

Virgin america essay



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Despite Virgin America's numerous awards, acclamations and recent success, the airline is still not classified as a major carrier by the Department of Transportation (DOT). To be considered a major carrier, an airline must achieve \$1 billion dollars in operating revenue and meet the Department of Transportation's requirements on baggage handling, on-time performance and other operational statistics. Virgin America currently operates 39 Airbus 320A aircraft to 14 destinations around the United States and Mexico. According to the 2010 financial statements, full year operating revenue was \$724 million, a 32% increase YOY.

They are the recent recipients of several customer service awards such as: Air transport World's Industry Achievement Award (2010), Best Domestic Airline (2008, 2009, 2010), Best Business/First Class (2008, 2009, 2010), and Most Eco-Friendly Airline (2010). Virgin America commits itself to a sustainable business model, discovering new and innovative ways to combat climate issues and support community projects. Virgin America is the only airline to document carbon footprint via the Climate Registry's accepted standards and is 25% more fuel and carbon efficient than the average fleet in the U. S. As a major carrier, brand recognition is stronger and access to more destinations and airports is attainable. Achieving "major carrier" status is crucial to Virgin America's sustainability.

To achieve this designation, several options can be implemented: 1. Expand destinations internationally to increase revenue. 2. Acquire a smaller airline company. 3.

Focus on expansion in domestic niche markets by adding aircraft and destinations. The recommendation for Virgin America is to implement option number three. By focusing on expansion domestically, the airline can expand in a niche market without sacrificing their emphasis on customer service and amenities. In order to implement this strategy, Virgin America must focus on three core strategic imperatives: expand domestic destinations, increase fleet size to 60 new airbuses A320 by 2013— continued revenue growth will fund this expansion, and execute an effective marketing campaign based on the “ Green Movement” without losing focus on customer service and innovation. Investments in more fuel efficient aircraft will help reduce costs and the savings can be reinvested into R&D of renewable fuel sources.

Lastly, the expansion would increase Virgin America’s workforce, providing additional jobs and stimulating growth in the economy. Case Study Report Summary Virgin America continues changing the ways of domestic travel with its continuous innovations. Headquartered in California, the airline company has received the highest overall scores of any U. S. airline in the survey of over 8000 frequent flyers. With outstanding service, beautiful design and a host of high-tech amenities, Virgin America has captured a list of industry best-in-class awards since its 2007 launch.

(Virginamerica. com) The airline took top honors for the third consecutive year for best service in the “ Midsize Domestic Premium Class” and “ Midsize Domestic Economy Class” categories. (Virginamerica. com) While remaining focused on their status as one of the top airline companies worldwide, Virgin America is looking to take their services to another plateau. Virgin America is aiming to become a major airline carrier. The airline can achieve this

designation by reaching \$1 billion dollars in operating revenue and meeting the Department of Transportation's requirements on baggage handling, on-time performance and other operational statistics.

Virgin America currently operates 39 Airbus 320A aircraft to 14 destinations around the United States and Mexico. According to the 2010 financial statements, full year operating revenue was \$724 million, a 32% increase YOY. Virgin America's main obstacle in achieving this distinction is the fact that Virgin America only flies domestically within a handful of cities in the United States including: San Francisco, Los Angeles, New York, Washington D. C., Seattle, Las Vegas, San Diego, Boston, Fort Lauderdale, Orlando, Dallas-Fort Worth, Los Cabos, Cancun and Chicago (starting May 25, 2011). Discovering new and innovative ways to expand the airline nationally, while keeping the same quality customer satisfaction, will be the biggest challenge.

Analysis To achieve the results desired for Virgin Airlines, the company must concentrate on expansion in domestic niche markets by adding aircraft and destinations. By focusing on expansion within the United States, Virgin America can expand in their specialty market without losing their touch as one of the best customer service airlines in the world. In order to achieve this, several alternatives must be considered to bring about the desired result by emphasizing the driving forces, and lessening the resistant ones. The first strategic imperatives are to expand domestic destinations.

One way to accomplish this is by increasing Virgin America's fleet size to 60 new airbuses A320 by 2013. The 60 Airbus A320 new planes will be delivered

from 2013 through 2019 with 18 on order, four being from Jazzier Airways, a Kuwaiti airline. Four will be on the property by end of 2011, with 10 in 2011 and the last four on grounds beginning of 2012, with a potential total of 111 planes by 2019. The second imperative is to continue revenue growth, which will fund the expansion of the airline. Virgin America will continue to report strong revenue performance, industry-leading load factors, and improved unit costs. The airline will narrow its operating loss, improving its operating margin all the while looking to boost an increase in scheduled service capacity year-over-year.

(Virginamerica. com) The company's strategy should also concentrate on the execution of an effective marketing campaign around the " Green Movement" without losing focus on customer service and innovation. The " Breath of Fresh Airline" advertising and marketing campaign will be designed to convey the young airline's hip, innovative and fresh guest experience. This campaign will further establish Virgin America's flight experience as radically different from other U.

S. carriers and they will redefine traditional airline advertising and convey the same fashionable look and feel guests are met with when they step on board a Virgin America plane. (Virginamerica. com) A fourth strategic move would include investing in more fuel-efficient aircraft, which will help reduce costs and those savings can be reinvested into renewable fuel sources. The new A320 planes will offer 15 percent gains in fuel efficiency, along with the accompanying improvements in carbon efficiency - including double-digit reductions in NOx emissions (Virginamerica.

com). The A320neo offers reduced engine noise and lower operating costs. The expansion would increase Virgin America's workforce providing additional jobs and stimulating growth in the economy. Creating a work environment that values their employees will create higher morale which directly influences the consumer's perception of Virgin America.

Alternatives There are three alternatives that Virgin America could consider in the attempt to become a major airline. The first alternative would be to expand destinations internationally in order to increase revenue.

Currently, Virgin America only offers destinations to 14 cities. The airline has decided to cater to a small niche market by offering top notch service in only a few selected cities, ignoring the potential need in the international market. The positive to expanding internationally, is the potential for growth in revenue which is needed in order for the company to obtain the revenue necessary to be classified as a major airline. In 2010, the airline reported operating revenue of \$724 million, leaving the airline 276 million dollars short of being classified as a major airline. The additional earnings that would be generated by the international flights would allow the airline to earn additional revenue, which is needed in order for the airline to be considered major.

In an attempt to increase revenue the airline should offer flights to destinations such as Europe, Asia, Africa, the Caribbean, etc. The flights, however, would offer the same perks as the domestic flights. Doing this would allow the airline to compete with other major airlines by offering their top notch service on an international basis. Creating international flights would also have a positive effect on the economy in the countries in which

they are expanding flights. It would create a need for more jobs, leading to increase in jobs thus stimulating the economy.

This would create a positive image for the airline. The negative to expanding internationally would be the challenge to maintain the same best-in-class service, which the airline is offering to the domestic market. In order to offer their great services, Virgin America would first have to understand the needs of the passengers and determine whether or not it would be feasible to offer the same amenities and perks on such a broad scale, without comprising quality and revenue. Another negative to expanding internationally is the risk of having to cut back on some of the amenities and perks which is currently being offered in the domestic market. Some may argue that the reason Virgin America is doing well is because the airline decided to develop the perks and amenities in an attempt to cater to only a specific niche market, rather than a large market.

It is easier to cater to a small niche market as opposed to a larger international market. Another significant concern in expanding internationally is the possibility of having to decrease quality of service. In order to accommodate the increase in flights without suffering a large financial loss, the airline might be faced with having to reduce the number of perks in order not to suffer a large financial loss. Also, the risk of having to increase the price of airline tickets, in order to be able to offer the same perks and amenities, which are being offered in the domestic market, will likely have a negative impact. Not only would this not be good for the customers, it could possibly have a harmful impact on the revenue of the airline.

Due to the current state of the economy, many consumers are willing to forego the extra perks in order to save money. If the other airlines could offer tickets to the same destinations at a cheaper rate, there is the possibility that Virgin America could suffer a financial loss due to passengers choosing to purchase the cheaper ticket. This makes it extremely important for the airline to evaluate the needs of the passengers before deciding to expand internationally. The second alternative would be for Virgin America to acquire a smaller airline. The purpose of acquiring another airline would be to merge two low-cost carriers into one major carrier.

Consolidating two airlines into one would allow for the two airlines to join together to form an alliance, in order form a major airline. This would allow the airline to be able to compete with the major airlines. The suggestion is for Virgin America to merge with another airline such as Southwest or Airtran. One benefit to merging with another airline is the idea that “ combining the two airlines has the potential to reduce overall orders for new planes” (Sanders, 2010). This would allow the airline to save on the cost of new planes, saving the airline millions.

Thus merging with another airline would have the potential to generate revenue while reducing cost. Another positive to merging the airlines is the potential for “ less congestion and fewer delays” (Smith, 2010). “ Mergers often result in fleet-trimming and the elimination of redundant services across certain markets” (Smith, 2010). This would reduce wait times and increase customer satisfaction.

The final alternative would be for the airline to focus on expanding in the domestic markets. The focus would be to expand by offering more domestic flights, rather than offering international flights. This would allow the airline not to sacrifice the in-flight service and amenities that they currently offer to domestic customers. To accomplish this, the airline would have to increase the number of aircrafts, in order to increase the number of destinations within the domestic market, which would cost the airlines millions. Virgin America's current success proves that passengers in the domestic market are willing to pay for the extra perks and amenities. Adding more domestic flights could allow the airline to generate the extra revenue that is needed to be classified as a major airline.

In the short run, adding more domestic destinations would have a negative effect on the airline due to the large costs associated with the purchase of more aircrafts. However, once the company recovers the costs, they would have the potential to generate the additional revenue which is needed to be considered a major airline. Recommendation After evaluating the alternatives to becoming an industry leader, it is recommended that Virgin America focus on developing two niche markets. A strategy should be implemented to develop and control these niche markets. Virgin America must continue to grow and expand their domestic markets by providing service to more US destinations. Secondly, Virgin America must capitalize on the "green" movement and continue investing in eco-friendly technologies.

Their in-flight experience and amenities allow Virgin America to differentiate itself from the competition. Sustainable growth requires quality service and strong brand recognition. In consumers' minds, Virgin America must be the

first brand they think of when they want to experience upscale travel. Virgin America can cater to consumers that are looking for a great in-flight experience.

Consumers that value Virgin America's services will be more likely to pay a premium price for this experience. Currently Virgin America flies to 12 major U. S. cities and two Mexican destinations. The airline plans to expand their fleet of 39 to 60 by 2013.

This expansion should afford opportunities to develop new routes and increase the brand awareness. As new routes and destinations are acquired, Virgin America will obtain the status of a major carrier and eventually expand internationally. Virgin America invests heavily in the research and development of engine technology to achieve lesser fuel consumption and emissions. The investment in environmental sustainability will attract environmentally conscious consumers. In recent years, this movement has gain momentum and many products and services are capitalizing on operating more efficiently and eco-friendly.

Emphasis on these two niche markets will help Virgin America grow exponentially without losing focus on their core values which are upscale in-flight consumer experiences and environmentally-sustainable practices. Implementation In order to successfully implement the stated recommendations, Virgin America would first have to purchase the suggested 21 additional aircraft within the next two to three years. Once the company acquires their new planes, they must increase their routes by expanding the number of destinations that the company travels to

domestically. With continued growth and increasing revenues (Virgin America Reports Fourth Quarter and Full Year 2010 Financial Results, 2011) the company is able to spend millions of dollars now in order to secure revenue growth for the future. Furthermore, Virgin America will be able to implement the new “green initiatives” without spending much more on sales and marketing costs. The perks and in-flight service that the airline offers will remain unchanged, but the company will try to reach a new niche market by appealing to the environmentally-conscious side of its consumers using the marketing funds it already has in place.

As the eco-friendly movement continues to grow, fliers will gain appreciation for Virgin’s efforts in researching and developing green and sustainable operations and fuels and, in return, they will continue to patronize the airline. In doing so, the accolades and awards that Virgin America has grown accustomed to will continue to amount and this positive publicity will remain strong. If all implementations go accordingly, Virgin America will continue to grow and expand for many years to come which will require the company to hire hundreds of employees. While the company already employs over 1,800 people, they will need to fully staff their new aircraft and the airports to which they fly.

Since unemployment is up in 31 states across the country (Regional and State Unemployment Rates, 2011), these jobs will help to reduce the unemployment rate, which is likely to foster economic stimulation. Virgin America will be creating much-needed jobs in a slow economic time. Virgin America is poised to not only grow its revenue, but also to set a precedent of environmentally-friendly and sustainable fuel and operations. And the

positive side-effects of job creation and a full trophy case aren't too shabby either. ReferencesBLS.

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