After an exceptionally frustrating day at the office, Jessica set out to unwind in one of her favorite third places. The mood lighting immediately brought her blood pressure down as she walked in and took a deep, relaxing breath. She was happy that her favorite spot was available—a comfy leather chair in the back corner of the room, where she used the touchscreen at the table in front of her to order her favorite drink. Then, putting on a set of noise-canceling headphones, Jessica began catching up on her favorite TV show with her own personal entertainment portal.

If this sounds like a local Starbucks or trendy nightclub, think again. Jessica had just boarded a flight on Virgin America, one of the youngest airlines in the United States. It’s also the hottest airline, besting all competition in various industry and customer surveys. And after just six years in business, Virgin America also reached profitability faster than any other airline in all of airdom.

How does a startup airline break into one of the most competitive industries in the world, notorious for barriers to entry? For Virgin America, the answer is two-fold—by putting customers first and by targeting the right customer segment.

Targeting the Right Customers

Virgin America first took to the skies in 2007. This wouldn’t be the first shot at starting an airline for Richard Branson—founder of parent company Virgin Group. Virgin’s international airline, Virgin Atlantic, had been crossing the pond between the United States and Europe since 1984. But Virgin America would be an entirely independent enterprise. And while Branson and other Virgin Group executives make no day-to-day decisions at Virgin America, the unorthodox Virgin culture—fun, creative, even whacky—is unmistakable.

One of Branson’s core values that permeates Virgin America is this: Take care of your people first and profits will follow. Inan industry characterized by customer complaints about service, it would seem that a customer-centric approach would be enough to gain a foothold in the market. But when Virgin started air service in the United States, at least a few other airlines had already established themselves based on a “customer first” mantra, including industry leader Southwest Airlines. And Virgin America knew that it could not expect to succeed by playing the low-price game. Not only was Southwest the reigning champion on value, but the bulk of airline competitors were already beating each other up for low-price dominance.

Virgin America found a different competitive hook. It targeted a segment of frequent fliers who were young, savvy, influential, and willing to pay just a little bit more for an airline that would take care of them—the Silicon Valley faction. By providing exceptional service and amenities that appeal to this particular slice of airline customers, Virgin America has been able to charge slightly higher fares and still establish a growing base of fiercely loyal patrons.

Homing in on the Details

Offering unique amenities in the airline business is a challenge for any company. But from the beginning, the Virgin America experience was designed with its target customer in mind. Its fleet consists of 61 Airbus A300 series planes, each brand new when it went into service, minimizing the unexpected delays due to maintenance and repairs. Custom-designed leather seats are roomier and more comfortable than average coach seating. And that mood lighting? Not only does it bathe the aircraft cabin in an appealing purplish glow, it automatically adjusts to one of 12 different shades based on outside light.

To appeal to tech gurus, Virgin America focused on equipping its planes with the latest hardware and software. From day one, Virgin was the only domestic carrier to offer fleetwide in-flight Wi-Fi—a distinction that it maintains to this day, even as it has

stayed ahead of the competition by upgrading the network to ensure the fastest in-flight speeds available. Every seat has its own power outlet, USB port, and 9-inch video touchscreen with a QWERTY keyboard/remote control.

That touchscreen provides access to the most advanced entertainment and information system in U.S. skies. Virgin America’s proprietary Red system allows each guest to choose on-demand movies, TV programs, music, or video games. Red also allows patrons to track their flight on interactive Google Maps, engage in seat-to-seat chat with other customers, and or- der food and drinks for themselves or anyone else on board. It’s a system designed to give passengers a feeling of control during an experience that is otherwise mostly out of their control.

Many of these ideas came by way of Virgin America’s techy clientele. It’s no accident that the company’s headquarters are located in Burlingame, California, just a few short miles from the San Francisco airport. In fact, Virgin America is the only air- line based in Silicon Valley. Not only is the company constantly experimenting with every aspect of the business, it has made strong efforts to involve Silicon Valley entrepreneurs and executives in the process, helping Virgin to think like its disruptive clientele. “We see ourselves as more of an incubator,” says Luanne Calvert, Virgin America’s chief marketing officer.

Take VX Next, for example—a group of 30 or so frequent fliers who act as a brain trust for Virgin America, generating ideas for the company at no charge. Among other winning ideas, this group was instrumental in developing the company’s recent interactive promotional campaign. At the center of the campaign is a slick cinematic site that provides viewers with a virtual tour of a Virgin America flight. Demonstrating the airline’s in-flight perks are founders and CEOs of companies such as Pandora, Gilt, and Pitchfork. As part of the tour, visitors to the site discover that several of the passengers onboard are Virgin America frequent fliers and Silicon Valley celebrities who have made creative contributions to the airline’s services with things such as curating in-flight music and menu items.

Virgin America’s home-brewed tech panel was also instrumental in creating the company’s latest safety video. When the company started operations, it delighted customers with a safety video like none other—an animated short featuring a techie nun and a matador with his bull. Posted online as well, the video racked up millions of views and cemented Virgin America’s im- age as a company that could find creative alternatives to just about anything, even a federally mandated reminder to wear seatbelts. That image has carried over to Virgin America’s new safety video—one created by a top Hollywood director and world-class choreographers that features 10 So You Think You Can Dance alums, two former Olympians, and one American Idol finalist. Debuting in Times Square and getting plenty of coverage from the press, the new safety video racked up 6 million views in less than two weeks.

Above the Clouds

Although there is plenty of anecdotal evidence that Virgin America’s customers are thrilled with its service, it’s the industry quality ratings that count. Virgin America is coming through with flying colors there as well. In fact, Virgin America has been number one in the annual Airline Quality Report—a survey that ranks airlines based on mishandled baggage, customer complaints, denied boardings, and on-time percent—for the past three years in a row. In a recent Consumer Reports survey for customer satisfaction in the airline, not only did Virgin America take top honors, it came away with the highest score achieved by any U.S. airline in many years.

Despite all of Virgin America’s success, the airline industry is a tough place to survive and thrive. In the United States, just four airlines control more than 80 percent of the market. Virgin America knows that maintaining its high rankings will be a challenge, especially as it expands into new markets—particularly markets with cold climates, a factor that increases the likelihood of canceled or delayed flights. As the number of passengers on flights increases, boarding and deplaning times will also in- crease, affecting multiple customer service metrics. And with Virgin’s techy and connected clientele, any slip-up is likely to be texted, tweeted, or otherwise broadcast for all the world to see. Playing the features and amenities game is also problematic. Things that delight customers today become ho-hum tomorrow, especially when competitors are constantly trying to improve their offerings as well.

To remain competitive as it moves into the future, Virgin America recently announced that it has agreed to be acquired by Alaska Airlines—another small West Coast–based airline known for its high level of service and customer loyalty. With more than 1,200 daily flights and 280 aircraft, the combined air- line will provide much stronger competition on the West Coast, even with the largest airlines. This should be a boon for customers of each airline who have been frustrated by limited route options in the past. But with such a strong and unique positioning targeted to- ward a specific segment of the industry, many are wondering what effect the union of these two airlines will have on Virgin America’s style and quality of service. After all, if “hip” best de- scribes Virgin America’s style, Alaska Airlines is best described as “practical.” “My hope is that Alaska goes in with an open mind and that they learn some things,” says one travel industry analyst. “It’s not hip, it’s not sexy, but Alaska has a lot going for it.”

The deal is still subject to approval by regulators, and airline mergers can take years to complete. But one thing is for sure. Alaska Airlines is not only acquiring an airline with a strong service record, it’s taking on an unusually profitable airline. Virgin America achieved an annual profit after just six years. Flying in the face of skeptics, the brash young airline continued on its upward trajectory by posting strong increases in profits in each of the two years since. For the most recent year, Virgin America achieved $201 million in profit on $1.5 billion in revenues—139 percent higher profits than the year before and the highest ever for a young airline. The company also recently went public in the second-largest airline IPO in history. The question is this: Will the new Virgin America continue to do what it has done in the past—wow every customer with exceptional service while giving the tech community a little something extra? Or will that special Virgin America brand personality slowly disappear in the shadow of older, more established Alaska Airlines brand?