

# Business practices 1598



**ASSIGN  
BUSTER**

Companies must have satisfied employees to satisfy customers. Continental Airlines is a perfect example of how a company can succeed by putting the emphasis on the employees and customers. Continental demonstrates remarkable turnaround from a disastrous performance.

In the early 1980's, the management of Continental believed that the only way to save the company was to lower airfares, and to reduce all possible expenses. In doing so, it demolished the product and their quality of service. For instance, in the early 1990s, pilots could earn bonuses if the fuel burn rate on their airplane fell below a specific amount. The program motivated pilots to fly slowly, which often resulted in missed arrival times. Because of the delays, it was sometimes necessary to divert customers to the competition. Another example of this horrible " low-cost" approach was the CALite program. Continental replaced all first-class seats in some airplanes with coach seats to lower the cost-per-seat. This failed when airplanes were swapped during adverse weather conditions; the business class seats were not available to the passengers that had paid for them. Moreover, CALite eliminated all food on flights, all travel agent commissions, and all corporate discounts. This infuriated many of their very important customers. After 15 years of this " low-cost" approach, Continental had succeeded in creating services that nobody wanted.

Continental's organizational culture was terrible. Many of the employees felt ashamed to work for Continental. Some employees were so ashamed, that they removed the logo from their shirts. To make matters worse, Continental had put in place a horrible communication structure: Nothing was told to the employees unless it was absolutely necessary. Most employees found out

about company activities, plans, and performance through the public press. They did not have ways to share their ideas nor ask questions. For example, if an employee came up with an idea for improving service for the first-class passengers, there was a useless form to fill out. The information was hardly ever collected, and was never used as a source of possible improvements for the company. Furthermore, there were so many rules to follow that employees could not possibly do what was the best for customers.

The Department of Transportation ranked Continental tenth out of the ten largest U. S. airlines in all key customer service. Especially abysmal scores for on-time arrivals, baggage handling, customer complaints, and voluntary denied boarding. Continental had been through two bankruptcies and ten presidents over ten years. It also had not posted any profit since 1978.

The "Go Forward" plan was implemented under Gordon Bethune, Continental's chairman and CEO, and Greg Brenneman, president and COO. This plan had four components: (1) "Fly To Win" as a marketing plan, (2) "Fund The Future" as a financial plan, (3) "Make Reliability A Reality" as a product plan, and (4) "Working Together" as a people plan. In "Fly To Win", the plan was designed to build up Houston, Newark and Cleveland markets by drawing more business fliers than leisure fliers. The "Fund The Future" was designed to restrict the balance sheet to gain liquidity and to sell on strategic assets. The "Make Reliability A Reality" showed business travelers that Continental is reliable and regained trust and confidence of customers. Finally, with "Working Together," the purpose was to change Continental's organizational culture to an environment in which people enjoy working together for the company.

With Go Forward plan, Continental begged forgiveness from the customers they had previously treated poorly. The "forgiveness campaign" had two parts. First, they collected angry letters from customers and then divided them amongst the officers-executives through the rank of vice president. Furthermore, Continental assigned one officer to each city in their system. Then they started making phone calls. The goal was not only to apologize, but also to explain their plans to fix the company. Each phone call took easily an hour, since the customer was invariably frustrated and wanted to let them know just how badly. Customers usually appreciated the time and effort.

To improve the level of customer satisfaction, Continental concentrated on what frequent business users had to say. These customers regularly paid full fare and traveled often. Their demands were simple: airplanes and terminals that are safe, comfortable, and attractive. Other concerns were on-time flights reliable baggage handling, and good food at mealtimes. With the exception of safety, Continental had failed on all of these accounts miserably. The first thing they did was painting the exteriors of every airplane to match the interior. All the carpets in the airport terminals were replaced. The old Continental logo was redesigned as well. The renovation was completed in six months. Continental received high marks from customers and employees. In fact, many of them could perceive Continental was changing visibly. To assure on-time arrivals, flight schedules were rewritten by the Department of Transportation according to what pilots and airport operators advised. Continental also offered employees a reward: For every month, each employee would receive \$65, if the company finished in the top five out of ten airlines in "on-time performances" as measured by

DOT. Within months, most flights were on time and regularly finishing in the first place. The food policy was adjusted to reflect the time of the day, length of flights, and class of service. For instance, the breakfast is now served on 7:00 A. M. Nowadays, the first-class meals consist of items like fresh pasta, soups, sandwiches, and freshly baked cinnamon rolls. In 1995, Continental made a profit of \$224 million, and in 1996 it more than doubled that.

Finally, Continental had to regain the faith the employees had lost in the company. The company needed to establish new culture, where employees are liberated and can perform effectively. Establishing communication with employees was the most significant element in the new Continental culture. It began with replacing 50 of the 61 officers with 20 new individuals, who were people-oriented and team players. Thus, officers are now more accessible to employees. There are bulletin boards throughout the system to inform the employees of daily news. Newspapers and magazines are published to inform what is happening in the company. Officers of Continental hold an open house every month for employees to get answers to the questions they have. A 24-hour hotline was put in place to handle employees' suggestions and to improve employee involvement. Continental set up incentive plans for employees, for example, employees can earn up to 15% of Continental's profit. The sales forces receive payments linked to the gains in revenue from business travelers. Reservation agents receive bonuses based on responsiveness and the number of completed calls. As a result, the proportion of customer reservation calls answered within 20 seconds jumped from 20 percent to more than 90 percent, the best in the

industry. In 1999, Continental was named one of the Best Companies to Work for in America by Fortune magazine.

Through hard work and open-minded policies Continental has pulled back from their nosedive. Continental's new focus on employee and customer satisfaction has resulted record profits and shareholder satisfaction. The basic principles of marketing mix (Product, Price, Promotion, and Place) were applied with great success. Continental illustrates the point that the " 5th P", or People, is truly the most important.

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