



Will All-Biz Airlines Fly?

Airlines like Eos and Virgin hope to siphon away business-class passengers from major carriers. Does the strategy have wings?

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Silverjet offers the only separate ladies' room on a commercial aircraft, and its flight attendants are trained in line dancing in order to maximize the grace of their service. But can line dancing and a unisex loo help sustain an airline?

The London-based Silverjet is one of four premium-only startups, which will soon face competition from British Airways (BAIRY) and Virgin Atlantic Airways, the latest airline to announce a business class-only plan. Launching its service in 12 to 18 months, Virgin will fly transatlantic routes from New York to European destinations that could include Paris, Frankfurt, Milan or Zurich, and later London.

Business Class for Nonbusiness Travelers

When U.S. carrier MAXjet debuted its service in November, 2005, it -- along with fellow U.S. carrier Eos, Silverjet, and France's L'Avion -- pioneered a market, largely aimed at noncorporate though affluent business and leisure travelers looking for business-class service for less.

With fares of less than \$6,000, MAXjet felt it could steal away customers who were paying that amount or more for a business-class round-trip ticket on one of the large carriers. Though corporations typically fly employees on tickets bought wholesale, smaller businesses cannot afford such volume discounts. The idea is that there are enough such travelers in that segment who would be willing to shell out \$3,000 for a round-trip ticket.

All of the premium-only startups, however, have yet to reach a profit, and while some of the services predict becoming profitable within two years, the questions remain whether any of the small business-class-only airlines can beat their bigger competitors and whether a market for such a service exists at all.

Why So Many Startup Carriers?

Regardless of whether premium-only carriers eventually do achieve long-term success, the market for premium travel is, in general, a strong one. According to the December, 2006, Monitor from the International Air Transport Assn. [IATA], premium fares accounted for 12% to 14% of traffic on North Atlantic routes in 2006. However, for 2006 the growth rate for North Atlantic premium traffic was below average at 3.5% and less than the 4.3% growth rate for overall international premium traffic.

These are numbers Virgin Atlantic's Director of Communications Paul Charles still thinks will work in Virgin's favor. "There's clearly a market out there for this kind of product, but the jury's still out on how many such carriers can exist," he says.

Virgin's decision to specifically service Europe and the U.S. follows on the April 30 Open Skies Agreement, which will allow free market competition for European and U.S. airlines in those areas -- a decision that will heighten the competition among transatlantic services, according to IATA's spokesman Steve Lott.

With Boeing's Director of Marketing Drew Magill estimating that the success rate for all startup carriers over the past three to five years averaged 50%, it appears unlikely that the market will support six premium-only carriers, especially when the legacy carriers will be entering the competition with a serious leg up.

How Much Does Product Matter?

"Safe, reliable travel is convenient travel," Magill says. "The most nonstop direct flights, with the lowest fares

and a comfortable setting -- that's what customers want."

But is that what premium-only startups can provide?

Eos, which even Silverjet Chief Executive Lawrence Hunt speculates could be "the best product in the sky," is the only premium-only service to match the 180-degree full-flat beds offered in Virgin's first class and British Airways' first and business classes. According to its Chief Executive Jack Williams, Eos is a "lifestyle brand" as opposed to an "airline brand," a distinction that guarantees no more than 48 passengers on a plane. It also charges them \$5,800 round-trip from New York to London, when tickets are purchased seven days in advance -- a price difference practically indistinguishable from the legacy carriers' own business-class seats.

While the price tags for similar MAXjet and Silverjet tickets average \$3,000, Professor Daryl Jenkins, freelance airline consultant and author of books such as *The Savvy Business Traveler*, admits that the carriers' product is not the same as Virgin's or British Airways' business class.

Flying Into the 'Burbs

Though Jenkins acknowledges that the startups' product is "still a pretty good seat," a good seat doesn't necessarily mean a convenient one. According to **Bob Harrell, president of travel consulting firm Harrell Associates**, passengers must deal with the "pain in the a--" factor of the carriers' point-to-point service and service from secondary airports "far out from the center of [London]." MAXjet and Eos fly from JFK to London's Stansted, located 34 miles from central London. Silverjet flies from Newark to London's Luton, 32 miles from the city center.

Point-to-point service -- with no domestic connecting flights -- is one set of shackles Virgin Atlantic may be able to avoid. With the possibility for an agreement with Virgin America, Virgin would be able to feed its premium-only flights into its U.S. domestic service. The airline, along with British Airways, may also be able to tap into the corporate business sector, a valuable demographic the smaller carriers have been largely unsuccessful at attracting based on their limited frequency and inability to finance corporate packages.

"The most natural business passengers are by-and-large precluded from using the smaller carriers because their employers are contractually tied to programs with large carriers," says former United Airlines vice-president Stuart Oran.

Silverjet's Hunt raises the issue that many major corporations are a "nightmare to deal with" and furthermore claims that "consumers are getting increasingly disillusioned with frequent-flier programs." However, frequent-flier programs, which none of the startups currently offer, could very much influence their future success; Edward Plaisted, chief executive of London-based airline research firm Skytrax, says that a large portion of "core business travel" remains "very much dictated by frequent-flier points."

A Risky Endeavor?

Regardless of the initial outlook for the carriers' success, Plaisted admits, "There is a finite number in terms of demand."

Operating from secondary airports with limited connecting services and offering no connecting services themselves, the startups are largely unable to attract passengers residing outside the metro area of any airport they service, according to Oran. While MAXjet, Eos, and Silverjet all plan to expand their fleet to service more North American destinations, the number of cities able to sustain such services can only be limited.

"After London, the number of business passengers between the U.S. and European cities starts to look microscopic relative to the number needed to support daily air carrier service," Oran says. "That's not to say that one of these carriers might not survive but it's not a scalable business without the ability to collect passengers from scores of other cities."

Oran speculates that the amount of hype regarding startups, which can only seat 100 passengers per plane, is both an indication of the aviation market's thinness and an age-old trend: "History shows that it is just not

that hard to start an airline with a couple of aircraft and a wide-eyed investor or two," says Oran. "The trick is to fly full enough at a sufficient price level to get to the next few aircraft before you go broke."

[Click here](#) for a list of the ten best-ranked business classes in the sky.

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