

Case study – jetblue airlines

Education



February 20, 2013 JetBlue Airways Corporation Case Study Report Situation Analysis History JetBlue Airways Corporation was created by David Neeleman. His vision was to create an inexpensive, easy way to travel by airplane. He was quoted saying he wants to “bring humanity back to air travel.” David Neeleman was already a seasoned entrepreneur. Two years after dropping out of the University of Utah he established his own business by renting out condominiums in Hawaii. Soon after he established his own travel agency and began chartering flights from Salt Lake City to the islands to bring in more prospective clients to rent his condos.

In 1984 Neeleman joined forces with June Morris, who owned a large corporate travel agency in Utah, to bring to the world a company known as “Morris Air”. (JetBlue Airways Corporation, 2011) Success followed and the company was bought by Southwest Airlines for \$129 Million. Soon after the sale of “Morris Air” Neeleman pioneered the use of “at home reservation agents”. By using their homes as offices the reservation agents were saving money by lowering overhead expenses. He also developed the first electronic ticketing system in the airline industry. (JetBlue Airways Corporation, 2011) Neeleman became the executive vice president for Southwest but realized it wasn't a good fit. He signed a five year noncompete agreement and was on his way. During his five year agreement he developed the electronic ticketing system he had initiated at Morris Air into one of the world's easiest airline reservation systems. He called it Open Skies. He then sold this innovation to Hewlett-Packard in 1999. Finally in 1999 the noncompete agreement had reached its expiration and Neeleman launched his own airline.

He raised the needed capital with ease and JetBlue became the highest-funded start up airline in aviation history. JetBlue commenced operations in August 2000. For a start up base JetBlue chose John F. Kennedy International Airport (JFK). (JetBlue Airways Corporation, 2011)The company relied on electronic reservation and ticketing to keep costs down. JetBlue was of the first airline companies to issue laptop computers instead of manuals to their pilots. One of their highest selling points aside from price was the in-flight entertainment. The airbus A320's ere complete with 24 live satellite broadcasts (including A&E, Animal Planet, CNBC, ESPN, theFoodNetwork, Home & Garden, and the Weather Channel) at every seat. This kind of entertainment was of the first among airlines. Airlines typically aired taped shows or movies. To help keep costs down the airline provided no meals but did offer gourmet blue potato chips and soda. The seats were equipped with more leg room and were all leather with larger overhead storage compartments. Business grew rapidly in JetBlue's first year of operations.

Reservation agents were receiving calls of up to 12, 000 a day and still the company was booking 40% online. In 2001 JetBlue opened a second base in California at Long Beach Airport. JetBlue grew over the years to serve more than 52 destinations in 21 states, Puerto Rico, Columbia, Mexico and the Caribbean. In 2008 they added services to Puerto Plata and St. Marteen. In 2009 they started serving Bogota, Columbia, San Jose, Costa Rica, Montego Bay and Jamaica. In 2007 JetBlue announced that they were entering into an agreement with Aer Lingus, and Irish flag carrier, to facilitate easy transfers for both airlines' customers.

Unlike traditional code-share alliances, customers could not make one reservation for both airlines if need be. They would have to make two reservations instead. Then only 8 days later, JetBlue announced a code-share agreement with Cape Air. Customers would be able to purchase seats on both airlines under one reservation. A much better fit for convenience. JetBlue's growth was becoming harder to fund due to competitive pricing and high fuel prices amongst other growing costs. On February 14, 2007 an event took place that would shake the solid, well funded company to its knees.

Not only costing Neeleman his position in a company that he created, it destroyed the companies reputation for good customer relations. There was a terrible storm headed towards the East coast and while all other airlines took the proper precautions and canceled their flights JetBlue in all their stubbornness did not. When the storm hit it was worse than expected and JetBlue's customers were left stranded planes for 7 hours or more. David Neeleman when interviewed about this horrible turn of events said " Things spiraled out of control. We did a horrible job; we got ourselves into a situation where we were doing rolling cancellations instead of a massive cancellation. Communications broke down, we weren't able to reach out to passengers and they continued to arrive at the airports... it had a cascading effect. " It took the organization more than a week to get the situation under control. This is where The Customer Bill of Rights came in. It basically outlined self-imposed penalties for JetBlue and major rewards for its passengers if the airline experienced operational problems and could not adjust to weather-related conditions within a " reasonable" amount of time.

In 2007 the company reported a \$76 Million loss with a primary reason being rising fuel costs. JetBlue remains profitable, posting a net income of \$128 Million for 2012. JetBlue's CEO and President, Dave Barger said " 2012 was a very good year". (Corporation, 2013) Mission JetBlue Airways does not operate under a traditional mission statement. Instead they use a set of core values. Those core values are as follows: * SAFETY * CARING * INTEGRITY * FUN * PASSION These five things are best described as " the JetBlue experience". (John W.

Kelly for KR Consulting, 2008) (JetBlue Airways Corporation, 2012) Corporate Strategy There are two new strategies that have been developed for JetBlue Airways; a growth strategy and an efficiency strategy. Both strategies have been created out of internal and external analysis. The growth strategy's primary goal is to take advantage of recent mergers and failures within the airline industry. When companies merge it takes away some of the competition. Failures in other companies create opportunities for JetBlue to step in and create new business. (John W.

Kelly for KR Consulting, 2008) (Corporation, 2013) The efficiency strategy is developed based on the organizations position within the low-cost segment of the airline industry. To reach this goal an extensive internal analysis is performed with a careful look at the labor force as well as an analysis of the jet fuel prices/purchasing. (John W. Kelly for KR Consulting, 2008) Strengths and Weaknesses of JetBlue Airways Strengths Strong brand recognition and their services are competitive. If you consider revenue passenger miles JetBlue is the sixth largest passenger carrier in the United States and is a widely recognized global brand.

The company has received several awards such as “ Top Low Cost Airline for Consumer Satisfaction” seven years in a row and also “ Best Coach Class Experience”, “ Most Customer Friendly Airline” and “ Best Value Airline Domestic” for 2011. JetBlue is also known for their spacious seating and live satellite TV. The Customer Bill of Rights is also a key player in the companies strengths. It was created with meaning and specific compensation for customer inconvenienced by service disruptions within JetBlue’s control.

Another service offered only by JetBlue is an expedited security experience in over 30 cities and they call it “ Even More Speed”. JetBlue utilizes their aircraft most efficiently to have the ability to spread its fixed costs over a greater number of flights and available seat miles and they do this by using Airbus A320 planes for the majority of their business. (JetBlue Airways Corporation, 2012) Weaknesses JetBlue has an extreme amount of high fixed obligations. In 2011 JetBlue had a debt of \$3. 14 billion and it accounted for 64% of its total capitalization.

As the years go on and the company grows its debt will only grow as well. Eventually their high level of debt could make it difficult to grow the business further because of lack of funding. That in turn would put the company below their competitors who could find it easier to acquire necessary funding. (JetBlue Airways Corporation, 2012) Opportunities An obvious opportunity for JetBlue is expansion in the travel industry. This specific industry has always fluctuated in the past but, it is expected to grow aggressively in the years to come.

According to The Federal Aviation Administration (FAA), airline travel is said to double over the next 20 years. In 2011 about 815 billion people or seats

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World population is expected to increase over the next two decades to numbers close to 1.57 trillion. That is an average growth rate of approximately 3.2% per year. Being the sixth largest passenger carrier in the US, JetBlue is in a good position to expect a growth like that as well. JetBlue has also put effort in to making business relationships with Asia. The pace of the economy as a whole is slowing but Asian economies have remained strong domestically.

Cathay Pacific is the home carrier of Hong Kong. In 2012 JetBlue announced an interline agreement with this company. This agreement will link each other's network between Asia Pacific and the America's. JetBlue also announced a codeshare agreement with Japan Airlines to offer nonstop service to Tokyo's Narita International Airport. For this reason JetBlue's expanded partnerships with major Asian airlines will help further strengthen its network and expand their services. (JetBlue Airways Corporation, 2012) (Corporation, 2013) Threats The absolute biggest threat to JetBlue is the rising costs of aircraft fuel.

Throughout history fuel costs have fluctuated out of the control of companies such as JetBlue. The costs vary widely and are unpredictable at best. In 2011 fuel costs represented nearly 40% of JetBlue's total operating costs. Another threat is stringent governmental regulation. In the airline industry companies are subject to extensive regulatory and legal compliance requirements that result in significant costs. It is also very expensive for the company to keep their current certificates. Lastly there will always be intense competition in this industry.

As a tradition the industry is typically dominated by the giants such as: United Air Lines, Delta Air Lines, American Airlines, Southwest Airlines and <https://assignbuster.com/case-study-jetblue-airlines/>

US Airways. Because of their size and power, some of these companies may be better suited for necessary funding. They may also receive more favorable fuel prices due to volume of sales. Intense competition could lead to price wars which could negatively affect the company. (JetBlue Airways Corporation, 2012) Identification of Problem(s) and Their Core Elements The first problem with JetBlue is that the company grew too big too fast.

The organization was incapable of sustaining this growth both financially and physically with staff, equipment and services. The second problem was/is bad publicity. The airline was well known for exceptional customer service and relations but lately they are ranked among the lowest in customer satisfaction. JetBlue grew too quickly. In the 1990's there were many small start-up airlines. Most failed when faced with competition from the major airlines because they were not able to withstand the wage wars. The smaller companies were also at a disadvantage when it came to start up capital and management talent.

Because of David Neelemans talent and charisma he was able to acquire an abundance of start up capital which carried the airline through the toughest part of a business, the beginning. Once JetBlue took off the company had a difficult time keeping up with its popularity and growth. Technology for one was lacking and it all caught up with the company on Valentines Day in 2007. The company made a few bad decisions and it escalated quickly and their reservation system could not handle the capacity of the situation. Their technology also failed them when trying to remedy the problem.

They were not prepared or ready for something of this magnitude. (Damaraju, 2009) With the growth divergence from the company's original

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plan was starting to take place. They started off operation only one type of aircraft, an Airbus A320. The strategy behind this was to lower training cost and provides a very knowledgeable staff with flexibility in manpower. The airline then included a second type of plane, the Embraer 190 which the staff was not prepared for. Furthermore the company was embarking on even more paths where it did not have the needed experience. (Damaraju, 2009) JetBlue started as an airline for the New York leisure traveler.

The concern with their expansion is that they don't have the route structure to compete with the majors for the business class travelers. (Farzad & Bachman, 2012) The second problem is bad publicity. The first unfortunate event was the Valentines Day ice storm that left passengers stranded and the company without the proper tools to fix the problem in a timely manner. Customers were outraged as they should have been. The second very public mishap came in August 2010 when a frustrated flight attendant exited the plane using the emergency slide after becoming irate with passengers.

And last but certainly not least, when one of their pilots had to be subdued by passengers and forcibly removed from the plane in March of 2012. (Farzad & Bachman, 2012) Because of these unfortunate events JetBlue now ranks last among 15 airlines in on-time performance and ninth in customer complaints to the Department of Transportation. (Farzad & Bachman, 2012) Those numbers are three times Southwest's complaint ratio. Having started out as an airline that wanted to "bring humanity back to air travel" they seem to be coming up short in the customer service area.

That was their biggest client attraction. Evaluation of Alternative Courses of Action The problem of growing too big too fast can easily be evaluated as a <https://assignbuster.com/case-study-jetblue-airlines/>

hind sight. The company had great aspirations and fell short only by default. Had the company foreseen the events that were to come with the failure in their choice of technology or the mental breakdown of their staff, I'm sure they would have done things differently. The costs of their technological errors were somewhere close to \$30 million. The costs they endured over their lack of customer satisfaction are immeasurable.

For these problems, the alternative courses of action could only be to revamp their technology and better train staff and let them know the real pressures of their positions. JetBlue already has a comprehensive training program for their employees known as "JetBlue University". (JetBlue Airways Corporation, 2012) Recommended Solutions Recommended solutions for JetBlue's growth from this point moving forward would be first, to monitor and maintain a functional operation-revenue to operating-expense ratio. As with any successful business the operating revenue must be greater than the operating expenses.

This ratio will determine the future of JetBlue. (John W. Kelly for KR Consulting, 2008) Internally JetBlue should consider how to reduce expenses. The two key players in this particular situation are labor and fuel expenses. Although JetBlue has remained un-unionized, which is imperative in keeping labor costs down; there may be more room for improvement in the budget regarding this matter. I suggest a closer look at Management and Airport Operations. These two positions are the furthest from the consumer and have the most employees.

The reason behind choosing these particular positions is that change in these areas will not directly affect customer service. These positions need to be

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examined and see where, if any, the process inefficiencies lie. By doing this the company may be able to cut a few unnecessary positions. Recommendations for best efforts for capping fuel costs are an evaluation of the fuel purchasing agent's performance. (John W. Kelly for KR Consulting, 2008) The second recommendation is to take a more aggressive approach like Southwest has and practice more hedging.

Recommended solutions for JetBlue's failure to provide exceptional customer service would be first to continue to practice and put to use The Customer Bill of Rights and to take a few leads from their competitors. Other airlines do not charge their customers for a pillow and blanket set. At all costs they should continue with the perks they provide their customers. They may not serve meals but the snacks and sodas are always free. A big selling point for consumers is baggage fees. JetBlue allows their passengers to have two free bags per flight.

That is one more than Southwest. The fact that JetBlue is "low cost" airline the consumers expect less, i. e. meals and things of the such, so their state of the art entertainment is a welcome surprise for passengers. Implementation Plan To take action on the operation revenue to expense ratio is to start immediately reviewing the labor functions and initiate an additional review every two years. Starting immediately with employee performance reviews, having properly trained employees is a must. Success or failure in this area will be measured in dollars saved.

Immediate action considering fuel costs are to hire a congressional lobbyist to help neutralize the market by opening up national strategic reserves as well as encouraging increased domestic petroleum exploration and jet fuel

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production. Success or failure in this area will also be measured in dollars saved. Works Cited Corporation, J. A. (2013). JetBlue Reports Record Fourth Quarter and Full Year Revenues. New York: PR Newswire. Damaraju, N. L. (2009). JetBlue Airlines: Will it Remain Blue? In McGraw-Timmons, Capstone Bus 250s (pp. 13-220). Dallas: University of Texas. Farzad, R. , & Bachman, J. (2012). Once High-Flying, JetBlue Returns to Earth. Bloomberg Businessweek , 27-29. JetBlue Airways Corporation. (2012). Company Profile JetBlue Airways Corporation. marketline. com. JetBlue Airways Corporation. (2011). Reference for Business. New York: referenceforbusiness. com. John W. Kelly for KR Consulting, L. (2008). Shaping Tomorrow's Solutions for JetBlue Airways- A Strategic Analysis. San Fernando Valley: University of La Verne.