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LUCK OF THE IRISH?

RYANAIR SEES PROFITS GROW WITH INCREASED ANCILLARY SALES.

By Patricia Clark | *Ascend* Staff



“Our strategy is like Wal-Mart. We pile it high and sell it cheap.”

— Michael O’Leary, Ryanair CEO

Dublin, Ireland-based, low-cost airline Ryanair has turned nickels and dimes into a pot of gold by luring passengers onboard with cheap ticket prices and charging them for value-added services such as food, drinks and retail products from lottery tickets to perfume.

In the nine months ended Dec. 31, Ryanair reported that ancillary revenues, including in-flight sales and other things such as car rentals and even personal loans,

grew by 36 percent to €151.2 million (US\$202.9 million) in the same period. This performance reflects the strong growth of non-flight scheduled revenues, car hire and ancillary products. The company told analysts that ancillary revenues continue to grow at a faster rate than passenger volume

and now account for 16 percent of total revenues compared to 15 percent last year and 13 percent in 2003.

The philosophy of Ryanair’s maverick Chief Executive Officer Michael O’Leary is simple: “Our strategy is like Wal-Mart,” he told *Newsweek*. “We pile it high and sell it cheap.”

That means using small airports so planes can get back in the air in just 20 minutes. Free meals? Forget about it: Even a bottle of water sets customers back €2.24 (US\$3).

Not the Original Plan

Airlines seeking new sources of non-ticket revenue as they battle high fuel costs and lower fares amid tough competition might wonder if it's simply the luck of the Irish or a sound business plan that has enabled Ryanair to comfortably weather the worst-ever air transport crisis.

The answer is both.

Ryanair began in 1985 as an upstart David fighting Goliath competitor Aer Lingus flying routes to the United Kingdom and Ireland. Operating as a traditional carrier, the airline was successful in getting passengers onto planes but was losing money. Under a new management team headed by O'Leary, Ryanair re-launched in 1991 as a "low-fare/no-frills" airline, closely modeling the Southwest Airlines model.

Coke or other soft drinks. Coffee is €2 (US\$2.68). Chicken, roasted vegetables and mayonnaise served in a tortilla wrap cost €5 (US\$6.72).

Not hungry or thirsty? Ryanair will sell you an airport parking space or airport transfers. It will book "hen and stag" parties for you, and you can even pay for it with a Ryanair credit card. That's thanks to the carrier's Internet online booking site: ryanair.com, launched in 2000. Ancillary products sold on the Web site cover the gamut of travel and leisure services, including:

- Car discounts,
- Hotel discounts,
- Airport transfers,
- Airport parking,
- Activity breaks,
- Deals of the week,
- Travel deals,
- Buy B4 you fly,
- Credit card,
- Ski Cheaper,
- Low-cost loans,
- Gift vouchers.

scratched the surface of what the Internet can do. And Ryanair is counting on this high-margin, low-risk revenue stream to become an even bigger contributor to its bottom line.

Are Customers Buying It?

Ryanair's aggressive stance on ancillary sales doesn't escape the attention of its passengers.

"Nothing is free on Ryanair," said Kevin Miney, a Dublin, Ireland, resident and frequent passenger. "Absolutely nothing. Even its in-flight magazine is handed out on demand, and it is hugely focused on making money. Somebody was telling me recently they were on one of Ryanair's flights and they saw advertising for Coca-Cola on the seat back. The company is using every means to try and market different things to try and get a few

During a nine-month period in 2004, Ryanair grew by 36 percent to €151.2 million (US\$202.9 million) in ancillary revenues such as in-flight sales, car rentals and personal loans, compared to the same term the previous year. Ancillary revenues account for 16 percent of the airline's total revenues compared to 15 percent last year and 13 percent in 2003.

The company was positioned in 1997 to take advantage when the European Union fully deregulated the air business, enabling the carrier to open new routes to continental Europe. Ryanair was at the right place at the right time when it gained entry into Stockholm, Sweden; Oslo, Norway; Paris, France; and Brussels, Belgium.

Today, Ryanair has 12 bases and 209 routes that cover 93 destinations across 19 European countries.

Thinking Outside the Plane

According to the airline's Web site, Ryanair attributes its success to low fares and friendly efficient service: "And how do we do it? Superb cost management. Landing in airports that don't rip you off. Free seats when we're feeling generous. No frills on your flight — but we'll sell you food, drink and gifts."

Frills come at a price. On Ryanair, if you're thirsty, you'll pay €1.25 (US\$1.68) for a

In the 12 months ending in February, the site was visited 27,165,404 times — an obvious sales channel Ryanair isn't shy about maximizing.

The airline is profitably engaged in what Mark Riseley, senior travel analyst with GartnerG2, calls "dynamic packaging."


"Dynamic packaging is a business process that allows individual travel components from different suppliers such as flights, hotels and car hire to be combined online into a single package. The package price is calculated in real time by applying mark-up or discount rules to the combined components," said Riseley. "The choice, within certain constraints, is up to the buyer, the calculation is automated and prices for the individual components are not visible, so inclusive tour rates can be applied."

Ryanair's Santana Doherty, the Irish low-cost carrier's marketing and ancillary revenue chief, told reporters the airline has barely

bucks out of passengers."

Miney said he believes passengers have come to expect to pay for services other than airfare. It's the result of low prices.

"Even full-service carriers like Aer Lingus are selling food and alcohol onboard," he said. "Only trans-Atlantic routes have free meals. So to a large extent, I think people are getting more used to the idea of having to pay for anything additional onboard."

Does Miney feel pressured to buy ancillary products on Ryanair? Since he uses the airline for short hops only, he said not really. "Once I'm confident that they're reaching the required standard of safety and they can get me from A to B at a low cost, I don't mind. If you book ahead, it's a quick and inexpensive way to get away for a day, have some fun and go for a few beers." 

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