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Airlines' Premium-Economy Trick

Carriers are banking on the psychological allure of marginal luxury.

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Let's say you receive an unexpected financial windfall. What's the first thing you're spending money on? If it's a lavish vacation—how are you getting there? Americans top the list of consumers who say they're interested in private travel, so there's a clue. Many of us would prefer to opt out of the commercial-flight experience, but the odds of hailing a private jet are lottery-long for anyone not in the 1 percent. Still, that doesn't mean that commercial flying is devoid of its own cutthroat class system.

As with life at ground level, social mobility in the sky is secured by money and a slew of secondary considerations, like "loyalty," that also mean money. The majority of us find ourselves on the bottom rung—the main cabin, which accounts for roughly 70 percent of the seats on a Boeing 737. And airlines don't let us forget it. Every boarding-zone call registers our lowly station, sorting passengers with all the sensitivity of industrial farm equipment. Every full overhead bin mocks our sad aftward shuffle past first or business class. On occasion, some of us get to ride the company card to relative comfort, but when you're flying on your own dime, you're more than likely facing the bald reality of economy seat 28F.

Or maybe, just maybe, you reach a little deeper into your pocket and cough up the bones to relocate to a slightly sexier neighborhood: premium economy. Though not as plush as a business-class berth, premium (which goes by different names depending on the airline) delivers various creature comforts—a few extra inches of legroom, or a toiletry kit with Malin+Goetz products, or a "chef-inspired" meal with craft beer, to name a few perks across carriers. In recent years, an emerging subset of fliers has signaled enthusiasm for premium economy's marginally more refined service. "One of the trends that everyone in the airline industry is talking about nowadays, especially coming out of the pandemic, is a greater willingness on the part of leisure travelers to buy a premium economy seat," Rob Britton, an adjunct professor at Georgetown University and a former managing director of American Airlines, told me. Business travel, airlines' usual bread and butter, fell off a cliff in 2020, and these companies now see a lifeline in Millennial yuppies. "The 35-year-old couples going to Paris are filling the gap."

In the mid-aughts, when a major aircraft manufacturer was designing a new model, it studied the cost per square-inch of real estate in the most expensive markets: New York, Paris, London. Then it looked at the cost per square-inch on airplanes. There was no comparison, Uzma Khan, a marketing professor at the University of Miami, told me. “From an airline’s perspective, what is the most expensive thing for them to give you? Real estate in the air.” In that regard, airlines operate as a kind of landlord, calculating the expense of hurtling a single passenger from one place to another and adding a healthy upcharge on top.

Historically the seats in the front of the plane subsidized operations, as besuited flyers from the likes of Bain and Deloitte and Baker McKenzie reliably bought more expensive business-class tickets. Still, carriers clung to thin margins. And in 2008, rising fuel costs and sagging demand prompted airlines to decouple standard amenities from economy tickets in order to keep their prices competitive. Over time, they made it up not just by selling credit-card miles, corporate contracts, and cargo, but also by using premium economy to sell the faint whiff of pampering to vacationers like Kelsey Masters, a project manager who lives in New York.

By her own admission, Masters is terrified of flying, but she makes frequent cross-country trips to see friends and family. She described her purchase habits to me with a weary acceptance that characterizes her overall feelings on pandemic air travel: “Screw it. Sixty bucks to upgrade? I get a little more legroom and a free drink, and I can just be a little more calm? That sounds like a really good thing right now.” Rather than splurge in the planning stage, she tries to buy the cheapest fare ahead of time and let the circumstances of the travel day guide her upgrade decisions. Compounding stressors from the airport, the trip itself, or even a few nights of fitful sleep on a friend’s living-room pullout “will make me start to reevaluate the opportunity cost of the dollar,” she said.

Premium economy has become a major revenue driver for the airlines, which, according to Counterpoint Market Intelligence, an aerospace market research company, are projected to triple their inventory of premium seats by 2025. But travelers like Masters weren’t the original target. Britton explained that premium economy wasn’t built to entice strivers across flight-class lines; carriers originally designed it to catch the bruised egos of former business-class members when the corporate world began to earnestly self-audit and downgrade employee travel budgets. ***A recent report by Jay Sorensen, an industry consultant, noted that “the apparent discovery of a new type of upscale leisure traveler” is a welcome surprise for these airlines. It connoted a small miracle: Airlines had once again wrung a new social class from flying, as they had done with first and business class. And they were able to do it, in part, because of a phenomenon called “pain of payment.”***

According to Khan, people often experience “actual, physical pain” upon paying for something. But humans can have short memories. If airlines create enough distance between the initial ticket purchase and the option to upgrade, passengers are more likely to think of the latter as a stand-alone cost. “A lot of upgrades happen because now you’re either at the airport, or you’re checking in, and they give you an option. You don’t even remember exactly how much you paid for your flight when you were booking it, so that pain is gone,” Khan said. Basically, you don’t consider the total amount because you’ve already internalized the initial amount.

At the point of travel, an extra \$45 or so to improve a short-haul flight—however modestly—doesn’t seem so decadent, especially when the threat of suffering through basic economy looms. Back in 2014, the antitrust scholar Tim Wu coined the phrase calculated misery to describe the conditions of basic economy, positing that airlines deliberately provide substandard service to coerce customers into paying for amenities that previously were free—seat selection, checked baggage, and itinerary changes, for instance. “It’s just a matter of physical discomfort translating into an emotional debt,” says Wesley Kang, a co-founder of Nimble Made, an e-commerce clothing brand, who flies frequently for leisure and family visits. “The less you move around, the less you have to adjust, the less inconsiderate you’re being to the person next to you.”

There is, of course, another prevailing opinion about premium economy, which is that it’s simply a ham-fisted attempt to get passengers to pay more for a negligibly better experience. This attitude puts the pomp and puffery of premium economy into sharp relief. A seat upgrade, after all, does not get you to your destination any more quickly or safely. Research bears that line of thinking out to an extent. Khan mentioned several studies that were conducted to determine the extent to which space colored the overall experience for passengers. An aircraft manufacturer brought in focus groups to try different seat configurations on its prototype, sometimes offering more legroom, sometimes more elbow room. “It had zero impact on customer satisfaction,” Khan said. “Where people do feel the difference is if you give them four more inches at the eye level. Because the perception of space is what matters.”

One could posit that the rise of premium economy was culturally foretold. The coveted Millennial-yuppie flier laying their claim to “nicer” seats falls in line with the idea that they’re bold go-getters who seek experiences over things. Plus, the confluence of pandemic exhaustion, discretionary income, and the aforementioned “screw it” attitude toward purchasing small luxuries creates the perfect environment for low-stakes indulgence. Despite what travelers may know about seat-upgrade marketing tactics, many still think the extra spend is worth it. And perception is reality. Airlines, it turns out, have figured out how to bank on that fact.