

United Sells Space

Corp.'s United Airlines did with two of its busiest, most-important routes, and last year they were the best routes financially for the airline in the country.

In late 2004, United launched an experiment converting all its flights between New York and Los Angeles and New York and San Francisco into a premium service it calls United p.s. With p.s. flights, half of the entire cabin is devoted to first- and business-class seats, and the space offered to passengers is close to what you get on premium international offerings. (P.s. has the only domestic lie-flat bed in first class.)

"It's been a home run in all perspectives," said John Tague, United's chief operating officer.

Corp.'s American Airlines. A recent flight in first class on Delta didn't come close to what she enjoys about p.s. business class.

"On Delta, I was complaining, 'Where are my headphones? Where is my legroom?' " said Ms. Ruth, president of a public-relations firm. (P.s. business-class seats have 16 inches more legroom than Delta's domestic first class.) Ms. Ruth used to be an "executive platinum" flier at American but switched to United because of p.s.

Robert Brougham, a financier from Los Angeles, isn't generally a fan of United. He said he's had so many problems with the airline -- bad flights, dirty planes and difficulty trying to get help on the telephone -- that he switched his flying to American, even though he had accumulated one million miles on United. Still, he makes an exception for the p.s. service. "It's one bright spot in their offerings these days," he said.

"P.s." shows that at least on some routes, domestic U.S. travelers will pay extra for very nice service, and not just chase the cheapest fare. (P.s. fares go as high as \$3,235 round-trip for business class and \$5,167 for first class.) That may become an increasingly important lesson as airlines struggle with high oil prices and push ticket prices up. To get business travelers to pay more and not simply shift to discount airlines, big airlines may have to find ways to offer premium service travelers will value -- something different from what they can get on the cheapest ticket, and yet better value than sky-high domestic first-class tickets.

Andrew Watterson, a partner at the airline practice of Oliver Wyman, says that to weather the current crisis, airlines are going to have to find more ways to simultaneously cut costs and boost revenue -- what United did with p.s.

"It's a great example of finding a situation where people will pay more for a better seat," he said. "There are select markets around the world where you can have these kinds of products."

The number of markets in the U.S. is probably small, however. Airlines need long flights and lots of business travelers to make premium service offerings work. And in the midst of the current financial crisis, officials say it is unlikely airlines will be investing in new products.

United was "notionally" considering one or two other markets for p.s. service, but has scrapped that idea during the current oil-price crisis, Mr. Tague said.

Yet p.s. itself was born out of bankruptcy cost-cutting. United had to ground some of its Boeing 767 wide-bodies coming out of bankruptcy reorganization, but it didn't want to lose "premium" transcontinental customers -- travelers from entertainment, finance and technology companies who frequently jet back and forth between New York and California and are willing to pay for international-type business-class and first-class seats. After all, a New York-Los Angeles flight travels almost exactly the same distance as New York-London -- it just costs a lot less because of domestic competition.

So United designed a 757 with roughly the same number of premium seats as in the 767. That left room for only 72 coach seats. The airline made those seats all "Economy Plus" with 34 inches of space for each row, three more inches than United's standard coach seating.

Because of the dominance of business-class and first-class seats, and because customers are more willing to pay for premium cabins on p.s., United averages significantly higher average fares on those flights than other domestic trips. In the fourth quarter, according to government data, United's average ticket between New York and Los Angeles was \$884 round trip, while regular United service between Newark, N.J., and Los Angeles averaged about half that -- only \$448 round trip.

That means that the United p.s. flight on a 757 generated about 20% more revenue per trip than the United 757s flying between Newark and Los Angeles, even though Newark flights had many more seats. Mr. Tague says the two p.s. markets last year had "much stronger margins than the rest of

our domestic system."

Indeed, aviation consulting firm Simat Helliesen Eichner Inc. estimated that last year United had operating profits in Asia, Europe and its transcontinental markets. All other domestic routes and Latin America had operating losses.

For many coach customers, there's not much premium about the coach cabin on p.s. flights, except for the extra legroom. United launched p.s. with free meals in coach, but has cut that to save money and now sells snacks, sandwiches and salads. Entertainment in coach consists of low-tech video shown on small ceiling-mounted TVs, a far cry from JetBlue Airways

Corp.'s free satellite television.

Kay Grogan of Connecticut was surprised not to be offered a meal on a six-hour flight sold as "premium service," and she was unhappy with the Mediterranean chicken salad she purchased.

"It was horrible. It hardly had any greens in it," she said. "What does this p.s. mean? This is premium? It's a cattle car in the back."

Both routes -- New York-Los Angeles and New York-San Francisco -- have long had "quasi-international airplanes." American flies wide-body 767s on its transcontinental routes with three classes of service, the only domestic markets where it offers business class and first class in addition to coach.

American, which carries more passengers than United in transcon markets, launched a \$20 million upgrade of its domestic 767s that compete head-to-head with p.s., refurbishing the interiors, installing fully motorized first-class seats and expanding the menus in the front two cabins.

American contends customers prefer its wide-body, twin-aisle jets to United's single-aisle, narrow-body planes because there's more room for passengers to move about the cabin. United says its p.s. jets give customers more room at their seats than American. United's first-class seats in p.s. are set in 68 inches of room, are 21.5 inches wide and lie flat, though at an angle. American's first-class seats on its transcon jets have six inches less space and are 2.5 inches narrower. American's business class seats have less legroom and are narrower as well.

Kendrick Bales, a frequent business traveler from New York, says he'll pay more for United's p.s. business class than a first-class ticket on other airlines. With only 100 passengers, getting on and off the plane is faster and luggage delivery is often swifter on p.s. flights, and extra space allows him to conduct meetings with colleagues in flight.

When he upgrades to first class, it's the VIP treatment in Los Angeles, where United lets him wait in the international first-class lounge then escorts him to the plane right before the door closes.

International air service has drawn sharp lines between those who want the cheapest ticket and passengers willing to pay for comfort, and Mr. Bales, for one, would like to see more options for consumers on domestic flights. "Maybe that split will happen here so that people willing to pay have something nicer," he says.

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