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## Air France, Qantas Enter 'All-Out War' for Downgraded Fliers

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By Chan Sue Ling

March 15 (Bloomberg) -- Qantas Airways Ltd. is scrapping first-class cabins complete with sheepskin-covered mattresses, while Air France-KLM Group is ripping out some of its cheapest seats as airlines reconfigure planes to win downgraded business travelers.

A slump in first and business-class travel last year wiped out \$85 billion in airline sales and is creating a new type of fliers as companies curb spending on tickets costing at least three times more than coach. Australia's Qantas and Air France-KLM are adding premium-economy cabins, while Air New Zealand Ltd. is installing lie-flat seats in coach.

"It's going to be an all-out war for passengers in this segment," said K. Ajith, an analyst at UOB Kay Hian Research in Singapore. "The difference between business class and economy has narrowed and will continue to narrow because people are getting more concerned about costs."

The global recession wiped out six years of premium travel growth, according to the International Air Transport Association. Travel has diverged "dramatically" by seat class, with economy bookings nearing early 2008 peak levels, while business traffic is still 17 percent below, the group said last week.

Air France-KLM charges \$2,218 for an April 2 premium-economy return ticket from Singapore to Paris, less than half the price of business class. An economy ticket costs \$1,432, according to its Web site.

### Qantas Refit

Qantas is spending A\$400 million (\$366 million) on a revamp that includes removing first-class cabins from nine Boeing Co. and eight Airbus SAS A380 planes. On another 12 double-decker A380s, the carrier is shrinking business class to add premium-economy and coach seats.

"We are not making this decision just for the short-term," Qantas Chief Executive Officer Alan Joyce said in an interview last month. "This is what we believe is the optimal configuration for the next decade."

Qantas shares have fallen 5.4 percent so far this year, while Air France-KLM has declined 1.4 percent.

Air France-KLM, Europe's biggest carrier, plans to refit most of its long-haul fleet with premium-economy seats, which come with 40 percent more space than in coach. The airline will shrink economy class to make room for the new cabin.

That appeals to six-foot-four tall Sean Fenton.

"The economy-class seat tends to come up to the middle of my back," said Fenton, who helps manage about \$765 million at Tribeca Investment Partners in Sydney. "Long-haul travel is more about whether I can get a decent sleep. I may think about premium economy -- something where you can get a degree more personal space for a good price."

### Skycouchs

Air New Zealand is adding more premium-economy seats, where couples can relax together and dine at a common table. The Auckland-based carrier also plans to fit the new "Skycouch" in economy, which converts three seats into a bed for two. Cathay Pacific Airways Ltd. and Malaysian Airline System Bhd. have also said they may add premium-economy seats on some planes.

"The number of premium-economy products is likely to carry on growing," said Peter Morris, chief economist at London-based aviation consultant Ascend. "It will become more and more common because people are realizing that they will miss out on a revenue stream if they don't put it in."

AirAsia X, Asia's only long-haul discount carrier, plans to install some seats that recline 180 degrees to lure budget-conscious business travelers. The carrier can make a profit from those seats even at a third of the price of standard business-class fares, said Chief Executive Officer Azran Osman Rani.

### Refitting Planes

Airlines that refit planes are running a risk of misjudging the market. A wrong call can take years to rectify because of the time and money required to do the work.

"It takes two or three years to reconfigure a fleet and if it's a mistake, it's a lot of money," said Andrew Miller, chief executive officer of CAPA Consulting LLC, which advises carriers.

Airlines that remove first and business-class seats also risk losing out if premium travel does recover, said Kelvin Lau, an analyst at Daiwa Institute of Research in Hong Kong.

"Premium travel has always returned after a downturn," Lau said. "Sometimes, just filling the first- and business-class sections are enough to make it a profitable flight. The yields are very high for those classes."

Delta Air Lines Inc. is spending \$1 billion on fleet upgrades through 2013 including lie-flat seats to attract more business-class passengers. AMR Corp.'s American Airlines has also improved its business-class seats and in-flight entertainment.

Higher passenger yield, the average price a traveler pays to fly one kilometer, may be a reason why some carriers are still investing on seats and gadgets at the front of the plane.

British Airways Plc is spending 100 million pounds (\$150 million) to revamp first class, while Delta Air Lines Inc. is investing \$1 billion over three years on fleet upgrades including seats that recline flat and quilts.

Dom Perignon

Singapore Airlines Ltd., which spends \$8 million annually on fine wine and Dom Perignon champagne for its highest-paying passengers, has no plans to add premium economy, according to Nick Ionides, a spokesman.

"We firmly believe the premium market will remain relevant in air travel," said Ionides. "While we were initially affected by the decline in premium travel, we have since seen this segment of the market return quite steadily across our network."

Premium yields are still 20 percent below pre-crisis levels, suggesting that corporate travelers are still not prepared to pay as much, according to IATA.

First and business-class "seats cost a lot more but I am not sure if the incremental benefit to the end consumer is warranted," said Jason Teh, who helps manage \$3.2 billion at Investors Mutual in Sydney. "Everyone is going to pull their belts a bit tighter."

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