

## JetBlue: “Stuck in the Middle”?

**ENTREPRENEUR DAVID NEELEMAN**, at the age of 25, co-founded Morris Air, a charter air service that in 1993 was purchased by Southwest Airlines (SWA). Morris Air was a low-fare airline that pioneered many cost-saving practices that later became standard in the industry, such as e-ticketing. After working as an airline executive for SWA, Neeleman founded another airline, JetBlue Airways, in 1998. When Neeleman established JetBlue, his strategy was to provide air travel at even lower costs than SWA. At the same time, he wanted to offer better service and more amenities.

JetBlue copied and improved upon many of SWA's cost-reducing activities. For example, it started by using just one type of airplane (the Airbus A320) to lower the costs of aircraft maintenance and pilot training. It also chose to fly point to point, directly connecting highly trafficked city pairs. In contrast, legacy airlines such as Delta, United, and American use a hub-and-spoke system; such systems connect many different locations via layovers at airport hubs. The point-to-point business model focuses on directly connecting fewer but more highly trafficked city pairs. This operating system lowers costs by not offering baggage transfers and schedule coordination with other airlines. In addition, JetBlue flew longer distances and transported more passengers per flight than SWA, further driving down its costs. Initially, JetBlue enjoyed the lowest cost per available seat-mile (an important performance metric in the airline industry) in the United States.

At the same time, JetBlue also attempted to enhance its differential appeal by driving up its perceived value. Its intent was to combine high-touch—to enhance the customer experience—and high-tech—to drive down costs.

Some of JetBlue's value-enhancing features include high-end 100-seat Embraer regional jets with leather seats, free movie and television programming via DirecTV, XM Satellite Radio, along with friendly and attentive on-board service. Other amenities include its recently added Mint class, which offers personal check-in and early boarding, free bag checking and priority bag retrieval after flight, and complimentary gourmet food and alcoholic beverages

in flight. It also features small private suites with a lie-flat bed up to 6 feet 8 inches long, a 15-inch high-resolution personal screen, and free in-flight high-speed Wi-Fi (“Fly-Fi”). JetBlue is also adding the newer Airbus 321 to its fleet, which scores significantly higher in customer satisfaction surveys than the older Airbus 320.

Also, because roughly one-third of customers prefer speaking to a live reservation agent, despite

a highly functional website for reservations and other travel-related services, JetBlue decided to employ stay-at-home parents in the United States instead of following industry best practice by outsourcing its reservation system to India. The company suggests this “home sourcing” is more productive than outsourcing; it also says that customers' appreciation of the reservation experience more than makes up for the wage differential between the United States and India. To sum it up, JetBlue's “Customer Bill of Rights” declares its dedication to “bringing humanity back to air travel.”

Several high-profile incidents, however, damaged JetBlue's outstanding customer service record. In early 2007, JetBlue's reputation took a major hit: Several flights were delayed due to a snowstorm in which the airline kept passengers on board the aircraft; some sat on the tarmac for up to nine hours. Many wondered whether JetBlue was losing its magic touch. A few months later, David



Among high-profile incidents affecting JetBlue's overall reputation as a quality airline was the 2014 emergency landing at Long Beach Airport, after instruments identified a potentially overheated engine. Four passengers were injured in the evacuation.

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Neeleman left JetBlue.<sup>1</sup> Another reputation-damaging incident for JetBlue occurred in 2010 when a flight attendant, upset because a passenger refused to apologize after striking him with luggage when disembarking the plane, allegedly used the airplane's PA system to hurl obscenities at passengers. Then, he grabbed a couple of cold beers from the galley, deployed and slid down the emergency escape chute, before disappearing in a terminal at New York's JFK airport and proceeding to drive home (where he was later arrested). In 2012, a JetBlue flight to Las Vegas was diverted to Texas because of the pilot's erratic behavior during the flight. Among other bizarre behavior, the mentally unstable pilot told the co-pilot that "we need to take a leap of faith," and that "we're not going to Vegas." The co-pilot locked the pilot out of the cockpit and diverted the flight to Texas, where it landed safely. The issue of pilot

mental health and the responsibilities of an airline have taken on new urgency in light of the 2015 deliberate crash into the French Alps of a Germanwings flight with 150 people on board by a co-pilot suffering from documented mental health issues.

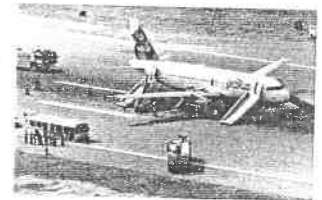
For JetBlue, trying to combine a cost-leadership position with a differentiation strategy has meant that despite early years of competitive advantage, it is now struggling. As a consequence of several high-profile mishaps combined with the difficulty in resolving the trade-offs inherent in driving costs down while providing superior customer service and in-flight amenities, JetBlue has experienced a sustained competitive disadvantage since 2007.<sup>2</sup>

## CHAPTERCASE 6 / Consider This...

Early in its history JetBlue achieved a competitive advantage based on *value innovation*. In particular, JetBlue was able to drive up perceived customer value while lowering costs. This allowed it to carve out a strong strategic position and move to a non-contested market space. This implies that no other competitors in the U.S. domestic airline industry were able to provide such value innovation at that point in time. Rather than directly competing with other airlines, JetBlue created a blue ocean.

Although JetBlue was able to create an initial competitive advantage, it was unable to sustain it over time. Because JetBlue failed in reconciling the strategic trade-offs inherent in combining differentiation and cost leadership, it was unable to continue its blue ocean strategy, despite initial success. Since 2007 JetBlue experienced a sustained competitive disadvantage, at one point in 2014 lagging the S&P 500 index by more than 100 percentage points.

A new leadership team CEO Robin Hayes put in place in early 2015 is attempting to reverse this trend. The new team made quick changes to improve the airline's flagging profitability. It decided to start charging \$50 per checked bag instead of offering it as a free service. Moreover, it also removed the additional legroom JetBlue was famous for in the industry, adding 10 percent more seats on its airplanes. It remains to be seen if JetBlue's strategic repositioning will be successful.



### Questions

1. Despite its initial success, why was JetBlue unable to sustain a blue ocean strategy?
2. JetBlue's chief marketing officer, Marty St. George, was asked by *The Wall Street Journal*, "What is the biggest marketing challenge JetBlue faces?" His response: "We are flying in a space where our competitors are moving toward commoditization. We have taken a position that air travel is not a commodity but a services business. We want to stand out, but it's hard to break through to customers with that message."
  - A. Given St. George's statement, which strategic position is JetBlue trying to accomplish: differentiator, cost leader, or blue ocean strategy? Explain why.
  - B. Which strategic moves has the new CEO, Robin Hayes, put in place? Do these moves correspond to St. George's understanding of JetBlue's strategic position? Why or why not? Explain.
3. Consider JetBlue's value curve in Exhibit 6.10. Why is JetBlue experiencing a competitive advantage? What recommendations would you offer to JetBlue to strengthen its strategic profile? Be specific.