

# Financial and market analysis of premium economy business commerce essay



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In the airlines industry, in order to achieve success in the market competition, superior market players have to generate a good understanding about the underlying demands in the market. Traditionally, airlines provide three major flight classes to the customers, namely economy, business and first class flight and services. With the prosperous economic development and the increasing demand in air travel, the idea of premium economy is introduced and it is now being widely accepted by the airline industry. Premium economy, or maybe called differently by different airline companies, generally offers a wider space and more premium service to passengers, and accordingly, requires a higher ticket price.

The purpose of this paper is to analyze the current performance outcomes and the market potential of premium economy business. The first question will be answered with the comparison and analysis of five selected airline companies which have already launched premium economy business during operation. These five airline companies include Qantas, United Airways, British Airways, Virgin Atlantic Airbus, and ANA. Then based on the performance outcome comparison, the second question will be answered with a further market demands and input-output analysis.

## **2.0 Premium economy business in the five selected airline companies**

Premium economy, a niche market strategy widely introduced in long haul market of business travel, is not standardized. In United Airways, the idea of premium economy is called Economy Plus; while in British Airways, it is called World Traveler Plus. Meanwhile, premium economy business is being carried out differently in the five selected airline companies. Some may only

provide extra legroom with other service no more different from standard economy; while other airline companies may emphasize a clear distinction from traditional business by introducing priority boarding, excellent on board service and entertainment, etc.

## **2. 1 Qantas premium economy business**

Premium Economy is available on all Qantas A380 aircraft and selected B747-400 aircraft with selected flights from Sydney to Los Angeles, London, Singapore, Bangkok, Johannesburg, Hong Kong, Buenos Aires, San Francisco and New York, and from Melbourne to Los Angeles, London, Singapore and Hong Kong. In Qantas premium economy project, passengers are entitled to benefits such as priority check-in, extra legroom for stretch out and relax, personal TV, laptop power for all premium economy seats, and priority in disembarkation.

Qantas has introduced three types of aircraft and twelve scheduled flights to provide premium economy business. Detailed seat information is extracted and analyzed. Averagely, premium economy delivers a 2 extra inches of seat width, 7 extra inches of legroom. However, with an analysis into the seat number, it can be seen that premium economy business is not so widely introduced in Qantas. Averagely, seats for premium economy business just take up 9% of the total available seats in one flight. As to the ticket price for each class, generally, in Qantas, premium economy is generally 80% more expensive than standard economy. And the price for premium economy stays quite the same for the whole month, thus preventing discount for advanced bookings (Qantas, n. d.).

## **2. 2 United Airways premium economy business**

Premium economy is widely available on 15 types of aircrafts in the United Airways. The flight routes are selected between a variety of North American destinations and Hawaii. In United Airways, premium economy is called as economy plus, which is not a separate class of service but differs from standard economy with up to 3 to 5 inches of extra legroom. Generally, seats for economy plus are located nearer to the front of the aircraft, so that passengers in this section will be served first. Benefits such as priority check-in, personal TV, laptop powers, or priority in disembarkation are not entitled to economy plus passengers.

Averagely, premium economy delivers almost the same inches of seat width, 4 extra inches of legroom. With a look into the seat numbers, the total average seats available on these aircrafts are 210, and averagely, seats for premium economy business take up 23. 7% (50 seats) of the total available seats. As to the ticket price for each class, generally, in United Airways, premium economy cost much the same with standard economy (United Airways, n. d.).

## **2. 3 British Airways premium economy business**

Premium economy is called world travelers plus in British Airways, and it is available on 5 types of aircrafts and a variety of flight routes. In British Airways' world travelers plus project, passengers are entitled to benefits such as priority check-in, extra legroom for stretch out and relax personal TV, laptop power, and priority in disembarkation.

Averagely, premium economy delivers almost the same inches of seat width, 7 extra inches of legroom. With a look into the seat numbers, the total average seats available on these aircrafts are 268, and averagely, seats for premium economy business take up 11.5% (30 seats) of the total available seats. As to the ticket price for each class, generally, in British Airways, premium economy is generally 90% more expensive than standard economy (British Airways, n. d.).

## **2.4 Virgin Atlantic premium economy business**

Premium economy is available on 6 types of aircrafts and a variety of flight routes. In Virgin Atlantic premium economy project, passengers are entitled to benefits such as priority check-in, extra legroom for stretch out and relax personal TV, laptop power, and priority in disembarkation.

Averagely, premium economy delivers a 4 extra inches of seat width, 7 extra inches of legroom. With a look into the seat numbers, the total average seats available on these aircrafts are 360, and averagely, seats for premium economy business take up 12.6% (45 seats) of the total available seats. As to the ticket price for each class, generally, in Virgin Atlantic, premium economy is generally 46% more expensive than standard economy (Virgin Atlantic, n. d.).

## **2.5 ANA premium economy business**

Premium economy is available on 5 types of aircrafts in ANA. The flight routes are selected from Nagoya to Taipei and Tianjin routes, Narita-Hong Kong route, Narita and North America as well as the NRT - LHR route. In ANA,

premium economy differs from standard economy by providing priority check-in, laptop powers, and priority in disembarkation.

Averagely, premium economy delivers almost the same inches of seat width, 4 extra inches of legroom. With a look into the seat numbers, the total average seats available on these aircrafts are 257, and averagely, seats for premium economy business take up 12. 3% (32 seats) of the total available seats. As to the ticket price for each class, generally, in ANA, premium economy cost much the same with standard economy (ANA, n. d.).

## **2. 6 Comparison of the premium economy business**

With the introduction about the five selected airline companies' premium economy business, it is noted that all the five companies have provided passengers with up to 7 inches of extra legroom. Additionally, except for United Airways, Qantas, British Airways, Virgin Atlantic, and ANA have provided extra benefits for check-in/out and on board service. Such benefits can save much time spent on travel and could leave passengers with a good service impression. However, such benefits are provided with the increase in operation costs.

Moreover, the adoption levels of premium economy differentiated with each other to a great extent. Among the five airline companies, Qantas has the lowest percentage of premium economy seats to the total available seats at around 9%; while for United Airways, the percentage of premium economy seats to the total available seats is at the highest level around 23. 7%. The diversification in product portfolio may generate the problem of cutting costs down.

### **3. 0 Financial performance of the five selected airline companies**

As no specific revenue information on the premium economy business could be available from the companies' released financial reports, comparison of the financial performance for the five airline companies would be carried out with theoretical analysis.

For the airline industry, major airlines have long been troubled by the matter of tremendous fixed costs such as the repair and maintenance of the aircraft, overhead costs and the increasing costs of fuels. In order to cover such costs, airline companies need a great number of passengers to meet the break-even point. In calculating the break even points for each airline service product, the companies may generally follow the formulas below (Horngren, Sundem & Stratton, 2002)

Break even point (for output) = fixed cost / contribution per unit

Contribution (p. u) = selling price (p. u.) - variable cost (p. u)

Break even point (for sales) = fixed cost / contribution (pu) ÷ selling price (pu)

During operation, the companies will try to lower the break even points so that they can maximize their profits. In order to achieve this, companies can get down on the following aspects: control the fixed cost, increase the output units (loaded passengers), or increase the selling price. As to fixed cost control, it mainly involves improvement on internal control and

management; while the pricing strategy will be mainly affected by the passenger market.

#### **4. 0 Product profitability analysis**

When making decisions on new product launches, the companies should assess the profitability of current product portfolio, and the potential profits which may be generated with a new product portfolio.

Due to the fact that premium economy generally provides passengers with up to 7 inches of extra legroom and above 2 inches of extra seat width, the introduction of premium economy will inevitably lower the fixed cost amortization. However, if the implementation could generate more loaded passengers, then the decline in fixed cost amortization could be subsidized.

The impact of decreased fix cost amortization could be measured by assuming that if the same level of product profits be generated, how many loaded passengers are required. With the figures calculated, a market analysis should be carried out to find out whether such target could be achieved.

#### **5. 0 Market acceptance and market potential**

Every individual in the global world could be potential customer to the player. However, due to limitations resulting from factors like geography, operation scales, cost and benefit principal, etc, the player has to narrow down onto series of segment markets and figure out its target customers, and then focus its marketing efforts and its merchandise on the selected areas (Kurtz, 2010). Information about target consumers' backgrounds and



their complex buying decision making process is an indispensable part of accurate market identification and positioning activity (Nicosia, 1966).

The idea of premium economy is firstly introduced to address the increasing demand from business travel. Unlike traditional market strategy which emphasize heavily on price and cost, strategies for premium economy pays more attention to the product and service quality, as in many cases price is not the primary issue for the business traveler.

With the help from advanced information technologies such as visual conferencing, instant messaging system, content management system, etc, business can be done with participants locating all around the world.

However, when coming to circumstances under which face-to-face interaction is inevitable to the success of the business, air travel, for its convenience and time saving characteristics, will come as the first choice for business travelers.

To such targeted business travelers, what they want most from the flight would generally be the comforts and time saving. Traditionally, the time spent on waiting for check-in/out procedures would almost be more than two hours, which may mean quite a huge time cost to the business. Moreover, exhausted by the uncomfortable sitting environment, passengers may take certain time to fresh up their spirit and energy. This may generally have negative impact on their performance.

With the introduction of premium economy business, travelers are provided with more space in which they can stretch out regularly and release the pressure so that they will not feel tired after the journey. Moreover, with the <https://assignbuster.com/financial-and-market-analysis-of-premium-economy-business-commerce-essay/>

priority in check-in and disembarkation, business travelers could save more time for other important issues.

With the product being accepted in the market, it should also be figured out the potential market volume. According to the Civil Aviation Authority (CAA), in 1999, approximately 30 percent of passengers from London to New York were business travelers (1.14 million passengers) (Sky Trails Airline, Ltd, n.d.). If such percentage could be applied to other heated commercial flights, the total market potential could then be analyzed and the product profitability could be worked out accordingly.

## **6.0 Conclusion**

With the increasing demand of long haul travel and the increased consumptive power, the introduction of premium economy will become a popular and inevitable trend in the airline industry. In order to make a proper investment decision on product introduction, the airline companies should first work out the break even point of the new product, and then analyze whether such profit could be realized in the current market. Moreover, in introducing the product, the companies should also consider the characteristics and major demands of the passengers and then further tailor the products to their specific needs.

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