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The airline that defies conventional wisdom

How Ryanair became the most profitable airline in the world while charging the lowest prices

Airlines are notorious for their razor-thin margins and unpredictable profits. As Warren Buffett famously quipped: “The worst sort of business is one that grows rapidly, requires significant capital to engender the growth, and then earns little or no money. Think airlines. Here a durable competitive advantage has proved elusive ever since the days of the Wright Brothers.”

Ryanair has defied this conventional wisdom. Not only has it grown rapidly, but it earns the highest profit margins globally despite charging an average fare of just €50. This enviable position is the result of a unique business model that delivers the lowest cost per passenger of any major airline.

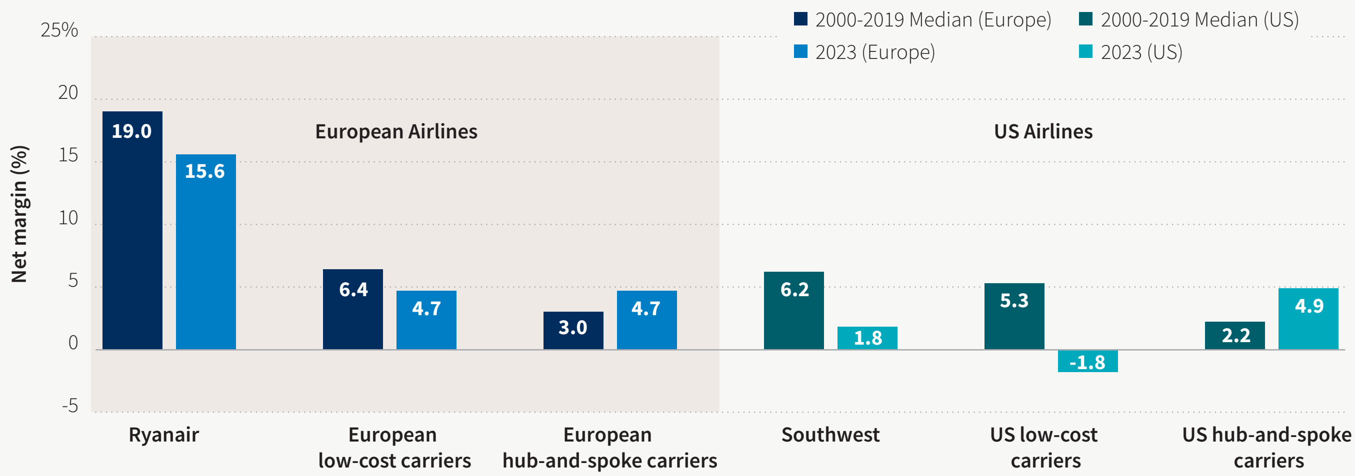
Ryanair has the lowest non-fuel cost per passenger

Europe		United States	
Ryanair	$36	Southwest	$112
Other low-cost carriers	$69	Other low-cost carriers	$131
Hub-and-spoke carriers	$224	Hub-and-spoke carriers	$214

As of 12/2023.
European low-cost carriers: easyJet, Wizz Air
European hub-and-spoke carriers: IAG (British Airways, Iberia), Lufthansa, Air France
US low-cost carriers: JetBlue, Alaska, Hawaiian, Spirit, Frontier, Allegiant
US hub-and-spoke carriers: United, American, Delta

Ryanair has earned the highest profit margins while charging the lowest fares

Historical net margins of major airlines



Sources: Company annual reports, Bloomberg. Most recent data available as of 1/2025.
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The story of Ryanair's ascent begins with lessons learned from Southwest Airlines and its founder, Herb Kelleher, the visionary architect of low-cost aviation.

Southwest Airlines: The original low-cost carrier

Herb Kelleher pioneered Southwest's low-cost carrier model, which first disrupted the US airline industry in the 1970s. The company's early success stemmed from a crucial insight: minimizing per-passenger costs hinges on maximizing passenger volume and therefore aircraft productivity. Recognizing that major expenses like aircraft leases, cabin crew salaries, and fuel costs are largely fixed, Kelleher focused on increasing the number of passengers flown per plane by optimizing aircraft utilization. The more hours each aircraft spends in the air carrying passengers rather than sitting idle, and the more passengers each aircraft carries, the more efficiently these fixed costs can be spread across a larger customer base.

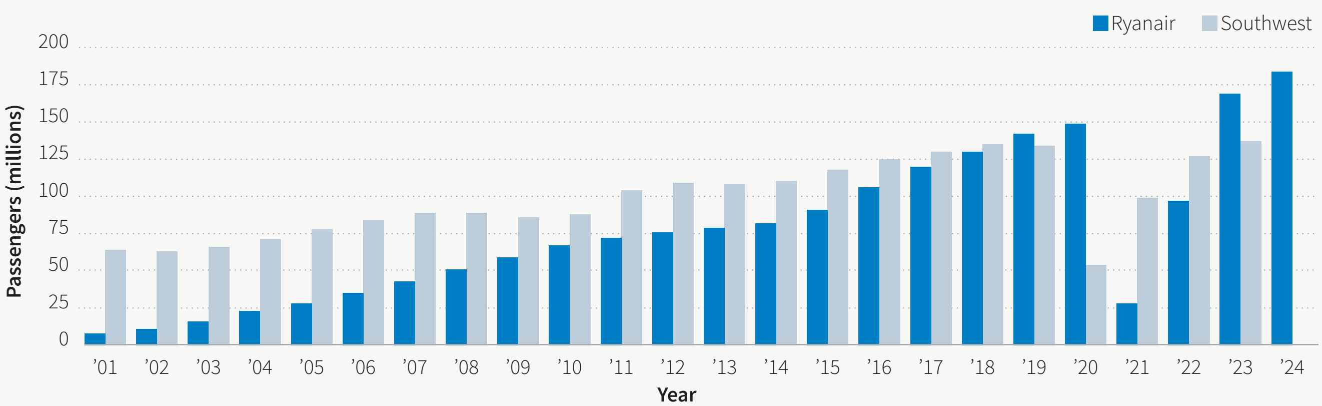
Kelleher's original low-cost model featured five key tenets:

- **Quick turnarounds.** By turning planes around in under 25 minutes—less than half the time of their competitors—Southwest squeezed two extra flights out of each plane's daily schedule. Less time on the ground meant more time in the air, enabling fixed costs to be shared by more passengers.
- **Direct and short flights.** The sacrosanct 25-minute turnaround time required a short-haul, point-to-point operating model, as opposed to the traditional hub-and-spoke network favored by incumbents. Direct, frequent, and short flights minimized delays and other frictional costs that result from baggage transfers for through-service connecting passengers.
- **Secondary airports.** Utilizing less-busy airports located further from city centers reduced landing fees and congestion delays.
- **No frills.** A primarily single aircraft fleet without televisions, free meals, or business class increased the number of seats per plane while reducing cost and complexity.
- **Low fares.** In a virtuous cycle, the cost savings were passed onto customers in the form of lower airfares, which drove higher load factors (or fewer empty seats) and further increased the number of passengers sharing each unit of fixed cost.

While Southwest's innovations made it a formidable player in the US, a small airline across the Atlantic would eventually go on to build an even bigger cost advantage.

Ryanair passenger count grew by 11% annualized for the past two decades

Passengers by year



Sources: Company annual reports, Bloomberg. Most recent data available as of 1/2025.

Ryanair: Standing on the shoulders of giants

In 1988, Ryanair was a fledgling Irish airline hemorrhaging money. Its founder, Tony Ryan, asked his young assistant Michael O'Leary to help rescue the business. O'Leary soon flew to Dallas to meet Herb Kelleher and immerse himself in Southwest's operations. He witnessed first-hand the impressive 25-minute turnarounds, and quickly grasped that productivity was the secret weapon behind Southwest's low unit costs.

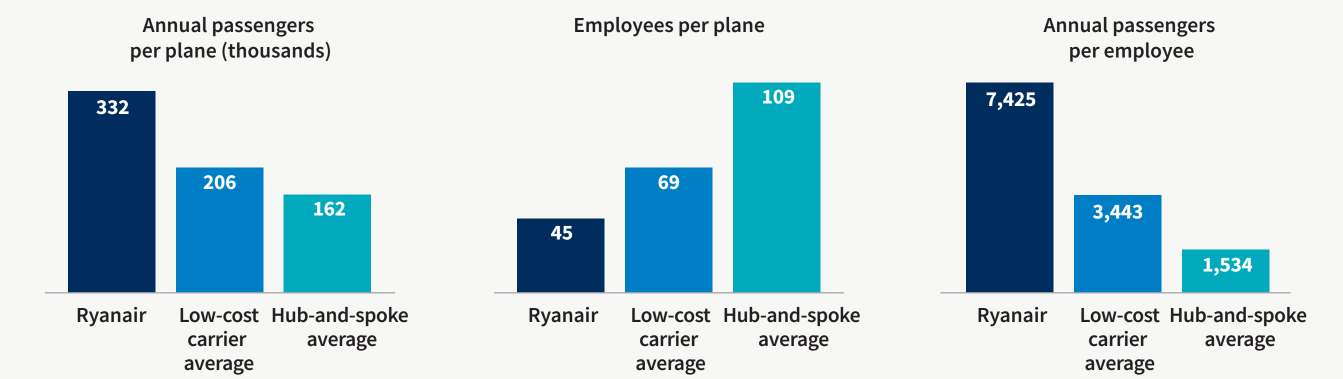
Inspired, O'Leary adapted Southwest's model, but with key innovations that pushed its cost advantages even further. He deviated from Kelleher's playbook in two crucial ways:

- **Ancillary fees as a cost-cutting tool.** Ryanair embraced optional charges for various services, ranging from checked bags to printed boarding passes at the gate. Perhaps most infamously, passengers face a hefty $60 penalty for neglecting to check in online. While often misinterpreted as revenue generators, these fees serve a deeper purpose: discouraging behaviors that drive up costs. By incentivizing passengers to travel light and bring their own boarding pass, Ryanair minimizes baggage handling and security lines, streamlines turnarounds, and reduces fuel consumption. Following the introduction of baggage fees, the number of passengers checking in luggage dropped from 80% to just 20%, and the required number of check-in desks improved from two per flight to only one per 250 flights.

- **Bigger planes.** Over the years, Ryanair continually upgraded to larger and more efficient aircraft. While Southwest's fleet averages 160 seats per plane, Ryanair pushed toward 190 and beyond, culminating in its recent order for Boeing 737-MAX-10s with a 228-passenger capacity. This lowers unit costs without sacrificing passenger comfort—the larger planes simply offer more rows, not reduced legroom. Opportunistically timed purchases further improved aircraft costs, as the company's most aggressive orders always coincided with industry turmoil—most notably after 9/11, Boeing's 737-MAX crisis, and the COVID pandemic. As a result, Ryanair's ownership cost per plane is among the lowest in the industry despite operating one of the youngest and safest fleets.

Thanks to these innovations, and a relentless focus on efficiency and productivity, Michael O'Leary transformed Ryanair into the most profitable low-cost carrier in the world. For many airlines, a durable competitive advantage may indeed be elusive, as Warren Buffett observed, but we believe Ryanair is an impressive exception.

Ryanair flies the most passengers per plane with the fewest employees



Sources: Company annual reports, Bloomberg. Data includes both US and European airlines. Most recent data available as of 1/2025.

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