



**GCE A level**

1083/01

**BUSINESS STUDIES**

**BS3**

A.M. FRIDAY, 10 June 2011

2 hours

#### **ADDITIONAL MATERIALS**

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

#### **INSTRUCTIONS TO CANDIDATES**

Use black ink or black ball-point pen.

Answer **all** the questions.

Write your answers in the separate answer book provided.

#### **INFORMATION FOR CANDIDATES**

The number of marks is given in brackets at the end of each question.

You are reminded that assessment will take into account the quality of written communication that involves extended writing in questions 4 and 5.

You are reminded that questions 4 and 5 are synoptic and so will test understanding of the connections between different elements of the subject.

Study the information provided about *Ryanair plc* and answer the questions that follow.

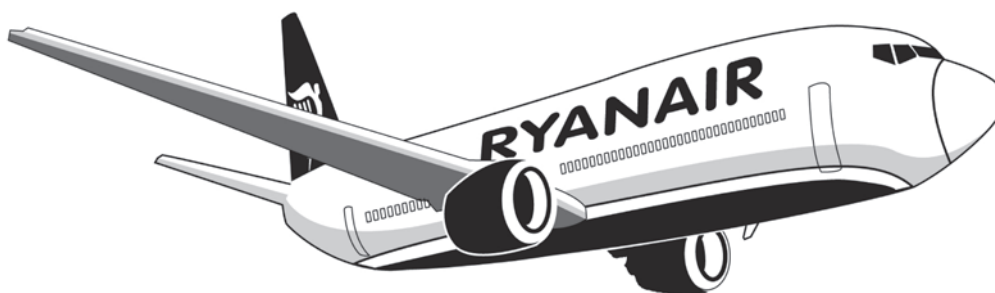
### History of Ryanair

Ryanair is Europe's largest low-fare airline with over 800 low-fare routes across 26 countries, connecting 146 destinations. Ryanair operates a fleet of over 300 aircraft, employs more than 6000 people and carries approximately 75 million passengers a year.

- 5 The business was set up in 1985 by the Ryan family with a staff of 25. It launched its first route with a 15-seater aircraft, operating daily from south-east Ireland to London. Ryanair's first cabin crew recruits had to be less than 5ft. 2ins. tall in order to operate in the tiny cabin of the aircraft! In the first year it carried 5000 passengers. The following year, Ryanair began flights from Dublin to London, charging half the price of British Airways and starting the first price-war in the European airline industry. Its two aircraft carried 82000 passengers in the first year.

- By 1990 Ryanair had obtained several new aircraft and increased passenger numbers to nearly 750000 a year. However, the business was making a loss, and in order to cut costs, it scrapped free drinks and expensive meals. It continued to cut the price of its tickets and started offering special deals such as a £59 return fare from Dublin to London, which resulted in people queuing for three days to buy the tickets. In 1991, the Gulf War caused passenger numbers to fall, but by getting rid of its less profitable routes the business made a profit for the first time. Over the next three years Ryanair bought more new aircraft and increased the number of routes that it covered including, for the first time, a route within the UK from London to Glasgow.

- 20 In 1996, the European Union finally completed its "Open Skies" deregulation of the scheduled airline business, thereby enabling airlines to compete freely throughout Europe. This proved to be of great advantage to Ryanair. The following year Ryanair launched its first four European routes. It now had a fleet of 21 aircraft.



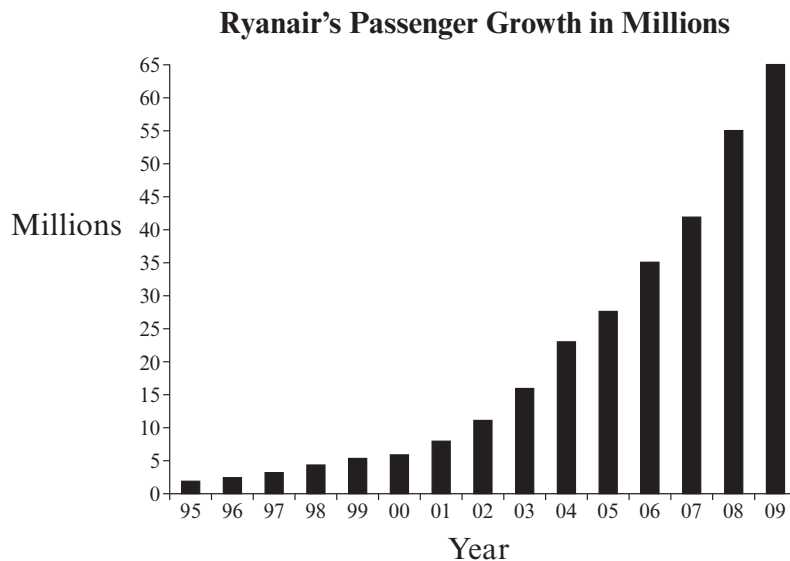
### Ryanair Takes Off

- 25 On 29 May 1997 Ryanair became a public company. All of Ryanair's employees received shares as part of the flotation process, and at the close of the first day's trading, Ryanair's employees were sitting on over €100m worth of shares.

- The following year Ryanair continued to open up new routes in Europe and ordered 45 brand new Boeing aircraft. In July, it issued new shares to raise over £110m to help pay for these aircraft. In the same year it was voted the 'Best Managed National Airline' in the world by the prestigious International Aviation Week magazine. Passenger numbers were now approaching five million a year.

The new aircraft allowed it to operate with significantly lower seat costs and to offer much lower airfares, but with better reliability and a much improved customer product. New European routes were launched and Ryanair was awarded “Best Value Airline” by the UK “Which” Consumer Magazine. Duty-free sales on internal EU flights and travel were brought to an end by the European Union in 1999. The business responded by introducing a lowest-ever return fare of £19.99 on the Dublin-London route.

In January 2000 Ryanair launched its website and within three months was taking over 50 000 bookings a week. In August 2001 the airline carried more than a million passengers in one month for the first time but then the attack on the Twin Towers of 9/11 caused a marked downturn in passenger traffic and an enormous increase in oil prices. In 2002 Ryanair entered the German market despite fierce opposition from the German airline Lufthansa. In 2003 the airline took over the loss-making airline Buzz and continued to expand its operations, launching 73 new routes and carrying over 2 million passengers in one month for the first time. Throughout 2004 and 2005 the airline took delivery of several new aircraft and by then had the youngest fleet in the world. In August 2005 Ryanair carried more passengers than British Airways. In the summer of 2006 Ryanair became the first airline in the world to carry more than 4 million passengers in one month. Ryanair advertised the fact that it was the only airline not to charge its customers a fuel surcharge and it continued to have many special promotions, including some 99p fares!



Passenger growth continued rapidly in 2008 and 2009, during which time a further 69 aircraft were purchased.

In October 2010 the Office of Fair Trading announced that it was going to investigate Ryanair’s purchase of a 29.8% stake in Aer Lingus. The OFT said it would consider whether it had jurisdiction to review the transaction under UK merger rules and, if so, whether it would reduce competition. The OFT was concerned that, although Ryanair did not gain full control of Aer Lingus, its minority holding might allow it to wield “material influence” over its Irish rival, which could hamper competition. Under the Enterprise Act 2002, the regulator has the right to treat minority stakes as a merger if the acquirer gains significant influence over the target group’s behaviour or policy. If the OFT is satisfied that Ryanair’s minority stake would lead to a lessening of competition, it may then refer the case to the Competition Commission for enforcement. Ryanair dismissed the investigation as a waste of time and resources.

## Ryanair's Adverts

The following article by Nick Thornton was entitled "Flying Foul: Ryanair Flies in the Face of Good Taste".

65 It's not often that a company can claim a lost legal battle to be a good thing. But when a Brussels court upheld a complaint by the Belgian airline Sabena against an advertising campaign by Ryanair, the no-frills airline reacted as if the ruling was a victory, not a defeat. That's not a conventional reaction. Then again, Ryanair is not a conventional operation, particularly when it comes to its marketing and advertising campaigns.

70 Ryanair claimed that its low-fare tickets were between 80% and 90% cheaper than the lowest one-way fares offered by Sabena, the partly-privatised carrier, which dominates Belgian airspace (or as Ryanair dubs it in an April press release, the Belgian State 'High Fare' airline).

In support of its new Belgian operation, Ryanair took out several ads in Belgian national newspapers in April 2001. One ad featured Ryanair's CEO, Michael O'Leary, and three employees  
75 wearing Ryanair sweatshirts. Under the photo was the caption: "Welcome Ryanair and its really low prices. Good-bye Sabena and its really expensive flights". Ryanair also published price comparisons indicating the vast difference between the two airlines' one-way fares.

Sabena was not amused and took its case to court, saying that Ryanair's ads were "provoking and misleading the consumer in a cunning way." Also it was claimed that Ryanair was misusing  
80 the Sabena trademark. The court ruled that the ads were misleading and offensive. Ryanair was ordered to discontinue the ads immediately or face fines. The judge also ordered Ryanair to publish an apology in Belgian newspapers.

The negative judgment seemed to play into Ryanair's hands. Intent on furthering the publicity of the case, Ryanair did as instructed and indeed issued an apology in Belgian newspapers.  
85 "We're Sooooo Sorry Sabena!" said the advert, which went on to list seven more one-way price comparisons, insolently maintaining that Ryanair is up to 89% cheaper. The ad concluded: "Ryanair is really, really sorry and promises to include this information in our future advertising."

This was not the first time that Ryanair has been taken to task over its advertising. British Airways sought penalties against Ryanair in England's High Court over a print advertisement that ran in  
90 2000. BA also took issue with the accompanying price comparisons, just as Sabena did. However in this case, the court sided with Ryanair, throwing BA's case out. "The complaint amounts to this: that Ryanair exaggerated in suggesting BA is five times more expensive because BA is only three times more expensive," ruled the judge. "Accordingly, in my view, the use was honest comparative advertising. I suspect the real reason that BA do not like it is precisely because it is  
95 true."

Ryanair has waged similar campaigns against its sister air carrier, Aer Lingus. In May of 2001, the UK's Advertising Standards Authority ordered Ryanair not to re-run adverts, which contained explicit sexual content.

Like the class clown who is repeatedly sent to the headteacher's office for discipline, Ryanair has  
100 had numerous run-ins with the Advertising Standards Authority. The ASA has a history of taking action against Ryanair, upholding complaints that range from "misleading" advertisements to the ambiguous and intentionally altered wording of advertisements.

But does any of this work against Ryanair's profit? Most firms in most industries bend over backwards to forge a positive image in the public's eye; Ryanair seems to revel in offending its competitors and the advertising regulators.

There are a select few products in the world that don't have to associate compassion and goodwill with their products. Clearly cheap airline tickets are among those. The airline industry has been maligned worldwide, with long delays and cancellations being common in many of the world's major airports. People don't necessarily associate pleasure with flying these days; but when allowed to think of it as cheap, all of a sudden air travel doesn't seem that bad after all.

But what about marketing standards and ethics in advertising? Granted, competition is the way of capitalism, but shouldn't some fair play between competitors be expected? Shouldn't we the consumers – the very lifelines of these companies – demand a level of appropriateness from the world's marketers? Or are those cut-rate airline tickets simply too much to resist?

Ryanair is betting that they are.

*Source: [www.brandchannel.com](http://www.brandchannel.com)*

### **Ryanair's Financial Performance**

Announcing the financial results for the year ending 31 March 2010, Ryanair's Chief Executive Officer, Michael O'Leary, said that the principal highlights of the past year included a trebling of profits to €319m; traffic growth of 14% to 67million passengers; an increase in the company's fleet to 232 Boeing aircraft and 284 new routes. Passenger statistics continued to improve with Ryanair being the number one 'on-time' major airline. He said that the business was proud of its performance during a global recession when many of its competitors had announced losses or cutbacks, while others have gone bankrupt. The company announced a proposed dividend of €500m.

**RYANAIR'S PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDING 31 MARCH**

	2010 € millions		2009 € millions	
<b>Total Revenue</b>		2988		2942
<b>Less Cost of Sales</b>				
Fuel and Oil	894		1 257	
Rentals	96		78	
Route Charges	336		287	
Airport Charges	459		443	
<b>Total Cost of Sales</b>		<u>1785</u>		<u>2065</u>
<b>Gross Profit</b>		1203		877
<b>Less Expenses</b>				
Staff Costs	335		309	
Depreciation	235		204	
Maintenance	86		67	
Marketing	145		152	
<b>Total Expenses</b>		<u>801</u>		<u>732</u>
<b>Net (Operating) Profit</b>		<u>402</u>		<u>145</u>

## RYANAIR'S BALANCE SHEETS AS AT 31 MARCH

	2010 €millions	2009 €millions
<b>Fixed Assets</b>		
Property, plant and equipment	4314	3 645
Intangible assets	47	47
Other	139	153
<b>Total fixed assets</b>	<b>4500</b>	3 845
<b>Current assets</b>		
Stock	83	93
Debtors	44	42
Cash and Bank	2936	2 408
<b>Total current assets</b>	<b>3063</b>	2 543
<b>Current liabilities</b>		
Creditors	154	133
Other current liabilities	1 395	1 246
<b>Total current liabilities</b>	<b>1 549</b>	1 379
<b>Long term liabilities</b>		
Loans	2965	2 428
Deferred tax	200	156
<b>Total long term liabilities</b>	<b>3 165</b>	2 584
<b>Net Assets</b>	<b>2 849</b>	2 425
<b>Shareholders' funds</b>		
Share capital	641	626
Reserves	2 208	1 799
<b>Total shareholders' funds</b>	<b>2 849</b>	2 425

1. Explain the key factors that have made Ryanair a successful business. [10]
2. Explain how an airline, such as Ryanair, can be affected by political, legal and environmental factors. [12]
3. Outline Ryanair's marketing strategy **and** consider the view that it demonstrates a conflict between ethical responsibility and profitability. [10]
4. Analyse and evaluate the financial performance of Ryanair. [14]
5. Discuss the view that Ryanair should now seek to become a global business rather than operating mainly in Europe. [14]