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Scrambling to Pile On Perks

**Virgin, British Airways Vie
To Lure Business-Class Fliers;
Seat-Bed Battle Escalates**

By **DANIEL MICHAELS**

Staff Reporter of **THE WALL STREET JOURNAL**

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LONDON -- Most air travel has gotten a lot less comfortable recently as airlines world-wide have slashed perks to cut costs. But in one of the industry's fiercest brand battles, two British carriers are still dueling to out-pamper international business-class customers.

In August, Virgin Atlantic Airways capped its second premium-service make-over since 2000 by unveiling a £11 million (\$19.5 million) business-class lounge at its Heathrow Airport hub. The lounge features a 45-foot-long bar of granite and marble, hand-stitched yellow leather armchairs, a waterfall and a spa. Ads splashed across London invited fliers to "Pimp my lounge." Meanwhile, high-end London clothier Ozwald Boateng has redone Virgin's in-flight goodie bag for business-class passengers.

Now, archrival **British Airways** plans to raise the stakes, investing more than £100 million in its second international business-class revamp in five years. In the meantime, it has made the cushions on its bed-seats softer and added fluffier pillows and duvets. The rivalry "forces us to raise our game," says BA Chief Executive Willie Walsh.



Virgin

On long-haul international flights, Virgin Atlantic offers business-class fliers a seat that converts into a flat bed, below

The two British carriers are vying to attract the kind of business customer who is willing to pay to fly in comfort and land ready for action. Virgin ads tout "50 Winks" onboard. BA offers a "Sleep Well Guarantee," promising that fliers who don't snooze soundly can demand a free upgrade to first class on a subsequent flight.

The London-based rivals' latest salvos come as business travel is recovering from a deep slump that began in early 2001. On short routes in the U. S. and Europe, much of the rise in traffic is going to budget airlines at the expense of traditional carriers, including BA.

But on intercontinental flights lasting more than six hours -- enough time to attempt a night's sleep -- the demand for upscale service continues, and price doesn't seem to be an issue. When it scanned ticket prices on a range of international routes, air-travel consultants **Harrell Associates of New York** found that 10 times as many business-class fares had risen recently as had fallen. Meanwhile, economy-class fares were more evenly split between those rising and falling.



Virgin

These days, to fly business class round trip between New York and London on a ticket purchased a week in advance costs almost \$9,000 on BA and Virgin. Fares like that mean the business cabin can produce richer revenue per square foot of airplane space than economy class. Business seats are also easier to sell out than first class.

Investing in pricey amenities that draw passengers is "expensive, but it's incredibly important," says Sir Richard Branson, chairman and founder of Virgin Atlantic. "It only takes a 1% or 2% movement in passengers to pay for innovation." In 2003, Virgin invested almost \$200 million to

develop and install an elaborate new bed-seat for Upper Class, its business class. But the investment has paid for itself thanks to passengers wooed away from BA and U.S. carriers, Sir Richard says.

BA managers counter that Virgin may have grabbed market share from U.S. carriers but not from BA. The giant U.K. carrier says its Club World international business-class service has won market share, though mainly at the expense of foreign competitors.

The level of coddling offered by Virgin and BA isn't likely to become an industry standard. London is an international finance and media center that draws high-spending executives. But Britain tightly restricts which airlines can operate at overcrowded Heathrow, the main international hub, so BA and Virgin have a rich market that's tough for others to crack.

Still, other carriers are trying to keep up, and they have adopted a number of the business-class innovations spawned by the BA-Virgin rivalry. Besides bed-seats, these include dinner service on the ground before red-eye flights to maximize sleep time, and arrival lounges for passengers to refresh post-flight. **AMR Corp.**'s American Airlines -- the world's largest airline by traffic -- said this past August it will introduce international business-class seats that spread flat. But like most of the other carriers following the British duo, including **Air France**, Germany's **Lufthansa** and UAL Corp.'s United Airlines, American will squeeze flat seats onto its planes by tilting them, with each passenger's feet sliding under the head of the passenger one row ahead. The BA and Virgin business-class bed-seats are horizontal.



British Airways

British Airways' seat-bed also converts into a horizontal bed for sleeping.

BA and Virgin aren't the only airlines targeting long-haul business fliers. Asian carriers including **Singapore Airlines** and Hong Kong's **Cathay Pacific Airways**, which have long set a global standard for attentive staff, offer swank long-haul business-class packages, as do upscale international carriers, including Australia's **Qantas**, South African Airways and newcomers from the Persian Gulf such as Dubai's Emirates Airlines and Qatar Airways.

Two start-ups, Eos Airlines and MAXjet Airways, recently began offering business-class-only flights between London and New York. And United on Wednesday announced a successful first year of its "p.s." premium service between New York and San Francisco or Los Angeles, featuring only first, business and premium-economy seating and enhanced onboard amenities.

But BA and Virgin still innovate faster. The rivals now one-up each other so quickly that some frequent fliers say it's a coin toss as to which carrier spoils them more. "You're down to real personal preferences choosing between the two," says Chris Avery, an equities analyst at J.P. Morgan in London who covers airlines and flies both.

Sir Richard started the luxury race when he created Virgin in 1984 as "the kind of airline I'd like to fly." The carrier serves only intercontinental routes and has no separate first class. Although Upper Class tickets are priced to compete with rivals' business-class fares, the cabin boasts features unusual even for first class. A bar with stools and space for beauty treatments and massages has been standard for years. Ticket prices include limousine rides to and from the airport, and Virgin in 1996 started drive-through check-in so passengers don't even need to step out of their limos.

BA largely ignored the upstart for a decade. Its global network was far larger, allowing it to land lucrative corporate deals that Virgin couldn't touch. BA also had a silver bullet: It could dangle seats on the supersonic Concorde (which since has been scrapped) as a reward for steady customers. But as Virgin kept expanding in the late 1990s, BA decided it was time to act. When Virgin introduced the first tilted flat seat in late 2000, BA quickly leap-frogged it with a horizontal seat. And BA's chief designer, Mike Crump, managed to install the beds without wasting space by creating yin-yang nested pairs of seats.

BA's creativity jolted Virgin. "The moment we found out what they'd done, we dumped £100 million in investment and were determined to do them one better," Sir Richard says.

The two rivals kept up their pampering war even through the slump that began in 2001. In 2003, Virgin unveiled a seat that's more private than BA's and turns into a bed that's longer and wider. It also offers a bigger table for eating or working, and a bigger TV screen. Virgin's "suite" is even certified for passengers to sit reclined during takeoff and landing.

"We admire what they've done," says BA's Mr. Crump, adding that BA will introduce a new Club World seat next year that's "radically different from the current model."

Virgin design chief Joe Ferry's response? Virgin will watch closely to see what BA does with its new seat, he says, "and, if we have to, react."

Write to Daniel Michaels at daniel.michaels@wsj.com¹

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(1) <mailto:daniel.michaels@wsj.com>

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