

## **Ryanair - The Godfather of Ancillary Revenue**

*Michael O'Leary may crystallized the concept of ancillary revenue back in 2001 when he sought to replace ticket revenue with commissions from retail activities.<sup>1</sup>*

IdeaWorks begins its analysis of Ryanair with a field trip to Ryanair.com. The website is unique in the airline industry because it gives greater attention to ancillary revenue activity than to the sale of airline tickets. Michael O'Leary, CEO of Ryanair, is on a mission to make flying free, and his website clearly demonstrates the desire to replace airline ticket revenue with the receipts earned on a wide array of products and services.

Ryanair's swashbuckling style is not limited to its love of absurdly low fares, or simply giving the seat away for free. From a pure design perspective, the website also violates conventional wisdom by breaking a long list of accepted design rules:

- Be consistent with colors and fonts.
- Use plenty of white space.
- Don't make pages too long - users don't like to scroll down too far.
- Carefully select color.
- Keep sufficient contrast between the text and background.
- Use fonts that are appropriate to your content.
- Don't overuse flashing and animated graphics.

And yet, for all its design flaws, Ryanair.com seems to deliver on a golden rule of e-commerce - - to generate sales. Ryanair has been hugely successful in its pursuit of ever increasing ancillary revenue levels. The website alone generated more than €37 million in revenue during the most recent fiscal year from activities not directly related to the sale of airline tickets. This includes the sale of life assurance, travel insurance, online gaming, and advertising. The company has clearly learned how to effectively tap the 16 million consumers that visit Ryanair.com each month.

But much larger numbers appear when the complete scope of Ryanair's ancillary revenue activity is examined. Ridership of 42 million passengers contributed ancillary revenue in excess of €362 million during Ryanair's fiscal year ended March 31, 2007 - - an amazing €8.50 per passenger carried.<sup>2</sup>

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### Inside the Numbers at Ryanair

Ryanair has proven to be a very reliable growth and profit machine for its investors. Recent IATA rankings (based upon 2006 traffic) place the carrier number one in terms of international passengers carried. In its 2007 annual report, the carrier described an aggressive 5-year plan:

“We have announced a 5-year plan to double our traffic to over 80 million passengers by 2012 and we expect that our combination of lower fares and lower costs will over that 5-year period enable us to double profitability as well.”

The airline is an ancillary revenue leader in terms of revenue production, marketing aggressiveness, and breadth of activities. During the past 5 years, the airline has produced an average annual increase of approximately 34%.

| <b>Ryanair Ancillary Revenue by Fiscal Year (in thousands of Euros)</b> |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| <b>2003</b>   | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> |
| € 110,557   | € 149,658   | € 208,470   | € 259,153   | € 362,104   |
| % Increase<br>Year Over Year  | 35.4%       | 39.3%       | 24.3%       | 39.7%       |

This rate of growth suggests the airline may realize ancillary revenue in excess of a billion Euros by the year 2011. Ryanair uses four categories to report ancillary revenue: 1) Non-flight Scheduled, 2) Car Hire, 3) In-Flight, and 4) Internet Income. The following lists ancillary revenue results from the most recent fiscal year:

| <b>Ryanair Ancillary Revenue by Category (2007 Fiscal Year)</b>   |                      |
|---|----------------------|
| <b>Non-Flight Scheduled:</b> Activity that is tied to the sale of air travel to include bus and rail tickets, hotel reservations, and excess baggage fees (checked baggage fees are counted as passenger revenues). | <b>€ 241,990,000</b> |
| <b>Car Hire:</b> Ryanair has an exclusive relationship with Hertz.  | <b>€ 22,972,000</b>  |
| <b>In-Flight:</b> Onboard sales of beverages, food and merchandise.   | <b>€ 60,079,000</b>  |
| <b>Internet Income:</b> Comprised of revenue from Ryanair.com, and does not include airline ticket sales or car rental commissions.   | <b>€ 37,063,000</b>  |

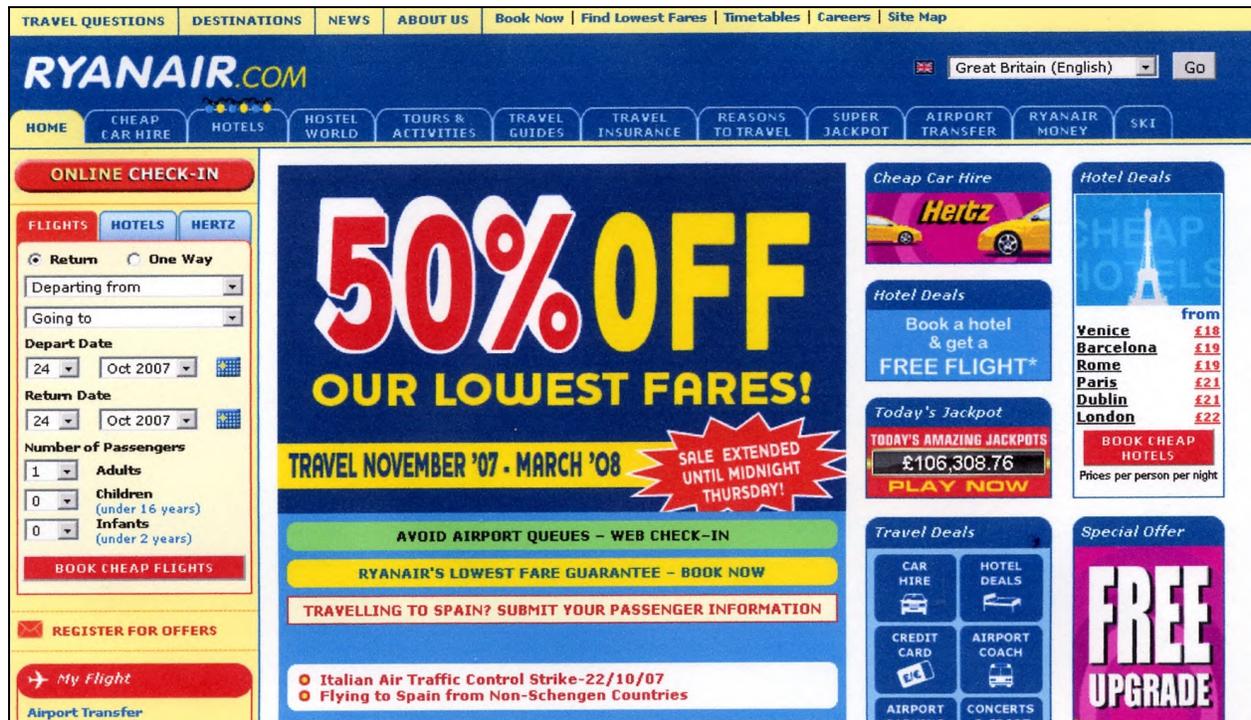
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Ryanair is a large airline that seems destined to grow even larger. Total operating revenue for the same fiscal period were in excess of €2.2 billion. Over 16% of the company's total revenue was produced by ancillary revenue activities. The airline's size, to include its robust website traffic, is an important driver of its ancillary revenue program.

### Ryanair.com as the Grand Bazaar

Taking a stroll through any bazaar in the Middle East can deliver a shock to the senses. Shoppers are bombarded with calls from merchants to buy their goods. Tourists are lost in a swirl of emotions and often report they have purchased more than they intended. These marketplaces are not the orderly and sterile equivalents of Wal-Mart in the United States and Carrefour markets throughout the world.

Ryanair.com, as the primary tool in the company's ancillary revenue toolbox, is the online equivalent of a grand bazaar. The screen shot (October 2007) displays the home page in all its Vegas-style glory, with blinking Christmas lights, an array of fonts, more color than a Disney cartoon, and an incredible span of good3 and services.



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It's a candy store for travelers - - and perhaps that is the site's most enviable attribute. In the true spirit of Ryanair, the website's primary editorial feature is the promise of low, lower, and lowest pricing. There is no obvious coordination between the offers being made - - one message promises 50% savings, another delivers free flights, and yet another area offers one-way flights for 5 British pounds.

IdeaWorks evaluated the ancillary revenue activities described on the home page and organized them by standard categories:

|                                   |  |
|-----------------------------------|--|
| <b>Travel Related Services</b>    | <ul style="list-style-type: none"> <li>• Activity Packages</li> <li>• Airport Lounges</li> <li>• Airport Motor Coach Transfers</li> <li>• Airport Parking</li> <li>• Car Rental</li> <li>• Hostel Booking</li> <li>• Hotel Booking</li> <li>• PortAventura Resorts, Theme Park and Hotels</li> <li>• Stansted Express Train</li> <li>• Tours and Activities</li> </ul> |
| <b>Consumer Services</b>          | <ul style="list-style-type: none"> <li>• Foreign Currency Exchange</li> <li>• Home Insurance</li> <li>• Life Assurance</li> <li>• Overseas Property, Vacation Home Sales</li> <li>• Ryanair MasterCard</li> <li>• Travel Insurance</li> </ul>  |
| <b>Entertainment</b>              | <ul style="list-style-type: none"> <li>• Online Gaming</li> <li>• Scratch and Win Cards to Buy</li> <li>• Tickets for Theatre, Concerts, and Sports</li> </ul>   |
| <b>Retail</b>                     | <ul style="list-style-type: none"> <li>• Buy as You Fly Online Catalog</li> </ul>  |
| <b>Paid Advertising</b>           | <ul style="list-style-type: none"> <li>• Destination Advertising</li> <li>• Travel Guides</li> </ul>   |
| Source: Ryanair.com, October 2007 |  |

Ryanair has very good coverage in the Travel Related Services, Consumer Services, and Entertainment categories. The airline is weak in the Retail category and only offers an online catalog that is not a recognized consumer brand. Large airlines, notably those with frequent flier programs, offer online malls (filled with major brands) that provide mileage accrual tied to online purchases.

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### Partners Drive Internet Revenues

As demonstrated in the table above, Ryanair has established partner relationships across a broad spectrum of products and services. The airline has obviously done its math: more partners + millions of website visitors + millions of passengers = major ancillary revenues. But Ryanair has added “aggressiveness” as another element to the equation.

The standard ancillary revenue model for website sales has partners paying a commission on every completed sale. Audience members at the September 2007 Low Cost Carriers Congress in London may have been surprised by the partner strategy revealed by Michael Cawley, the Chief Operating Officer for Ryanair:

*“We choose the best vendors. Why are they the best? They are the ones that are willing to guarantee their revenue production, or advance it to us as cash. Why should we take the risk when they know their business?”*

This pay-for-partnering model removes all risk for the airline and places the financial burden upon the partner. Ryanair’s responsibility is likely limited to delivering the agreed upon exposure at Ryanair.com. Further details were added by Mr. Cawley who then talked about the exclusive relationship with Hertz: “I don’t know anything about car rentals. So I got out of the business. We work with Hertz very closely on demand forecasting.” He also revealed Ryanair was responsible for 700,000 rentals annually and that Hertz pays the airline on the basis of passengers carried.

TRAVEL QUESTIONS | DESTINATIONS | NEWS | ABOUT US | Book Now | Timetables | Change Flight Details | Careers

RYANAIR.COM | Great Britain (English)

HOME | CHEAP CAR HIRE | HOTELS | HOSTEL WORLD | TOURS & ACTIVITIES | TRAVEL GUIDES | TRAVEL INSURANCE | REASONS TO TRAVEL | SUPER JACKPOT | AIRPORT TRANSFER | RYANAIR MONEY | SKI

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Book your car now - save more! step 1 of 3

**Pickup / Return Location**

Pickup Country-State or Province: Ireland

Pickup Location: Choose a Location

I'm returning this vehicle to a different location

Other Rental Locations in Europe. [Click here](#)

**Pickup/Return Date/Time**

I'm picking up the vehicle on: 23 October 2007 10:00

I'm returning the vehicle on: 24 October 2007 10:00

**Country of Residence**

United Kingdom

**Ryanair Flight Number\***

FR

**Free Upgrade!** Get more car for your money. Take a look at our range of upgrades.

**Free bottle of wine** First 500 renters at Porto enjoy a bottle of wine on us.

**Hertz NeverLost** Our in-car GPS navigation system with a choice of 11 languages and clear mapping

**Hertz #1 Club** Fast Track Car Hire! Quicker bookings, faster pick-ups and less paperwork.

**Cheap Car Hire** Hertz FREE UPGRADE

**Hotel Deals** & CHEAP NIGHTS!

**Today's Jackpot** TODAY'S AMAZING JACKPOTS £106,105.35 PLAY NOW

**Travel Deals** CAR HIRE | HOTEL DEALS | CREDIT CARD | AIRPORT COACH

Screen shot from the Hertz booking page at Ryanair.com, October 2007.



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### A la Carte Pricing Delivers More Revenue

The recent pay-for-partnering model may have yielded a pot-o-gold for this Irish airline, but Ryanair's ancillary revenue roots began in 1990. The airline underwent a major restructuring that year and was re-launched as Europe's first low fare airline. Free drinks and meals were gone as the airline shed the frills of flying and lowered its fares to rock-bottom levels.

Ryanair's aggressive philosophy is also reflected in its pursuit of ancillary revenue through a la carte pricing. The airline was among the first to charge its customers for checked baggage in 2006. Ryanair records the fees listed in the chart as ancillary revenue with the exception of the first through third pieces of checked baggage. Checked baggage is recorded as passenger revenue, while excess baggage is considered ancillary revenue.

| <b>Ryanair A La Carte Fees</b>   |  |
|--|--|
| <b>Debit Card Fee:</b> For payments made with a debit card online or through the call centre. There is no fee for payments made using a Visa Electron card. The fee is per passenger per one way flight. | <b>€ 1.50</b>                          |
| <b>Credit Card Fee:</b> For payments made with a credit card online or through a call centre; only Visa and MasterCard are accepted. The fee is per passenger per one-way flight.                        | <b>€ 4</b>                             |
| <b>Priority Boarding:</b> Be among the first to board the aircraft. The fee is per passenger per one-way flight. Priority Boarding is offered free of charge for reservations made online.               | <b>€ 4</b>                             |
| <b>Airport Check-In Fee:</b> Each passenger checking in at the airport is subject to an Airport Check-In fee.  | <b>€ 4</b>                             |
| <b>1st Checked Bag:</b> Per bag, per one-way flight.<br>Booked online: €6.00, Booked call center or airport: €12.00  | <b>€ 9 Online</b><br><b>€ 18 Other</b> |
| <b>2nd &amp; 3rd Checked Bag:</b> Per bag, per one way flight.   | <b>€ 18</b>                            |
| <b>Excess Baggage Fee:</b> Per kilo, purchased at the airport  | <b>€ 10</b>                            |
| <i>Source: Ryanair.com, February 2008 (Fees described in the Ancillary Revenue Guide by IdeaWorks are from December 2007 and don't reflect January 23, 2008 increase).</i>                               |  |

In addition to the above items, the airline also sells drinks, food and merchandise from an onboard trolley. Passengers may also purchase motor coach and train transfer tickets from flight attendants prior to arrival at the destination. Small consumer impulse items such as watches, Bluetooth headsets, and pocket lights are also available.

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Party animals on the flight might appreciate the packets of “Hangover Preventer” that are a lead item in the catalog. “Fly to Win” scratch-off cards are available for passengers feeling lucky. The food and beverage selection includes cold and hot snacks, beer, wine, and a split of Piper Champagne at €14.

The 2007 annual report lists revenue in excess of €60 million from onboard sales of beverages, food, and merchandise. Ryanair carried 42.5 million passengers during the same period, which equates to average revenue of approximately €1.4 per passenger carried. This is one category that actually incurs substantial costs from the purchase of food and beverages sold on the aircraft; the cost is reflected under “other operating expenses” of the company’s income statement.

### **Ryanair’s Frequent “Charge” Program**

IdeaWorks defines ancillary revenue as: “Revenues beyond the sale of tickets that are generated by direct sales to passengers, or indirectly as a part of the travel experience.” IdeaWorks further defines ancillary revenue using these categories: 1) a la carte features, 2) commission-based services, and 3) frequent flier activities. So far, this report has identified Ryanair’s extensive a la carte and commission-based activities. This section evaluates the ancillary revenue generated from the final category - - frequent flier activities.

Readers may be aware of the disdain Ryanair management has for frequent flier programs. However, the airline did introduce a Frequent Flyer Club (and even a business class) to its customers in 1988. The Ryanair of 1988, with six ancient BAC-111 jets and 3 turboprops, was a far different airline than it is today. The Frequent Flyer Club (and the business class) was not successful and was discontinued one year later in 1989. The airline does not offer frequent flier program benefits, however it does offer a co-branded credit card.

The Ryanair credit card was originally introduced to consumers in February 2003. The card was recently re-introduced in August 2007 by GE Money, the consumer credit unit of the General Electric Company. The card is currently available to residents of the United Kingdom and Ireland. GE Money plans to offer the card in additional countries, such as Poland and Sweden, during 2008. The Ryanair MasterCard is similar to other co-branded airline credit cards. Cardholders accrue flight rewards for charges made with the card.

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One roundtrip reward flight on Ryanair is earned after spending £1,500 in a defined 6-month period, while £3,000 during the same period receives 2 roundtrip rewards (both travel on the same flights and dates). The 6-month periods run from December 11 to June 10, and June 11 to December 10. The card had an introductory offer of a free reward flight after spending £250 during the first 90 days of opening an account.

The card stops short of copying the loyalty benefits of a true frequent flier program; the Ryanair MasterCard does not provide bonus points for travel on Ryanair or for the purchase of Ryanair tickets. The program automatically sends reward certificates to the cardholder at the end of each 6-month period. Give-Away Flight reward tickets are highly restricted: 1) Limited seat availability, 2) No travel during July and August, 3) 8-month validity from day of issue, 4) Flights must be booked one month in advance, and 5) All taxes and fees are paid by the reward traveler.

How does the card produce ancillary revenue for Ryanair? Co-branded credit card agreements can have three financial components: 1) Sign-up bonus for the airline, 2) Financial bonus paid per cardholder acquired, and 3) Payment for every mile earned by a cardholder through charge activity. Ryanair probably negotiated a multi-million Euro sign up bonus and may receive a bonus for each card account opened.

The Ryanair MasterCard avoids mileage accrual and simply rewards cardholders with Give-Away Flight certificates. Ryanair probably receives payment from GE Money for each certificate issued or redeemed. Revenue management policies (also known as capacity control) ensure seats are only offered on lower-demand flights. The design of the card represents an attractive compromise for an airline wishing to capture revenue from the popular co-branded credit card segment without the complexity of having a frequent flier program.

### **Observations and Conclusions**

The title of this report invokes the 1972 movie classic, The Godfather. One of most remembered lines in the movie belongs to Don Corleone, who is the patriarch of a crime family, "I'll make him an offer he can't refuse." Ryanair's unprecedented passenger and revenue growth are evidence the airline has made an offer the public simply can't refuse. Even Ryanair's ancillary revenue partners seem unable to refuse the offer in which they guarantee the payments they make to Ryanair . . . and to "refuse" the traditional method of making payments based upon the actual sales of goods and services.

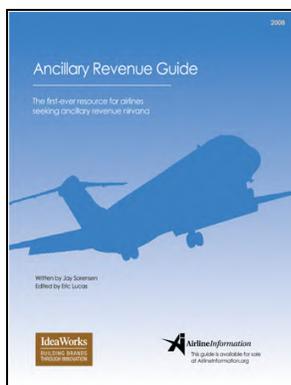
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Large airlines are capable of generating large revenues. But Ryanair clearly reaches beyond the benefit of its size, and fully embraces the practice of ancillary revenue in its purest form. The airline is relentless in seeking opportunities to extract profits from every source. The pay-for-partnership model is a bold stroke of genius. This is simply aggressive capitalism. The airline's large size and aggressive nature define the core values of Ryanair's ancillary revenue manifesto.

Similar to any major organization, Ryanair does have its areas of weakness. For example, its website generates big revenue largely because of the airline's size and aggressive behavior - - not because it's well designed and branded. The airline's commodity approach to its product provides an opportunity for competitors to poach customers who seek an improved experience. Michael Cawley, the Chief Operating Officer for Ryanair, said at the 2007 Low Cost Airlines Congress in London, "Fundamentally, the passenger makes the decision on the basis of price. Flying is a commodity product."

This philosophy leaves the door open for other airlines to compete on the basis of comfort, convenience, and style. The best objective for other airlines is not to be bigger . . . but to be better. But competitors can certainly rely upon Ryanair to continue its dominance as a leader in the ancillary revenue and a la carte pricing category.

***This analysis is an excerpt from the Ancillary Revenue Guide by IdeaWorks.***



*IdeaWorks has created a first-ever 147-page guide on the topic of ancillary revenue. The effort is the result of research, interviews and analysis conducted during 2007 on a la carte pricing, commission-based services, and frequent flier activities.*

*The guide is available at a price of US\$499 per copy, and may be ordered and purchased at the Airline Information web site.*

*Please visit [AirlineInformation.org/guide](http://AirlineInformation.org/guide) for more information and to order your copy of the Guide.*

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**Sources used in this Industry Analysis:** Unless otherwise noted, information was gathered from publicly available sources such as Ryanair.com and its financial report filings.

**Disclosure:** IdeaWorks makes every effort to ensure the quality of the information in this report. Before relying on the information, readers should obtain any appropriate professional advice relevant to their particular circumstances. IdeaWorks cannot guarantee, and assumes no legal liability or responsibility for the accuracy, currency or completeness of the information.

**Endnotes:**

- 1: BBC News, “Flying for Free on Ryanair”, May 13, 2001
- 2: Ryanair 2007 Annual Report

**Join us at the ARAC 2008 - the Ancillary Revenue Airline Conference.**

Ancillary Revenue Airline Conference (ARAC) is a yearly event bringing together airlines and industry suppliers working to boost non-ticket revenue for air carriers. This event offers attendees the opportunity to learn about best practices from ancillary revenue leaders, to see the various related products and services, and to network with a wide range of air travel professionals interested in increasing incremental revenue. Delegates from 75 different airlines around the world participated in ARAC '07 in Frankfurt, Germany.

For more information about future ARAC events and to download the 2007 presentations, please visit the conference website at [MoreAirlineProfits.com](http://MoreAirlineProfits.com). And be sure to make plans to join us in Lisbon, Portugal on November 19 and 20, 2008.