



Ryanair: Defying Gravity

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Background of Ryanair

- 1960: European Airlines are "inefficient, undercapitalized, and unprofitable"
- 1984: European Commission
 - NO Pooling Arrangements
 - NO Price Fixing
 - NO Gov. Subsidies
- 1985: Ryanair's first flight from Waterford to Gatwick
- 1986: Ryanair gained license to fly Dublin-London Route



Assumptions

1. Once BA start price war and decrease its price to a lower level, it will achieve 100% capacity utilization

2. The margin cost for an extra passenger is 0

3. The BA's growth rate remains same from 1983 to 1986.



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Calculations

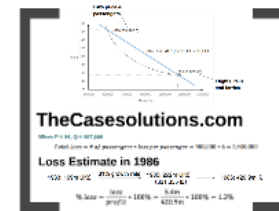
1. British Airway Loss per Passenger

- Cost of Ryanair 94 Irish Pound per passenger

$$\text{Cost per passenger}_{BA} = \text{Operating cost}_{BA} * 65\% \text{ capacity utilization} = 155.1 * 65\% = 100.815 \approx 100$$

$$\text{Loss per passenger} = \text{Price} - \text{Cost} = 94 - 100 = -6 \text{ I£}$$

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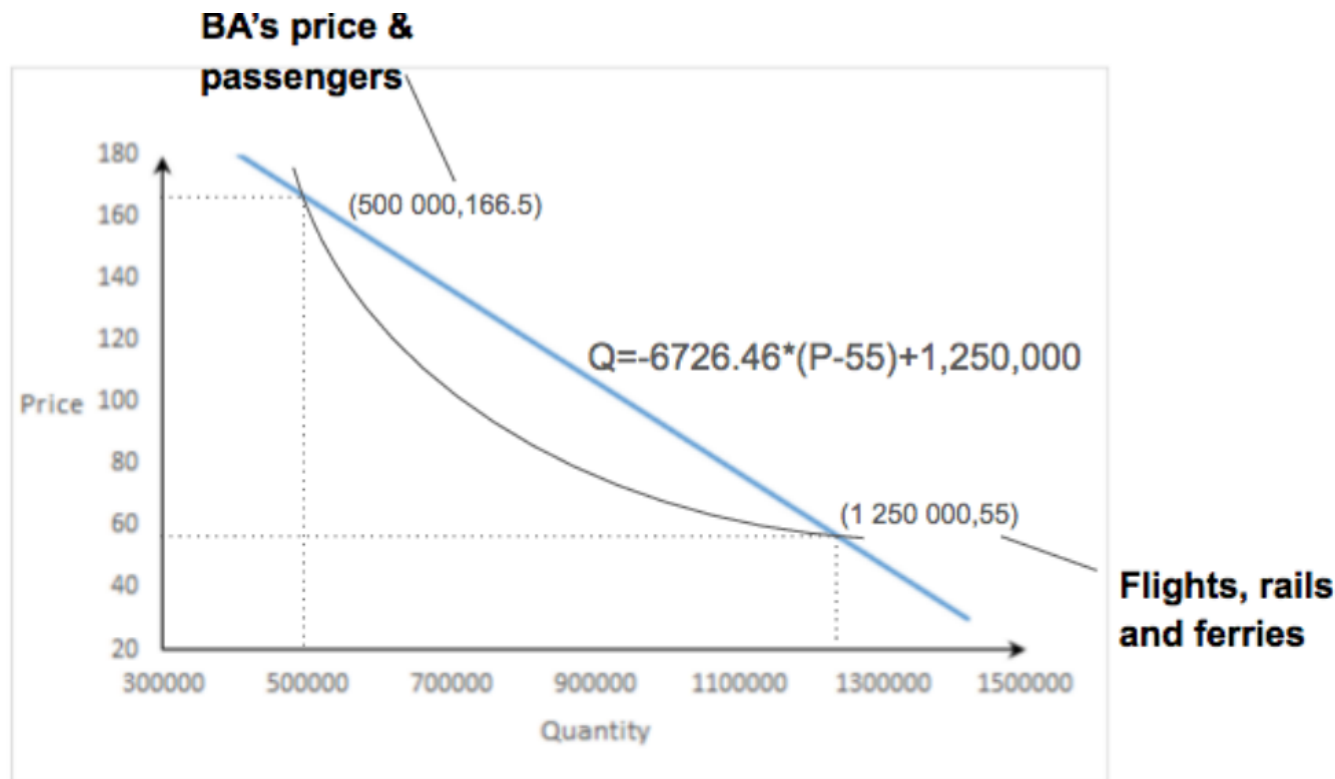
2. British Airway Total Loss

- Supply and Demand Curve

2. How long it takes to recover the loss after Ryanair is out of the market?

$$\text{Total Profit} = \text{operating profit per passenger} * \# \text{ of passenger} = 11.4 * 500,000 = 5.7m$$

$$\text{Time to recover} = \frac{\text{total loss}}{\text{profit}} * 12\text{months} = \frac{5.4m}{5.7m} 12\text{months} = 11.37\text{months}$$



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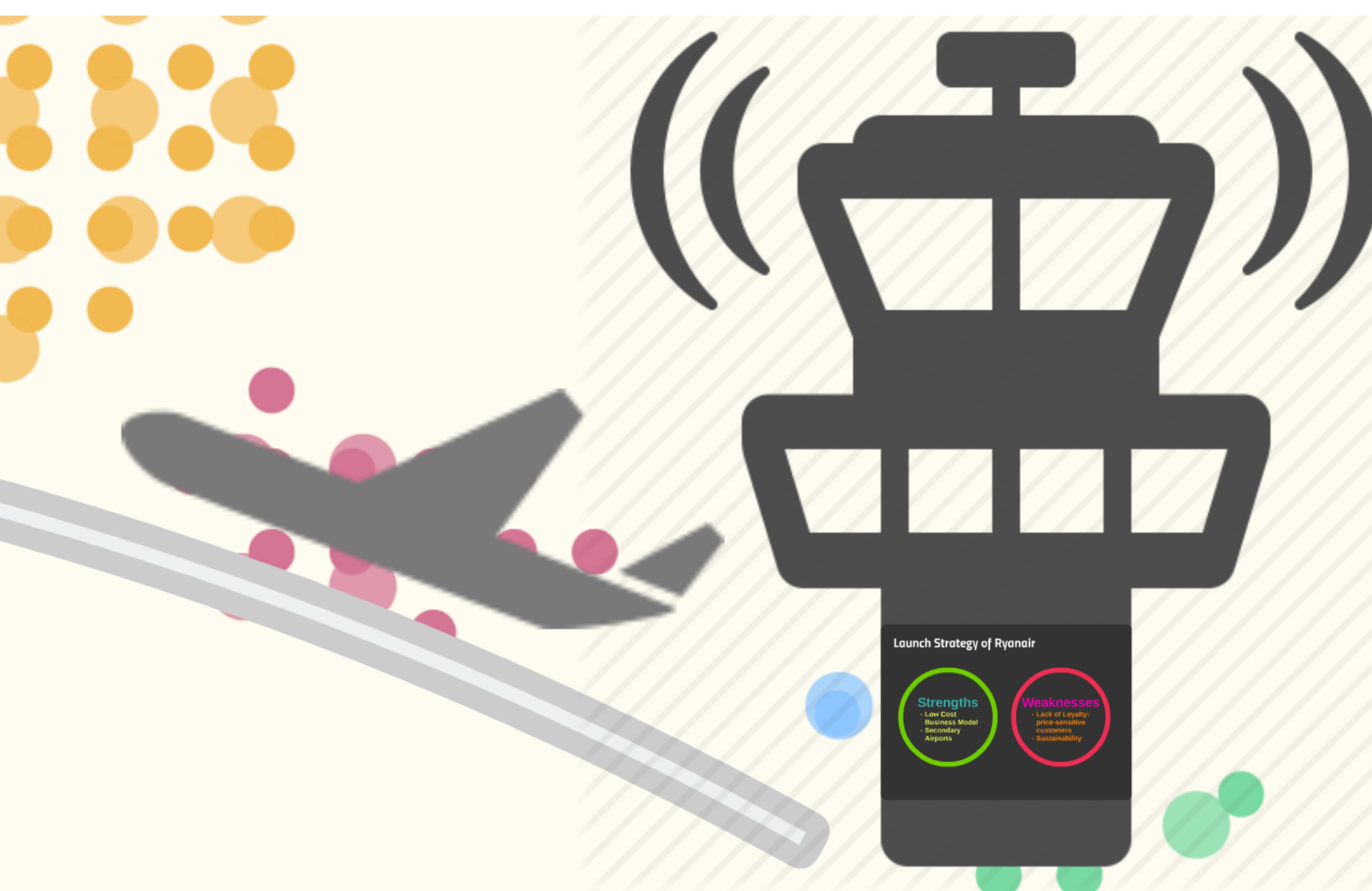
When $P = 94$, $Q = 987,668$

*Total Loss = # of passengers * loss per passenger = 900,000 * 6 = 5,400,000*

Loss Estimate in 1986

1983: 169m UK£ $\xrightarrow{31\% \text{ growth rate}}$ 1985: 292m UK£ (321.335 I£) $\longrightarrow$ 1986: 420.9m I£

$$\% \text{ loss} = \frac{\text{loss}}{\text{profit}} * 100\% = \frac{5.4m}{420.9m} * 100\% = 1.3\%$$



Launch Strategy of Ryanair

Strengths

- Low Cost Business Model
- Secondary Airports

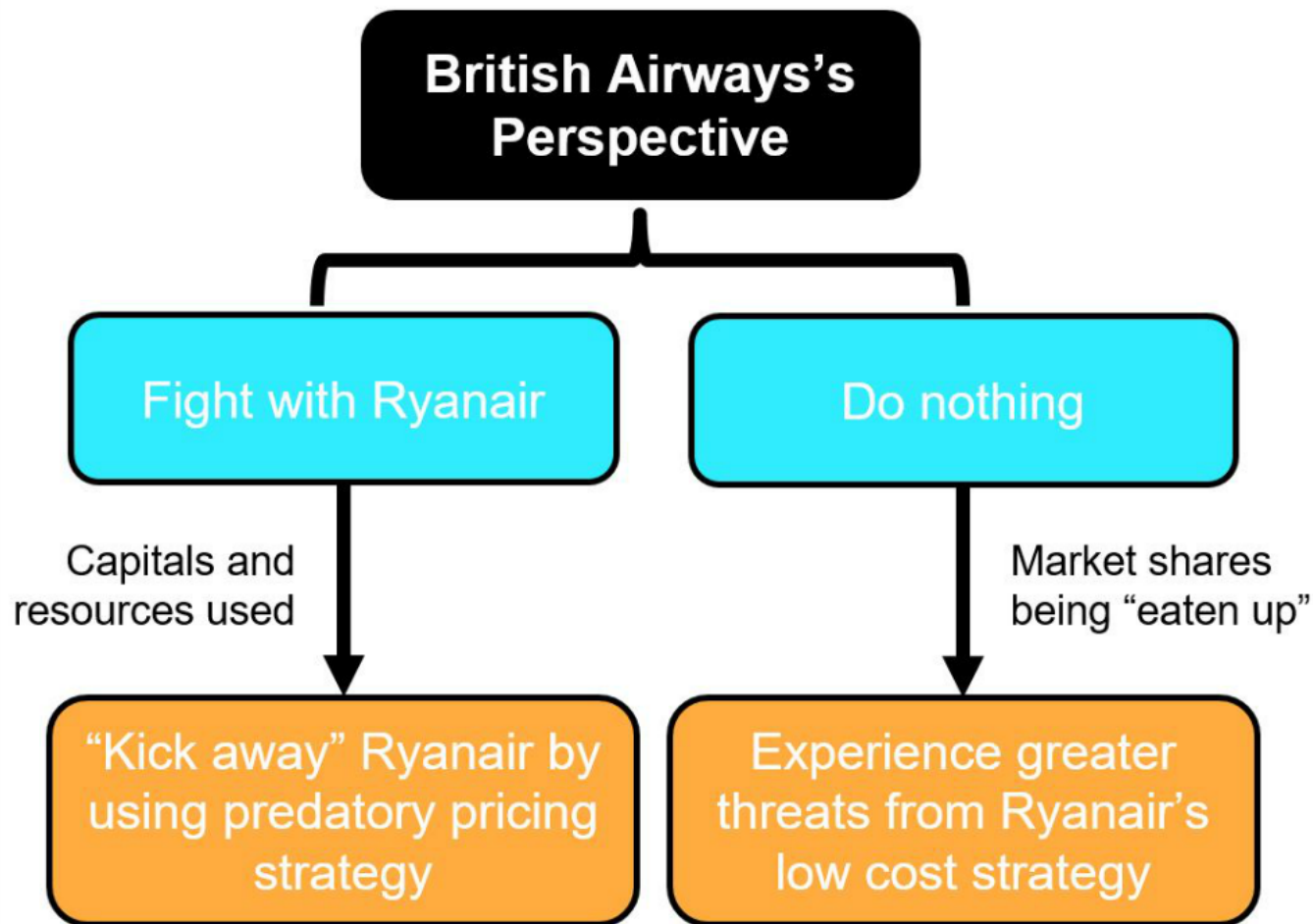
Weaknesses

- Lack of Loyalty: price-sensitive customers
- Sustainability

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Price War Decision

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