Read the questions carefully and justify all your answer.
You cannot use any class or personal materials.

1. Ryanair

The major airlines are struggling with difficult pricing strategy decisions in these tough air-travel times. Pricing strategies vary widely. One airline, however, appears to have found a radical new pricing solution, one that customers are sure to love: Make flying free! That's right. Michael O'Leary, CEO of Dublin-based Ryanair, has a dream that someday all Ryanair passengers will fly for free. And with a current average price of $42 per ticket (compared to $87 for closest competitor easyJet and a whopping $130 for "discount airline" Southwest), Ryanair is getting closer.

Even without completely free flights, Ryanair has become Europe's most popular carrier. In 2012 Ryanair flew 76 million passengers to more than 155 European destinations in 26 countries. The budget airline is also Europe's most profitable one. Over the past decade, even as the global airline industry collectively lost nearly $50 billion, Ryanair has turned healthy net profits in 10 out of 11 years.

The secret is Ryanair's frugal cost structure. In addition, the Irish airline makes money on everything but the ticket, from charging for baggage check-in to revenues from seat-back advertising space. Ryanair's low-cost strategy is modeled after Southwest's. Twenty years ago, when Ryanair was just another struggling European carrier, Ryanair's O'Leary went to Dallas to meet with Southwest executives and see what he could learn. The result was a wholesale revamping of the Irish carrier's business model. Following Southwest's lead, to economize, Ryanair began employing only a single type of aircraft—the good-old Boeing 737. Also like Southwest, it began focusing on smaller, secondary airports and offering unassigned passenger seating.

But Ryanair has since taken Southwest's low-cost pricing model even further. Ryanair is constantly on the lookout for new ways to cut costs—for example, hard plastic seats with no seat-back pockets reduce both weight and cleaning expense. Ryanair flight crews even buy their own uniforms.

O'Leary equates every cost reduction with the benefit to customers in terms of lower ticket prices. Removing all but one toilet from each plane would cut 5 percent off the average ticket price. Replacing the last 10 rows with a standing cabin— another 20 to 25 percent off. O'Leary's sometimes nutty proposals for cost-cutting—deliberately provocative so that they're sure to gain free publicity—have even included flying planes with only one pilot ("Let's take out the second pilot. Let the bloody computer fly it.").

O'Leary's dream of customers flying free rests on the eventuality that, someday, all of Ryanair's revenues will come from "ancillary" fees. The penny-pinching airline currently takes in only 20 percent of its revenue from such nonticket charges. But Ryanair is the industry leader in charging passengers for virtually every optional amenity they consume. The brash airline brags about being the first to charge for checked bags and in-flight refreshments. Such tactics, once shunned by the industry, are now standard procedure and bring in billions in airline revenues. But Ryanair takes it much further. It now charges customers for printing boarding passes, paying with a debit or credit card, or using wheelchairs.

In addition to charging customers for every aspect of the flight, Ryanair also envisions big revenues from selling products for other companies. The interiors of Ryanair planes are almost as littered with advertising as Time Square. Once in the air, flight attendants hawk everything from scratch-card games to digital cameras to their captive audience. They peddle croissants and cappuccino; digital gadgets and perfumes; raffle tickets for the airline's sponsored charity; and even smokeless cigarettes for €6 a pack.

Upon arrival at a usually out-of-the-way airport, Ryanair will sell passengers bus or train tickets into town. The company also gets commissions from rental cars, hotel rooms, ski packages, and travel insurance. Every chance it gets, Ryanair tries to squeeze just a little more out of its passengers.

Ryanair makes no excuses for both the additional charges and the absence of creature comforts. In fact, it sees its "less-for-less" value-pricing approach as long overdue in the airline industry. "In many ways, travel is pleasant and enriching," O'Leary states. But "the physical process of getting from point A to point B shouldn't be pleasant, nor enriching. It should be quick, efficient, affordable, and safe." As Ryanair's success suggests, customers seem to agree. Passengers are getting exactly what they want—outrageously low prices. And the additional purchases are discretionary. Despite the lack of amenities, most passengers seem to appreciate rather than resent Ryanair's open and straightforward approach to pricing.

O'Leary's philosophy that commercial air passengers don't need to be coddled to make them loyal appears to fly in the face of modern marketing's focus on providing an exceptional customer experience. But Ryanair is proving that companies can provide customer value in more ways than one. When you look at Ryanair's falling prices and rising profits, O'Leary's dream of flying for free doesn't seem so far-fetched after all.

a) Characterize the service concept (core and supplementary services) of Ryanair. [4]

b) Characterize Ryanair positioning in the airline industry. [4]

c) Based on the information in the text, what is Ryanair price objective? What do you expect the price Elasticity of Demand to be for Ryanairs' customer segment? [4]

d) People is an important component of services Marketing mix. What aspects Ryanair must consider when managing *People in service delivery*? [4]

e) In your opinion is a CRM important for Ryanair? Do you think Ryanair is applying any of the CRM principles in order to maximize customer loyalty and value? [4]