
STRATEGIC PRICING PRACTICES: RYANAIR EXAMPLE

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Abstract

This paper aims to evaluate the profitability of Ryanair, a leading low-cost carrier in the European airline industry, while analyzing its value-based strategic pricing approaches. Ryanair, a “no-frills” airline company that was established in Ireland in 1984, still operates as one of the most important market players in Europe. Ryanair’s “lowest fare/lowest cost” model attracted a high number of customers in years. However, Ryanair’s success to achieve the profitability goal lays beneath linking price with value, by charging passengers in accordance with the value they receive. Besides, unbundling the passenger air travel elements and charging those separately increased Ryanair’s profits tremendously and the company gained a substantial market share. So, the success of Ryanair in the highly competitive airline industry is correlated with the effective implementation and control of value-based strategic pricing. Thus, Ryanair’s strategic pricing attempts that boosted the profits and expanded its market share would be dealt through the paper. Ryanair’s value communication with the customers will be explained. A brief comparison with Ryanair’s competitors will be provided and the profitability in the low-cost airline industry would be discussed in light of recent data.

Keywords: *Ryanair, value-based strategic pricing, low-cost carriers*

1. INTRODUCTION

Ryanair, an Irish low-cost airline company, became Europe’s largest airline in 2016, carrying over 130 million customers on a yearly basis and serving more international passengers than any other airline companies. (<https://corporate.ryanair.com/about-us/history-of-ryanair/>) Ryanair’s “lowest fare/ lowest cost” model enabled selling in the high volumes and serving to the highest number of the customers. By doing so, Ryanair captured more consumer surplus, which increased company’s revenue and profits.

However, Ryanair’s sustainable profitability is linked with implementation of value-based strategic pricing practices efficiently, by charging its passengers based on their value propositions. Ryanair switched a product-based to a value-based pricing approach to serve its customers based on their wants and needs. Besides, Ryanair’s succeed in boosting profits by unbundling the air travel elements of passengers and charging each element (such as seat selection, luggage preferences, etc.) separately. The unbundling strategy of Ryanair maximized per unit revenue of the company.

Additionally, Ryanair imposed efficient and effective price fences. By building invisible walls across customer segments, Ryanair managed to increase the profits. Successful implementation of

strategic pricing practices expanded Ryanair's market share and contributed boosting the profits in the long-run in the highly competitive airline industry.

This paper aims to analyze the profitability of Ryanair company with specific attention to its value-based strategic pricing methods. Ryanair's implementation of strategic pricing tactics will be analyzed and passenger segmentation will be assessed. Then, Ryanair's low-cost maintenance will be dealt and the company will be compared with its competitors. The overall comments might contribute to future relevant research.

1.1. Model and Data

This paper will include both secondary and primary data. Various sources were used in writing this article, including books, e-books, as well as credible, reliable internet sources. Besides, scientific articles were utilized as a part of secondary research. Most of those articles were selected from Google Scholar, Research Gate, and Academia websites.

The primary data, however, was derived mainly from Ryanair's website, while analyzing the company.

2. EUROPE'S FAVOURITE AIRLINE: RYANAIR

Ryanair, a Dublin/Ireland based low-cost airline company, was established in 1984, as "Danren Enterprises", but renamed "Ryanair" soon after its establishment. (<https://en.wikipedia.org/wiki/Ryanair>)

Since the beginning, Ryanair was offering low and affordable fares, which would serve everyone. The company's mission was to maintain efficiency in operations and with an emphasis on the continuation of cost containment. This approach has generated an increasing number of passengers, including price-sensitive to business traveler segments, over time. (O'Higgins, 2007) In addition to low-cost model, Ryanair has been following "no frills" approach, as extras on flights are excluded from the airfare and differentiating classes such as business or first class are not available on the aircraft. (M. Jacob and Z. Jakešová, 2003)

Ryanair began its operations in 1985, by launching a daily flight between Waterford Airport in Ireland and London Gatwick Airport. In that time, the main competitors of Ryanair had been British Airways and Aer Lingus. The primary purpose of Ryanair, at the beginning, was to break the duopoly on London-Ireland flights. Because London-Dublin route had been characterized as retaining one of the highest fares across Europe. (<https://en.wikipedia.org/wiki/Ryanair>)

In 1986, Ryanair initiated the first fare war in Europe. Ryanair managed to break the high fare cartel of Aer Lingus and British Airways on the London-Dublin route by obtaining permission from the regulatory authorities. In the following years, Ryanair succeeded to expand very rapidly, which ended up introducing new routes between the United Kingdom and Ireland. (<https://corporate.ryanair.com/about-us/history-of-ryanair/>)

In early 1990s, Ryanair accumulated £20 million in losses, due to intense price competition with main competitors (British Airways and Aer Lingus), as well as rapid growth in aircraft and routes. Thus, the company restructured its business plan substantially, by imitating the low fares model of Southwest Airlines.

Southwest Airlines, back-then "Air Southwest Co.", based in Texas/USA, has served as the prototype for low-cost airlines business model. Since Southwest Airlines successfully invented and implemented low-cost airline business model, various different carriers in the United States (for example, JetBlue and America West) as well as in Europe (such as easyJet and Ryanair) followed the core example. (Diaconu, 2012) By copying the business model of Southwest Airlines, Ryanair achieved to offer the lowest prices in every market and high frequency of flights.

On the other hand, the airline industry is among the world's most capital-intensive and highly competitive industries. Numerous airline companies exist in the industry, as entry barriers are low. However, factors such as costs of fuel or restricted regulations cause fierce competition.

Low-cost airlines or low-cost carriers differ from the full-service airline companies by excluding many traditional services provided in the fare. As low-cost airlines subtract those wide ranges of services and inflight amenities of full-service providers, they offer their customers lower fares at the expense of lower comfort. Low-cost airlines mainly pursue simplicity, efficiency, productivity and high utilization of assets (O'Connell, and Williams, 2005).

The main characteristics of low-carriers refer to retaining minimum cabin crews, operating in underused airports, internet booking, and e-ticketing, extreme utilization of aircraft, lower rates of unionized employees and lower wages scales. On the other hand, the major challenges in the low-cost airline industry are intense competition, rising fuel, labor, security, maintenance costs, and regulations (Sakhizada, 2018).

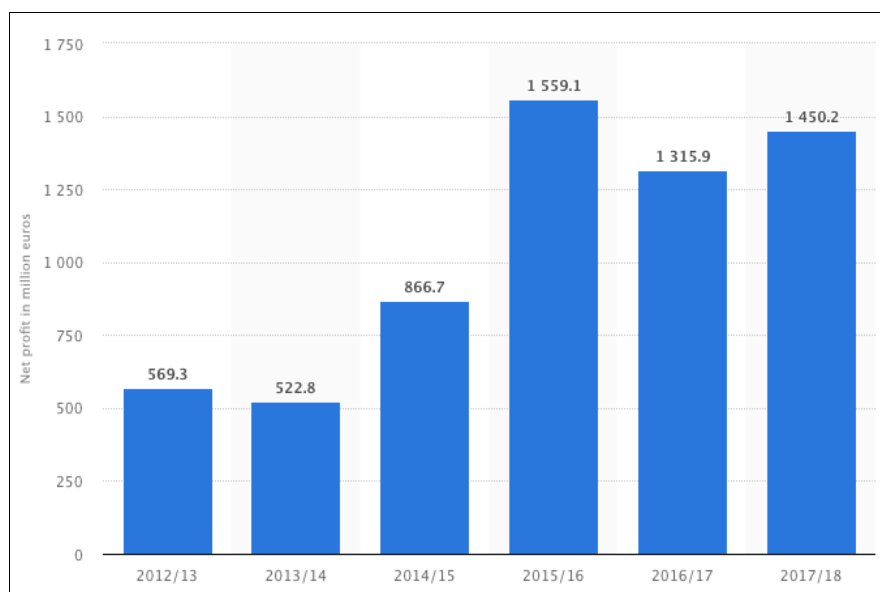
Liberalization of the airline industry enabled low-cost carriers to affect the world's domestic passenger markets. The airline market was largely dominated by full-service network carriers, before the entrance of low-cost airlines.

The European Union's air transport deregulation, however, named as "Open Skies", and introduced in 1997 had been a breakthrough for Ryanair company. "Open Skies" deregulation enabled airlines to compete freely across Europe. Liberalism in the air transport allowed Ryanair to open up new routes in continental Europe.

In the 2000s, Ryanair continued to expand, open up new routes across Europe and improve customer service quality. Moreover, although competitors of Ryanair were maintaining their fuel surcharges, Ryanair had been the only airline, guaranteeing "no fuel surcharges ever".

In 2014, Ryanair introduced its "Always Getting Better" program by improving the company's lowest fare/ lowest cost model.

In 2016, Ryanair is claimed to be "Europe's favorite airline" by carrying more than 130 million customers in a year and serving more international passengers than any other airline company. Ryanair's guaranteed lowest airfares paved the way to sell in high volumes, which also boosted the profits of the company. (<https://corporate.ryanair.com/about-us/history-of-ryanair/>)



Source: <https://www.statista.com/statistics/756093/ryanair-net-profit/>

Figure 1 Net Profit of Ryanair from 2013 and 2018 (in million Euros)

3. STRATEGIC PRICING PRACTICES OF RYANAIR

In addition to offering the lowest airfares possible, Ryanair's comparative advantage in the airline industry is mainly the trick of unbundling for basic air travel elements of passengers. In this respect, instead of rolling a single price for all the segments, Ryanair offers few options for its customers with different needs. Because customers have differentiated value propositions, even the same customer segment could have different value perceptions. Thus, Ryanair linked price with value, instead of product to serve its passengers more effectively and efficiently.

Value constitutes the basis of strategic pricing approach. The term value can be defined as the overall satisfaction of customers, which is the utility gained from the offering. As value is observed only in terms of customer satisfaction, it can be highly subjective. Value is being created and sold via products that are launched and communicated in accordance with the wants and needs of customers (Nagle, Hogan, and Zale, 2016).

Besides, product bundling is a widely-used segmentation tactic of pricing. Companies usually decide to sell products or services in a package by combining those for higher profitability, rather than putting separate price tags on each product. Most of the firms tend to follow the tactic of optimal bundling. In optimal bundling, it is envisioned to buy products separately, but the option to purchase those in a bundle at prices below their cost if bought separately is also available (Skripak, 2016).

Thanks to value-based pricing attempts and unbundling strategy Ryanair switched from offering a product/service to a value to the customers. Ryanair provides three types of airfares that are categorized as standard fare, Plus, and Flexi Plus.

3.1. Ryanair price differentiation based on discrimination between standard fare, Plus and Flexiplus options

Ryanair charges the travelers, who search for the lowest ticket with a small cabin bag under its standard fare. Ryanair's cabin bag policy allows all passengers to bring one small bag on board, including handbags, laptops and a small backpack, which must fit and place under the front seat of the passenger.

Having bags in an aero plane enable the passengers to keep their personal belongings with them and utilize those during the flight (e.g. using electronic devices on board, reading their books, etc.). Ryanair also allows passengers, who wish to bring their own food and drinks (with the exception of hot and/or alcoholic drinks) on board, instead of selecting their meal from the inflight menu and paying an additional fee for their food and beverage preferences.

On the other hand, passengers that wish to reserve a standard seat, have both priority and 2 cabin bags in addition to 20 kg check-in bag with the lowest fare are charged under Plus category. Furthermore, Ryanair customers who would like to have flexible tickets, Security Fast Track, free airport check-in, any reserved seat, priority and two cabin bags with lowest fare possible should opt for Flexi Plus.

The customers' wants and needs, willingness to pay and value expectations create a basis for different pricing for Ryanair fares. For example, a business traveler would be satisfied with a small cabin bag under the standard fare, whereas a leisure traveler on the same flight might demand both priority and 2 cabin bags in addition to 20 kg check-in bag with the lowest fare possible, thus opt for Plus category. On the other hand, another person, who needs more flexible tickets and wishes to have free airport check-in could book his/her ticket via Flexi Plus option.

For Ryanair passengers who will opt for Flexi Plus, Security Fast Track provides passengers' accession to a dedicated security lane and allows them to fly through security and reach the departure lounge quickly. So, passengers who have a time constraint, elderly customers, people

travelling with their babies and/or disabled passengers with special needs might be willing to pay for Fast Track service to speed up the long waiting processes at the airports. Nevertheless, Ryanair states that Fast Track service is available only for a list of airports and the terms and conditions slightly differ at each of these airports.

3.2. Ryanair's price differentiation based on seat selection versus non-seat selection approach

Additionally, Ryanair offers price discrimination based on seat selection versus non-seat selection approach. Accordingly, the passenger will be allowed to select a seat between rows 10-11 and 14-30. In this stage, the website's notification states that if the traveler attempts to choose another seat instead of the destined numbers, she/he will be charged differently.

Ryanair juxtaposes the benefits of selecting a seat as a widest choice while booking flight, check in availability 60 days before the trip and to be able to sit in the seat that passengers wish. Standard seat selection enables passengers to pick their preferred seat and avoid random seat selection that might end up placing them in the middle seat. Front seat selection, however, is ideal for passengers, who value to be the first off plane, thanks to the location and proximity of those seats to the plane's door. Extra legroom seats, that are located at the very front row of the airplane would be charged more, as those offer the maximum leg space within the aircraft and also allow passengers to leave the plane before the others.

On the other hand, a random seat that is free of charge will be allocated for Ryanair passengers, who do not wish to select a seat. Those passengers could check-in 48 hours in advance of each departure flight, thus their boarding passes will be issued two days prior to departure. The risk here is the probability to be randomly attained a seat that has no window or a middle seat, as passengers do not reserve the seats in advance.

Moreover, Ryanair passengers should print their boarding passes before their flight, if they would like to avoid paying an additional 20 € fee of boarding card reissue at the airport. In this respect, Flexi Plus customers are exceptional, since those can check-in free of charge at the airport. For EU/EEA Nationals, however, who use Ryanair application, mobile boarding pass option is available and valid.

Furthermore, Ryanair offers a Family Seating option for families travelling to sit together. Accordingly, for children under 12 years old, it is mandatory to be seated next to an adult/parent they are travelling with. In such situations, Ryanair enables a free allocated seat for maximum of four children per adult, who purchases a seat. Under these circumstances, prices of reserved seats that are available for selection between rows in 18-33 for adults. Thus, seats in the given rows would be free for children.

3.3. Ryanair's price differentiation by time of purchase

Although customer demand is one of the most stimulating aspects of airfares, the company's marketing management also plays a key role to influence drop or rise in prices. In the competitive airline industry settings, companies purposefully raise or lower down the airfares for maximizing their profits. Companies tend to build price fences for an identical ticket by charging it differently to increase profitability.

On each flight, Ryanair usually offers a bunch of cheaper seats and after these are sold the price of airfares rise. "Smart shoppers", who are rational and aware of the time alternatives, can book/pay their tickets in advance, in order to secure a low price. Additionally, Ryanair is aware of the last-minute bookings of business travelers, who are willing to pay a premium for their flights, since those have time inflexibility. Besides, external factors also affect the pricing airfare process.

Various fare categories of a given flight either become sold out or gets re-opened when travelers purchase or cancel flexible tickets. details, pick up and drop off dates as well as needed time schedules.

3.4. Ryanair's product bundling: plane ticket and car hire

Ryanair's "Always Getting Better" program introduced car hire system. After booking a flight, travelers could hit the "car hire" button that is positioned on the right corner of the webpage and fill the necessary information boxes such as arrival airport.

Once typing the required information for car hire, Ryanair's website redirects the users to another page, where a bunch of car options is exhibited. By clicking on each car model, passengers could reach all the details about the vehicles in a certain price range. Besides, if travelers change their mind for renting a car, they could cancel it for free. No card fees are applied while hiring a car.

Ryanair's passengers that seek car hire option have the chance to make a comparison between alternatives. In addition to the features of each car, important information such as fuel policy and pick-up location are provided. Moreover, customer ratings are also included within the car selection webpage. Considering the high impact of "word-of-mouth", it could be said that other customers' ratings make sense while deciding about car hire.

3.5. Ryanair's product bundling: plane ticket and accommodation bookings

In a similar vein, it is possible to book the accommodation on Ryanair's website, after arranging the flight. Ryanair Rooms webpage enable travelers to compare prices, choose between alternatives, provide filters so that buyers could find suitable accommodation based on their wants, needs, expectations, and willingness to pay. Alongside the general information about the facilities, customer ratings and reviews are embedded to the given page. Herein, "word-of-mouth" could be useful again for influencing buying behavior.

3.6. Ryanair's value communication

Ryanair's marketing efforts are both in the traditional and digital sense to communicate value with customers. In 2014, Ryanair increased its advertising budget tremendously, while shifting the promotional focus from price emphasis to brand-led campaigns. Michael O' Leary, the CEO of the company, highlighted that Ryanair's cheap price messages succeeded, so they will be also promoting other features such as punctuality, improved customer service, and family-friendly tools via new advertisement efforts.

Onboard advertising, which includes ads on the Aero panels and on the seatbacks in the airplane are among Ryanair's promotional tools to raise brand awareness. Ryanair, on the other hand, uses social media marketing quite effectively. In addition to official Ryanair smartphone application, Ryanair has official Facebook, Twitter, Instagram, LinkedIn, Google Plus and YouTube pages. Those platforms enable Ryanair experts to directly communicate with the customers. In addition to posting advertising campaigns to inform the customers about current Ryanair offers, these social media channels allow passengers to reach the company in the event of an update on their flight, issues such as cancellation, delay, lost item, damaged luggage, etc.

3.7. Ryanair's explicit price warranty

Ryanair explicitly gives the lowest fare guarantee to the passengers, as the company officially states that in case a passenger finds a cheaper option from another airline for a given route, then Ryanair

promises to pay “double the difference” (airfare paid to Ryanair plus the airfare quoted by other carriers).

However, in order to claim “double the difference” payment from Ryanair, customers are obliged to submit a form on <https://www.ryanair.com/gb/en/useful-info/help-centre/faq-overview/Making-a-reservation/What-is-RYANAIRS-lowest-fare-guarantee> within one hour of making their booking. Ryanair also emphasizes that “Terms and Conditions” apply to the lowest fare guarantee. And when customers click on the underlined “Terms and Conditions” they get much more detailed information about general terms and conditions of Ryanair carriage. It can be said that having a transparent pricing policy is an effective intermediary that builds a trust relationship between the customer and the company.

4. RYANAIR'S COST CUTTING MEASURES and RECENT PROFIT COMPARISONS with the COMPETITORS

Increasing revenues are among the strategic goals of all companies. However, boosting revenues is not sufficient, because companies depend on profits for the survival in the competitive market environment.

Cost-cutting measures of Ryanair also serve to pursue the sustainable profitability goal. Ryanair’s streamlined fleet that is consisted of Boeing 737-800 aircraft helps to keep costs down. Having a single type of planes enabled Ryanair to train all employees (pilots, flight staff, mechanics, etc.) for that particular vehicle, which reduced training costs and saved time for the company. Besides, in general likewise seen in other low-cost carriers, Ryanair staff are usually at the beginning of their careers, thus the company pays lower wages.

Besides, Ryanair is a point-to-point short-haul low-cost carrier flying mostly in Europe. Thus, average flight duration is approximately 1.8 hours, which allows Ryanair to use its aircraft multiple times per day and reduces costs. Additionally, as Ryanair operates at underused airports, instead of serving major hubs, which also maintains low-costs for the company.

On the other hand, Ryanair’s Annual Report 2018, released in July 2018, puts forward highlights on the company’s yearly performance. It is stated that despite external problems such as rising fuel prices, a weaker fare environment and harsh trading conditions in Europe, Ryanair managed to perform a strong financial year. Accordingly, profit after tax reached €1.45 billion for the first half of 2018, a 10% yearly increase.

Ryanair’s main rivals in the low-cost carrier industry also revealed their profits for 2018. EasyJet’s profits after taxation reached to €400 million in the third quarter of 2018, which constitutes a 17% rise in comparison to the same period last year. EasyJet’s revenues for the given period was calculated as €6.85 billion with a 17% increment.

Wizz Air announced obtaining €275.1 million net profit in the first half of 2018 with 14.1% profit margin. For the given period, the company’s revenue was calculated as €1,948 million with a 24% rise compared to 2017. Slight increases are observed through the given period, in terms of both total revenue and net profit rates.

Moreover, the fast-growing Scandinavian budget airline Norwegian Air reported approximately €151,37 million loss in pre-tax profits in comparison with the previous year, according to full-year results of 2018. Tough competition conditions, high costs, fuel hedge losses, and engine issues were shown among the reasons for this sharp drop in profits. The company’s revenue increased compared to 2017, by reaching around €4178,83.

5. CONCLUSION

This paper is an attempt to understand Ryanair's company strategy with specific attention to strategic pricing. Obtaining value-based pricing approach and implementing strategic pricing practices quite effectively brought Ryanair sustainable long-term profit growth, which is the optimal combination of market share and profit margin. Nowadays most of the flagship carriers are forced to follow Ryanair example to increase their profits.

Ryanair's "lowest fare/lowest cost model", successful low-cost maintenance strategies, unbundling air travel elements, linking price with value, effective price fences and price differentiation attracted a high percentage of customers through time and increased Ryanair's profits tremendously. Thus, the company gained a substantial market share. Recent preliminary data of 2018 regarding profits also put forward that Ryanair had a strong financial performance and gained higher profits than its main competitors.

Rising fuel prices and the possibility of a hard Brexit are foreseen as problems that would make 2019 challenging for Ryanair, and put the UK shareholders in a disadvantageous position. Considering those facts, Ryanair should take structural measures, in order to diminish the risk of a decrease in profits. Ryanair should also study its competitors, in terms of the service quality they provide to the passengers, their customer approach and problem-solving mechanisms to make changes if needed.

Creative marketing campaigns and promotional activities would help Ryanair to gain more passengers' attention. Also, for increasing positive customer ratings, Ryanair should train its employees continuously. Besides, the award system, regarding career development should be linked with profitability. Because strategically thinking, bonuses should be proportional to the profit achieved.

And last but not least, once setting a base standard that paves the way for profitability, it is obligatory to follow the basic rules all the time. For instance, by maintaining to offer the lowest fares would continue to bring the high volumes, which serves to the long-term profit goal. Thus, Ryanair should not give up on its "lowest fare/lowest cost" model, value delivery approach through its pricing and "no fuel surcharges" guarantee.

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