

# Premium Growth: the Rise of Premium Economy

Over the past two decades many long-haul carriers have introduced premium economy, a product positioned both physically and financially between business and economy class. It universally offers more personal space than economy, but there is inconsistency in both the product specification and, indeed, even its existence. The economic downturn, however, might mean that the time has come for it to become an intrinsic part of global travel programs.

Premium economy is available only on long-haul routes and is very much the preserve of Far Eastern carriers plus British Airways, Virgin Atlantic and, more recently, Air France. As a consequence, travelers in North and Latin America can experience it only on intercontinental flights on specific routes with certain, non-home carriers; for example, it is available between Buenos Aires and Sydney on Qantas and Buenos Aires and Paris on Air France. The lack of it being offered consistently by all major carriers has prevented many travel managers from incorporating it into travel programs.

However, the economic downturn has prompted rethinking of this fourth cabin among both suppliers and buyers. For suppliers that have witnessed business travelers move to the back of the plane it is a way of meeting the demand of corporate clients and business travelers and at the same time increasing overall yields. For corporate buyers it is a means of improving the traveler experience while at the same time adhering to strict new constraints on travel spend.

## Background

The concept of a premium economy class was conceived almost two decades ago. The idea was to provide a product without the service levels of business class but with a larger seat and seat pitch than the standard economy class product (see chart p. 9). It was available only on long-haul services and aimed to give higher-end leisure travelers and more junior business travelers a greater degree of comfort than that which was then available in economy class.

## Recent developments

In 2004/05 a spate of all-business class carriers such as Eos, Silverjet and Maxjet were launched as an alternative means of capturing the demand for a lower-cost, more-comfort product for business travelers. Those airlines, early casualties of the credit crunch, all ceased trading in late 2007/early 2008 and only OpenSkies, which flies between both New York and Washington and Paris, remains. Premium economy, however, has survived and, some would say, thrived.

Air France introduced Premium Voyageur last year. It began its commercial service between Charles de Gaulle and JFK at the end of October and since then has introduced it on the Tokyo, Beirut, Singapore, Beijing, Hong Kong, Osaka, Buenos Aires and Seoul routes. It will be fitted on all Air France 777s, Airbus A340s and A330s.

At the beginning of September Eurostar will replace its Leisure Select class with "Standard Premier". This product will retain the larger seats and meal service which already exist in the carriage in between Business Premier and Standard Class but tickets will be both flexible and refundable, features which did not apply to Leisure Select.

## Airline Offerings

Airline	Product	Seat dimensions	Meal service	Other
Air France	Premium Voyageur	19" wide, 123° seat recline	As economy	Priority check-in and baggage delivery, 30 kg baggage allowance
Air New Zealand Economy	Pacific Premium	41" pitch on 777, 38-40" on 747, 50% more recline, 3x3x3 configuration	Business Premium menu plus use of onboard refreshment bar	In-seat power
ANA	Premium Economy	38" seat pitch	As economy	Lounge access,
British Airways	World Traveller Plus	38" seat pitch, 2x4x2 configuration	Three-course meals	Priority departure, two 23kg checked baggage allowance, in-seat power
EVA Air	Elite Class	38" seat pitch, 2x4x2 configuration	As economy	In-seat power
JAL	Premium Economy	38" seat pitch on sky shell seat	As economy but with between meal snacks	Dedicated check-in and baggage delivery, in-seat power
Qantas	Premium Economy	38" pitch, 19.5" wide, 9" seat recline	Dedicated meal and between meal snacks	Priority check-in, boarding and departure
Thai Airways	Premium Economy	42" pitch, 19" wide, 122° seat recline	As economy	In-seat power
United	Economy Plus	Up to 5" more pitch	N/A	Location at front of economy enables priority departure, lounge access and fast-track available for extra charge
Virgin Atlantic	Premium Economy	38" pitch, 32" wide,	Dedicated meal and between meal snacks	Dedicated check-in, boarding and baggage delivery, in seat

Note: Not all routes nor all aircraft of the carriers listed contain a premium economy cabin.

## Corporate travel programs

### ■ Benefits

Many companies reacted to the financial crisis by downgrading their travel policies. A premium economy product enables companies to book their travelers into “economy” class but still segregate them from leisure passengers and give them a greater degree of comfort and a working environment without incurring the surcharge of business class.

### ■ Issues

Other than United Airlines’s Economy Plus which offers up to 5 inches of extra seat pitch and is situated at the front of the economy cabin on some domestic and some international flights, no US carrier offers anything akin to a premium economy product. Because it is not a standard product on consistent offer it is difficult to incorporate into global programs without some feeling of injustice among travelers. Those that are assigned to this fourth cabin on available routes and airlines might have peers flying the same distance on another route entitled to fly business. Conversely those downgraded to economy class might feel that they would have the benefit of premium economy if they were located in another part of the world.

At present clients of Oneworld can experience premium economy on JAL, Qantas and British Airways but not on American or Iberia. Star Alliance customers can do so on ANA and Air New Zealand, but Singapore and Thai offer it only across the Pacific, and Lufthansa does not offer it at all.

It is a product that SkyTeam had been lacking but Air France now flies with it into JFK and plans to extend it to other American cities such as Washington, Los Angeles, Atlanta and Houston. This, coupled with connections on the Delta network, will heighten awareness among Americans.

### ■ Policy – how to use premium economy

Because premium economy doesn’t exist on all carriers, it is not generally present in global policies. However, some are starting to introduce it not on the basis of hours of flying time, as the product is not available on short-haul, but on the basis of seniority or on the purpose of the trip. For instance, premium economy could be mandatory for training and team meetings while business would be authorized for client meetings.

It might also be introduced for frequent travelers. For example, for some corporates, premium economy would be allowed instead of economy for travelers that fly at least six times a year on long haul.

## Wide range of fare options make Premium Economy an attractive alternative

Published Fare comparison between FR/PAR-TYO - Amadeus query – 03/05/2010

Business		Premium Eco		Economy	
JRT	8456	WRT	3830	YRT2	3630
CRT	7693	SRT	2655	BEEFR	2150
CWEEK	5565	SWEEK	2522	BWEEK	1851
DWEEK	4672	AWEEK	2071	KWEEK	1505
IWEEK	3504	ALOISIR	1400	KLIAFR	1210
ZLOISIR	3310	APFR	1260	HALZFR	1010
				T3AFFR	860
				VL4AFFR	760
				ILZZ	680

  

<span style="display:inline-block; width:15px; height:15px; background-color:#c8e6c9; border:1px solid #000;"></span> Fully Flexible fares	<span style="display:inline-block; width:15px; height:15px; background-color:#ffcdd2; border:1px solid #000;"></span> Penalty if ticket changed + 2 to 4 day minimum stay
<span style="display:inline-block; width:15px; height:15px; background-color:#fff9c4; border:1px solid #000;"></span> Penalty if ticket changed	<span style="display:inline-block; width:15px; height:15px; background-color:#e57373; border:1px solid #000;"></span> Penalty if ticket changed + 4 to 7 day minimum stay
	<span style="display:inline-block; width:15px; height:15px; background-color:#546e7a; border:1px solid #000;"></span> Penalty if ticket changed + Sunday rule

### ■ Sourcing

Premium economy generally costs more than economy but nowhere near as much more as business class as the charts show.

If global clients could introduce the concept of premium economy into their programs in a formal fashion and thus be able to demonstrate volumes, they would be in a much stronger position to conduct negotiations and secure keener prices when purchasing this product.

### Conclusion

In difficult financial times travel policy becomes hard on travelers. Premium economy is a way in which companies could give a bit more comfort to their travelers without returning to the higher expenditure which business class policies entail.

Identifying usage on relevant routes and collecting travel and spend data is vital. Savings can be made by incorporating premium economy into the managed travel program rather than just purchasing on an *ad hoc* basis. ■

#### Paris-Tokyo route on Air France for 5 CWT clients (US\$)

