



Dogfight Over Europe: RyanAir

Team The Price is Right

Retaliate or Accommodate?

Is it more costly for Aer Lingus and British Airways to *retaliate* against Ryanair by cutting their prices down to a comparable price?

Or is it in their favor to *accommodate* Ryanair and take the cut to their customer base?

Accommodate

We can estimate BA and Aer Lingus's loss in revenues by calculating how many passengers Ryanair would be taking away from them.

- We assume Ryanair has full flights because of their low prices. This would be estimating the worst case scenario for BA and Aer Lingus
- We assume that BA and Aer Lingus split the loss of passengers to Ryanair evenly, and that Aer Lingus's costs and revenues are equal to BA's

Accommodate

Ryanair Passengers per year (assuming full flights):

- $(44 \text{ seats per flight}) * (4 \text{ flights per day}) * 365 = 64,240$ passengers per year
- BA and Aer Lingus each lose 32,120 passengers per year

BA and Aer Lingus's Total Revenue Lost

- $32,120 * 151.3$ (Revenue per passenger) =
4,859,756 each

Retaliate

If Aer Lingus and BA adjusted their prices to compete with Ryanair, they would see a reduction in revenue, however there would also be an equal reduction in costs as a percentage of revenue.

- To reduce costs, BA might have to reduce the quality of their flights and/or the wages of employees etc.
- We cannot get specific numbers since we do not know the number of passengers BA had before Ryanair.

Retaliate!

- It would be in BA and Aer Lingus's best interest to retaliate so that they do not lose a large portion of their client base to Ryanair's low prices.
 - BA and Aer Lingus could not sustain such a large blow to their revenue for any sustained period of time
 - If they retaliate and match Ryanair's prices the demand will virtually be divided equally among the three airline carriers.
 - The carriers would then compete on the basis of quality and customer service and not pricing.
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Will Ryanair make profit?

- Assuming they have the same cost structure as BA:
 - Operating profit = $6.9\% * 98 = 6.624$ per passenger
- Yes, they would be making a profit if the cost structure stayed the same.
- There might be increases in certain operating costs as a percentage of revenue due to increases in passengers such as staff, selling, fuel and oil etc. If these differences were drastic enough they may not make a profit.

Assessing the Launch Strategy

- We have assessed that their launch strategy is effective in attracting passengers, however we are still concerned if their revenues will be able to cover their costs, and result in substantial profit.
 - *TODAY*
 - From personal experience, Ryanair's poor customer service, lacking in-flight comfort and amenities, and excess baggage fees all detract from the low flight prices. Even though their goal was to focus on "first-rate customer service" we have found this to not be true. Ryanair therefore will lose customers who are willing to pay for a more comfortable high-class flight experience.
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