

# 2023

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## Long Haul Premium: Upper Middle Class – for the Upper Middle Class

This report reviews this cabin's appeal to upper income leisure travelers and price-conscious business travelers, and includes a review of adoption by 20 key airlines.

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Issued 05 December 2023

# Long Haul Premium: Upper Middle Class – for the Upper Middle Class

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## About Jay Sorensen, Writer of the Report

Jay Sorensen's research and reports have made him a leading authority on frequent flyer programs and the ancillary revenue movement. He is a regular keynote speaker at ancillary revenue and airline retail conferences and has testified to the US Congress on ancillary revenue issues. His published works are relied upon by airline executives throughout the



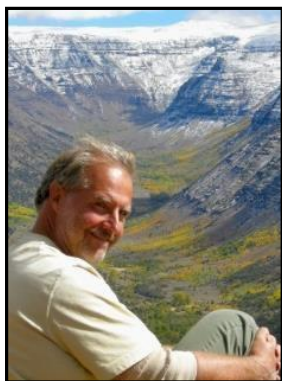
Jay with sons Anton and Aleksei at Artist Point in Yellowstone National Park.

world and include first-ever guides on the topics of ancillary revenue and loyalty marketing.

Mr. Sorensen has 38 years experience in product, partnership, and marketing development. As president of the IdeaWorksCompany consulting firm, he has helped boost airline revenue, started loyalty programs and co-

branded credit cards, developed products in the service sector, and helped start an airline and other travel companies. His career includes 13 years at Midwest Airlines where he was responsible for marketing, sales, customer service, product development, operations, planning, financial analysis and budgeting. His favorite activities are hiking, exploring and camping in US national parks with his family.

## About Eric Lucas, Editor of the Report



Eric Lucas is an international journalist whose work has appeared in Michelin travel guides, Alaska Airlines *Beyond Magazine*, *Epoch Times*, *Westways* and many other publications. Founding editor of *Midwest Airlines Magazine*, he is the author of eight books. Eric has followed and written about the travel industry for more than 30 years. He lives on San Juan Island, Washington, where he grows organic garlic, apples, beans and hay; visit him online at [TrailNot4Sissies.com](http://TrailNot4Sissies.com).

Eric, at his favorite summer retreat, Steens Mountain, Oregon.

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## CABIN LAYOUT IS A REAL ESTATE GAME

Premium economy has become a very attractive product for airlines to consider. I have written this report to review why this “middle cabin” has become a hot property and how airlines can maximize its revenue potential.

An aircraft fresh from the factory can be considered an empty canvas, or perhaps an empty plot of land to be developed. Real estate developers consider how much space to allocate luxury condominiums, mid-market apartments, and units priced for first-time renters. It’s crucial to find the right mix because buildings are not easily changed once built.

Similar practices also apply to the business of designing aircraft interiors. The initial layout chosen for an airliner can be very unforgiving if changes are required for the placement of seat tracks, overhead bins, and galleys. Economics also play a significant role when the cabin space allocated for a business class passenger might instead accommodate four economy class passengers.

Global network carriers have a reputation for complexity. For example, Emirates operates a 4-class Airbus A380 featuring first, business, premium economy and economy cabins. Significant space has also been allocated for a bar and lounge area for first and business class passengers. It’s a flying village designed to serve the short-term dreams and desires of a population of 484 passengers.

Premium economy has emerged as a property with high “curb appeal” with its oh-so-attractive position of providing affordable luxury. For long-haul travelers, it’s an upper middle class seat priced for the upper middle class. I believe we have entered an era where premium economy has the potential to deliver more profits than business class.

A vintage yellow card titled 'MARVIN GARDENS' with a black border. It contains a table of property values and a note at the bottom.

Rent*	\$22.00
With 1 House	120.00
With 2 Houses	360.00
With 3 Houses	850.00
With 4 Houses	1025.00
With Hotel	1200.00
Mortgage Value	140.00
Houses cost \$150.00 each	
Hotels, \$150.00 plus 4 houses	
* If all properties of one color are owned, rent is doubled (on unimproved property only.)	

*Rather like premium economy, Marvin Gardens on the US edition of the Monopoly board is positioned between the cheapest and most expensive properties. Image: Pre-patent game card from 1935.*

## THE PANDEMIC BOOSTED PREMIUM ECONOMY

Covid led to millions of deaths, the disruption of cultures and institutions, and changes to travel behaviors. The airline industry reacted quickly to the virus with an array of defenses such as enhanced cleaning and sanitizing, passenger handling procedures to minimize contagion, and technology to communicate government travel regulations and passenger vaccination status. Post-pandemic, we have seen a significant reduction in work-related travel and an increased urge by some consumers to spend more on personal comfort and convenience. It's these factors that have boosted consumer demand for premium economy.

Signs pointing to a sustained decrease of work-related traffic abound in the media:

- Airlines in the US confess work-related traffic remains below pre-pandemic levels with Alaska down 25 percent and JetBlue down 20 percent.<sup>1</sup>
- Europe's largest airline group, Lufthansa, had seen a post-pandemic traffic rebound of 60 percent through mid-2023, and hopes for a 70 percent recovery by year end.<sup>2</sup>
- Etihad is relying on deploying more giant A380 aircraft to fill premium cabins with leisure travelers, said the carrier's VP for Europe and the Americas.<sup>3</sup>
- Southwest lowered flight thresholds for elite status by 20 percent.<sup>4</sup>
- Alaska Airlines is focusing aircraft capacity on leisure routes, and will trim business-focused route capacity in the Pacific Northwest and California by 22 percent (year over year) for January and February of the 1<sup>st</sup> quarter of 2024.<sup>5</sup>

The loss of work-related traffic is around 25 percent since the pandemic. It will eventually recover to 2019 levels, but this will be due to normal annual traffic growth and increased business activity. Online meeting services, notably Zoom, were already in use at the beginning of the pandemic. Businesses embraced these tools as a replacement for business travel. This practice enjoys significant staying power in the post-pandemic era and contributes to the sluggish return of work-related travel. Another factor is the carbon mitigation objectives announced by global corporations. Travel, as a scope 3 emission, can be reduced through various initiatives, one of which includes taking fewer business trips.

Airline executives have been keen to talk about blended travel, or "business-leisure" trips, as representing an evolution of work-related travel. I think this activity has always existed, but I agree, the pandemic has encouraged more of it. Business travel revenue is another referenced statistic, with executives disclosing it's close to 2019 levels. But I believe the gains are largely due to higher fares and inflation.

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<sup>1</sup> "Sluggish return of business travelers forces US airlines to rejig their networks" 02 August 2023, Reuters.

<sup>2</sup> "Europe's Business Travel Rebound Slips Away From Airlines' Grip" 06 August 2023, Bloomberg.

<sup>3</sup> "Etihad Bets on Premium Leisure With Return of Apartments in Sky" 26 July 2023, Bloomberg.

<sup>4</sup> "Southwest Airlines Announces Several Enhancements To Rapid Rewards Program For 2024" Southwest 16 October 2023 press release.

<sup>5</sup> Alaska Airlines 3<sup>rd</sup> quarter 2023 earnings call transcript at TheMotleyFool.com.

The troubles associated with the global economy have forced some work-related travelers to downgrade from the expense of business class. Premium economy is the perfect place for these folks to land. Without it, many would buy lower yielding economy fares, which represents a significant revenue downgrade for an airline. Airlines are eager to fill the revenue and traffic hole created by these changes with something . . . and higher spending leisure travelers are a timely choice.

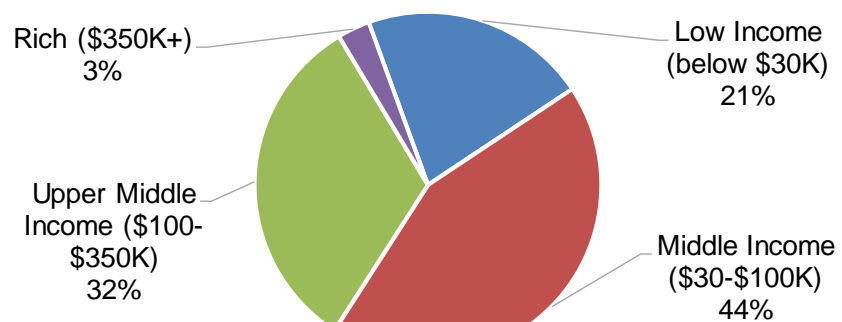
“Premium” has emerged as a post-pandemic buzzword for airlines, and for the travel industry overall. The word is liberally applied to a wide array of travel products, such as first and business class, airport lounges, luxury hotels, big SUV rental cars, and of course, premium economy. The pandemic gave consumers permission to spend money to create more personal space while traveling. Larger seats, more seat pitch, and airport lounge access deliver a sense of personal security and crowd control. Delta has been very vocal about its desire to attract and dominate this market.

The upper-middle class of the US is an attractive market for premium-oriented products. This group is usually defined as having household income in the \$100,000 to \$350,000 range.<sup>6</sup> These folks need not be very careful about how they

spend money. The broad US middle class are great travel consumers, but with household income ranging from \$30,000 to \$100,000, they are careful spenders. The US economic system has not been kind to lower and middle income households; their share of the country’s economic bounty has deteriorated over time.

However, the target market of upper middle income households has grown considerably, representing just 13 percent in 1979,<sup>7</sup> and by my calculation jumping to 32 percent for 2022. That was nearly 42 million households for 2022, with total income of more than \$7.6 trillion. That is an attractive 54.7 percent share of 2022 US household income of \$14 trillion.<sup>8</sup> It also represents a giant pool of affluent buying power that the travel industry is eager to capture.

**US Distribution of Households by Income Level - 2022**



Data Sources: US Census Bureau Data, Urban Institute (definitions of income levels) and IdeaWorksCompany calculations.

<sup>6</sup> “The Upper Middle Class Continued to Grow from 2014 to 2019” report dated February 2021, The Urban Institute.

<sup>7</sup> “The Upper Middle Class Continued to Grow from 2014 to 2019” report dated February 2021, The Urban Institute.

<sup>8</sup> Based upon US Census Bureau average (mean) household income of \$106,400 for 2022.

## IT'S NOT YOUR IMAGINATION, THERE ARE MORE PREMIUM SEATS

The *New York Times* reported earlier this year that “Major US airlines are expanding premium seating by 25% to 75% in portions of their fleets.”<sup>9</sup> The premium category includes everything from first class to economy plus (extra-leg-room seating). Delta has added 15,000 premium economy or business class seats to its daily schedule since the pandemic. As a specific example, the airline removed 20 economy seats and 6

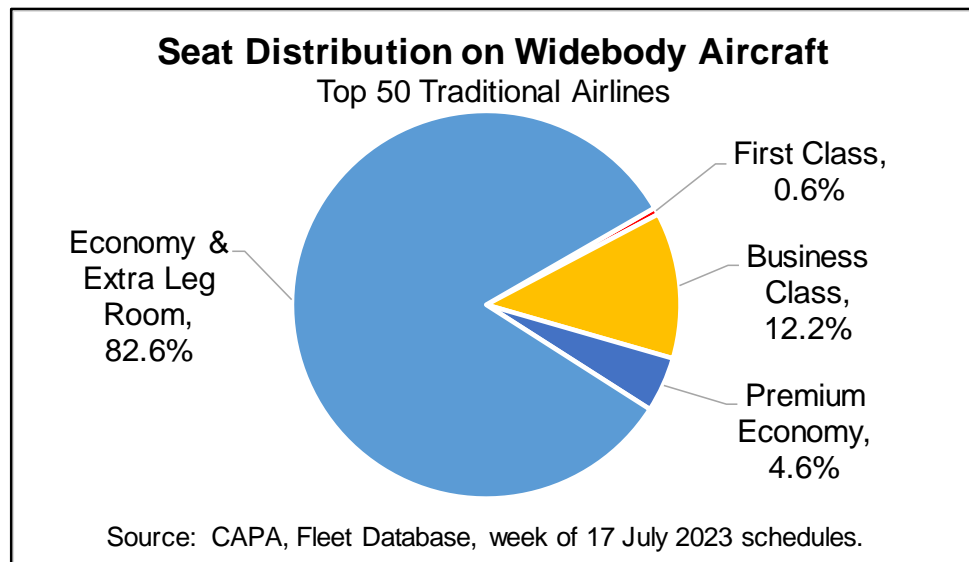
business class seats on its long haul 767 aircraft to create a 20-seat premium economy cabin.

Other examples include SWISS, which will introduce

its largest premium economy cabin on long haul A350-900 aircraft in 2025 with 38 seats.<sup>10</sup> American recently disclosed it plans to grow its entire category of premium seating by 43 percent between the 3<sup>rd</sup> quarter of 2023 and 2026.<sup>11</sup>

The complexity and lead time associated with cabin retrofits requires airlines to carefully consider future market opportunities. Clearly airlines are anticipating a larger haul of upper income passengers. There is ample opportunity here; as of the summer of 2023, the slice occupied by premium economy on widebody aircraft was a slender 4.6 percent. Look for airlines to follow Delta’s lead by converting a few business class seats, and a bigger chunk of economy seats, to a premium economy configuration on long-haul aircraft. It’s no wonder airlines are intrigued — United recently disclosed in its 3<sup>rd</sup> quarter 2023 investor call that Premium Plus is now its most profitable cabin.

Global network airlines enjoy access to a waiting marketplace, but low cost carriers (LCCs) are also reaching for premium passengers. Some, such as AirAsia X, Condor, and FlyDubai, offer a lie-flat cabin similar to the global giants. The usual LCC upgrade has been a premium economy seat which may offer amenities, such as meals, on an a la carte basis.



<sup>9</sup> “It’s not your imagination: First class is getting bigger” article dated 18 May 2023, *New York Times*.

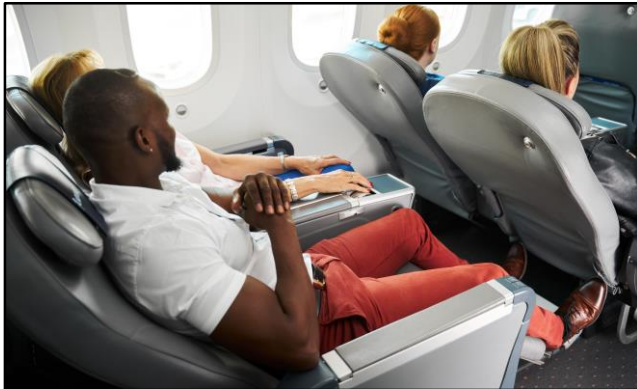
<sup>10</sup> “SWISS to enlarge Premium Economy cabin for its Airbus A350s” press release dated 11 September 2023 at SWISS website.

<sup>11</sup> American Airlines, Q3 2023 earnings call transcript dated 20 October 2023.



## LOW COST CARRIERS UPGRADE THEMSELVES

LCCs don't rely on the corporate travelers served by global network carriers. Rather, they encourage their existing budget travelers to splurge on a nicer cabin experience. But enticing a new category of customer has become increasingly



The 43-inch pitch for Premium class on Norse Atlantic is more generous than the usual 38-inch pitch found on global network airlines. Image: Norse Atlantic

common. My recent conversation with Charles Duncan, President of Norse Atlantic supports this narrative: "Premium allows Norse to attract travelers who might not normally consider flying a LCC. Our economy cabin has an immediate audience because consumers know us for low fares, great value. You could consider the traffic we carry in premium to be incremental. Without that cabin, we likely would not carry

those passengers. Also, the offer lifts the quality perception for the entire airline because a two class airline carries more consumer clout."

That type of thinking allows LCCs to be very creative in the product sold to consumers. Originally LCCs were purist in their product approach to premium economy with most using the a la carte method for checked baggage, assigned seats, meals and beverages. Over time, many have morphed to an inclusive style with these items provided without extra charge. Norse Atlantic takes a blended approach by selling branded fares for its premium class: Light, Classic, and Flextra.

Premium Light	Premium Classic	Premium Flextra
<ul style="list-style-type: none"><li>✓ 1 x personal item ⓘ</li><li>✓ 1 x Carry-on (10kg / 22lb) ⓘ</li><li>✓ 2 Meal services ⓘ</li><li>✓ Premium boarding</li><li>✓ Priority check in</li><li>✓ Changeable for fee ⓘ</li></ul>	<ul style="list-style-type: none"><li>✓ 1 x personal item ⓘ</li><li>✓ 1 x Carry-on (10kg / 22lb) ⓘ</li><li>✓ 1 x Standard checked bag (23kg / 50lb) ⓘ</li><li>✓ 2 Meal services ⓘ</li><li>✓ Premium boarding</li><li>✓ Priority check in</li><li>✓ Changeable for fee ⓘ</li></ul>	<ul style="list-style-type: none"><li>✓ Seat selection ⓘ</li><li>✓ 1 x personal item ⓘ</li><li>✓ 1 x Carry-on (10kg / 22lb) ⓘ</li><li>✓ 2 x Standard checked bag (23kg / 50lb) ⓘ</li><li>✓ 2 Meal services ⓘ</li><li>✓ Premium boarding</li><li>✓ Priority check in</li><li>✓ Changeable ⓘ</li></ul>

Norse Atlantic uses a classic branded fare presentation; typical results would suggest 50 percent of shoppers buy their Premium Classic fare.

The three fares include a base level of amenities for its transatlantic flights: large carry-on allowance, two meal services, with drinks available throughout a flight, priority check-in, and early boarding. It's a model designed to encourage an easy comparison with the premium economy class offered by global network carriers.

## THE LONG-HAUL PRODUCT IS GLOBALLY CONSISTENT

Seating offering a “38-inch pitch and 19-inch width, with a better-than-coach meal,” just about sums up the global standard for premium economy. That’s more generous than the usual 31-inch pitch and 18-inch width of long-haul coach. Other amenities are often included, such as a couple of checked bags, early boarding, and standard seat assignment. There are exceptions, with examples being British Airways, Lufthansa and SAS charging fees for assigned seats.

<b>Summary of Long Haul Premium Economy Services</b> 20 Leading Global Network Carriers <i>Based upon review of airline websites and other sources November 2023</i>						
Regions	Airlines	Brand	Pitch (inches)	Width (inches)	Upgraded Meal/Drinks	Other Notable Amenities
Asia / Pacific	Air China	Premium Economy	36-39	18-20		
	Cathay Pacific	Premium Economy	38-40	19.5-20	●	
	Japan Airlines	Premium Economy	38-42	18-19.3		Limited lounge access
	Korean Air	Not Offered				
	Qantas	Premium Economy	38-42	19.5-20.5	●	
	Singapore	Premium Economy	38	19.5	●	Pre-select entree
Europe	Air France	Premium Economy	38-40	19	●	Fast track
	British Airways	World Traveller Plus	38	18.5	●	
	Finnair	Premium Economy	38	18	●	
	Lufthansa	Premium Economy	38-39	18-19	●	
	SAS	SAS Plus	38	18.3	●	Airport lounge, fast track
	Turkish	Not Offered				
Middle East	Emirates	Premium Economy	38-40	19.5	●	
	Qatar Airways	Not Offered				
Latin America	Avianca	Not Offered				
	LATAM Airlines	Not Offered				
North America	Air Canada	Premium Economy	38	18-20	●	
	American	Premium Economy	38	18.5-19	●	Fast track
	Delta	Premium Select	38	18.5-19.5	●	Fast track
	United	Premium Plus	38	18.5-19	●	Fast track, lounge discount
<i>Notes: Premium economy might not be offered on all long-haul routes of an airline. Seat pitch and width also obtained from SeatGuru.com and other online sources (rarely found at airline websites).</i>						

The provision of access to a lounge is largely excluded from premium economy. SAS has made lounge access a point of distinction for its SAS Plus cabin. United offers one-time access at a discount below the usual \$59 price. A recent booking query produced prices of \$32 and \$45.

Among the airline websites visited while researching this report, Japan Airlines was found to have a very attractive premium economy seat. The seat mimics some of the features found in business class. Recline and leg rest movement are motorized, and large moveable panels increase privacy. The seatback monitor measures 16 inches across with an AC power outlet and USB charging ports available at all seats. However, the catering offer is shared with economy class with the added amenity of Champagne. Contrary to standard practice, lounge access is provided for passengers departing on international flights.



*The Japan Airlines premium economy seat on A350 aircraft features a fixed shell which preserves space for the person behind you when the seat reclines.*

The global standard for premium economy meals is a full tray, featuring higher quality food than economy, with china and linen. The upgrade typically also applies for the beverage service, with most airlines offering a wine selection that bridges the gap between economy and business.



*It's no surprise that Emirates offers a premium economy meal with tremendous eye appeal.*

Finding the right balance of amenities is a continuing challenge. The comfort must be better than economy, but the luxury should not match the business cabin. I've had many conversations with cabin crew on flights equipped with premium economy. Flight attendants confess a level of frustration, "The passengers expect business class style service from us, we just aren't equipped to deliver that in premium economy." They have also indicated premium economy passengers are the most demanding of all cabin classes. The premium paid likely increases expectations for these former economy passengers.

Airlines reserve lounge access and extravagant multi-course meals for business class as incentives to justify the big price leap to the business class cabin. But of course, the most crucial amenity is the seat itself. Here again, compromise is the solution sought by airlines. You might get a nicer pillow than coach class, and even a light duvet, but the recline will be nowhere near the lie-flat experience of business class.

## MORE IS NOT ALWAYS BETTER

The old model of operating an airline in a low fare environment was to fill the cabin with seats. LCCs would reduce seat pitch and width to the bare minimum. Traditional airlines offered a modest improvement of coach class comfort to fortify a better brand position. The ancillary revenue revolution taught the industry that a good share of consumers would pay a premium for more comfort and convenience. Thus, extra-leg-room seats were born, and these would eventually grow into a separate premium economy cabin.

Designing an aircraft cabin layout, and creating the best seat products to fill it, require decisions that have long term consequences. American learned the dangers of this when its angled-flat business seats flew for too long, while competitors were introducing dramatically better fully-flat seats. Airlines that don't have a premium economy cabin are very likely feeling pains of remorse. The question has become "How do we maximize premium economy revenue?" The industry has passed the point of debate regarding the viability of premium economy.

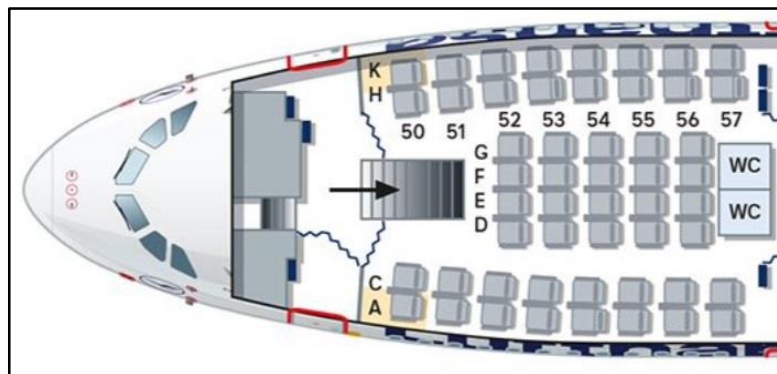
Which way to go? Does the carrier's layout have too few premium economy seats?

This can be addressed with higher fares. However, this may spill consumers to competitors. Too many premium economy seats? That's actually a larger problem because poorly allocated real estate also affects the economics of neighboring cabins.

Discounting premium economy fares to fill seats

will upset the delicate balance described earlier in this report. Business class passengers might be more tempted to save money by downgrading, and economy class might appear to be less of a bargain.

Sales per square foot measures retail productivity and reveals how effectively a retailer uses its selling space to generate revenue. It is calculated by dividing total sales revenue by the actual square footage of selling space. I've adopted this same measurement to compare premium economy to other classes. Prevailing wisdom in the airline industry places business class as the big money maker. That top-of-the-hill position has been challenged by the forces described throughout this report. The question has become, is premium economy up to the challenge? My analysis reveals premium economy can be a revenue leader when measured on the price it can fetch per square foot.



*Main deck and on the nose. Lufthansa placed its A380 premium economy cabin where one might usually find first class.*



Let's apply retail practice to the airline industry. Three components are required to accomplish this: 1) average ticket price, 2) square feet per seat type, and 3) route distance. The result of the analysis is "average price, per mile, per square foot." I used published fares to perform these calculations which provides acceptable results for comparing cabins within a particular aircraft type for a specific airline. This is not a passenger yield evaluation, which would allow comparison between airlines. The method provides a high-level review of the relative potential of each cabin class. The table below provides the results associated with the evaluation of three airlines: American, Delta, and Norse Atlantic.

Cabin Class Space and Pricing Evaluation			
Revenue Potential per Square Foot for Business, Premium Economy, Economy Plus and Main Cabin			
	American	Delta	Norse Atlantic
Aircraft Evaluated	787-9	A330-300	787-9
Routes Queried	Chicago – London Philadelphia – London	Atlanta – Amsterdam New York – Paris	Orlando – London New York – London
Range of Fare Queries	15 roundtrip dates for each route from October 2023 to June 2024.		
Square Feet Calculation per Seat Type			
Business	18.0	18.0	Type not offered
Premium Economy	8.4	7.8	9.3
Economy Plus	6.4	6.4	Type not offered
Main Cabin	5.3	5.7	5.3
Revenue Potential per Square Foot – Indexed to Premium Economy			
Business	136	82	Not applicable
Premium Economy	100	100	100
Economy Plus	89	67	Not applicable
Main Cabin	90	57	113
Allocation of Square Feet – Premium Seats and Main Cabin (for aircraft type queried)			
Business, Premium Economy, and Plus	47%	45%	26%
Main Cabin	53%	55%	74%
Distribution of Seats – Premium Seats and Main Cabin (for aircraft type queried)			
Business, Premium Economy, and Plus	30%	28%	17%
Main Cabin	70%	72%	83%
- Notes for Fare Analysis: Lowest fares for nonstop flights on specific aircraft queried on 10 and 17 October 2023. Calculations include carrier surcharges, but exclude all government taxes/fees. For AA, Main Cabin Extra based upon Main Cabin fare plus seat fee for lowest priced Main Cabin Extra seat. - Notes for Seat Calculations: Square feet includes space on cabin floor occupied by seating area and aisles. Calculated using aircraft maps, Boeing and Airbus specifications, and seat pitch and width disclosures by airlines and other online sources. Economy Plus is a zone of extra-leg-room seats.			

For each carrier, a specific aircraft type was selected for square foot calculations. This was accomplished by reviewing seat maps, LoPA drawings (Location of Passenger Accommodations), aircraft manufacturer measurements, and seat specifications found at the airline websites, or online services such as SeatGuru.com. The area for each seat type includes the cabin space occupied by a seat and adjacent aisles. Galleys and toilets were not included because these often serve multiple cabins.

Fares were collected for a range of roundtrip itineraries from October 2023 through June 2024 using different days of the week (connecting fares were not included). Admittedly, the queries were made during a single week in October and prevented a more thorough examination of seasonality. The exact same process was used for each carrier to provide an apples-to-apples comparison. To prevent readers from equating the outcome with “passenger yield” an index was created, which is tied to the premium economy result. I can disclose the “average price, per mile, per square foot” for premium economy seating ranged from 1.6 cents (\$0.016) to 5.3 cents (\$0.053) for the three carriers. The consideration of load factor for each cabin is a missing element. However, a carrier’s available fares do provide a high-level reflection of whether demand is high or low for seats.

The results from the three airlines are very different. Delta supports the hypothesis that premium economy can perform better than business class. With the index set at 100 for Premium Select, the performance of Delta One business class is lower with an index of 88. With American, the opposite is true. With the index set at 100 for Premium Economy, the index for Flagship Business class is higher at 136. For this particular sample of American’s operations, the prevailing wisdom continues to prevail. Norse Atlantic provides yet a third type of outcome, with plain economy providing the best opportunity for the operations queried.

The index is a simple indicator and measures revenue potential for a cabin class. Airlines have various levers for manipulating financial outcomes. The initial design of a seat and the layout of a cabin are long term decisions that require significant capital investment. Shorter term decisions include pricing, service design, marketing and promotion. Factors beyond the index include competitive pressures, brand positioning, and a carrier’s reputation with its customers. When all of these elements are considered together, the index reveals where management might want to direct its efforts. The index result for each cabin can be interpreted as a strength or weakness.

Delta could interpret the relative strength of Premium Select as a call to increase cabin size because it represents the best allocation of cabin space. The airline could also choose to reduce premium economy fares to align the index closer to the business and economy cabin results. American could reallocate space from the economy cabin to better-performing premium economy and business cabins. The Norse Atlantic results are fascinating because they suggest their premium is underappreciated by consumers, and underpriced by the airline.

Norse Atlantic might be facing the problem of having too many premium economy seats, which might explain the lack of pricing power. The airline inherited the 787 aircraft cabin layout and didn't start with a clean sheet. But perhaps there's an opportunity here for the airline to upgrade its service, promote it to self-employed business travelers, and offer loyalty benefits. This would place Norse Atlantic closer to global network carriers, and perhaps allow the airline to increase premium economy fares and traffic. One intent of this report is to engage airline management teams in the evaluation of how to better allocate cabin space in an era of premium economy awareness.

## AN INDUSTRY MOVING TO OPTIMUM RESULTS

The best measurement of economic performance is often profitability. The index developed for this report largely neglects yield and ignores costs. These factors are not publicly disclosed by airlines, but are certainly available to their management teams. "Profit per square foot, per mile" when calculated for a class of service would provide an accurate assessment of the best cabin allocation. The method in this report, and the suggestion of basing it on profitability, recognizes the finite space of the aircraft cabin. The challenge for management is to make the best use of that space.

In theory, optimum results would be reached when all cabins produce the same profitability per square foot, per mile flown. This parity would reflect the perfect allocation of aircraft space. In actual practice airlines attempt to accomplish this today. The development of ancillary revenue and the introduction of premium economy is disrupting the status quo, and this requires continuous evaluation of cabin economics.

I believe the future will allocate seats in a 45-50-5 ratio; 45 percent of seats in the main cabin, 50 percent for extra leg room and premium economy, and 5 percent as a top product, such as business class. This is a big change from current practice. But it aligns with my experience of consumer behavior; 45 percent of consumers only consider the lowest fare, 50 percent will pay a premium for more comfort and convenience, and 5 percent seek the very best. The distribution of income in the US, described earlier in this report, provides demographic support for this seating configuration and the revenue opportunity.

Improvement is only achieved when results are measured, new strategies are developed, and the status quo is challenged. This report hopes to encourage dialogue on how best to proceed. Premium economy for long haul routes opens the door to gain more revenue from the sizeable portion of consumers who are ready, willing, and able to spend a bit more for a better experience. They are upper middle class consumers who seek an upper middle class travel experience. Revenue magic occurs when airlines sell services that align with the buying power of individual consumers, while delivering great value and quality.

# IdeaWorksCompany connects key ancillary revenue destinations

IdeaWorksCompany knows all the ancillary routes, from the Airport to A la Carte, Bundled to Branded, and Commission-based to Third Party.



**IdeaWorksCompany offers the hands-on-experience** of a team of former airline executives and the innovative spirit of a leading travel consultancy. Since 1996 we have helped 70 client companies including airlines, loyalty programs, passenger railroads, and hotel brands. Jay Sorensen has presented on-site workshops in Europe, the Middle East, South America, Asia, and North America, and has issued 100 reports, 16 yearbooks of ancillary revenue, and more than 20 other publications on frequent flyer programs and travel industry statistics.

**IdeaWorksCompany clients do better.**

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