

# JetBlue Airways

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for  
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## 1. David Neeleman's strategic vision

**What was David Neeleman's original strategic vision for jetBlue? Should jetBlue's strategic vision be revised now that the company has new executive leadership?**

The original Mr. Neeleman's strategic vision was to create an airline where passengers would be able to save money while they munched on gourmet snacks, sat in leather seats, and watched television [7]. This strategic vision looks directional, focused, easy to communicate but incomplete and uninspiring.

The airline business has seen more than its fair share of companies rapidly entering and exiting the business. It is an infamous industry for not making money and for failing to deliver on strategic vision. Margins are tight, costs are high, competition is fierce and demand cyclicity is constant and often dramatic. There are notable exceptions to the rule and jetBlue is one of them. JetBlue Airways is synonymous with value for money and good service, basing its success on a clear and consistent vision and value offering, balancing low prices with efficient operations and friendly service. In addition jetBlue has an inclusive and proactive vision that forges an aspirational and deliverable corporate strategy. This vision is clear and consistent to all stakeholders and straightforward in its manifestation both as a customer value proposition and an organizational business model [8].

But every market is dynamic and the timeframe of this timing effect depends of many factors (e.g.: the evolution of the technology, natural resource availability, human capital, new ideas and initiatives, change in people choices). The interaction of all factors will define the timeframe of the market evolution. For example environment consideration is a relatively new idea to be incorporate in the vision of the companies; fifty years ago few companies expressed concern about the environment protection. Another interesting example is Henry Ford's vision about one

car per garage, in Alberta there are around of 2,600,000<sup>1</sup> vehicles and 1,300,000 households<sup>2</sup>; what Henry Ford would think today about his own vision? Should Ford Company work with this strategic vision in Alberta today? Finally, the vision of the company could be reviewed based on all those potential changes, and more, under the boundary conditions that the company operates. Thus, jetBlue has changed its strategic vision to bringing humanity back to air travel [2] [3].

In the case of airlines companies, many of those factors affect the company evolution; and specifically for jetBlue, changes in management, environment and the vision itself when it looks that it is not working correctly. Many of these scenarios were present at jetBlue (external and internal), therefore the strategic vision of the company could be reviewed. Nevertheless to change the strategic vision of the company could imply a major change in the business and the re-education of many people (mainly managers and seniors).

## **2. Key elements of jetBlue's strategy in 2008**

**What were the key elements of jetBlue's strategy in 2008? How has the company chosen to attract customers in sufficient volume to earn profits? How does jetBlue offer its customers value?**

JetBlue has enjoyed several years of quick growth in the market-share, constantly increase of reputation, recognition and satisfaction from customers, competitors and associations (airways, customer, services, etc). But last years has shown that the trend for important variables in the airways business start to decrease its slope, and some of them to revert the trend. These new boundary conditions drive the research of how to maintain the previous trends defining the key elements and new strategies to address them.

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<sup>1</sup> Natural Resources Canada, 2007 Canadian Vehicle Survey. Summary Report.

<sup>2</sup> Statistic Canada

The key strategies and competitive advantages of jetBlue are the maximization of its workforce productivity, high quality of service and innovation with affordable prices, low cost ticketing system, and efficient aircraft utilization. The recommendations for jetBlue's management was to continue with its best-cost strategy through identifying cost for minimizing opportunities within its value chain, while at the same time investing aggressively in technology and innovation to differentiate from its rivals. At the same time the management should develop several new strategies to put the company in the desired way.

The key elements that new jetBlue management has started to develop are based on to continue developing a people-centered and customer-focused strategy. Some of the high level elements are to re-evaluate the ways that the company was using its assets, reduce capacity and cut costs, raise fares and grow in select markets, offer improved services for corporations and business travelers, form strategic partnerships, and increase ancillary revenues (e.g.: jetBlue has developed several ways trying to attract customers in both direct and indirect manner. The main strategies were to develop partnerships (e.g.: with Lufthansa, Aer Lingus and Expedia), offer different or new services (e.g.: LiveTV ), reduce costs (e.g.: JFK terminal changes), updating the aircraft fleet and using them more efficiently, selecting new markets (domestic and international)) [9]. Essentially, jetBlue continue offering value to its customers as a low-cost airline with a differentiated approach in regards to the high level of customer service it offers. It thus follows a best-cost provider strategy aiming to give customers more value for money from its ability to incorporate attractive features at a lower cost than its rivals.

### **3. Policies, practices, and procedures**

**Are jetBlue's functional area strategies consistent with its overall strategic approach? What policies, practices, and procedures have been developed to execute its business strategy and functional area strategies with proficiency?**

JetBlue management has developed a complete set of strategies at different levels; all of them consistent with its strategic vision and overall strategic approach. These strategies are developed at different areas such as human resources, operation, up to date technology utilisation, etc.

In the area of human resources jetBlue has developed many innovative practices with focus in to develop, maintain and provide human capital for the challenges that the company face in the current time and to be prepared for the future. JetBlue has established a recruitment team, the Aviation University Gateway, a continue training for staff, a leadership development training, health coverage, retirement plans. In addition, jetBlue recognizes that it has lower base salaries than its competitors, but it offers as compensation a coverage profit sharing. JetBlue's customer commitment begins with a commitment to employees. All employees can purchase stock at discounted prices. As a flight attendant who has worked for jetBlue for five years noted in a recent Reader's Digest article, "We're shareholders ourselves. We have an incentive to be happy and to make everybody happy." Additionally, employees are dedicated to lightning-fast plane turnarounds, excellent customer service and on-time arrivals and departures. The result is an efficiency machine and a flying experience currently unmatched in the airline industry. Since jetBlue was established, it adopted the latest technologies, and this was a major reason for its great competitive advantage. The company's success is the result of understanding customers' priorities and gaining great efficiencies through automating whatever IT can automate. Management also learned to break away from practices that inhibit efficiency and agility. In a highly competitive industry that traditionally has had a narrow profit margin, jetBlue managed to gain strategic advantage by reducing cost and therefore reducing the price to the customer; and improving a service, especially in terms of on-time departures and arrivals. In addition, jetBlue management has developed many policies, practices and procedures as a massive automation, intensive use of efficient approach [6].

JetBlue has implemented the latest available technologies: fast databases, VoIP, a slick Web site, laptop computers with the latest algorithms for fast calculation of routes and loads in the cockpit, and other technologies. This situation illustrates the strategic advantage. JetBlue has obtained a great benefit by automating services. JetBlue uses Open Skies software; it is a combination reservation system and accounting system, and supports customer service and sales tracking. The company avoids travel agents, saves office space rent and energy by using reservation agents who work from home for telephoning. Because all tickets are electronic, there is no paper handling or expense. JetBlue encourages customers to purchase their tickets online, and more than 79 percent of them do so, saving the company much labour. JetBlue automates other aspects of running an airline as well. Its maintenance workers use a maintenance information system log all airplane parts and their time cycles, that is, when the parts must be replaced and where they can be found. The system reduces manual tracking costs. The automation system allows jetBlue plans each flight to maximize the number of seats occupied. It reduces planning costs and makes operations more efficient. Managers have up-to-the-minute metrics, so critical in airline operations, which enable them to respond immediately to problems. When on the ground, employees use wireless devices to report and respond to any irregular event. The response is quick, and the events are recorded in a database for later analysis.

JetBlue has developed an efficient operation scheme. The company decided not to use the hub-and-spokes method of routing its airplanes, a method used by all major airlines. Instead of having its airplanes land in one or two hubs and undergo maintenance there before taking off for the next leg of a route, it simply uses the most profitable routes between any two cities. All flights are point to point. JetBlue was the first airline to establish paperless cockpits. The Federal Aviation Authority mandates that pilots and other air crew members have access to

flight manuals. The manuals are the documents showing information about each flight and the airlines update their manuals and then print them after every update. All jetBlue flight manuals are centrally maintained, and the pilots have been provided with laptop computers that they carry into the cockpit. This allows to jetBlue to cut 15 to 20 minutes from pre-flight preparations for every flight and to save cost in routine operations. In addition management planned a paperless frequent flier program, cockpit-monitoring cameras transmitting through satellites so that ground crews can monitor activity, and biometric applications in airport terminals [4].

The use of IT technologies also placed the airline at the top of the list for on-schedule departures and arrivals, a service that is very important, especially to business travelers. Other IT system is used to track and recover mishandled bags. When passengers arrive at jetBlue's terminal, they are directed by a large LCD display with a computer-generated voice telling them which window is available to serve them. Usually, checking baggage takes 45 seconds. When passengers arrive at their destination, they do not have to wait for their suitcases. Their electronically tagged suitcases wait for them at the baggage claim area [4].

#### **4. Factors driving change in the airline industry**

**What are the factors driving change in the airline industry? How are they likely to impact the future attractiveness of the industry?**

There are many factors driving change in the airline industry that we could discuss, as well as their impact in the future of the industry. The principal factors are increased globalization in trade and air transportation, increased intra-regional interaction, economic incentives for airline consolidation, pace of liberalization in air transport industry, anti-trust concerns, high operative costs, regulations, security threat, train competition, scarcity of human resources, customer choice evolution [1] [5].



The increase of the globalized economy creates an underlying increase in demand for more international and intercontinental travels. Strategic airline alliances with the global reach and without weaknesses in service delivery will have a significant competitive advantage over others for business people who need to frequent different corners of the world. Airlines able to effectively tap into the home markets of other carriers via cooperative agreements can extend its market reach with minimal capital investments.

Alongside the trend for increased globalization, however, there is an increased sense of regional identity. This may be accelerated by such regional trade liberalization movements as the European Union and the North American Free Trade Agreement. Trade within Asia, for instance, is growing at no less a pace than within the EU or NAFTA. A successful development of global strategic alliances must also be sensitive to this force.

There are strong economic incentives for airlines to operate large, dense networks, through both higher revenue potentials and lower unit costs. Compared with organic growth, mergers and acquisitions are a reasonably expeditious means of achieving a larger and denser network. Going forward, the increasing level of consolidation in the airline industry may leave emerging alliances with fewer choices for potential regional partners.

About 20 years after the deregulation of the US airline industry, carriers in the EU can now operate domestic service within other countries of the EU. While certain countries, including the US, are advocating more liberal multilateral air traffic service negotiations, it may be quite some time before multilateral traffic freedoms and carrier ownership restrictions are fully liberalized. As the airline industry becomes increasingly deregulated, various governments are increasingly responsive to consumers' demand for anti-trust scrutiny (e.g.: the EU administration had disapproved Swissair's plan to take up a majority stake at Portugalia Airlines) [1] [5].

Many issues affect the cost operation for the airline companies such as security threat (e.g.: it represents a new issue that has arisen with huge impact in the last decade for both sides the increase in cost and the decrease in demand), instability in fuel cost (e.g.: the oil barrel price has many unpredictable drivers such as wars, political instability, etc), shortage of specialized labor (e.g.: pilots or airplane mechanics), economic instability (e.g.: the turndown and inflationary periods affect the balance in the operative costs).

Nontraditional competence also is seen as factor driving changes in the airline industry, for short and medium range, the high speed trains is a serious competitor for the airline industry. This atypical competition present special challenges because the factors that affect each one of the industry are very different.

## **5. Key success factors in the airline industry**

**What are the key success factors in the airline industry? How well do jetBlue's resource strengths and competitive capabilities match these industry success factors?**

Low cost airlines strive to meet the basic demand of airline customers at a relatively low price. In order to be successful, they have to carry out their business from a certain value-based perspective and concentrate their attention on the following Key Success Factors of their industry. These key factors are overall low costs (Overall low costs are essential to be able to offer cheap fares. e.g.: Point-to-point services, cheaper product design, standardized fleet, use of secondary airports, direct sales via Internet as main distribution channel), high operational efficiency (high aircraft utilization is crucial to maximize the profits of the airline. e.g: quick turnaround times at the gates are required to reduce the time on the ground, where aircrafts do not make profits), high core service standards (e.g.: safety, customer support, customer

satisfaction, reliability (punctuality, reliable baggage delivery)), and strong direct sales capability via the Internet.

JetBlue's resource strengths and competitive capabilities overtake some of these KSFs and add other ones. JetBlue's KSFs could be described as the attractiveness of airline's service (one of the most important values from JetBlue), a highly talented workforce (e.g.: Aviation University Gateway), productivity, in airline capacity per employee and morale (e.g.: HR policies aims to develop this), highly effective promotional expenditures (e.g.: pilot laptops), strong direct sales capabilities (e.g.: special software), a well known and well-respected brand name (e.g.: it has won several awards), airplane utilization in hours per day (e.g.: efficiency in death time), high load factor relative to the industry average, quality control know-how (e.g.: IT system developed to increase in efficiency), product innovation capabilities (e.g.: high HR effort and initiatives maintaining the moral and performance of the work force), good financial management, and overall low cost so as to meet customers' expectations of low prices (e.g.: company vision and mission).

## **6. Strategy and well-matched to industry conditions**

**Do the strategy and changes to operating practices initiated in 2008 seem well-matched to industry conditions and the company's internal situation? What recommendations would you make to help speed JetBlue's turnaround and revive its growth in revenues and earnings?**

The operating practices changes initiated in 2008 seem to match with current the industrial conditions/requirements. Some of the changes aim to reduce cost, but they are developed in the primitive and standard way; although this lack of imagination and innovative solutions helps to reduce cost, it could not to return to JetBlue to a leader position. The operation efficiency is not overtaken completely with this kind of practices, mainly those indexes related with performance for maintenance and operation. The service level has decreased in some points, transforming

the key characteristics from jetBlue in a quasi-standard service. Finally, jetBlue could lose its comparative advantages that it has build over many years.

JetBlue needs creative ideas to go back to its trend in revenues and earnings. In the same way that Mr. Neeleman brought up with a strong vision and innovative ideas, the current management should develop a new vision and its strategies. After several years in the market and good reputation, jetBlue could take some advantage of that, offering special solutions for clusters of customers by region, labour activity, social activity, etc.

## **7. Conclusions**

Mr. Neeleman had creative ideas based on his experience and entrepreneurship initiative. He had summarized all these ideas in a strategic vision for jetBlue. He developed and met the entire requirements and people for the support and development of these ideas, setting objectives, and then crafting the strategy to achieve these objectives and vision. JetBlue has implemented and executed the strategy being careful of having the correct feedback through monitoring the development, evaluating performance and making corrective adjustments. This first period has represented a complete success for the jetBlue businesses.

With the goal of developing the strategies according to the strategic vision, jetBlue should take some risk; some of these risks had adverse effects years ago, at the same time that the company was losing some initiative. As result, a major change became, with a re-engineering of the business. This new strategy required a new jetBlue vision as well the design of new strategies to get it.

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