



Howard's Way

At the heart of an iconic Irish success story, Howard Millar, Ryanair's Chief Financial Officer, talks to Donal Nugent about risk taking, rewards and why accountants need to position themselves as more than just the office number cruncher

When Howard Millar was offered the job of Deputy Financial Officer with a struggling regional airline back in 1991, he took the pragmatist's view. Returning home after four years abroad, it was a chance to fill a gap until something more permanent came along. The company's finances were, in fact, in such a perilous state that moving on quickly seemed more obligation than choice. "I joined Ryanair in late 1991 and being there for more than a year seemed unlikely at the time," he remembers. "But I was just back from the Middle East and I wanted to settle into something in Ireland. The job came up and I decided to accept it."

No one, least of all Howard, could have foreseen he was not only making the most significant career move of his life but about to play a central role in the transformation of aviation in Europe. Today, Ryanair is the continent's third largest airline, behind only Air France-KLM and Lufthansa. The company carries 50 per cent more passengers than British Airways and five times more than

its nearest Irish rival Aer Lingus.

Famous for its aggressive approach to costs and an innovative (if controversial) use of secondary airports, Ryanair has worked the low fares model to a degree no other competitor has ever matched. But the true legacy of the company is more far reaching than a one euro fare. From an expensive and highly bureaucratic activity, Ryanair smashed the mystique around flying, and the company's greatest legacy is surely in transforming aviation in Europe into an experience that is open and accessible to everyone.

Studies

Originally from Clontarf, the north Dublin suburb where he still lives, Howard graduated from Trinity College Dublin in 1983 with a BSc in Management.

After university, he studied accountancy with ACCA. "I decided when I was in college that I would like to do accounting, but I didn't particularly want to go into practice. I saw myself working in industry and so I felt the

ACCA was the appropriate qualification for that," he recalls.

Today, Howard is among the trusted inner sanctum of Ryanair's top executives and over the years has "played three or four different roles" as the company evolved from struggling bit player to major carrier. The background in accountancy has enhanced his ability to analyse and parse information, a skill that comes in daily use as Chief Financial Officer.

"Accounting is something you always have with you. One thing I've learned over the years is that accountants must get out of the role of just being number crunchers and producing financial statements. They have to be using that to drive commercial decisions because they have a huge advantage over a lot of other senior management and a particular analytical way of looking at things. It isn't always the right way – there are other ways of looking at things – but certainly it's a very strong position to work from."

The offering

Cost control is the mantra of Ryanair and the company is constantly looking for newer, faster and better ways to reduce expense. What's interesting, from the outsiders perspective, is how many of these exercises often raised eyebrows at the time, only to be embraced as standard practice among higher-end carriers later. Today, there is nothing remarkable in passengers being asked to pay for their coffee or help to tidy up at the end of a flight, so its extraordinary to recall that, in the cosseted world of the early 1990s, simply dispensing with the in-flight meal was considered a highly controversial move.

However, while low-fares are undoubtedly the centre piece of its success, Howard sees three other elements as pivotal. "We have the best online punctuality of any major airline in Europe; we won't lose your baggage because our baggage loss is almost negligible; and we won't cancel your flight because our flights are almost always full."

Contrary to popular perception, it's an offer that appeals as much to business passengers as the cost-conscious leisure traveller, Howard says. "We have a huge number of business travellers. The first flight on the Dublin-London Stansted route is 95 per cent business passengers. At 6.10 in the morning you get very little leisure traffic."

The company is currently excited about the possibility that new smart kiosks present. It originally looked at these five or six years ago and now "the cost is a fraction of what it was then and the technology has improved. You can replace a whole load of check-in desks and take a huge amount out of your cost base by using them."

IT technology, in general, has been a good friend to the company. It's impossible to imagine, in fact, how it could have expanded as it did without the internet. "There's no doubt the internet revolutionised the distribution model for Ryanair," Howard agrees. "Without it, the cost structure would have been different. We would have had a much larger call centre and it would have meant costs would have been higher and fares higher."

Home base

In spite of the continental span of its operations and the fact that it is now a publicly quoted company, Ryanair has retained a largely Irish senior management structure. "We started here when the airline was very small and probably not a particularly attractive place for some of the high flying European executives," Howard says. "So while it may be a more attractive proposition for non-Irish management today most of us have been here for a long time and so opportunities don't come up very often."

In terms of his own contribution to the business model, Howard is particularly proud of the role he has played in fleet management. "We scaled up from 104- to 130- and then to 189-seater aircraft, so each time we increased the average number of seats per plane, it had a

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massive impact on our cost base."

His accounting background was pivotal here. "The industry is very capital intensive, so the cost of the aircraft has to be very keenly priced. But the way that you finance it – the ownership costs – we have done this in ways that give us very significant advantages over our competitors and I would have been heavily involved in that."

Mouthpiece

To many people, the image of Ryanair is synonymous with its CEO Michael O'Leary. Half sharp, incisive business mind, half show business impresario, O'Leary is an unparalleled publicity machine and someone who can easily earn back his annual salary simply in terms of the free publicity he generates. "He basically has to turn up anywhere and camera crews will follow him," Howard says. "So, in terms of PR he has enormous value." But Ryanair is no one-man band. "Behind that, there has to be a team. Michael can't be in every place all the time. This is a very significant business, employing over 6,000 people so it's a very large team effort. Michael would be the first to recognise that you need a strong team that's capable in its particular areas."

One of O'Leary's perennial talking points is Ryanair's frustration with what it sees as monopolistic and inefficient airports. Dublin Airport is a particular focus for its ire and the airline has long canvassed for its own terminal at Ireland's main airport.

"BA has Terminal 5 in Heathrow, so why can't Ryanair have Terminal 3 in Dublin? Let us build and operate it and put our money where our mouth is," Howard says. The Dublin Airport Authority's current investment in new infrastructure such as the new Pier D and Terminal 2, due for completion in 2010, have, if anything, exacerbated the tension.

"Dublin Airport has probably the poorest infrastructure of any major airport in Europe but the way it's being developed and the costs involved are horrendous. The new Terminal 2 was supposed to cost €200m and is now €800m and rising. What's being provided is a large amount of retail space and not a huge amount of operating space. It's becoming a glorified shopping mall which passengers and Ryanair will have to fund it for a long time to come."

In the UK, a recent announcement by the Competition Commission broadly concurs with Ryanair's position. In August, 2008, the Commission stated its belief that the British Aviation Authority, which manages seven airports in the UK should sell two of its three London airports and one in Scotland.

"What we want is competing terminals in Dublin and competing airports in the

UK. When you get that competition you get a lower cost because market forces require the airport to be more efficient. Anything that's a regulated monopoly is bad news for consumers."

Profit crash

For all its aggressiveness on costs, there is one expense Ryanair can't control, a cost which, this year, has provided the company with one of the most chastening experiences in its history. A business used to 20 per cent growth rates and annual profits of €430m plus is facing a break-even or possibly even loss scenario for 2008, a situation due entirely to the soaring cost of oil.

The company will ground 20 aircraft over winter, close its call centre in Dublin and implement a top down pay freeze as part of the response.

Howard is frank but upbeat in his assessment of the situation. "It's a major blow to the company. We've never had a loss here since I started so it's been a major burden for the airline to carry. We're working really hard, people are putting in tremendous effort yet our profits are being eroded as fuel prices doubled in the space of six months."

Central to its problems was a decision not to hedge against soaring oil prices at the start of the year. "We had a massive price spike so even if we hedged all we would have done was lock in a higher price," Howard argues. "We have to make decisions. Sometimes we get them right and sometimes wrong – over all, thinking in the round, we probably took the right decision. The good news is that although we will take a hammering this year, on the far side of it, with prices at \$100-110 a barrel, we'll start to pick up some of that benefit."

The bleak scenario of 2008 is compounded by weakening consumer demand in the recession-vulnerable UK and Ireland, the two countries that still account for 50 per cent of the company's passengers.

Howard, like his boss, is adamant that whatever the challenges, the core offering of Ryanair is not going to change.

"Our business is unashamedly a volume business – pile 'em high and sell 'em cheap. This model has worked for a long time. We have slowed our growth in the third and fourth quarter and we've grounded 20 planes, but they will come back in the spring and the model will continue."

Perceptions

Luxury at a commodity price has been one of the defining characteristics of the last decade of retail. In the grocery business, the German discounters Aldi and Lidl have been the flag wavers; in home furnishings the Swedish giant

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Ikea is the darling of cosmopolitans; and in the airline industry Ryanair has opened up Europe to its citizens at a cost and flexibility no one previously dreamed possible. Yet, for all its achievements, the airline has never enjoyed the kind of enthusiasm from the public it might expect. Customer service, indeed, is widely seen as the Achilles heel of the company. No matter how many passengers are sent across Europe punctually, efficiently and for the price of taxi fare, it is accusations of poor service that resonate most powerfully in the media and the public mind, with accusations of hidden charges, surly staff and boarding denied for apparently flimsy reasons among the most common. It’s a perception that Howard argues is at odds with reality, however.

“You can’t continue to grow this business at 20 per cent a year, with high load factors without getting a lot of your customer issues right. We do get some of them wrong and we are the first to admit when we make a mistake,

but I think we get an awful lot more right than we get wrong. We are very public about the things that we will do and that we won’t do. When a ferry breaks down, they don’t go around offering to put passengers up in three star hotels or give them lots of cups of tea.”

On the environmental issues too, Ryanair is frequently a target. In 2005, the UK’s then environment minister Ian Pearson described the company as “the irresponsible face of capitalism” for its refusal to tackle the issues of carbon emissions. (Less well reported was his assertion that the American airlines were “a disgrace” and British Airways was “only just about playing ball”).

Undoubtedly, the emissions issue is one that won’t go away and carbon taxes may ultimately prove an even greater challenge to the low fares model than high oil prices. Howard argues that, with its modern fleet and high loads, Ryanair has achieved some of the best fuel efficiencies in the industry. “A couple

of years ago we installed winglets which reduce fuel burn by four per cent and we are looking at other things – slowing down, extending flight times. There’s a trade off between flight time and the savings on fuel. The question is can airlines do much to reduce their fuel burn? The answer, at this stage, is not materially.”

Risk and reward

Reflecting on what has been a 16-year rollercoaster, Howard believes he was lucky to be the right person in the right place but adds that you make your own luck too. “You have to have an element of the risk taker. That’s one of the things Ryanair has been,” he says. “People said low fares would never work, that Germans would never fly in a low fare carrier, for example. So we have taken a lot of risks over the years. Some were very calculated, others we said we’d just give it a go. On most occasions they’ve paid off.”

At a person level, Howard says he is still the same person who walked into what seemed like a temporary job 16 years ago. “A bit older, a bit balder, but certainly, like everyone else, I’ve matured over the years too. I’ve still got the same friends I had back then. Some are guys I went to college with and some I did the ACCA exams with. We still go out for a pint. You don’t change over that time.” ■

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