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ABSTRACT.*

The scope of this project is to analyse Ryanair Holdings plc. I decided to choose this company because it is a very well known company in Europe and it is showing a great performance given the general economical crisis there is especially in the air travel industry.

Therefore the point of the project is to understand which strategies the managers at Ryanair are using in order to have positive returns both from the income statement and in the stock market performance.

During the analysis strengths and weaknesses will be discussed for every investment or strategy undertaken from Ryanair. This is done giving a look at Ryanair's history to understand how much it is important for a company to stick to its mission statement and how possibly they can turn a threat into an opportunity.

* 134 words.

INTRODUCTION AND THE HISTORY.

I decided to do my research on Ryanair Holdings plc as I believe that it is interesting to study the strategy of a successful company which is operating in an industry which is in a heavy crisis. There are many air travel companies going out of business and declaring bankruptcy, while Ryanair keeps on declaring positive income statements at each of its financial years.

Although they don't have an explicit mission statement, Ryanair's main objective is to commit to low fare air travel and make it affordable to anyone (i.e. not only for the rich) in Ireland and in the UK. When Ryanair was founded, in 1985, it covered only one route which was from the Waterford airport in south east Ireland to London Gatwick; that is why in the precedent phrase they are referring only to UK and Ireland.¹

Ryanair entered into the short distance air travelling market with an immediate strategy: to compete against the cartel formed by British Airways and Aer Lingus, offering to the public fares which were inferior to the half of the only ones disposable between Ireland and Great Britain. The success of low fares allowed Ryanair to expand by increasing the frequency of flights only one year later.

The following three years Ryanair began to expand by creating new routes between the two countries, always issuing the same prices which helped attract more and more customers. The only problem was that costs augmented without any control over them.

At that time Ryanair committed the same mistake which many small business do when they are successful. They think too much to grow and don't consider cash flows. What a firm needs to stay alive is liquidity, a lack of care ness for it, will almost certainly cause the company to have to file for chapter 7 or 11. Ryanair was able to lose £20 million in four years of activity. This was 1989.

It took two years for the new management team to settle things back to normal. What they did was to cut down what they build in the years before. They kept only the 5 most profitable routes out of the 19 they had, airfares were cut even more and 70% of the seats offered were given at the two lowest fares. These enormous cuts allowed Ryanair to have their first profit made in 1991, now with a profit registered in their income statement they could really talk about growth. It is important to notice that Ryanair was able to make profit just when there was a air travelling crisis caused by the Gulf war.

¹ Taken from www.Ryanair.com

Therefore the fourth year of profit, 1994, Ryanair was carrying 1.5 million passengers per annum and charging prices of only £ 49 from Ireland to London (a big decrease given that in 1985 their fare was £ 95).

1994 was also the year during which a significant investment was undertaken with Boeing, by acquiring six 737-200 and within three years they had twenty-one 737-200s. The return on this investment was achieved by increasing frequency and opening new routes.

In Italy there is an old saying which goes: "Fortune helps the ones who dare". Ryanair, although Irish, makes no exception to this saying. In fact in 1997 deregulation of the markets took place in the E.U. this gave the opportunity for the first time to Ryanair to open up to continental Europe. A chance which they did not let go.

They initially opened four new routes. Two of them were from London to Stockholm and Oslo, the other two were from Dublin to Paris and Brussels. The strategy remained always the same, even with bigger distances they were always able to set fares which were less than half the price issued by all the other air companies.

It was in that year that positive movements were reflected in the Stock Exchange of Dublin and NASDAQ.

The year 2000 was marked by the success of Ryanair by introducing their Internet site which allowed bookings on line, only three months later there were already fifty thousand bookings per week, at this point they introduced the guarantee of the lowest fare in the European flying market. Just consider that since that year to travel from London to Dublin the fare was £ 9 plus taxes.

Expansion continued by forming bases in other cities in other countries of Europe such as Germany, Italy, France and Scotland.

RYANAIR'S EXPANSION STRATEGY.

When a successful company is growing it has the option to choose between two possibilities: Organic growth and Acquisition-led growth.²

A case of Acquisition-led growth is merger, which just came into being between Easyjet and Go. This growth has the same characteristics of any merger: it increases capacity, companies share relevant information on market situation, technology improves, prices stabilise, quality improves and costs are cut down.

Up until today there have never been rumours about Ryanair acquiring or allying with other companies. In fact the three years after its first income statement Ryanair expanded by concentrating frequency flights between Ireland and London. Ryanair found itself in a situation where a hand washes the other, as new routes were created the company enjoyed economies of scale which allowed to lower even more prices, which attracted more clients.

Throughout the history overlook we could argue that the strategy of expansion of Ryanair is done through Organic growth, which may be summarised in three points.

1. Build new bases.
2. Create new routes between existing bases.
3. Increase flight frequency.

Organic growth means to improve the internal values of the company, it requires investment in new assets or improving old ones. In order to grow and to keep prices always at their lowest possible level, Ryanair must seek for the minimum costs available in the market, for any of its factors of production.

This is done through Cost Management. Cost management means that managers' main issue is to save as much as capital as possible but also in the most intelligent way. What seems to be evident is that Ryanair cuts down all superficial costs, which are generally costs used to give extra value to any kind of product. Anyways the managers are showing to be able to know where there's the effort to spend money and where it is useless. As shown in the history the potential growth for Ryanair looks like extremely positive, but years before their actual success, yields tended to be quite low and it is hard to maximise revenues in the short-time; therefore to have a positive profit before tax, Ryanair is highly dependent on low cost bases. Now that they are a success they are still attached to cost management strategy.

² www.ryanair.com/download/raircr20020610.pdf

The cost management has become Ryanair's main competitive advantage for reasons of not only of direct competition but also for indirect competition.

Industry.

Doing a brief analysis on the travelling industry, we may separate this industry into two bodies. Long distance travelling and short distance travelling. Ryanair operates in the latter case. It is arguable that short distance travelling with prices charged by Alitalia, British Airways, Air France and other major air line companies, is a commodity product rather than a need.

This is because there are many other kinds of transports which people may decide to use, such as travelling by car, coaches, trains, ship transport and etc. These are all indirect competitors. The only non-price factor which gives advantage to air travelling is that it is faster.

With the new prices charged by Ryanair, air travelling non longer becomes a commodity product. It is fast and everybody can afford it, therefore people who travel a lot inside Europe for business reasons will be very attracted to use the services provided by Ryanair than any other form of travel.

We must bare in mind that Ryanair's position is affordable only with its prices, that is why it depends so much on cost management.

Investments on durable assets.

Talking about the Ryanair's durable assets there are two, which are fundamental: airports and aircrafts.

Contracts with airports are cheap because Ryanair decided to land its planes in secondary airports (which are evidently cheaper than the main airports). As Ryanair's main focus is in continental Europe it is now enjoying economies of scale compared to its rivals which make most of their contracts in the main airports which cost much more.

In 1999 Ryanair undertook its first big investment, a contract with Boeing of the value of USD 2 billions to buy 45 aircrafts. The first five were delivered the same year, and Boeing would deliver other 5 aircrafts every year for a total of 9 years ($9 \times 5 = 45$). The aircrafts bought by Ryanair are the new 737-800 series which have better technology than the 737-200 and are bigger having 45% more seats.

The confidence in investment of Ryanair was proved by a new contract underwritten still with Boeing at the end of January 2002. This time they have agreed to acquire 150 new Boeings

737-800 (of which 50 as an option) for a period of eight year (from 2002 to 2009). If the contract to buy 45 Boeings had a value of USD 2 billions, we could estimate that a contract of 100 (not considering the option of the other 50 aircrafts) is then worth about twice more, i.e. USD 4 billions. The value of the contract tells me that Ryanair is betting a lot on their Return on investment. The losses will be very heavy if in the next few years passenger growth won't increase as they are predicting.

Like for every investment there are advantages and disadvantages.

The main reason for which I think there are disadvantages is that I perceive it as a very risky movement given the actual hard International Relations, we are in a period of talks of a second Gulf war. I may understand that Ryanair made its first profit during the first Gulf war, but at that time they were operating just through two countries which were far away from continental Europe, we cannot exclude the fact that at that time the crisis affected mainly continental Europe. Now Ryanair is connected to most countries of continental Europe and another air crisis would be affect more a less 80% of Ryanair's actual business.

A crisis would put in difficulty Ryanair for two reasons. The first one is that Boeing would keep on delivering aircrafts even if Ryanair isn't able to use them because expansion decreased or stopped. The second reason is that Ryanair is risking a high opportunity cost, this is because they have decided to spent about USD 4 billions for an investment rather than saving it for the future in case of an extra cost. For example we cannot exclude the possibility that airports, although secondary, will ask a higher price given the general crisis.

The last disadvantage that I see is that aircraft technology may improve in the next eight years, if that would be the case, Ryanair couldn't possibly afford to purchase even better aircrafts, at least until 2009.

The main advantage that I foresee is that buying aircrafts for nine years means to hedge from any discontinuity in aircraft prices. If prices of aircrafts had to increase suddenly Ryanair wouldn't face such high cost as the contract is already paid.

The other advantage is that the Boeings 737-800 are better than the 737-200 also from the technological point of view, this means that Ryanair may save a lot cash in technical assistance as the aircrafts get older.

Foreign Exchange Hedging

Ryanair's strategy consists in playing also with foreign exchange markets. This strategy is accomplished by dividing costs from revenues. Most of the costs especially the fuel costs are paid

in USD denominations and revenues are in Euros. Any depreciation of the USD vs. the Euro goes to Ryanair's advantage, as costs would be relatively lower than revenues; but any depreciation of the Euro vs. the USD is disadvantage for the company. Managers at Ryanair are therefore forced to hedge against big devaluations of the Euro, which could cause a terrible crisis for the company. Hedging against currency devaluation may be easily done through several financial instruments, which will not eliminate a loss in the foreign exchange market, but at least make the loss lighter.

Ryanair and its workers.

As we saw in the history, it was in 1997 that Ryanair's success was reflected in positive movements of the NASDAQ and Dublin's Stock Exchange.

The management decided to give most of its shares to its, at that time, 700 workers. This is a strategy used by many successful companies. I believe that this action helped to make the team more united and gave the will to keep the same pace of work. Motivation comes from the fact that workers are no longer paid only from fixed wages but also from a higher return paid on the dividend of their shares. Workers are directly interested with the performance of the company in the market and in the stock exchange.

The internet.

Ryanair concentrated its power on what consumers really wanted other than low fares. These characteristics include: on-time flights, high frequencies and friendly services. When I'm referring to friendly services I'm referring to the facility with which consumers can book their flights. Ryanair understood the importance of the Internet and has, not only, used its site as a media of information but has used it as the only channel for booking.

This requires that the buyer gives its information through a virtual form and pays by giving its credit card number. Ryanair obviously guarantees that all the credit card numbers and information is coded and protect from any form of hacking.

The internet allowed Ryanair to have a new form of revenue. This was done by giving up some space of Ryanair's home site to other companies to insert their advert banners. Most of the products advertised are services which may be useful while travelling, such as: hotels, insurance, tourist shops and banking. These are all services which directly interest people who are travelling, therefore companies advertising know that their banner will be viewed with interest by basically everyone who accesses to Ryanair's site. The site was opened in 2000 and within three months it had more than 50 000 visits per week. With such a number Ryanair was able to charge prices high

enough that it allowed to have greater revenue by giving up space to other firms rather than revenues taken from the fares for flying.

RYANAIR COMPARED TO ITS COMPETITORS IN THE STOCK MARKET.

It would be interesting to see which company is the one that is performing the best in the air travel industry. Anyways here I find myself in a situation where comparing revenues and costs between companies becomes misleading as these kind of things depend on how big a company is. Big companies will certainly have higher costs than smaller ones but that doesn't mean that they are performing less efficiently than them.

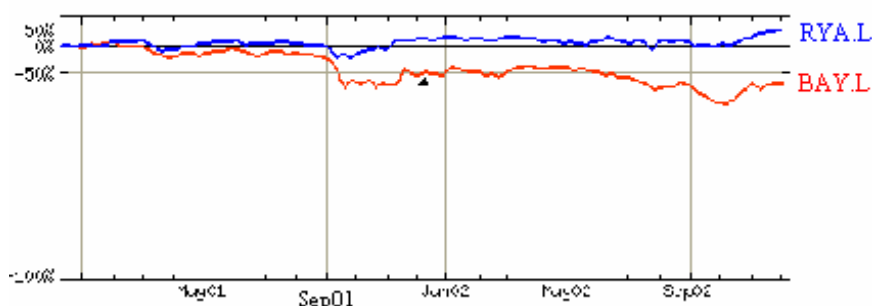
A possible method of comparison used in Corporate Finance are ratios. These are small formulas which allow to compare costs based upon the size of the company, which makes a fairer comparison between companies. Anyways I'm finance student and when I want to compare companies I prefer to compare their performance in the stock exchange market.

The competitors which I have chosen for Ryanair are Easyjet and British Airways. I decided to compare these two companies because they both work in the same industry although the difference between the two is that they operate in different segmentations. British Airways is known world widely and from any airport of Great Britain may bring its customers almost anywhere in the world. Easyjet, like Ryanair, is concentrated too in Continental Europe, its size is more comparable to Ryanair's in the number of clients and aircrafts. Therefore Easyjet is a more direct competitor towards Ryanair. British Airways is always a competitor but less directly as Ryanair is threatening only a portion of business of British Airways.

Figure 1 compares the stock performance of Ryanair and British Airways in percentage, not in price. Ryanair is showing greater strength compared to British Airways, as if a saver would have bought British Airways shares let's say at £ 100 each, it would now find himself with shares having a value of about £ 40 each as in two years they have lost about 60% of their value. Ryanair, on the other hand clearly improved as now their shares increased in value by 50%. It is interesting to see that both companies were under performing in September 2001, but the crisis mainly affected British Airways as the company is doing business on larger scale and therefore suffered more.

Figure 1.³

Performance in London's stock exchange of Ryanair and British Airways from January 2001 to December 2002.

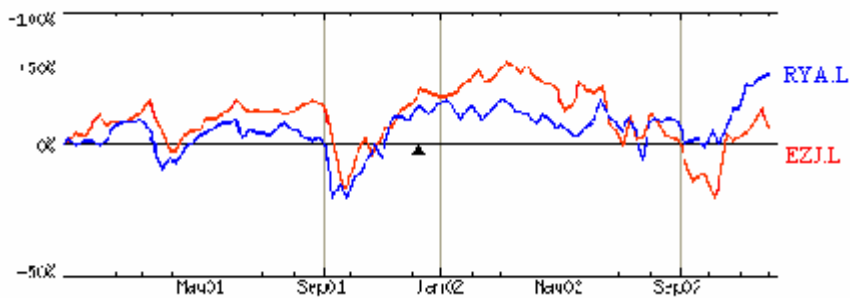


³ Figure 1 downloaded and modified from <http://yahoo.com>

As we look at the trends of Figure 2 we can see that the stock price movements between Ryanair and Easyjet are more similar between them. They were both affected similarly in September 2001 and both recovered immediately after. Right now Ryanair is performing better although for the great part of 2002 Easyjet showed greater gains. Easy jet's stocks are showing greater volatility in the stock market, whereas Ryanair is more constant, which makes its shares less risky and therefore more attractive

Figure 2.⁴

Performance of Ryanair and Easyjet from January 2001 to December 2002.



⁴ Figure 2 downloaded and modified from <http://yahoo.com>

CONCLUSION AND NEXT STEPS.

Having seen all the big investments Ryanair has and is taking it is arguable that Ryanair desires to become the leader in air travel in Europe. In its history we saw that it has been leader in most of its decisions, it has been the first company to offer low air fares and leader in doing the largest order of Boeings 737-800, having in this way the largest fleet of these aircrafts in Europe. Not only Ryanair is a leader, but it is a successful leader as no other air company is performing as well.

In my eyes, Ryanair revolutionised the competitive advantage theory from the adding value point of view. With globalisation and the opening of the markets, all companies in all industries are trying to create value to make a distinction between them and their competitors. Ryanair did the opposite, it offered to the public flights with nothing included at the cheapest price on the market and became a success!

In my work I tried to cover as much as possible all the aspects of Ryanair. The part which requires the most improvement is the competition analysis, where fares could have been compared and compare other companies such as Go or Virgin airlines.

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<http://yahoo.marketguide.com/MGI/mg.asp?target=%2Fstocks%2Fcompanyinformation%2Fincomestmet%2Faincomestd&ticker=RYAA> Accessed 2 December 2002.

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- YAHOO!FINANCE. (2002) web page. Charts Ryanair HLDG. vs. EZJ.L
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Accessed 8 December 2002.

This web page allows to compare the stock performance between Ryanair and Easyjet in London's stock market.

- YAHOO!FINANCE. (2002) web page. Charts Ryanair HLDG. vs. BYA.L
<http://finance.yahoo.com/q?d=c&c=BYA.L&k=c1&t=2y&s=rya.l&a=v&p=s&l=on&z=m&q=l>
Accessed 8 December 2002.

This web page is just like the one before only that in this case the comparison is done between Ryanair and British Airways. Yahoo!Finance allows to do comparison also with the NASDAQ, LIBOR other indices and other companies even if they belong to another industry.

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Books:

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ABBREVIATIONS.

BYA.L: this is the symbol which represents British Airways' shares in London's stock exchange.

EZJ.L: this is the symbol which represents Easy jet's shares in London's stock exchange.

RYA.L: this is the symbol which represents Ryanair's shares in London's stock exchange.