I am writing this piece on a 12-h flight from Shanghai to Frankfurt, my most frequently travelled long-haul route. It seems to be the right topic for the right place. The award-winning movie *Up in the air* was released exactly 10 years ago and is one of my all-time favorites. The movie, which unfolds around a corporate downsizer and frequent flyer (played by George Clooney), has left a profound impact on the development of my personal travel rituals. Scenes involving packing for travel and navigating airports rub off on me. Whenever I arrive at the airport, my airport instinct will kick in automatically like there is a built-in navigator inside me. For example, I would move much faster at the airport than outside of it. In part this is because of my luggage kickboard (highly recommendable travel kit!); I am usually the first one to roll to the luggage claim area after landing.

Whenever I take a day-time long-haul flight like the one from Shanghai to Frankfurt, I like to take the advantage of not being connected to the internet in order to thus get some work done, which requires slow thinking. I have mixed feeling about almost all major airlines having recently started to offer Wi-Fi connections on their long-haul flights. More often than not, the
connection is rationed, and even if you secure a log-in, it drops off all the time which causes more anxiety than that it gives convenience.

In recent years I have developed a travel habit of not eating any food on flights, especially on long-haul flights. It buys me more time for work or (even) leisure during the flight. I am used to landing hungry. I also came to realize that abstinence on board helps me get over jet lags after landing more quickly. I just need to stay hydrated. To that end, the airlines are really doing a good job at making things easier for me. The food is just horrible and getting worse across classes and airlines, based on my own experience which is also echoed by many of my friends and colleagues.

It is common knowledge that airlines suck at making money, ironically the big ones in particular. Take the United States as an example: Bankruptcies have become a way of life for the legacy carriers including the big three—American Airlines, United Airlines, and Delta Air Lines.\(^1\) As a matter of fact, the profitability of the aviation industry across the board has fluctuated greatly over the years.

The traditional full-service airlines, in particular, are in a catch-22 situation. On the one hand, they have to live up to the expectation of providing comprehensive service to all passengers, not only up in the air but also on the ground. On the other hand, they are struggling to adapt to intensifying competition and having to find ways to keep their costs under control. As petty as it may appear, every cent on the bottom line counts. Food service is at the top of the cost-cutting list, as it has little to with the most important mission that passenger airlines are supposed to fulfill—moving people from one place to another.

Onboard food service used to be given a more important role if we look at the history of passenger aviation. On 11 October 1919, a remodeled airplane that had a capacity of merely a dozen people departed from London to Paris. As the flight time was around noon, lunch boxes that contained sandwiches and some fruit were on sale for 3 shillings apiece on board. That was the first-ever in-flight meal on record, exactly a hundred years ago.\(^2\)

Since then, in-flight meals have become an integral part of the flight experience. In the early days of civil aviation, when commercial flights were still a rarity, the airlines went to great lengths to spoil passengers with lavish food and beverage delights. This was also the case in China. In the early years after the introduction of a reform and opening policy, the supply of premium food

\(^1\) [https://www.investopedia.com/stock-analysis/031714/why-airlines-arent-profitable-dal-ual-aal-luv-jblu.aspx.](https://www.investopedia.com/stock-analysis/031714/why-airlines-arent-profitable-dal-ual-aal-luv-jblu.aspx)

\(^2\) [https://www.huxiu.com/article/319231.html.](https://www.huxiu.com/article/319231.html)
and beverages was very restricted, though airlines were able to provide highly sought-after items such as *Maotai Baijiu* (arguably the best Chinese liquor) and *Chunghwa* cigarettes in flight. I was then too young to have had experience. But it was exotic enough to imagine passengers being able to drink high-grade baijiu and smoking cigarettes on the plane.

Suddenly, the cabin light was turned on, taking my attention away from the laptop screen. A female voice started to speak over the cabin broadcast. It was lunch time. While the stewardess was about to introduce the choices we would be able to make for main dishes, I thought to myself: “Will it be beef rice, fish noodle or pork rice?” The female voice went on: “We will be serving beef rice and fish noodle today. Either kind of dishes is limited in numbers …” Bingo. I was glad that I had eaten something proper before the departure.

As a matter of fact, the old good days of in-flight delicacies are long gone with the wind. The airlines are turning every stone around to maintain profitability. Without doubt, airlines’ biggest cost block is fuel, which typically accounts for about 25% of total operating costs. Other cost items include airport take-off and landing fees, depreciation of aircraft and parts, and staff remuneration, which collectively represent about 50% of operating cost. The catering service makes up just about 4% of total cost. However, oil prices, depreciation, take-off and landing fees, etc. cannot be fully controlled by airlines. While in-flight meals only represent a small portion of the costs, airlines enjoy broad discretion in cost-saving measures involving food and drinks.

In 2018, profit per passenger for the three biggest Chinese airlines—Air China, China Eastern, and China Southern—was approximately 67, 23, and 21 RMB. In the meantime, they were estimated to be spending between 24 and 34 RMB per passenger on in-flight catering. Take China Southern as an example. If we make a conservative assumption that the average spend on in-flight catering is 24 RMB, this is already more than it earns per passenger. If the airline could cut the catering cost by 20%, profit would be improved by more than 20%. Not just for China Southern, I believe the degree of deterioration in both food quality and quantity that I have witnessed in the recent years must go way beyond 20%. Previously, I was also amused to read articles that defended the necessity of airlines to downsize in-flight catering service out of safety reasons.

The horrid catering service onboard made me rethink my belief that differentiation is a superior strategy compared to a low-cost strategy. When you differentiate, you have more control over your own fate. No one can prevent

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3 [http://free.chinabaogao.com/jiaotong/201804/0426330422018.html](http://free.chinabaogao.com/jiaotong/201804/0426330422018.html).

4 [https://www.huxiu.com/article/319231.html](https://www.huxiu.com/article/319231.html).
you from innovating and coming up with something new. There will always be something new that appeals to your existing and/or prospective customers. However, if you decide to go down the road of a low-cost strategy, you are at the mercy of the competition. There will always be competitors with deeper pockets or those crazy enough to buy market shares at any cost. When it gets out of hand, negative prices are also seen to fuel competition for customers, i.e., customers are being paid to use the products or services in question. As crazy as it sounds, this did happen, e.g., in the bicycle sharing market in China.

The full-service airlines are supposed to have more cards to play, to differentiate the offers, and to exploit willingness to pay of different segments. Culinary experience could have constituted an instrumental differentiator from their peers and low-cost carriers. But now the big airlines are acting in concert to cut down spending on in-flight meals to keep the bottom line in the black zone. I believe that they are short-sighted and are turning the wrong stone. The practice reminds me of notorious tricks such as reducing the size of sparkling water bottles, enlarging the hole of the opening of a the toothpaste tube, and the like. In case you have not noticed, chewing gums have been hideously downsized so that now you need two instead of one as a standard dose. Leading brands even ran advertising campaigns to educate consumers that chewing two gums is the way to go.

Cliché has it that low-cost carriers are successful because they let go of all cost-generating services in favor of cheaper air tickets and to compensate for the lost opportunities in charging outrageous prices for first class and business class seats. In my view, it is only partially true. Low-cost carriers also differentiate, just in a different way compared to full-range airlines. If you have flown with a low-cost airline, you may have noticed that low carriers are stricter with luggage amounts permitted and tend to have less service staff on the ground and less catering offerings (and not for free!) up in the air. It is obvious that the comfort part in air traveling is very limited with low-cost carriers. From a pricing standpoint, the low-cost carriers spare no effort to seize every opportunity to increase the total amount of tickets with frills, of which individuals have different value perceptions and, in turn, different degrees of willingness to pay. If you want to carry an additional piece of luggage, you will pay a luggage surcharge. Moreover, some low-cost carriers will charge even more for an ad hoc luggage check-in, if you have not booked it in advance.

The approach brings two benefits with it. Firstly, customers are encouraged to be more mindful of carrying only what is essential on the journey. Flight costs are mainly driven by cargo and passenger weight. So it is effectively a cost reduction measure; secondly, for those who do have to travel with bulky luggage, it feels less painful when the luggage surcharge is separated from the
air ticket. Recently, we have also been seeing low-cost airlines setting up a business class-like section, where passengers will have larger leg room and better catering service included. The boundaries between low-cost and full-range airlines are become more and more blurred, with the former increasingly offering differentiated value-adding services, the latter failing to provide meaningful differentiation, let alone any monetization from these.

The changing dynamic between low-cost and full-range airlines is reflected on the bottom line. In the United States, the pioneering low-cost carrier Southwest enjoys the highest profit margin (16.5%), belittling the traditional large carriers. The average profit margin across those seven biggest US airlines is 9%. As a matter of fact, the low-cost carriers such as Southwest Airlines and JetBlue even beat the legacy airlines in revenue, making it to be among the Top 5 carriers in the United States. It is a similar situation in China. The most profitable carrier in China is Spring Airlines, a low-cost carrier with a net profit margin of 11.5%. The aforementioned Big Three have an average return on sales of 3%.

Saving money on food and beverages is a kind of salami slicing tactic used by financially troubled airlines. As said earlier, it would have an immediate big impact on the bottom line, as the baseline is very low. Nevertheless, the absolute upside potential is also limited. In the meantime, I think the long-term side effect on customer experience tends to get under-estimated. The culprit behind this is cost-oriented thinking. If the focus lies on reducing the cost, there is a maximum of 4% return on sales at play. If the airlines regard in-flight catering service a topline opportunity, the sky is the limit. Ironically, sky is the airlines’ home turf.

I just wonder how come the airlines spend so much money on the dynamic pricing of the tickets while ignoring the chance to differentiate in-flight catering offerings. It would be cool to order a food and beverage package in the app in advance. It would go so far beyond the scope of this book to investigate how the airlines’ apps could improve their functionality user-friendliness that I hereby curb my enthusiasm to elaborate. In a nutshell, I could imagine a good-better-best type of pricing bundle would fit very well. The passengers would also be happy to take the offer, after what they have suffered in recent years. After all, there is always a silver lining.

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5 [https://money.com/airline-profit-per-passenger/](https://money.com/airline-profit-per-passenger/).
6 [https://www.investopedia.com/stock-analysis/031714/why-airlines-arent-profitable-dal-ual-aal-luv-jblu.aspx](https://www.investopedia.com/stock-analysis/031714/why-airlines-arent-profitable-dal-ual-aal-luv-jblu.aspx).
7 [http://www.hnhtyxgs.com/hkjj/A__3572.htm](http://www.hnhtyxgs.com/hkjj/A__3572.htm).
p.s. I looked but did not find reliable statistics on how much airplane food goes to waste. My guess is that it is a lot. It is a shame that so much food is wasted while there are still people starving. Taking food out of standard offers on the flight is probably also best from a sustainability point of view. No one ever starves on the flight. Hedonists or people in need can still pre-order and pay for the food.

**Remember This!**

- Airlines are too cost-oriented to overlook the profit potential from providing better, differentiated catering service on board.
- The long-term side effect of an inferior catering service tends to be underestimated.
- Airlines would be better off by providing more individual catering offers (unlimited topline potential) instead of cutting spending on food and beverages across the board (limited impact).
- Abstinence on board helps getting over jet lag sooner!