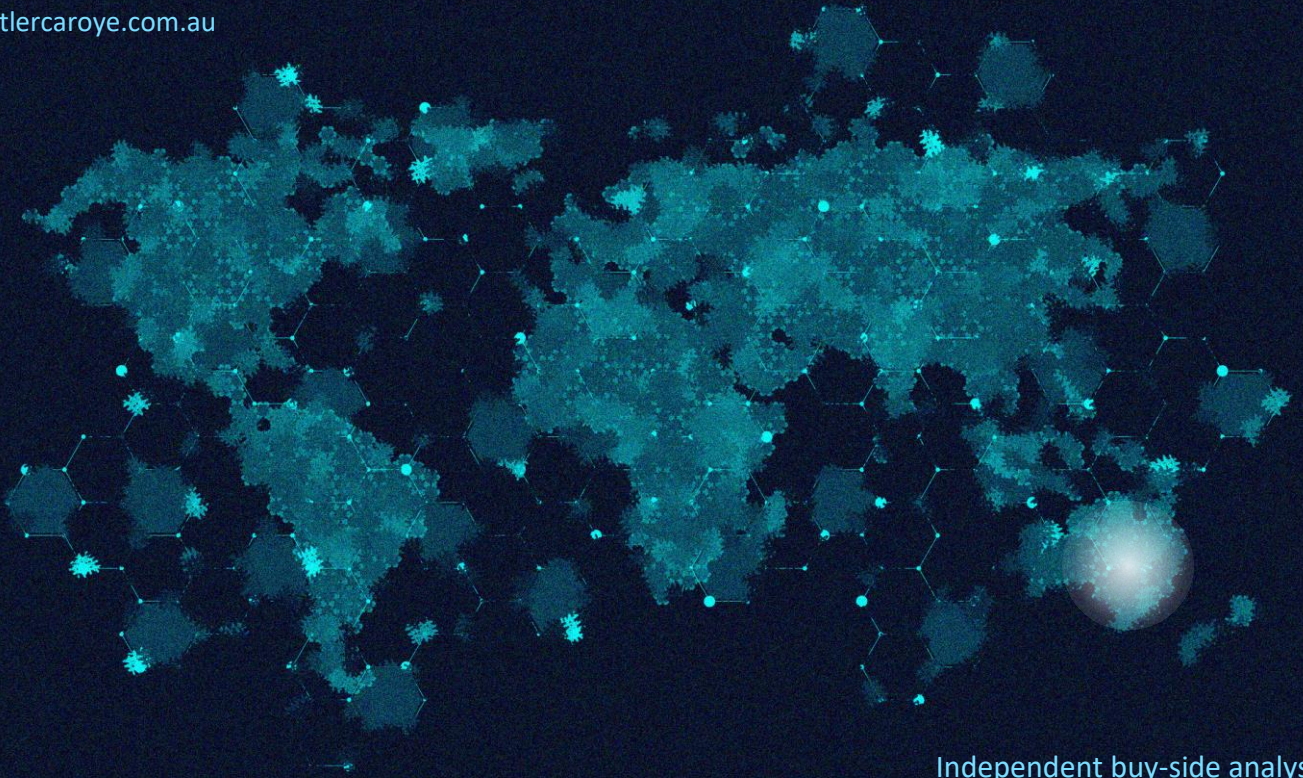


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Butler Caroye ► Blue Paper

August 2022

www.butlercaroye.com.au



Independent buy-side analysis

► UPDATE

Australian Domestic Business Airfares in 1st Half 2022

The Market Settles Across a Fare Divide

- Schedule options return for business travellers
- Business Class Bargains

executive summary

The update ...

- Twelve months ago our analysis showed that the gap in domestic fare levels between Qantas and its key competitor Virgin Australia had widened significantly since 2019.
- In this update, we review the pricing gap, and go into more detail by looking at results for different economy fare types, and results for the three “golden triangle” business routes between Brisbane, Melbourne and Sydney.
- In this update, we also add Business Class and Rex Airlines to the review.
- The significance of this analysis is that it is based on hundreds of thousands of actual fares booked by corporate travellers. That means (1) that the availability of the fares is automatically factored in, and (2) corporate discounts are embedded in the results also.

Why availability is so important

- Airlines have two pricing mechanisms; the dollar levels of fares set, and the different availabilities of seats assigned to each fare level through active continuous “yield management”. Just looking at published fare levels, even if you can access that information for each of the many alpha fare sub-types, does not enable measurement of actual real costs. You have to factor in how often each fare type is made available; how often it is booked. That’s what this analysis does.
- The fares in the data set also factor in the discounts provided to business clients from the airlines. However, these are sufficiently similar for it not to be a major factor. The big “capture” of the analysis is the inclusion of real availabilities.

The overall results and findings are ...

- For business travellers, the gap between Qantas and Virgin Economy Class fares on capital city routes seems to have settled at over 30%. Overall Rex fares sit roughly in the middle.
- For Business Class, the difference is considerably greater. Virgin is 56% cheaper than Qantas.
- Qantas has been reducing Economy Class capital city fares in 2022 from an historic average range in the “high two hundreds”. But Virgin has been doing the same, maintaining the 30%+ price differential while adding services.
- As the airlines reinstate services on business routes, there is real choice in the market place, and the conditions are ripe for a resumption of healthy competition.

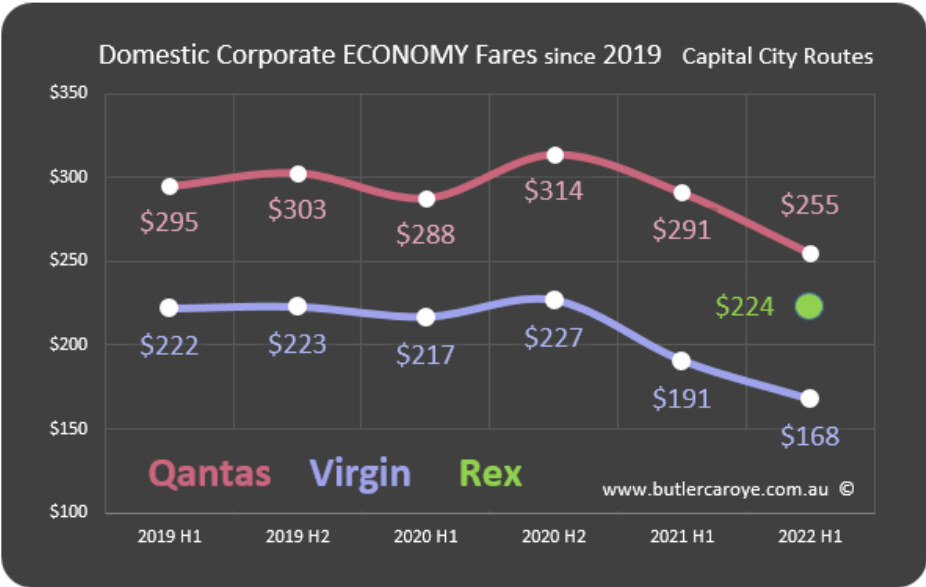
the analysis

Some Points on the Methodology

- This report is focused on business travel. And so the analysis looks at business travel routes. The broader results are drawn from travel between all capital cities. Then there are some charts that look at one or more of the “golden triangle” routes connecting Brisbane, Melbourne and Sydney.
- “First half of 2022” (2022 H1) refers to the months March to June, for which we have full data. Historically, January and February are not months of typical business travel activity in any case.

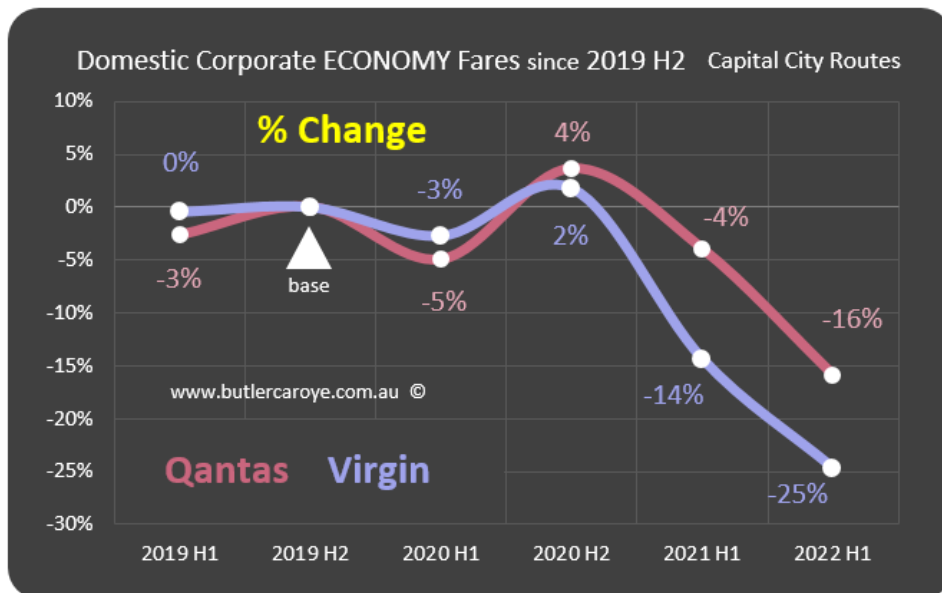
Economy Fares Since 2019

- Last year we looked at average booked Economy Class fares from Qantas and Virgin Australia (“Virgin”) since before the pandemic, as booked by our large sample of business travellers. We have updated for the first half of 2022 and added Rex.



- For 2022 H1, Rex was 12% lower and Virgin was 34% below Qantas.
- The substantial Qantas-Virgin gap is the same as it was in mid-2021.
- Both Qantas and Virgin have fallen 12% from their 2021 Economy fare levels.
- Rex appears to be positioning itself as a slightly less expensive alternative to Qantas.

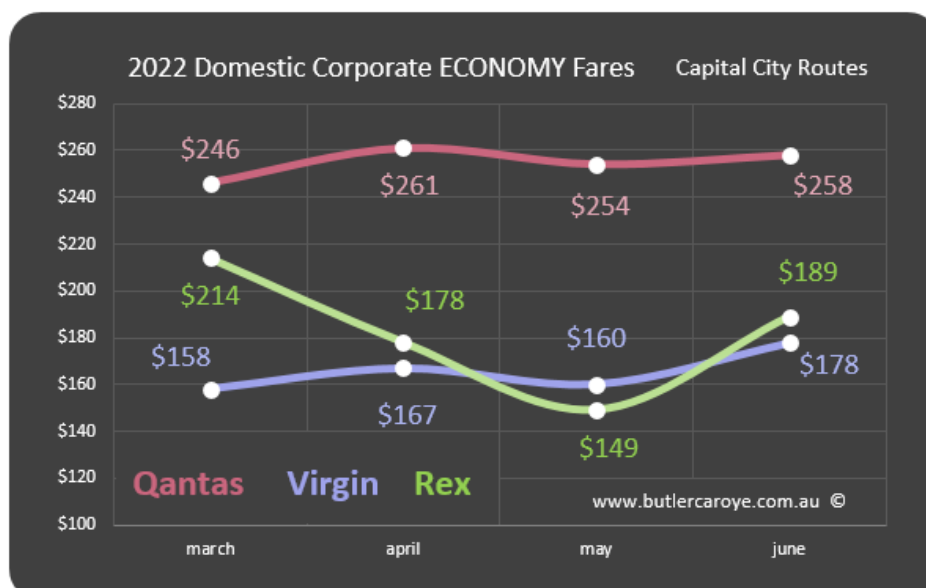
- The chart below shows the percentage changes in Qantas and Virgin fares since the second half of 2019, just before the pandemic.



- Compared to their respective pre-Covid Economy fare levels (2019 2nd Half), Qantas is 16% lower and Virgin is 25% lower, suggesting a more competitive approach from Virgin to build business travel market share in 2022.
- The data also suggests that Qantas is basically tracking Virgin's fare reduction path, but several months behind in terms of the *rate* of reduction, and off a 34% higher base.

Economy Fares in 2022

- Now let's look at Economy fares *monthly* over our data period in 2022.

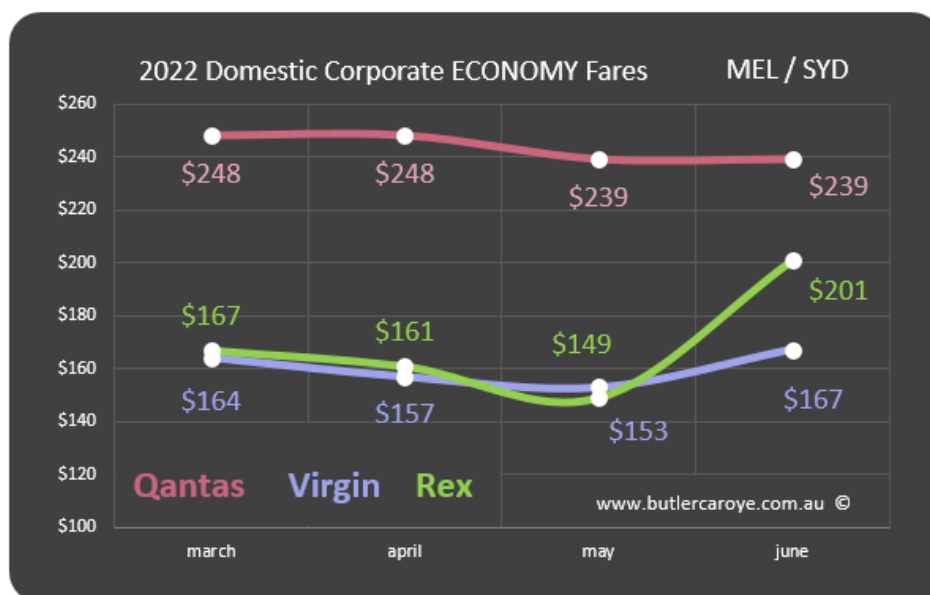


- Here we see a mild upward trend from March to June in both Qantas and Virgin Economy fares, presumably as demand has recovered to catch up with supply.
- The “bump” in April corresponds to a surge in domestic travel hitting the steadily growing increase in services. It takes time and careful planning for airlines to resume services. The process is more of a steady upward shift, compared to the recovery in demand which happens unevenly.
- The Qantas-Virgin gap has remained above 30% and, unless we see significant changes soon, probably represents their established pricing positions.
- Rex appears to be finding its competitive comfort zone. It is operating on a smaller scale with fewer services and therefore has less ability to fine tune its approach. And it is a newcomer to frequent services on business routes. This might explain the greater fare volatility so far in 2022. It will be interesting to see what they do and where they settle over the second half of 2022.

The Golden Triangle

- Exactly 30% of Australia’s domestic air travel in the first half of 2022 occurred between Brisbane, Melbourne and Sydney. This is slightly lower than the historical norm because leisure travellers have returned to the air sooner than business travellers. In 2017, 2018 and 2019, the figure was a steady 31.8%. (Data = ABS BITRE June 2022). In 2022, within the triangle, 15.3% of domestic passengers flew between Melbourne and Sydney, 8.1% between Brisbane and Sydney, and 6.6% between Brisbane and Melbourne.

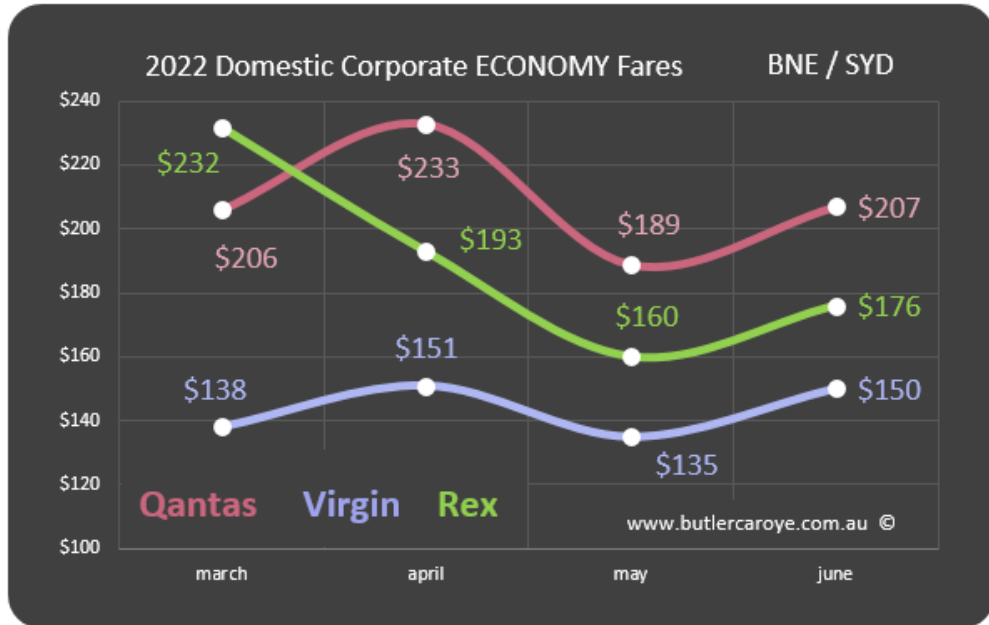
Melbourne ◀▶ Sydney in 2022



- For the “elephant route” in the golden triangle, the Qantas - Virgin pattern is very similar to that of all-capital-routes. In June, Virgin was 30% lower.

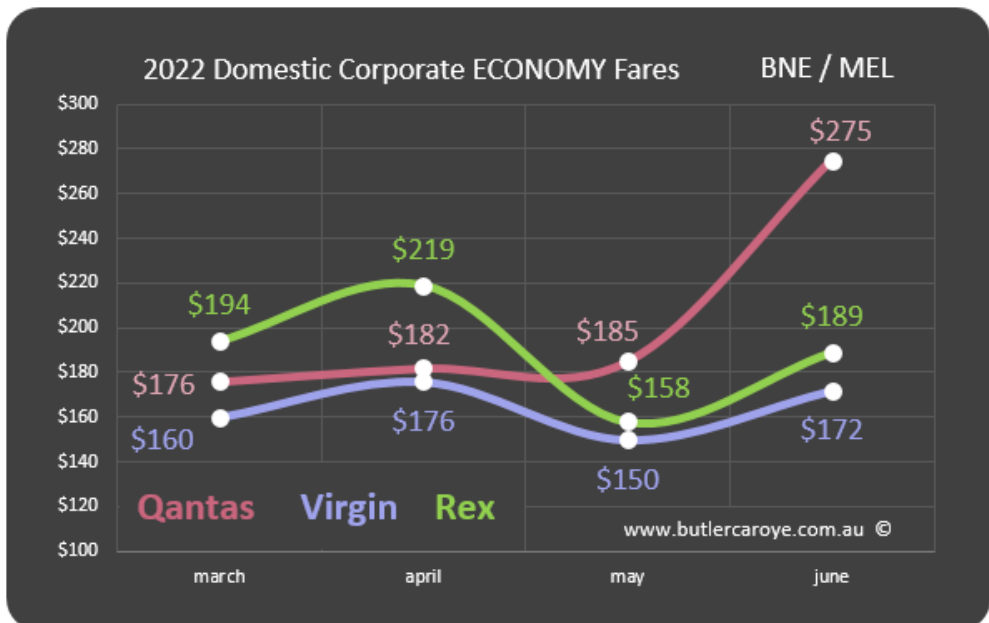
- In June, Rex moved from the low Virgin fare levels to the middle ground. In June they were 16% less than Qantas.

Brisbane ◀▶ Sydney in 2022



- The three airlines have been moving in sync since April, with Qantas sitting high, Virgin low, and Rex Right in the middle. Rex moved from the high ground to the middle ground in April.
- In June, compared to Qantas, Virgin was 28% lower and Rex 15%.

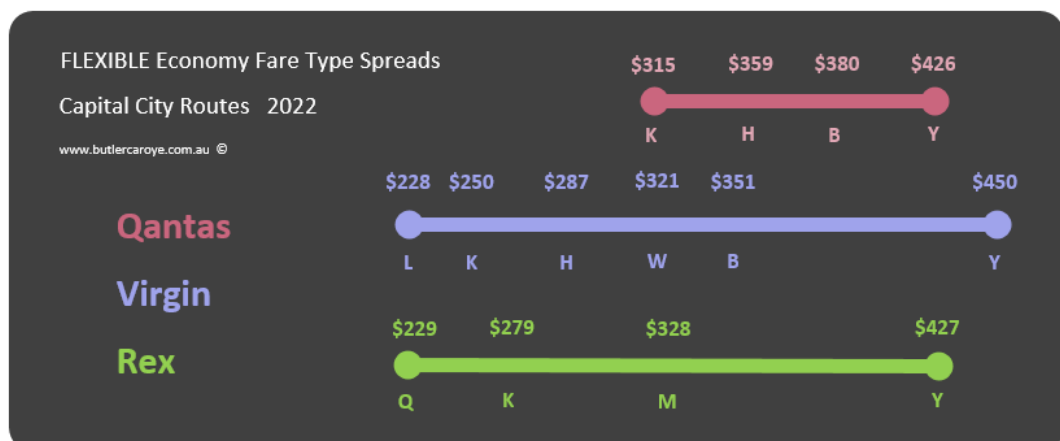
Brisbane ◀▶ Melbourne in 2022



- Up until May, all three carriers offered extraordinarily low fares on the Brisbane Melbourne route on a per kilometre basis. Virgin and Rex still did in June whereas Qantas shifted up to its typical higher Economy fare position.
- Before May, Qantas fares even undercut those of Rex. But as at June, compared to Qantas, Rex was 31% cheaper and Virgin 37% cheaper.

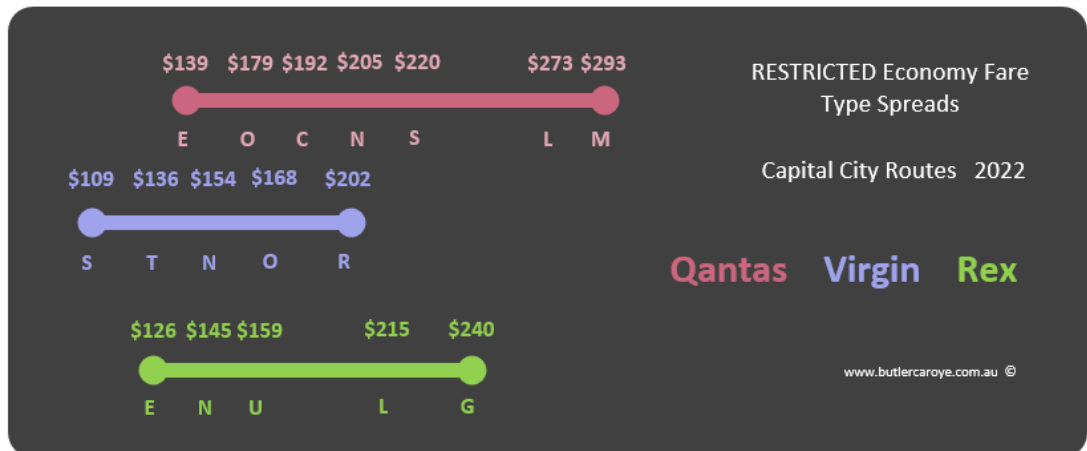
Yield Management is a Key Driver

- The airlines have two basic “families” of fares in Economy Class, those that are more *Flexible* and those that are more *Restricted*.
- Within a “fare family” such as Restricted or Flexible, airlines have several fare types each designated by a letter. They maximise revenue per flight by shifting the allocation of seats between the fare types according to actual and predicted demand, and by changing the dollar fare levels of the fare types. Computerised seat allocation management is an ongoing 24 hour process. Changes in fare levels are less frequent.
- Here are the letter fare types of the Economy Class *Flexible* fare family and their average fares, across capital city routes in 2022.



- The fare ranges are more similar than you’d expect. If you try, you can even buy a Virgin Flexible Economy fare that is more expensive than the Qantas equivalent. But the overall result is determined by where the airlines allocate seats across the range, and by the dollar fare values they assign to each fare type.
- You can see above that Rex and especially Virgin place a large bulk of their fares lower down the range, whereas the Qantas fare types are more evenly spread. And of course, the Rex and Virgin ranges for Flexible Economy fares extend much lower.
- And what is the result of all of this? It’s the pattern of fare gaps that you see in the first chart of this report.

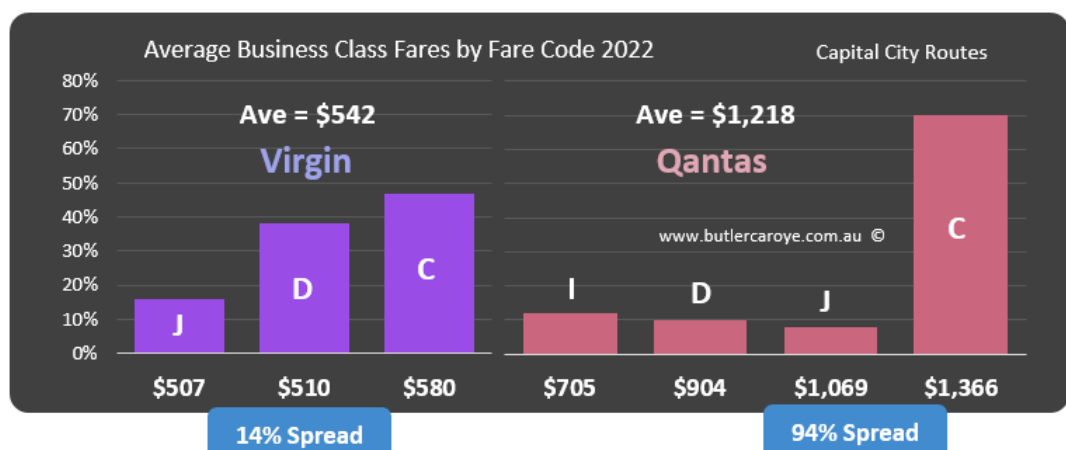
- To be thorough, let's do the same thing for the other Economy fare family, *Restricted Economy*.



- This is a different picture, but with a similar overall result. The overall differences for the cheaper family of Economy fares are caused less by the placement of fare levels within the ranges, and more by the difference in the ranges themselves.
- Within the cheaper fare family, where the battle is for the more price sensitive traveller, you would expect keener price competition and a closer game. But this is only slightly so. Rex and especially Virgin are still much less expensive for restricted domestic fares.

Business Class Overall in 2022

- The following chart shows the analysis of Qantas and Virgin Business Class Fares across capital city routes in 2022.

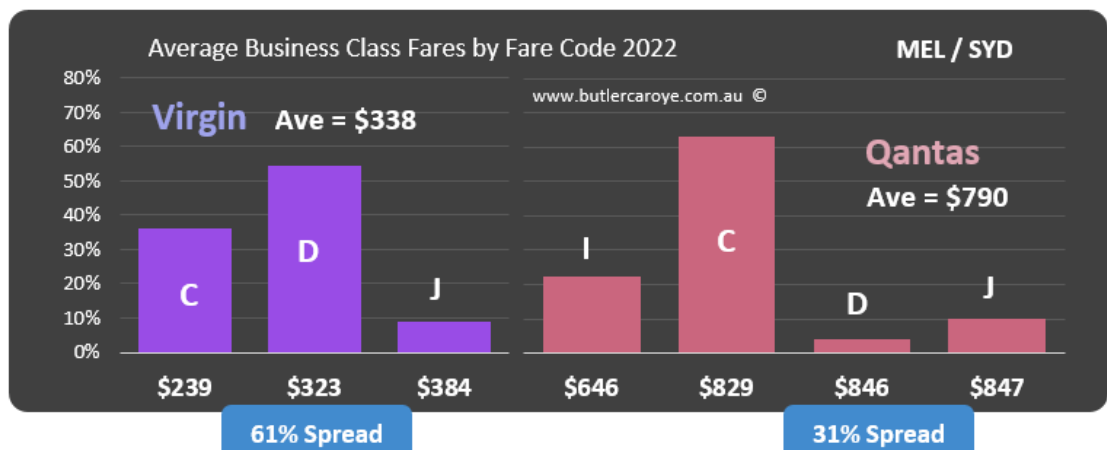


- The gap between what Qantas and Virgin charge to sit at the front of the aircraft is substantial, with Virgin being 56% cheaper.

- The two fare ranges do not even intersect. But within those fare ranges, when looking at the fare levels of the lettered Business Class fare types, we can see that Virgin has the majority of its Business Class seats at a discounted fare level. Qantas on the other hand sells about 70% of its seats in the highest top-price fare category.
- Qantas appears to be feeling comfortable in its approach to the premium domestic traveller. With a 94% spread across its Business Class fare range, it has the structure and the capacity to compete. But it is not much utilising it. Chairman's Lounge is probably a factor.

Business Class Melbourne ◀▶ Sydney in 2022

- The following chart applies the same analysis to the main domestic business route.

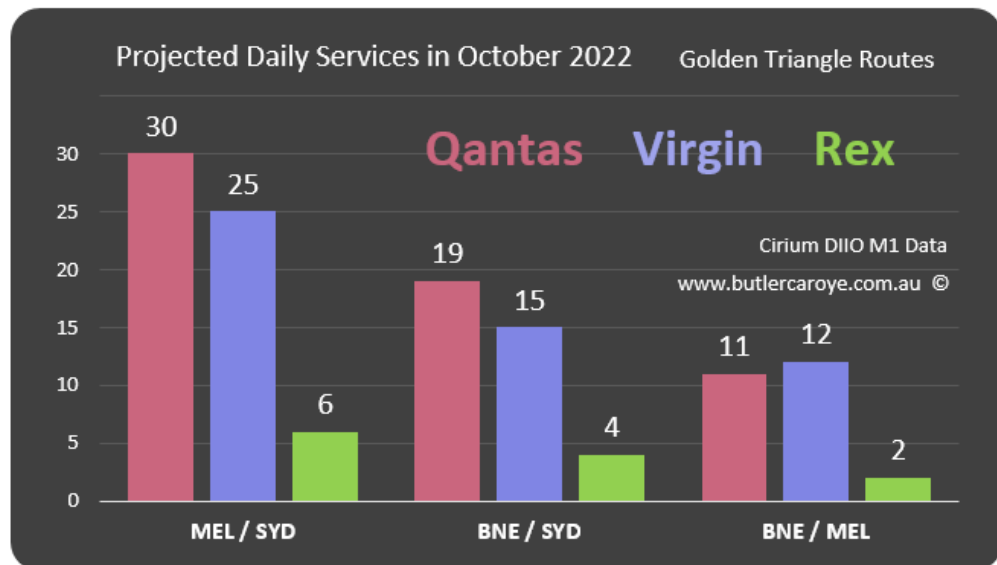


- The overall outcome on the “elephant route” is almost exactly the same, with Virgin Melbourne Sydney Business Class fare average out at 57% lower than those of Qantas.
- Again, the ranges don't touch, with Virgin's highest fares being under Qantas' lowest fares in this class.
- But the difference here is that Qantas does appear to be competing, with around 90% of its seats sold in the lower two fare types. But Virgin is competing energetically too, with 90% of its Business Class fares also discounted.

-
- This may be a good leading indicator. If real competition has broken out at the front end of the plane on the main business route, then hopefully business travellers will drive similar competition across many routes and in Economy Class.

Comparing Business Travel Services

- Clearly, Rex is better value than Qantas in most cases. And Virgin is better value still in all the situations we have looked at.
- It is well and good to look at the fares paid by business travellers, and compare airline pricing across the classes and fare types. But of course, the seats need to be available to book, at the right times. The following chart looks at the flight numbers on the Brisbane Melbourne Sydney routes.



- The data is taken from the independent analysis of Cirium, and shows projected services for October 2022 based on known factors.
- Virgin has again become a fully viable alternative to Qantas in terms of service availability. Rex is building off a low base and its offering in this context is still limited.
- But of course, to be suitable for business travel, the services also have to be available at the times when business travellers fly.
- Also projected, both Qantas and Virgin will have departures in peak business hours every 15 minutes between Melbourne and Sydney, every thirty minutes between Brisbane and Sydney, and every hour between Brisbane and Melbourne.

closing statement

- A main purpose of this report is to help regenerate competition in the domestic air travel market, especially for the longer term benefit of the business traveller community, which Butler Caroye serves. Our analysis has shown that indeed the conditions are ripe for more competition, with Virgin Australia in particular offering good value alternatives.