subsidizes each passenger.

Instead of making its money from ticket fares, Ryanair has unbundled fares and charges for all extras. And Ryanair has passengers to sell those tickets to. The profits generated by selling add-ons covered the losses.

Competitors have adopted Ryanair's low-cost strategy.

There are limits to the low-fare business model. On long-haul routes budget airlines may struggle to sell enough cans of Coke and duty-free perfume to make up for the money lost on cheap fares. This is one reason short-haul airlines in India are losing money. But in the developed world, the Ryanair method remained strong. Short-haul travelers should expect fares to become even cheaper, but be prepared to pay more, for more extras,

too (Economist 2018).

Ryanair created subsidiaries in Austria, Poland and Malta have logic. Low-cost carriers have been slow to gain market share in German-speaking countries, where customer loyalty to national carriers is stronger than elsewhere. Lauda, named after Niki Lauda, an Austrian racing driver who died last month, is a uniquely appealing brand for locals. These subsidiaries operate just like Ryanair, but under a different name.

Confidence in the airline plunged after Ryanair's refusal to pay for passengers to fly with a competitor if they could not get them to their destination within a reasonable time. That was despite an EU rule on rerouting affected travelers. Ryanair dismissed the poll as “unrepresentative and worthless” (Economist, May 1, 2019).

The reason for this newfound magnanimity is Ryanair's size. Ryanair was Europe's biggest airline. In 2019, it carried 152m people.

Mr. O'Leary's assumption is that the need to restore Europe's battered tourism industry, combined with pent-up demand for travel, will mean fewer curbs on airlines, as they did after 9/11. Ryanair plans to bombard Europeans with adverts enticing them to fly abroad next summer, capitalizing on hopes for the covid-19 vaccine.

The danger for Ryanair is that a supreme leader who thinks he has seen it all before fails to see that things may have fundamentally changed—especially on climate change. Today even Ryanair is joining the green revolution, pledging to eliminate plastic (Economist December 16, 2020).

Michael O'Leary will lead Ryanair Holdings, until July 2028.

O'Leary will oversee the Group's growth to 225m passengers p.a. and develop the Group's strategy to the end of the decade.” (Economist, December 8,2022).

For Michael O'Leary that will be 40 years of leading and creating the world's biggest airline.

INCOME STATEMENT	MAR 31, 2022	MAR 31, 2021	MAR 31, 2020
	€'m	€'m	€'m
Scheduled Revenue	2,653	1,036	5,566
Ancillary Revenue			
Total Revenue			
	2,148	600	2,929
	4,801	1,636	8,495
Fuel	1,699	543	2,762
Ex-Fuel Costs	3,442	1,932	4,605
Total Operating Costs	5,141	2,475	7,367
Interest	-91	-54	-50
Foreign Exchange/Hedge Ineffectiveness	1	-216	-407
(Loss)/Profit Before Tax			
Credit/(Expense)	-430	-1,109	671
(Loss)/Profit After Tax			
	189	94	-22
	-241	-1,015	649
BALANCE SHEET	MAR 31, 2022	MAR 31, 2021	MAR 31, 2020
	€'m	€'m	€'m

Non-Current Assets Gross Cash	9,675	8,870	10,253
Current Assets			
	3,626	3,150	3,808
Total Assets			
	1,849	308	686
	15,150	12,328	14,747
Current Liabilities	5,399	3,527	5,508
Non-Current Liabilities Shareholder Equity Total Liabilities & Equity Net Debt			
	4,206	4,154	4,325
	5,545	4,647	4,914
	15,150	12,328	14,747
	1,452	2,277	403

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