

VANGUARD INTERVIEW TRANSCRIPT

S: Hi this is Stuart Corrigan from Vanguard and tonight we're going to be talking about innovation and problem solving.

I have Brona Kernan on the phone, Brona is currently the IT Director at Zurich Ireland and she was formerly the IT Director with Ryanair, and she's going to talk to us tonight about Ryanair's approach to problem solving and innovation which I think you'll find incredibly enjoyable and informative.

So Hi Brona,

B: Hi Stuart,

S: How are you doing?

B: Good good yes very good.

S: Good, so let's start with your journey at Ryanair, you were there from literally day one is that correct?

B: Yes I was recruited in, if my memory is right, in June 1994. Up to that point Ryanair had started as a full service airline going in and out of the UK. It was trying to compete with the state carrier and it was not a time of open competition. In 1994 the airline recruited a new Chief Executive with a new vision based on the US model, which was that there would be more of an open skies competitive market place, and back then in the US the fastest growing airline was an airline called Southwest which operated on a low cost model. So the investors decided that they would reshape this airline and take advantage of this new way that Europe was going to open up.

S: Okay

B: The new Chief Executive was Michael O'Leary, who everybody knows, and then Michael recruited me and a few other senior managers.

S: And what was the strategy at that particular time? What was the thing that was going to differentiate this airline from every other airline?

B: Well the thing that was going to differentiate Ryanair and has never changed (and I'm actually looking at their website today) they said that we will get you there cheaper, and more reliably and it's never changed since then, it's the lowest fare airline.

S: And I assume therefore if we talk about innovation and problem solving that that must have just been in the DNA of the airline then was it? Because to make sure that you're always cheap, and to make sure that you're always reliable, I guess you just have to be constantly solving problems do you?

B: Absolutely. I mean the beauty of it of was the strategic focus was very, very clear. Every time you encountered an issue you were quite clear about which strategy you would take to get yourself. You basically always had to look at your costs and you always had to look at reliability and it was unwavering as to that because that was the USP of the airline. And loss of bags was the third one.

S: So it was cost, it was reliability and it was lost bags that was the main focus. So tell me a bit about how that laid out on a day to day basis; how everybody kept their focus on those three things.

B: Okay, well for costs the sort of strategic objective at cost was very much 'sweat the assets' and the simplest operating model. To sweat the asset would be that you had an aircraft and you had to fly that aircraft as much as you could. So a low cost airline will fly to secondary airports, that means they don't get into long taxiing in and out of big airports, they will turn an aircraft around in 25 minutes and that way over an 8 hour period they'll have an extra leg flown. They'll have a single fleet so they can interchange crews and routes at the drop of a hat because every aircraft carries the same number of passengers, so they can redirect an aircraft to solve a problem.

S: Okay

B: Reliability: they constantly analyse on a daily basis the issues that were raised the day before that reduced reliability around time performance. And they will constantly drill in to the root cause of that, and what they can affect they will affect, so it's zero tolerance, they will never let it go, you will never hear that a plane was late due to the inbound arrival of the other plane. What caused the delay?

S: So that must mean that there was quite a lot of problems to capture every single day. I mean I'm assuming you weren't just capturing one problem a day. How was that done?

B: No there were lots. We software tracked every flight and there would be reason codes for delays. Now the software would be smart enough to know that flight 2 was late because of flight 1 and the root cause of all of this was flight 1, so don't bother to go to flight 2 and flight 3. So it'd be clever enough to do that for you. The other thing they always did was they designed into the schedule what they called a 'firebreak' in the middle of the day, which means they tend to have 2 parts of the day, 6 to 2 and then 2 to 10, and they'd tend to put the firebreak in there so that you can try and remediate issues. In aviation you have a lot of chances that aren't in your control, so you know that you will potentially carry something from that morning onwards. So the firebreak is to allow you to catch up.

S: Okay

B: So they'd look back at the root cause and if it was something that they could affect, they would affect it and they would stop it happening again they will measure it.

S: And how can you get around, you know, the politics? Because I can hear people on the phone listening to this at the moment saying "Oh but you couldn't move that fast in our industry because we'd have to go to committee and go to audit and write reports and all of these things". I mean let's be honest if things go wrong in an airline people's lives are at stake. So what do you say to people who say oh we couldn't possible do change that quickly.

B: What we did ourselves would be, the initial model was the 10 x 737s we had and we trialed the low cost model in the English-Irish operation and going in and out of secondary airports, you know you'd have Glasgow Prestwick, you'd have London Stansted. They weren't very busy airports so you weren't going to have a lot of people in our way in the first place, and we were the most dominant airline so were able to shape the operation of the airport operators as well. So the way we would then go to bigger airports when we encountered that sort of an issue like, 'you can't do that', would be 'Yes we can. We can do that. We can operate that way'. And Ryanair would work very closely with its regulator, I mean it's a highly regulated business and people don't understand that and appreciate it, but we constantly would challenge the norm without losing the essence of the regulations.

S: So I guess what you're saying is 2 things. One is run lots of experiments to prove the point, and then say, 'well you know we've already proved the point through very quick low cost, low risk experiments'. Now let's take that norm to the committee or to the audit or to the regulator and let's work closely with those guys and say 'we've proved the point, now let's change the industry rules'.

B: Yes, Let's change the industry rules, let's work together to change the rules. And because it was an Irish airline and we did have an Irish regulator as well, you know it was probably a little bit easier.

The regulator was doing their job, but if you were a small Irish airline trying to do it with the UK regulator it would have been a different issue. We'd have been discounted and British Airways' voice would have been bigger and we would have been discounted.

S: But it still kind of in a sense laughs in the face of the excuse like, 'Oh we couldn't possibly challenge internal audit'. I mean you guys were challenging not just internal audit, you're challenging national nationwide rules and the regulator to get things done.

B: Yes, what we also did though was we worked within the rules, we just found new ways to do it. So we would look at the regulation and if the regulation says pilot's hours are 800 hours a month we didn't break that regulation, but we made sure that the aircraft turned around in 25 minutes and we made sure that we didn't waste time of pilots transiting to aircraft, we made sure that everything was working to its optimum. So of the hours worked by a pilot, by and large the majority of them were flying, and not hanging around.

S: In other words you're very clear on the goal of this business and I think often a lot of people get confused about this issue. So you're saying the goal of this business is have airlines in the air. And I think often as I said people get confused about that. They forget - what is it we're actually trying to do? What constitutes a unit of our purpose or a unit of our goal? Is that fair?

B: Yes it was very clear within the DNA of the company that people only bought our flights because we have the lowest fare. We only had the lowest fare if we watched the costs and particularly the costs that mattered. So you can go on to Ryanair.com now and you can even look at their investor presentations and you'll see, even in their presentations they rank the costs as the drivers of that business. The fuel would be one, productivity is another. So staff productivity right through the business.

S: So in other words there's a really good relationship and understanding between the inputs and the outputs.

B: Absolutely for the team model yes.

S: And tell me then what do you feel? That there was therefore absolute clarity in terms of operations connect to the strategy and what decisions need to be made on a day to day basis in order to deliver that strategy? Is that really the big differentiator here?

B: Absolutely, and I also think that it started with the clarity; clarity as to what the strategic goals and objectives were, and there weren't many, they were not confusing they were quite straightforward. 'We will be the cheapest and we will be the most reliable'. And that was absolutely clear, and then they would work their way from that - how are we going to be to be the cheapest? What are the cost drivers in this business? Aircraft - major cost driver - therefore we changed the operating model. So I think you probably remember the days when you got your boarding card and you wandered through an airport and the aircraft was there waiting for the people. If you fly on a Ryanair aircraft the people are there at the boarding gate waiting for the aircraft. And the aircraft pulls in, it empties its passengers, the safety checks are all done and the passengers are reloaded. The number 4 air hostess will come off the aircraft and she will be part of the on-boarding procedures, the 3 cabin crew left will be part of the on-boarding on the aircraft. Confidently challenging the operation. So therefore if you take someone off the aircraft and their objective is to turn it around in 25 minutes, because that wouldn't necessarily be a ground staff objective, she will ensure the ground staff are doing their job, (or he, sorry don't want to be sexist) will be ensuring that the ground staff are getting that aircraft turned around. While the people on the aircraft they are all paid as well, that's the other motivator for productivity employees, people's pay is lined to those strategic objectives.

S: So tell me a little bit about how the pay worked every month then?

B: Okay so basically if you had an influencer, and you were an influencer to something like 'on time and reliability' and I was in IT, we had huge influence because the aircraft couldn't push back if the systems weren't up, we had productivity pay and if we hit our metrics we were paid for it. And if we didn't hit our metrics we weren't paid for it. And there were bonuses again on certain levels of metrics over a consistent period. And that went right down to baggage handlers, check-in desks, aircrews. Pilots would have a fuel burn metric, so there's optimal fuel burn and then there's obviously if they have weather and things like that they had to take on excess fuel obviously for safety reasons and they can be impacted by weather and things like that, but that will be averaged out over time so they will know what the fuel burn is over time and they would pay pilots based on fuel burn. That's one of the things that influenced fuel burn was how fast air traffic control would let you get up into cruise but something a pilot can influence is if he can get up to 20,000 feet fast he can influence his fuel burn and that's not breaching safety.

S: So the point is these are not just arbitrary things. These are things that you directly, based on your behaviour, your processes, your policies, your innovation and problem solving can have an influence on. It's not just an arbitrary number. It's something that actually you know you can influence.

B: You can influence it yes, so where you were an influencer you would be more weighted in your pay and productivity to what you influenced, so even in IT you wouldn't think necessarily we were influencers in certain areas but for example: you know we were innovating A.) going online was a huge innovation because we were opening up call centres, our cost of sales, our cost of distribution,

we were moving into languages. Going online was to solve that problem, it wasn't you know some... it was solving that problem, how did we reach people in multi-language without standing up hundreds of call centre operators? Similarly web check-in, you know, you went through any airport and you realised that, you know, 70% of the people in the queue didn't have a bag. What really were they achieving by checking in? So we brought in online check-in. So we had huge influence in the operation again that reduced cost, you know, we didn't have to have more check-in staff and check-in desks. That would reduce costs, keep us as the lowest fare airline in the market, and we would be bonused on that.

S: And I think what's interesting about this is often people talk about problem solving and they talk about innovation, and they just hope that innovation will appear, you know what I mean? They hope that people will get into quality circles and they'll come up with ideas. Rather than saying look, the strategy is this - therefore every decision we make on the ground has to fit in with this strategy. Here are the problems that we're experiencing, here's the number one problem and therefore what you have is... the way that I describe it is 'a context for problem solving', not simply looking for people to come up with staff suggestion schemes and random ideas. So you agree with that.

B: Yes, absolutely. I always feel that when you see an advertisement for a head of innovation, don't join the company. Because innovation comes from within. It is no more genius than really solving a problem. Seeing a need. Grasping maybe a new technology. You know from my world, you're noticing a new technology, you have a problem and you see a new technology and you're going, 'gosh this could really be an influencer on this'. So in a technology space you can see an innovation in the technology that could help be a solution to your problem, i.e. innovate the solution. Which you can't... you must innovate from within, you can't bring in the innovation, innovation isn't solving your problems, solving your problems is the innovation.

S: Correct. So tell us about some of the cool things, you know that people came up with. Some of the great problems, that seen of the face of it might be obvious but were driven by this innovative approach.

B: Well like, in the early days, when we were flying into the secondary airports, you know, and really they were one horse town type airports, you know, and the aircraft could be delayed by waiting for the guy (who had 3 other jobs) to push back the aircraft. Because he was also probably doing three other jobs, it's a small operation, so the pilots would have come up with a scenario - well we are the only show in town here, we are the only aircraft why are we going nose into this building? Why don't we drive in and turn the aircraft to point out again? So we have no delays on push back, because we don't need to be pushed back. We're pointing outwards, we'll go back out.

The other thing is every Ryanair aircraft (which was a Ryanair innovation) was fitted with front steps built into the aircraft. So again, they can start unloading that aircraft the minute the gate is open for them to unload passengers to. They don't have to wait for the guy who's going to drive the rear

stairs around, or the front stairs, cos they have front stairs. So those would be innovations from people who would have been going 'what was the problem in the airport?', 'oh we were waiting for the guy with the stairs'. They would point ok put stairs on the aircraft.

S: So what you're saying is when you ordered, when you ordered a fleet of 737s, you wouldn't say I want standard 737, you'd say I want a 737 and I want the steps built in?

B: No we designed the steps with Boeing. First airline to put steps on their aircraft.

S: Wow that's fantastic.

B; Yes we went to Boeing and said, you know, we need steps on our aircraft. And then innovation on the aircraft as well, you know, the seating to make sure we could get 189 passengers into that aircraft, you know, I won't say that Ryanair's the most comfortable airline, but most sectors are not longer than 2 hours. It's not a long haul aircraft. They also took the em... another innovation they had was turning aircraft around at night for maintenance - one of the biggest things that broke was, you know the little button on the side of the seat where you push your seat back? That reclining was breaking and that would put a seat out commission because if the seat recliner was broken in the reclined position you couldn't fly anyone in the seat because they couldn't take off. So they took reclining ability out of the seats. And apparently there is an anecdote, I should have looked it up, but somebody in American Airlines, the Chief Executive or something was laughing at this, and then somebody pointed out that they spent about \$5 million a year fixing seat reclining...

S: Oh wow brilliant, what a great story. And as you say I guess the key is about what matters to the customer. Well if the customer knows that they've paid a cheap fare to get some place quickly on time, and they're only going to be on that plane for an hour or 90 minutes, does it really matter to them whether their seat reclines or not? They're not flying across the Atlantic are they.

B: Because what really matters to them is they will be on time. They will not be doing a figure of 8 over Heathrow airport for 40 minutes. They will be on time. And they can pretty much guarantee it.

S: And just going back to problems for a second before we wrap up and finish, how much do you think if you got a group of leaders or a group of managers in a room and you said to them, 'What are the top problems that, as an airline, you need to be working on at the moment?', how much do you think they'd all be congruent on what the top problems are versus kinda not being sure. Or they might have their own ones but they wouldn't be sure about what somebody else's where - how much was that really in the, again, deeply embedded in the culture of the business?

B: I think airlines (when Ryanair stood up) had... if you would have got a group of managers in there you would have got varying opinions, airlines had become... they had lost the fact that they were actually there to service travel. That's for people to get from A to B. That actually was the underlying objective and the more people that travelled, safely, the more successful they were. They had lost that as their sort of USP. It had almost become too much that travelling was a luxury, not a necessity maybe. And it was a luxury and it was an expensive thing and people saved up to do it and, you know, the experience on the plane became... it totally superseded the function of what somebody was trying to achieve, and you shouldn't have a bad experience, you shouldn't have a bad experience but the number one objective is get me from A to B safely, on time, in a level of comfort that's acceptable, you know? And that's what Ryanair came to the market with, they were very clear here.

S: And did that mean that if you got a bunch of Ryanair managers in a room they would generally all be clear on what problems needed to be fixed?

B: Absolutely, I mean the clarity was so clear the discussion wouldn't even venture in certain places. So the unsaid would be like I don't know why we're discussing this, the relevance of what we were trying to achieve was constantly, constantly repeated, constantly reminded, was in your pay package, was you know the mantra of the organisation, was celebrated - you know 'we got a new on-time number this month', that would be celebrated around the organisation, it would be on the TVs you know?

S: And what advice would you give? Because as a consultant, one of the things I try my hardest to bring to a business is that clarity in terms of: What's the strategy? What is the operation trying to deliver? What measures do you need to tell you what needs to be delivered? What are the key things you need to focus on? What are the top problems to be solved? What's your advice to managers who, you know, potentially don't have that level of clarity, who are not thinking in the way that clearly you've been trained to think.?

B: Sometimes if I'm confused myself I really try and put myself in the role of the customer. And if I'm coming to this business - what is it I'm asking of this business really? What is it I really need of this business? And then I would try and put myself in the manager's shoes and say, am I making sure what I am doing is really what's delivering value to the people who are trying to purchase this service and need this service and require this service? Because otherwise you're kind of dead because somebody else will do better than you anyway. And sometimes, you know, that's what I would say, go back out to the customer and be the customer. Forget all of your internal DNA, forget all your internal politics, what is it that they're asking of you? What is it their expectation of you? You know? And then make sure that that's what you're doing.

S: Good advice. And one final question then, what do you reckon are the market forces now that may be causing Ryanair to once again potentially reinvent themselves or change their own model?

B: Well the big thing about Ryanair was that it was in what we call 'customer acquisition mode'. So it was always in our DNA that we were first to market in the market and that the model that seems to follow with low cost is 'he who gets in first gets 70% of it and keeps it'. But the other thing was that they would grow the market, because the size of the market in certain areas was quite small because the price point was so high so when you brought in a low cost carrier to it you grew that market as well and you actually took, you took and you held it. Now Ryanair is totally pan-European and there is nowhere to grow. I mean Russia really would be the next space and I don't think with the way politics work now they are, so they would be the biggest carrier in history in Poland, and I think they're the biggest domestic carrier in the UK. And we're now in what you call 'customer retention mode'. Winning new passengers is not as easy so they have to work on that experience, and also now low cost airline is de facto and the price point is de facto. 59 Euro is the price point and that's not cheap any more, everybody else is 59 Euro, well they're not, if we compare Ryanair still would be, but the airlines now have an entry fare, so now they do have to work on the experience a bit, because the bar is a bit higher on the experience, but they will do it and there are easy wins for Ryanair on that, you can be nicer, that doesn't cost you, you know. The extra handbag, you know, and I can see it in the operation which they would have had to take on the chin, I can see the on-boarding of the aircraft's a bit slower so I know they'll be with the extra bag that they're allowing, but I know they'll be watching that constantly to see how they can improve it.

S: But I guess it's just a little added dimension to the strategy which again just runs right back into what do we do on the ground to influence that metric?

B: Exactly, if they can do something about organising people I can see that they watch people, I've watched them on-boarding the aircraft and I can see they watch people and they start approaching them now before they even start to open the flight to board it that they know they've too much carry-on baggage and they'll start to approach people in advance to see if they can organise it. Because they've got to get the aircraft round in 25 minutes.

S: Constantly being proactive. Excellent. Any manager listening to this I'm sure will go wow, you know that was just some amazing advice around clarity of strategy, clarity of operations, clear on your top problems, really focusing on getting to the root cause.

Thanks very much for your time, absolutely fabulous interview I really appreciate it.

B: You're very welcome Stuart

S: Cheers Brona, thank you very much, bye.