

## **JetBlue Airways, Trouble in the Sky**

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### **Abstract**

JetBlue is a low-cost domestic airline in the United States and has an interesting combination of implementing its low-cost and differentiation strategy. From the beginning of its inception, the airline grew to become the 11<sup>th</sup> largest player in the airline industry in a short span of 6 years. JetBlue's success is due to more than weakened competition, but it was from the start when the airline paid more attention to its identity as a brand. With its new planes, low fares, non-unionized labor, and an effective business model, JetBlue caught the big carrier's off-guard. There has also been a consistency and coherency in the company's brand ideology of putting a human element back into flying that has resonated deeply with passengers. Despite its success JetBlue has faced several challenges that have not only affected the airline industry but also its own core existence. This case study examines JetBlue's core strategic positioning and its operational challenges within a very turbulent industry.

## INTRODUCTION

### Overview of the Organization

JetBlue Airways was incorporated in Delaware in August 1998. The Airways headquarters is based out of Forest Hills, New York. JetBlue's main hub is based out of JFK airport, in New York City. JetBlue is a low-cost domestic airline in the United States and has an interesting combination of implementing its low-cost and differentiation strategies. From the beginning of its inception, the airline grew to become the 11<sup>th</sup> largest player in the airline industry in a short span of 6 years (JetBlue Airways, n.d.).

The current CEO, David Neeleman, founded the company in February of 1999 under the name of NewAir. Most of the executives of JetBlue including Neeleman are former Southwest employees. What JetBlue intended to do was to offer low fare flights designed to stimulate demand. In addition to its low fares, the company offered unique products that differentiated it from other airlines. The way they distinguish themselves from other airlines are the products that are offered such as; new aircrafts, leather seats, reliable operating performance, 36 channels of Live TV and movie selections from Fox In-flight at every seat (JetBlue Airways, n.d.).

“JetBlue was launched with a huge amount of capital, brand new planes, and expert personal in key positions. It grew rapidly as customers flocked to it to escape the steep fares and frequent delays of the major airlines” (JetBlue Airways, n.d.). In the early 1990s many small start up airlines also tried the low fare formula but failed in the face of direct competition from the major airlines, which were able to withstand the fare wars. Since 1978 more than 97 airlines failed because of insufficient capital and insufficient management talent (JetBlue Airways, n.d.).

According to Neeleman it took thirty months of planning to get his next project dubbed New Air in the skies. Neeleman raised \$130 million dollars in start up capital from backers that include Chase Capital partners (\$20 million); Quantum and Soros Fund Management (\$40 million); and Western Presidio from S.F. (\$30 million). Banc Boston Ventures, Massachusetts Mutual Life and Nations Bank Montgomery Securities all contributed 10 million dollars each. A group led by Neeleman also invested \$10.2 million dollars into the company (JetBlue Airways, n.d.).

Talented executives were brought in from other airlines and other executives were brought in from Southwest. The company's operation is similar to Southwest in that they shared similar ideas and concepts. For example, JetBlue used the Airbus A320, which was similar to the Boeing 737's used by Southwest. (Our History, n.d.)

In mid July of 1999 NewAir changed its name to JetBlue Airways and by the next year it launched its operations with its inaugural flight between JFK airport in New York and Fort Lauderdale, Florida. Neeleman once said that his goal was to, “bring the humanity back to air travel.” JetBlue aimed to undercut other airlines' fares by an average of 65%. This bold move by JetBlue showed frequent travelers how cheap it could be to fly compared to other airliners. This change of fares had an effect on the entire airline industry causing larger airliners to start competing as well (JetBlue Airways, n.d.).

The main reason why customers are so amazed by JetBlue was the amenities that they offered to their customers. The in-flight entertainment system showed live satellite

broadcasts where as other airlines had recorded shows that they showed to passengers during flights. The airline would serve no meal but offered gourmet potato chips and soda on all their flights. These were some of the marketing concepts that were brought in by executives that use to work for Virgin Atlantic Airways. One thing JetBlue lacked in was the frequent flyer mile program, which was not appealing to the high mileage business travelers.

JetBlue business grew rapidly the first year that they were in the sky. The 300 call center employees in Salt Lake City, who had the options of working at home and saving the company overhead, were receiving 12,000 calls a day. Still the company was booking 40 percent of its flights through the air (JetBlue Airways, n.d.)

In December of 2000, Neeleman's JetBlue airlines recorded its millionth customer flier and the third profitable month, which was an amazing achievement in such a short time. It also reported \$100 million dollars in revenue but not in annual profit. The company at this time was only operating out of ten destinations. The company's plan is to acquire a new plane every five weeks until 2008 to meet its demand. JetBlue in June 2001 announced that it was going to buy as many as 48 planes for as much as \$2.5 billion. The company also wanted to increase its flight frequency on its existing route rather than expanding its number of markets served. (Miranda, 2007)

In July 2001 the Port Authority of New York approved a new five year, \$60 million dollar lease and New Jersey gave JetBlue control of its own terminal at JFK. JetBlue later decided to lease a few gates to United Airlines. As JetBlue expanded and became more popular it also received awards and accolades such as in 2007 they won the best domestic airline for value by the *Travel + Leisure* magazine, #3 rated airline by *Fortune* magazine, and in 2006 JetBlue won passenger service award by *Air Transport World* magazine. These are few of the many awards and recognitions that JetBlue has received throughout its years of service ("JetBlue Airways," n.d.).

## **Airline Industry**

To better understand the profitability and risks involved in the airline industry; one must know a little about the industry as a whole. In order to understand how new aircraft might fit into the current market; one must understand the customer (Airline Industry, n.d.). As we all know air travel remains a large and growing industry. It facilitates economic growth, world trade, international investment and tourism and it's therefore central to the market. In the past decade, air travel has grown by 7%. According to the latest statistics given by the International Air Transport Association (IATA) travel for both business and leisure purposes has grown dramatically worldwide. As companies became increasingly international in terms of their investments, their supply and production chains felt a sharp increase in the amount of air travel. Scheduled airlines carried 1.5 billion passengers last year. The IATA forecasts that international air travel will grow by an average of 6.6% a year to the end of the decade and over 5% a year from 2000 to 2010. These rates are very similar to the ones that occurred in the past ten years (Airline Industry, n.d.).

To meet the requirements of their increasingly discerning customers, some airlines have to invest heavily in the quality of service that they offer, both on the ground and in the air. Ticket-less travel, new interactive entertainment systems, and more

comfortable seating are just some of the product enhancements being introduced to attract and retain customers (Airline Industry, n.d.). JetBlue is now ahead of the game due to the initiative that it took early on concerning these issues.

When the September 11<sup>th</sup> attack on the US happened, the airline industry was hit the hardest and disruption and chaos was caused throughout the country and in the airline industry. The nation's three major airlines, Delta, American, and United Airlines, all suffered great losses and each airline had to cut back on employees by 20 percent just to stay afloat. Only two airlines ended up making money in the post-9/11 economy and one of them was JetBlue. The main reason why they didn't suffer as much was because they were offering low fares and point-to-point rather than a network service, and by focusing on second-tier airports rather than going head to head against established hub. Today, JetBlue has a market value that is nearly as large as that of United, American and Delta combined (Frost, 2006.).

JetBlue's success is due to more than weakened competition, but it was from the start when the airline paid more attention to its identity as a brand. With its new planes, low fares, non-unionized labor, and an effective business model, JetBlue caught the big carrier's off-guard. There has also been a consistency and coherency in the company's brand ideology of putting a human element back into flying that has resonated deeply with passengers.

Gareth Edmondson-Jones, JetBlue's Vice-President of Corporate Communication said, "JetBlue has prospered more significantly by its brand work than by disruption after 9/11. It's certainly a combination, but more so the brand. More importantly, it was the pre-9/11 era that did most damage to the legacy carriers, when they were making massive profits with poor quality, indifferent service and high fares. That was the platform upon which JetBlue launched. September 9/11 certainly meant that the big guys were distracted while we grew" (British Design Innovation, n.d.)

## **Operating Domain**

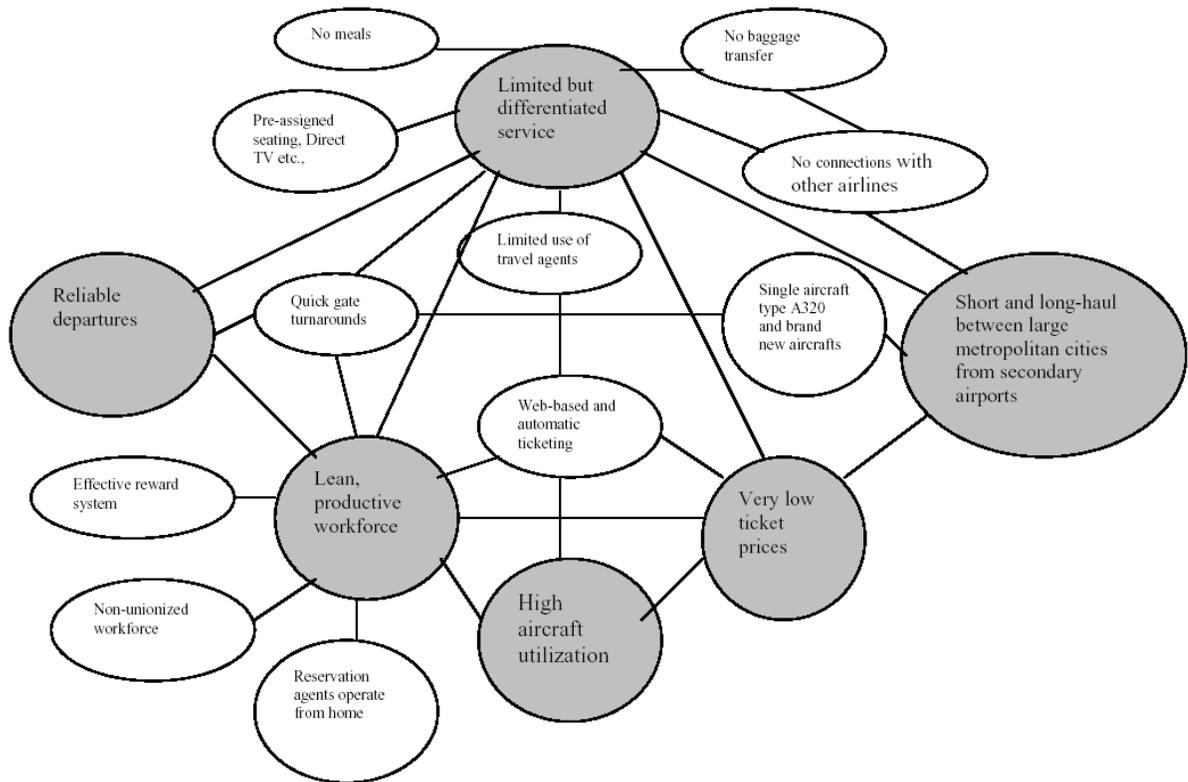
As for JetBlue's operating domain, it is believed that due to its web-based booking, instead of booking through ticketing agents, the airline is able to gain greater control on managing seat sales which in turn avoids customers being bumped. As for the operations, JetBlue uses paperless cockpit, no meals served on any of its flights, and no paper-tickets, which all reduce time and costs. They also use a single aircraft type, which in the long run keeps training costs low, and manpower utilization at a high. Another way that JetBlue utilizes its resources is by using the new A320s, which are larger and more fuel-efficient. JetBlue also has less congested airports, which helps to speed flight departures and get their passengers to their destinations in a faster manner. Some of the marketing techniques that JetBlue uses are web-based ticketing, which is then used as a distribution channel. They have a sophisticated market segment properly identified for the business travelers flying point-to-point and of course effective pricing which gives them the edge against their competitors (Evans, 2007).

As for service, JetBlue is always in constant communication with customers to keep them informed of changes or inconveniences. Customers are refunded sometimes when there are inconveniences, which is a big plus for customers that lose luggage or delay of flights. Neeleman, himself travels regularly to get customer feedback first-hand.

JetBlue as a company also invests in training for service orientation. Another attribute that the company holds is that they have well-conceived aircraft procurement plan to support future growth.

JetBlue invests in technology initiatives such as automated baggage handling, web-based ticketing, paperless cockpit etc. JetBlue's non-unionized workforce is incentivized through rewards systems such as stock-option plans, profit sharing, innovative recruitment policies and culture promoting camaraderie's.

JetBlue's activity system<sup>2</sup>



Extracted from: (Porter, M.E.) *JetBlue's Activity System*. November-December 1996. *Harvard Business Review*).

### Operational Problem

One of the biggest disasters that happened in JetBlue history took place on Valentine's Day, February 14, 2007, a high air-traffic day. Caught by a bad winter storm and bad airline planning, JetBlue passengers ended up spending as many as 11 hours trapped on planes on a frozen tarmac in New York. Flights throughout the nation were stranded due to bad planning. Customer service was damaged for JetBlue, as most people were not happy with the long amount of time they were spending on the planes. Even though JetBlue offered refunds and other perks to customers their reputation was still tarnished as passengers compared these long delays as hostage situations (Ross, 2007). One passenger said it the best who was stuck on one of the airlines for 11 hours, "Nothing says 'I love you' like being held hostage on a frozen plane with the man you

love, 99 strangers, 4 other people you happen to know, 4 screaming babies and 3 rambunctious kids running about, nothing but chips and soda for sustenance, faulty power, unreliable direct TV and overfilled sewage system for 11 hours” (Bailey, 2007).

Passengers on all airlines experienced delays and cancelled flights, yet JetBlue was the airline making it into the news for the excruciatingly long runway delays, cancellation of all flights, and long wait to claim baggage. Although there was no way JetBlue could have prevented the cancelled flights due to bad weather, they did not have risk management plan in effect addressing ice storms before this incident occurred (Levick, 2007). Most other airlines responded by canceling more flights earlier, sending passengers home and resuming their schedules within a day or two. But JetBlue thought the weather would break and it would be able to fly, keeping its revenue flowing and its customers happy.

The JetBlue crisis started on a Wednesday, but its woes dragged on day after day. By the following Saturday night 23 percent of JetBlue flights were cancelled for Saturday and Sunday and would also be canceled Monday. This confusion led to angry exchanges between customers and employees, promoting the airline to call out security personnel. Before the February 14<sup>th</sup> incidents happened, JetBlue was named the number one *J.D. Powers* customer service oriented airline among low-cost carriers. With the debacle that happened JetBlue must take airline customer service to even a higher precedent as issues such as passenger rights, getting planes off the ground on time, and employee empathy are addressed (Associated Press, 2007).

David G. Neeleman the founder and CEO of JetBlue airlines said he was humiliated and mortified by the huge breakdown in the airline’s operation that has dragged on for nearly a week, and promised that in the future JetBlue would pay penalties to customers if they were stranded on a plane for too long. He also admitted that the current crises which led to about 1,000 cancelled flights in five days, was the result of a shoestring communications system that left pilots and flight attendants in the dark, and undersized reservation systems. Since the airline was founded in 1999 it was often cited as a favorite among passengers and expanded rapidly, but its system to deal with the consequences of bad weather did not keep up with the growth. The company’s low cost operating structure may have been a contributing factor that caused this mess (Bailey, 2007).

A basic problem was JetBlue’s communication system. The ice storm had left a large portion of the airline’s 11,000 pilots and flight attendants far from where they needed to be to operate the planes, and JetBlue lacked the trained staff that was needed to find them and tell them where to go. It was the first time in the company’s history that they had so many people out of position. Another problem was the reservation system; the system was so overwhelmed that customers were unable to get through to human agents to check on a flight. In their current arrangement, the company employs nearly 2,000 reservation agents in the Salt Lake City area, many of them women who work at home. According to JetBlue founder David Neeleman, work agreements were adjusted to require reservation agents to work longer hours during difficult periods (Miranda, 2007).

On March 16, 2007 a similar weather situation arises in New York where a severe late-winter storm descended on the Northeast. JetBlue had to cancel over 400 of their 550 flights on Friday. This time they were prepared for it and cancellations were made Thursday night, so they could contact customers in advance. They also opened a

“weather waiver window” so that anyone booked to travel over the weekend could voluntarily rebook for another weekend, through April 30 (JetBlue Airways, n.d.).

JetBlue was the first airline to cut March 16<sup>th</sup> operations so deeply, but they were also the first airline back in the air on Saturday, running close to 98% of their scheduled flights. They pre-positioned their aircraft and flight crews in advance so that as soon as the icing conditions lifted, so they could get the passengers back in the air and to their select destinations (JetBlue Airways, n.d.).

### **Supplemental Information Contributing to the Understanding of the Problem**

After the February 14<sup>th</sup> delays, JetBlue executives developed a passenger Bill of Rights to help deal with the situation if it happens to arise again. The Bill of Rights provides real compensation for delays and cancellations, and it is believed to be stronger, deeper, and much more defined than any other customer commitments you could find in the airline industry (JetBlue Airways, n.d.). Subsequent to JetBlue’s Valentine’s Day catastrophe, some senators are in the process of developing a Bill of Rights that will have an impact on the entire airline industry.

Before the Valentine’s Day events happened JetBlue had no effective plan that would have helped defuse the situation that they were in. If they had a plan they would have been able to notify passengers earlier of the delays and cancellations. Before the March 16<sup>th</sup> storms were to arrive, JetBlue officials let the passengers know the day before that there were going to be delays and weather cancellations. Letting the passengers know earlier enabled them to adjust their plans. JetBlue’s revised policies and procedures addressed many of the issues that caused their original problem.

However, one issue that JetBlue didn’t emphasize enough on was waiting time for passengers on airplanes. The current statement reads that the maximum time they will let passengers wait is five hours due to unavailable gates or waiting for passengers. A more reasonable time limit needs to be established. One solution to the problem would be to park incoming flights near the gate and send a bus out to pick up the passengers. This way they wouldn’t have to wait in the plane until a gate is available or call other airlines and see if they can use their gates if one is available no passenger should wait in a idle airplane for more than a hour. For outgoing flights, the airline should not load the passengers until the weather is clear or air traffic is clear enough to depart (JetBlue Airways, n.d.).

Customer service is the foundation that JetBlue was built on. The airline should have reviewed their operation plan more carefully when situations like delays and cancellations arise. It took an event like this for the company to revise its strategies. JetBlue should review these strategies every year to see where they identify deficiencies and report on what possible problems can arise from their current strategy that is in place (Rasmussen Reports, 2007).

In Appendix A is the new set of Bill Of Rights by JetBlue Airways. This Bill of Rights will protect passengers who are suffering from delays caused by unplanned events due to weather, terrorism, and any uncontrolled events not brought by JetBlue Airways.

### **Questions of Concern**

- How can JetBlue recover from these incidents concerning delays and passengers waiting on the tarmac?
- How can JetBlue still stay competitive within the war of airfares between airlines?
- Will the new airline Bill of Rights adopted by JetBlue be a positive aspect relating to customer service?
- How does JetBlue prevent another incident concerning delays due to weather or other events that may occur?
- How can JetBlue prepare itself for the future structurally, internally, externally, and competitively?

## CONCLUSION

With the recent events that took place JetBlue had no strategy dealing with the delays caused by weather related issues. JetBlue needs to reemphasize strategic planning dealing with delay-causing situations. For JetBlue to remain a successful company it needs reevaluate its emergency-preparedness plans. The Bill of Rights that was released after the events that occurred is only a partial solution to the problem. Since passengers still have to wait 5 hours on the plane during delays, a more comprehensive solution is still needed.

Customer satisfaction is one of the primary bases of JetBlue airlines and they should take more emphasis in this area. No passenger wants to wait on an idle plane for more than an hour, and making passengers sit in a plane for a long period of time will hurt repeat customers. JetBlue is a successful airline that has the proper framework both internally and externally to be a dominant provider of low cost air travel.

## APPENDIX : JetBlue Bill of Rights: (Bill of Rights, 2007)

### JetBlue will notify customers of the following:

- Delays prior to scheduled departure
- Cancellations and their cause
- Diversions and their cause

### Cancellations

All customers whose flight is canceled by JetBlue will, at the customer's option, receive a full refund or re-accommodation on a future JetBlue flight at no additional charge or fare. If JetBlue cancels a flight within 12 hours of scheduled departure and the cancellation is due to a Controllable Irregularity, JetBlue will also provide the customer with a Voucher valid for future travel on JetBlue in the amount paid by the customer for the roundtrip.

## **Departure Delays**

1. Customers whose flight is delayed prior to scheduled departure for 1-1:59 hours due to a Controllable Irregularity are entitled to a \$25 Voucher good for future travel on JetBlue.
2. Customers whose flight is delayed prior to scheduled departure for 2-3:59 hours due to a Controllable Irregularity are entitled to a \$50 Voucher good for future travel on JetBlue.
3. Customers whose flight is delayed prior to scheduled departure for 4-5:59 hours due to a Controllable Irregularity are entitled to a Voucher good for future travel on JetBlue in the amount paid by the customer for the one-way trip.
4. Customers whose flight is delayed prior to scheduled departure for 6 or more hours due to a Controllable Irregularity are entitled to a Voucher good for future travel on JetBlue in the amount paid by the customer for the roundtrip (or the one-way trip, doubled).

Controllable Irregularity means that if it's within JetBlue's control. This would include: gate unavailability upon arrival, flight delay or cancellation due to mechanical reason, crew members unavailability due to something other than weather or some other uncontrollable event.

Uncontrollable Irregularity is that if it is outside of JetBlue's control. This would include: weather delays or cancellations, runway closures, mandated ground delay by Air Traffic Control.

## **Overbookings**

(As defined in JetBlue's Contract of Carriage)

Customers who are involuntarily denied boarding shall receive \$1,000.

## **Onboard Ground Delays**

For customers who experience an onboard Ground Delay for more than 5 hours, JetBlue will take necessary action so that customers may deplane. JetBlue will also provide customers experiencing an onboard Ground Delay with food and drink, access to restrooms and, as necessary, medical treatment.

## **Arrivals:**

1. Customers who experience an onboard Ground Delay on Arrival for 30-59 minutes after scheduled arrival time are entitled to a \$25 Voucher good for future travel on JetBlue.
2. Customers who experience an onboard Ground Delay on Arrival for 1-1:59 hours after scheduled arrival time are entitled to a \$100 Voucher good for future travel on JetBlue.
3. Customers who experience an onboard Ground Delay on Arrival for 2-2:59 hours after scheduled arrival time are entitled to a Voucher good for future

- travel on JetBlue in the amount paid by the customer for the one-way trip, or \$100, whichever is greater.
4. Customers who experience an onboard Ground Delay on Arrival for 3 or more hours after scheduled arrival time are entitled to a Voucher good for future travel on JetBlue in the amount paid by the customer for the roundtrip (or the one way trip, doubled).

**Departures:**

1. Customers who experience an onboard Ground Delay on Departure for 3-3:59 hours are entitled to a \$100 Voucher good for future travel on JetBlue.
2. Customers who experience an onboard Ground Delay on Departure for 4 or more hours are entitled to a Voucher good for future travel on JetBlue in the amount paid by the customer for the roundtrip (or the one way trip, doubled).

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