**Ryanair – 2011**

Forest David

**A. Case Abstract**

Headquartered at the Dublin Airport in Ireland, Ryanair is a pioneer in European discount air travel. Ryanair Holdings offers low-fare, no-frills air transportation to about 160 destinations, including more than two dozen in Ireland and the UK. Ryanair serves more than 25 countries throughout Europe, plus Morocco. Ryanair specializes in short-haul routes between secondary and regional airports. It operates from more than 40 bases, including airports in Belgium, France, Germany, Italy, Spain, and Sweden, as well as in Ireland and the UK. The carrier maintains a fleet of about 270 Boeing 737-800s. Ryanair holds a 29 percent stake in Aer Lingus and has launched several unsuccessful bids to acquire the rival Irish airline.

**B. Vision Statement** (proposed)

Ryanair wants to become the number one travel choice for all local residents and tourists in Europe.

**C. Mission Statement** (proposed)

With Ryanair’s new technological planes we hope to please all of our European customers on their travel.(4,3) We hope to serve people of all ages while providing the best service money can buy.(1,2) We will bring our low price travel, with our dedication to helping our community(7,8) and with our marketing plan we hope to grow, while providing the best work experience for our employees. (5,9) We will treat everyone equally and with the upmost respect.

1. Customers
2. Products or services
3. Markets
4. Technology
5. Concern for survival, growth, and profitability
6. Philosophy
7. Self-concept
8. Concern for public image
9. Concern for employees

**D. External Audit**

**Opportunities**

1. Local competitors’ going bankrupt allows Ryanair to capture their customers and possibly buy equipment they are forced to sell.
2. Lower interest rate on borrowing money.
3. Down cycle of economy has increased potential profit because people are most cost sensitive.
4. Potential increase in investors due to high dividend payout - $500 million dividend.
5. The economy is recovering.
6. Cheaper vacation prices are being offered by resorts.
7. European countries lowering or doing away with tourist taxes will attract more vacationers.
8. Passengers expected to grow to 73.5 million by the beginning of 2012.

**Threats**

1. Regulatory rules in Europe can change that would restrain the way Ryanair does business.
2. Increase in competitor customer service could attract customers to their airlines.
3. Cost increase at Dublin airport will lower passenger traffic through Dublin airport.
4. Weather threats operating in Europe during winter.
5. Fluctuations of foreign currency and longevity of the Euro.
6. Heavily unionized labor force.
7. Risk of oil rising back over $100 a barrel.
8. Weakening of the global economy.
9. Internet has led to more competitive pricing and more price sensitivity to industry.
10. Continued threat to industry’s human relations concerning displeasure over carbon dioxide emissions.

**Competitive Profile Matrix**



**EFE Matrix**





**E. Internal Audit**

**Strengths**

1. Owning 42 bases allows Ryanair to operate at a lower cost then competitors.
2. 92% of bookings being done over the internet lower cost by lower workers needed and telephone usage.
3. Ryanair being the second largest airlines in Europe is a well known company among European flyers.
4. 90% of Ryanair’s flights arrive on time.
5. Ryanair has created a niche in the market by offering many direct flights.
6. 284 new routes will allow Ryanair to capture new passenger business.
7. Profits increased by 204% due to an increase in planes, routes and passengers.
8. The down turn in the economic cycle and low fares has lead to an increase in traffic growth by 14%.
9. Ryanair forecast generating over $1 billion in surplus cash.
10. Have 51 new planes.

**Weaknesses**

1. Low customer loyalty because of a no refund policy and relax attitude on canceling of flights.
2. Poor customer service leaves an opening for competitors to capture our customers.
3. Ryanair advertisements may be viewed as poor do to the use of vulgar, explicit, and sexual material.
4. Ryanair’s lack of major city destinations.
5. Low market growth opportunities.
6. Staff cost increased by 8%.
7. Ryanair charges customers for many ancillaries items that are free on most other airlines.
8. Maintenance cost increased by 29%.

**Financial Ratio Analysis**

|  |  |  |  |
| --- | --- | --- | --- |
| **Growth Rate Percent** | **Ryanair** | **Industry** | **S&P 500** |
| Sales (Qtr vs year ago qtr) | 21.20 | 24.80 | 14.50 |
| Net Income (YTD vs YTD) | NA | NA | NA |
| Net Income (Qtr vs year ago qtr) | 22.40 | -47.60 | 48.60 |
| Sales (5-Year Annual Avg.) | 16.48 | 13.50 | 8.30 |
| Net Income (5-Year Annual Avg.) | 4.08 | 12.07 | 8.72 |
| Dividends (5-Year Annual Avg.) | NA | 9.45 | 5.61 |
|  |  |  |  |
| **Profit Margin Percent** |  |  |  |
| Gross Margin | 26.3 | 25.2 | 39.5 |
| Pre-Tax Margin | 13.4 | 7.5 | 18.2 |
| Net Profit Margin | 11.9 | 6.0 | 13.2 |
| 5Yr Gross Margin (5-Year Avg.) | 26.3 | 26.0 | 39.7 |
|  |  |  |  |
| **Liquidity Ratios** |  |  |  |
| Debt/Equity Ratio | 1.10 | 0.70 | 0.98 |
| Current Ratio | 2.3 | 1.0 | 1.3 |
| Quick Ratio | 2.3 | 0.9 | 0.9 |
|  |  |  |  |
| **Profitability Ratios** |  |  |  |
| Return On Equity | 15.3 | 17.2 | 26.0 |
| Return On Assets | 6.0 | 4.6 | 8.8 |
| Return On Capital | 7.2 | 6.2 | 11.8 |
| Return On Equity (5-Year Avg.) | 10.5 | 16.7 | 23.8 |
| Return On Assets (5-Year Avg.) | 4.1 | 4.3 | 8.0 |
| Return On Capital (5-Year Avg.) | 5.2 | 5.9 | 10.8 |
|  |  |  |  |
| **Efficiency Ratios** |  |  |  |
| Income/Employee | 79,870 | 28,998 | 126,792 |
| Revenue/Employee | 672,501 | 425,198 | 1 Mil |
| Receivable Turnover | 79.8 | 43.0 | 15.2 |
| Inventory Turnover | 957.9 | 261.1 | 12.4 |

**Net Worth Analysis** (in millions)



**IFE Matrix**





**F. SWOT**

**SO Strategies**

1. Invest $100 million in terminal space annually at new airports not currently serviced (S1, O2).

**WO Strategies**

1. Increase advertising by $100 million to target price conscious consumers (S7, O5, O6, O7).

**ST Strategies**

1. Hedge $100M per year to protect against rising oil cost (S7, O7).

**WT Strategies**

1. Spend $5 million annually to improve customer service (W2,T2).

**G. SPACE Matrix**







**H. Grand Strategy Matrix**



**I. The Internal-External (IE) Matrix**



**J. QSPM**









**K. Recommendations**

1. Increase advertising by $100 million to target price conscious consumers.

2. Invest $100 million in terminal space annually at new airports not currently serviced.

3. Hedge $100M per year to protect against rising oil cost.

**L. EPS/EBIT Analysis** (in millions)

Amount Needed: $300M

Stock Price: $29.03

Shares Outstanding: 292

Interest Rate: 5%

Tax Rate: 11%





**M. Epilogue**

Ryanair has ambitious plans to increase the number of passengers flying with Europe’s leading low-cost airline each year from 70m to up to 130m over the next decade, by buying as many as 300 aircraft. CEO Michael O’Leary plans to take a large delivery of aircraft between 2015 and 2021, and is presently in talks with US, Chinese and Russian manufacturers. Ryanair currently has an all-Boeing fleet but wants to negotiate low prices for new planes with any number of manufacturers, including China’s Comac and Russia’s Irkut. Ryanair desires to purchase 200 to 300 narrow-body aircraft to enlarge Ryanair’s fleet from 300 to 500 – some new jets would replace older ones – and enable the airline to increase passenger numbers. “I would like to grow to 120m, 130m passengers,” said Mr O’Leary. In 2010-11, 72.1m passengers flew with Ryanair. At 130m passengers, Ryanair would consolidate its position as one of the world’s largest airlines. In contrast, Lufthansa, Europe’s largest airline by revenue, flew 91 million passengers in 2010 and Southwest flew 88m passengers in 2010. Ryanair’s expansion in recent years has focused on Italy and Spain, but the company now has big growth plans for Scandinavia and Eastern Europe. The company recently outlined plans for soon deploying 50 aircraft in Scandinavia and 100 in Eastern Europe.

On November 1, 2011, Ryanair recently instituted a new $9.50 fee that customers must pay unless they purchase tickets using the airline's own prepaid MasterCard. The new administrative fee is 6 pounds (about $9.50) for each one-way flight -- so double the fee for a round-trip ticket. Consumer groups criticized the move from an airline already well known for an array of fees. Richard Lloyd, executive director of the UK consumer-advocacy group Which?, said Ryanair was making it difficult for customers to avoid a surcharge when paying for flights. He called on the UK government to ban charges on debit cards that only appear at the end of the online booking process. Ryanair Holdings PLC spokesman Stephen McNamara countered that the airline offers low fares and no fuel surcharges and gives customers a way to avoid the booking fee.

Currently, Ryanair waives its "admin fee" of 6 pounds for customers who use any MasterCard prepaid debit card. Ryanair said it will sell the new card on its site for 6 pounds and give buyers a travel voucher in the same amount.

Ryanair charges fees for a variety of other services including checking bags, priority boarding, reserving a seat and carrying a musical instrument or infant gear such as a car or booster seat. The airline says it charges such fees to keep fares as low as possible for passengers who don't require extras.