

Case 4-1

JetBlue Airways: Regaining Altitude

New York-based JetBlue Airways had started 2007 on a roll; growth, in terms of both destinations and fleet size, was far outpacing even the most ambitious industry projections. And more important, the airline continued to enjoy a cult-like following among its loyal customers, thanks in large part to uncommonly attentive service, generous legroom, free satellite television feeds in every leather seat, and, of course, the company's signature Terra Blues potato chips. In fact, JetBlue ranked highest in customer satisfaction among low-cost airlines in 2006 and among all major airlines in the United States in 2005.¹

Yet as a winter nor'easter barreled toward the New York metropolitan region on February 14, 2007, JetBlue's leaders were blissfully unaware that the next seven days would be by far the most trying in the company's eight-year history. Within five days, the company would have cancelled more than 1,000 flights, incurring tens of millions of dollars in losses in the process and tarnishing JetBlue's sterling reputation, thanks to a combination of bad luck, flawed decision making, and multiple systemic failures.

JetBlue founder and CEO David Neeleman encouraged his executive team to search for bold and inventive solutions to restore the company's public image, win back customers, and reassure employees and investors. If that meant parting with convention, then so be it, Neeleman said.

JETBLUE TAKES OFF

The 1999 launch of Jet Blue Airways was never supposed to work. After all, of the 58 startup jet airlines that had commenced operations since the U.S. government deregulated the industry

in 1978, only 2 survived. "It is a business whose margins are so razor thin that a couple of passengers on each plane can spell the difference between profit and loss and where a 1-cent rise in the price of jet fuel can cost the industry an added \$180 million a year," wrote industry expert Barbara Peterson in 2004.²

Industry behemoths like Eastern Air Lines, Trans World Airlines, United Airlines, American Airlines, Braniff International Airways, Northwest Airlines, and Delta Air Lines reaped enormous profits and ruled the skies until Congress and President Jimmy Carter passed the Airline Deregulation Act of 1978. The primary purpose of the act was to eliminate government control over commercial aviation and encourage market forces to shape the industry's development.

Although the cut-throat competitive tactics used by the legacy airlines in the 1980s and 1990s caused most new companies to fail, competition persisted, and airfares dropped significantly into the twenty-first century, leading to the rise of low-cost carriers such as AirTran Airways, Southwest Airlines, and JetBlue Airways.

JetBlue was the brainchild of David Neeleman, an industry visionary who promised to "bring humanity back to air travel."³ Neeleman, who was born in Brazil but grew up in Utah as part of a large Mormon family, was no stranger to startup airlines. He helped to build Morris Air, a Utah-based airline that Southwest acquired in 1993 for \$129 million.

² Ibid.

³ Ibid.

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¹ B. Peterson, *Bluestreak: Inside JetBlue, the Upstart That Rocked an Industry* (New York: Portfolio, 2004).

Neeleman leveraged his industry experience and connections to create a company that would boast a fleet of brand new airplanes, low fares, and a host of customer-friendly embellishments that legacy carriers and startups alike would be hard pressed to match. Neeleman envisioned treating JetBlue's customers—never referred to as passengers—to comfy leather seats, paperless ticketing, and exceptional service by flight crew members. Every seat would come equipped with a television that featured dozens of free channels provided by satellite signal. Finally, to keep costs down, JetBlue would offer a virtually unlimited supply of appealing in-flight snacks instead of soggy meals that no one really wanted.⁴

Backed by an impressive capital reserve, Neeleman's plan worked far sooner than even the most optimistic industry observers predicted. With flights to and from previously underserved markets, JetBlue quickly shot to the top of J.D. Power and Associates' customer satisfaction surveys.⁵ Based out of New York's John F. Kennedy International Airport, the startup soon expanded operations to Los Angeles, southern Florida, and a host of smaller markets, such as Buffalo, New York.

JetBlue's launch was particularly well timed. Despite frequent pricing skirmishes resulting from increased competition, the domestic commercial aviation industry started 2001 as the beneficiary of 24 consecutive quarters of profitability.⁶ Passenger volume had risen at an average annual rate of 3.6 percent over the previous decade, and net profits for the industry totaled \$7.9 billion in 2000.⁷ Then the unthinkable happened.

The terrorist hijacking and downing of four U.S. jetliners in New York City, Washington, D.C., and rural Pennsylvania on September 11, 2001, crippled the industry. Consumer confidence in the safety and security of air travel plummeted, sending booking rates down by 70 percent when flights resumed after 9/11.⁸ The industry, which generated 11 million jobs and constituted 9 percent of the U.S. gross domestic product, saw more than 80,000 jobs eliminated during the two months immediately following the attacks.⁹ In fact, only three airlines managed to turn a profit in 2001—the low-cost carriers Southwest, AirTran, and JetBlue.¹⁰

Due in large part to its size and flexibility, JetBlue continued to impress in the years that followed. In 2002, *Advertising Age* crowned JetBlue the "Marketer of the Year," claiming that the company's branding efforts gave it a singular identity in a crowded and often confusing marketplace.¹¹ JetBlue flights were among the most on-time in the industry in 2003, the same year the airline filled most of its available seats on planes—two feats that rarely go hand-in-hand. By mid-2004, the company had turned a profit for more than 16 consecutive quarters.¹²

Although JetBlue reported a net loss of \$1 million in 2006, primarily due to soaring jet fuel expenses, the company's operating revenue totaled \$2.36 billion, which constituted growth of nearly 39 percent over the 2005 fiscal year.¹³ By 2007, the airline's growing fleet of jets

⁴M. Cohn, "JetBlue Woes May Spur Wider Changes," *The Baltimore Sun*, February 20, 2007, p. A1.

⁵J. Bailey, "Long Delays Hurt Image of JetBlue," *The New York Times*, February 17, 2007, p. C1.

⁶S. Blunk, D. Clark, and J. McGibany, "Evaluating the Long-Run Impacts of the 9/11 Terrorist Attacks on U.S. Domestic Airline Travel," *Applied Economics* 38 (2006), pp. 363–70, see p. 363.

⁷Ibid.

⁸H. Kim and Z. Gu, "Impact of the 9/11 Terrorist Attacks on the Return and Risk of Airline Stocks," *Tourism and Hospitality Research* 5, no. 2 (2004), pp. 150–63, see p. 151.

⁹Ibid.

¹⁰T. Flouris and T. Walker, "The Financial Performance of Low-Cost and Full-Service Airlines in Times of Crisis," *Canadian Journal of Administrative Sciences* 22, no. 1 (2005), pp. 3–20.

¹¹B. Tsui, "JetBlue Soars in First Months," *Advertising Age* 71, no. 38 (September 11, 2000). Retrieved November 10, 2007, from Business Source Premier database.

¹²Peterson, *Bluestreak*.

¹³"JetBlue Announces Fourth Quarter and Full Year 2006 Results," January 30, 2007, http://investor.jetblue.com/phoenix.zhtml?c=131045&p=irol-newsArticle_Print&ID=955585&highlight=

served 52 destinations with more than 575 daily flights.¹⁴ Even though an increasing number of critics forecasted growing pains for JetBlue after its meteoric rise, the love affair between the upstart airline and its faithful customers appeared to be as strong as ever.

THE PERFECT STORM

Valentine's Day 2007 got off to an inauspicious start in the New York metropolitan area. Bleak, gray skies blanketed the region, and weather forecasters warned of a wintry mix of precipitation. JetBlue officials at JFK International Airport gambled that temperatures would warm up enough to change the snowfall and icy slush into rain. Six JetBlue planes—four bound for domestic destinations, one headed for Aruba, and another for Cancun, Mexico—were loaded early in the day with passengers, luggage, and cargo. The planes pushed back from their respective gates and waited for word of a break in the storm. Meanwhile, several inbound flights landed, taxied, and filled most of the airline's dedicated gates.

With no end to the freezing rain in sight, JetBlue and airport officials hatched a plan to allow planes stranded on the tarmac to ferry back and forth to the few remaining open gates for offloading. This strategy failed, however, when the runway equipment used to tow the planes froze to the ground. As a JetBlue spokesperson would explain to a local newspaper: "We had planes on the runways, planes arriving, and planes at all our gates. . . . We ended up with gridlock."¹⁵

Meanwhile, almost all of the other airlines operating at JFK had called off their flights earlier in the day. Scores of JetBlue passengers in the terminal waited in vain to board flights that would inevitably be cancelled. "We thought

there would be these windows of opportunities to get planes off the ground, and we were relying on those weather forecasts," said Sebastian White, a corporate communications manager at JetBlue.¹⁶ Freezing rain continued to fall, entombing hundreds of passengers inside JetBlue planes that were stranded on the runways at JFK. The worst, however, was yet to come.

ON THIN ICE

Deteriorating weather conditions at JFK and flaring tempers both inside JetBlue's terminal and aboard its planes exacerbated the company's crisis. Nine of the airline's jets sat idle on the tarmac for more than six hours before passengers were successfully offloaded and taken to the terminal.¹⁷ Passengers aboard one JetBlue flight that landed at the airport were trapped inside the plane for a full nine hours.

Tensions inside the planes ran high during the seemingly interminable ground delays. The airline's pilots tried to provide frequent updates and apologies, while crew members in the cabins did their best to appease restless customers with snacks and beverages. It was not until 3:00 p.m. on Valentine's Day that JetBlue officials at JFK finally called the Port Authority of New York and New Jersey to request buses that the airline could use to shuttle passengers from the stranded planes back to the terminal.¹⁸

The crisis took a particularly troubling turn at Newark Liberty International Airport on February 15. Several passengers became unruly upon learning of additional flight cancellations, prompting JetBlue ticketing personnel to call in the police for protection.¹⁹

¹⁴ "JetBlue Airways Names Dave Barger President and Chief Executive Officer," May 10, 2007, <http://investor.jetblue.com/phoenix.zhtml?c=131045&p=irol-newsArticle&ID=998672&high-light=>

¹⁵ A. Strickler, "Stormy Weather: Waiting til They're Blue; JetBlue Passengers Stranded on Planes for Hours Amid Icy Snarl at JFK Gates," *New York Newsday*, February 15, 2007, p. A5.

¹⁶ S. White, personal interview, November 29, 2007.

¹⁷ J. Bailey, "Long Delays Hurt Image of JetBlue," *The New York Times*, February 17, 2007, p. C1.

¹⁸ J. Chung and A. Strickler, "A Labyrinth of Luggage as Travelers Search through Mounds of Baggage; JetBlue Cancels Hundreds of Weekend Flights," *Newsday*, February 18, 2007, p. A3.

¹⁹ J. Lee, "JetBlue Flight Snarls Continue," *The New York Times*, February 16, 2007, p. 7.

JetBlue customers found little solace by calling the airline's reservations hotline or visiting JetBlue.com on the World Wide Web. By Friday, February 16, many callers who dialed the company's telephone number were greeted by a recorded voice that said, "We are experiencing extremely high call volume. . . . We are unable to take your call." Additionally, JetBlue's website listed flights as on schedule for departure, when the carrier had already cancelled many of those flights.²⁰ Widespread instances of lost baggage would only further infuriate JetBlue customers whose travel plans were disrupted by the Valentine's Day storm.

JetBlue soon discovered that many of its planes and flight crews scattered across the rest of the country were out of place due to the disruptions at its New York hub. The carrier was forced to cancel more than 250 of its 505 daily flights scheduled for Valentine's Day.²¹ JetBlue called off 217 of its 562 scheduled departures for February 15 as well.²²

"We had a problem matching aircraft with flight crews," said Jenny Dervin, JetBlue's director of corporate communications.²³ Company leaders quickly settled upon a strategy designed to "reset" the airline's operations. "Sometime in the afternoon [of February 16], it just fell apart," said Dervin.²⁴ "The folks running the operation [were] just exhausted. We said, 'Let's stop the madness.'" The plan to reset operations came at a steep price: JetBlue was forced to cancel approximately 1,200 flights between February 14 and February 19.

David Neeleman cited multiple operational failures that compounded the crisis. Among the primary culprits: inadequate communication

protocols to direct the company's 11,000 pilots and flight attendants about where to go and when; an overwhelmed reservation system; and a lack of cross-trained employees who could work outside their primary area of expertise during an emergency.²⁵

"We had so many people in the company who wanted to help who weren't trained to help," Neeleman said.²⁶ "We had an emergency control center full of people who didn't know what to do. I had flight attendants sitting in hotel rooms for three days who couldn't get a hold of us. I had pilots e-mailing me saying, 'I'm available, what do I do?'"

The cancellations during the five-day period cost the airline an estimated \$20 million in revenue and an additional \$24 million in flight vouchers given to customers who were impacted by the disruptions.²⁷ Within days of the storm, JetBlue lowered its operating margin forecast for the fiscal quarter and the year; investors immediately responded by selling off their shares of Jet Blue stock.²⁸ As the losses mounted, Neeleman became obsessed with finding a way to restore JetBlue's sterling reputation and win back disillusioned customers.

MISERY LOVES COVERAGE

"Call it the perfect storm, the imperfect storm, the Valentine's Day Massacre," said one JetBlue vice president.²⁹ Regardless of the label that the public affixed to the crisis, JetBlue officials knew the media interest in the story would be sky high. The company's corporate communications department fielded roughly 5,000 telephone

²⁰ M. Daly, "How Two Pilots Put Silver Lining in JetBlue Clouds," *New York Daily News*, February 18, 2007, p. 12.

²¹ Bailey, "Long Delays Hurt Image of JetBlue."

²² Strickler, "Stormy Weather."

²³ Lee, "JetBlue Flight Snarls Continue."

²⁴ J. Bailey, "JetBlue Cancels More Flights, Leading to Passenger Discord," *The New York Times*, February 18, 2007, p. A31.

²⁵ Ibid.

²⁶ Ibid.

²⁷ Ibid.

²⁸ P. Korkki, "Investors Mostly Glum in a Short Trading Week," *The New York Times*, February 27, 2007, p. C10.

²⁹ B. Capps, "Management's Misjudgment Gives JetBlue a Black Eye," *Advertising Age* 78, no. 18 (April 30, 2007). Retrieved November 10, 2007, from Business Source Premier database.

inquires from the media between February 14 and February 19.³⁰

JetBlue's reputation as a successful and off-beat upstart airline only seemed to invite sensational newspaper headlines during the crisis. The *New York Post* published an article under the banner "Air Refugees in New JFKaos; Hordes Camp Overnight Before JetBlue Says: 'Tough Luck, No Flights.'" A *New York Times* story entitled "Long Delays Hurt Image of JetBlue" similarly predicted reputational damage for the carrier as a result of the crisis. The headline of a *Newsday* article asked the question virtually every industry observer wanted to know: "Can JetBlue Recover?" For their part, angry JetBlue customers provided plenty of material to reporters in search of a sound bite.

CONGRESS COMES CALLING

Just days after JetBlue's operational meltdown at JFK, members of Congress began calling for legislation designed to prevent air travelers from being held captive inside grounded airplanes for excessive amounts of time. Many suggested that the implementation of an industry-wide passenger bill of rights would be necessary to spur major airlines to action. Legislators argued that a bill of rights would entitle passengers to receive standardized compensation from carriers that fail to meet certain service levels, such as a flight that remains on the runway for hours after pushing back for departure.

With all eyes on the embattled company, JetBlue leaders knew they had to choose their public relations battles carefully. Leaders recognized that the company was at a crossroads. One option was to place a greater emphasis on the winter storm's role in the operational problems at JFK and across the country. The strategy of redirecting blame had certainly

worked for other airlines in the past; after all, the public generally accepted that weather was a frequent cause of air travel disruptions. The corporate communications team at JetBlue's Queens-based headquarters also debated whether to put David Neeleman on the television news and talk show circuit, in addition to the YouTube mea culpa he had already issued.

But the biggest decision facing JetBlue's leadership team was a proposal set forth by Neeleman himself just days earlier. For JetBlue to regain its former prestige, Neeleman said that the airline had to do something novel, something impressive, something no competitor had ever done before to make amends to its customers. "I can flap my lips all I want," Neeleman said.³¹ "Talk is cheap. Watch us."

Neeleman suggested a gambit that was likely to garner much needed positive attention for the beleaguered airline but would also commit the company indefinitely to millions of dollars in potential losses. Neeleman's idea was a JetBlue Airways Customer Bill of Rights that would specify in no uncertain terms how passengers would be compensated if the company failed to meet certain performance standards.

For example, customers would receive vouchers good toward future travel if their flight sat on the tarmac after landing for more than a certain number of minutes. The value of these credits would escalate the longer the passengers were forced to wait on board the plane. In essence, JetBlue would be putting its money in place of its mouth.

Members of Neeleman's executive team met the idea with skepticism. The ongoing costs associated with such a groundbreaking program would be unpredictable at best and staggering at worst. As the weekend progressed, Neeleman faced countless questions and staunch objections from the heads of Jet Blue's legal, finance, flight operations, government affairs, and

³⁰ J. Elsasser, "True Blue: After a Customer Relations Crisis, Lessons Learned at JetBlue," *Public Relations Strategist* 13, no. 3 (2007), pp. 14-19.

³¹ J. Bailey, "Chief 'Mortified' by JetBlue Crisis," *The New York Times*, February 19, 2007, p. A11

marketing teams, to name a few.³² No other airline has ever committed to something like this, they argued.

CONCLUSION

Neeleman, who was known for personally answering every customer letter or e-mail he received, viewed the Customer Bill of Rights as absolutely vital to restoring JetBlue's image. He contended that the bill of rights would reaffirm the public's perception that JetBlue viewed air travelers as human beings, not cattle to be shipped from Point A to Point B. "This is going to be a different company because of this," Neeleman said. "It's going to be expensive. But what's more important is to win back people's confidence."³³

In numerous interviews over the weekend, Neeleman promised that he would reveal JetBlue's redemption plan to the world by Monday, February 19. If a customer bill of rights was going to be part of that plan, the CEO still

had to convince many influential people inside the company.

CASE QUESTIONS

1. How could JetBlue have better communicated with its internal stakeholders across the country on Valentine's Day and during the days that followed to enhance its image with customers?
2. Should the corporate communications team at JetBlue have arranged for CEO David Neeleman to appear on the national television news and talk show circuit following the crisis? What might be the potential benefits and risks to the company's reputation?
3. Would you recommend a corporate advertising program for JetBlue?
4. If implemented, how would you market the JetBlue Airways Customer Bill of Rights to external and internal stakeholders? How would this affect JetBlue's reputation?

³² White, personal interview.

³³ Bailey, "Chief 'Mortified.'"