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**Coursework Submission Cover**

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<b>UNIT TITLE</b>	STRATEGY FORMULATION AND BUSINESS DECISION		
<b>SEMESTER</b>	SPRING 2011	<b>SESSION</b>	2010-11
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<b>COURSEWORK TITLE</b>	The Case of JetBlue Airways		

*To be completed by the front desk secretary or the course administrator*

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## **Master of Business Administration**

**Pre-assignment report in the module of:**

### **STRATEGY FORMULATION & BUSINESS DECISION (EMBA-108)**

**with subject:**

The case of JetBlue Airways

by

**Evangelos ERGEN (EX10130)**

**Module Director: Mr Stelios KEHAGHIAS**

**Thessaloniki – 11 April 2011**

## **The Case of JetBlue Airways: Identify and briefly discuss the key strategic issues the company is facing**

Evangelos Ergen<sup>1</sup>

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Strategies are needed to proactively shape how the business will be conducted. Moreover, the existence of a concrete and concise strategy can define the framework where all company's actions will be coordinated, measured and evaluated. If an action can be evaluated, it can be revised, upgraded or even abandoned in the light of actual performance, changing conditions, new opportunities and new ideas.

In this case, in JetBlue airlines, it is identified lack of strategic management process (*Appendix A*). Obviously the company experienced a rapid expansion starting from the one-person's vision that, for once more proved the turn-around story, of the young entrepreneur who left College for starting his own company. Thus, based on inspiration, passion for services, prior experience and knowledge of the competition and the industry, high managerial skills and additional entrepreneurial talents, he created the pathway for the company. It is acknowledged that, through these years where the company was continuously growing, David Neeleman demonstrated, innovative approaches, willingness to undertake risks in order to progress, dedication to the targets as set towards the business, and moves for creating opportunities in the airline industry. He was focused in the market, and the reactions were mostly market driven, based on the principle of "listen to your customers what they have to say". Moreover, he clearly performed an employee-oriented schedule including special training center, giving emphasis on their satisfaction within the company and cultivating a positive organizational culture. In brief, the primary concern of the company was to develop a set of values among employees that could be shown into action. Such human resource practices are expected to be attributed as assets and usually have immediate impact to the services offered to customers.

In terms of numbers, the company was established on 1998 and started its services on 2000. In the next seven years (2000-2007) demonstrated a continuous expansion, especially after 2004 where the size of the company and the offered services almost reached close to double (number of cities served, number of departures, number of aircrafts).

Among others, it seems that this expansion directed the company to inability of handling the introduction of new aircrafts and services first of all to its employees. Moreover, although the company offered innovative services to its customers, and restructured its reservation system, it did not manage to act proactively with the sharp rises in fuel costs. As a result, the management revised its staffing and human resource policies in order to cope with difficulties. Besides that, inadequacies in training and rewarding were identified and the asset of dedicated employees was affected negatively.

On the other hand, from the shareholders' perspective, JetBlue's stocks after 2004-2005, experienced a gradual loss where in 2007 they had already lost more than 50% of their initial price back on 2002. Although the company increased its operating revenues, in the years 2003 to 2007, more than 3 times, the operating expenses followed a bigger increase, almost 4 times for the same period. There was an incapability of administering the fuel costs as part of the operating expenses.

Expansion is synonymous to the increased risk exposure.

During that period and starting on 2004 and forth, serious problems raised since (the brake-even momentum) the growth of the company couldn't be managed since there wasn't any clear and precise strategy. The implementation of independent actions to cope with progress, the changing environment and the new opportunities were not adequate.

Trying to isolate the incident of 14 February 2007, the company had faced a combination of different and simultaneous problems and requests, sourced from a usual problem that airlines were facing especially from JFK airport. It was well-known that the specific airport was placed at the top list of problematic airports in terms of weather conditions. Therefore the specific incident had to be more or less expected. That was a crisis management incident which every growing company should forecast

and proactively manage in order to ingrain it in its mentality. Since there was no scenario-planning from the company for such occasions, the rest were more or less expected.

First of all, the company did not emphasize in stake out its market position focusing only in continuous growth and securing customer loyalty in general. So far, it had cultivated a good brand name accompanied by loyal customers and dedicated employees but there was identified a blurred strategy mostly depended on the interaction between customers and company as a simple relationship. Obviously this was not placed in a framework.

In terms of its strategic mission, JetBlue as inspired by its founder David Neeleman, seems to demonstrate at least an understandable attitude.

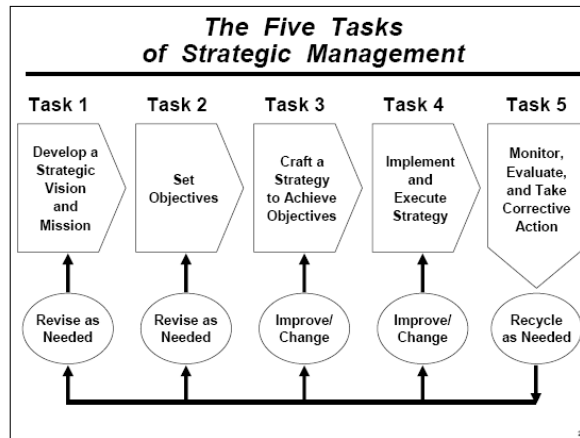
Who we are: a low fare, low cost air carrier who tends to bring humanity back to air travel offering comforts of a small cozy den

What we do: we serve point-to-point domestic passengers.

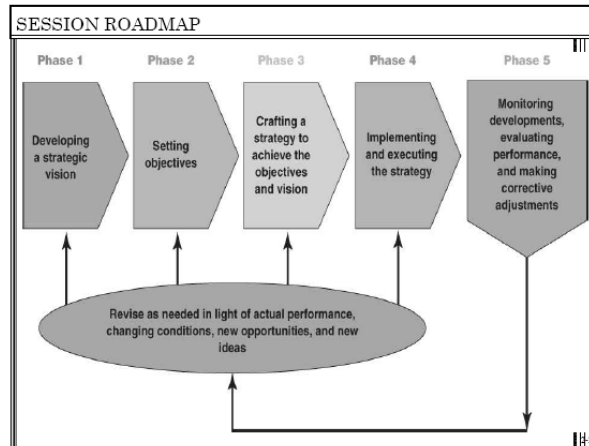
On the contrary, there was an absence of a clear strategic vision. In such terms JetBlue should critically have identified (a) which were the markets that the company pursue, (b) how would accommodate any future challenges in terms of technology evolutions in relation to its customers and the final service offered, (c) which would actually be the identity of JetBlue in medium and long range planning.

Given a missing strategic thinking, the company mostly based its progress in re-action rather than proactive policies. Although it demonstrated strong elements of the adoption of market-driven tactics and independent strategies, these were not administered through a centralised mapping but in a spare manner.

The presence of a strategy roadmap creates the environment for better management and review of the company's business model. Starting from the following model which is the roadmap of strategic management the company could identify its objectives and use this as compass within the market.



(Source: Kehaghias, S (2011) The Strategic Management Process. *Strategy Formulation and Business Decision Module*, EMBA CITY College International Faculty of the University of Sheffield, p. 22.)



(Source: Sanderson, (2011) Strategy Making Tasks. *Strategy Formulation and Business Decision Module*, EMBA CITY College International Faculty of the University of Sheffield, p. 2-2.)

In result, if the company had the strategy it could review and administer its business model. The administration of fuel costs and the poor operational and financial performance was due to the lack of an effective and continuously monitored business model.

The clear vision, the strategy and the business model are components of agility and in this case could create strategic opportunities for the JetBlue airways to identify blue oceans.

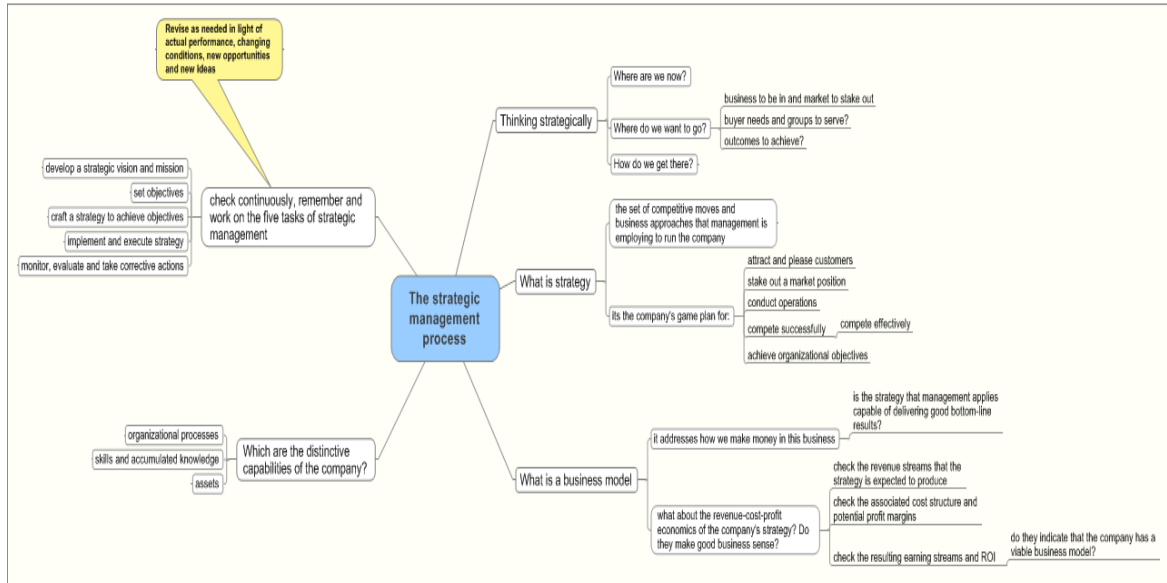
Finally, it is concluded that the numbers were too big for JetBlue to handle without a strategy. But even in the case a company would like to stay small this imposes a strategy by itself, as well.

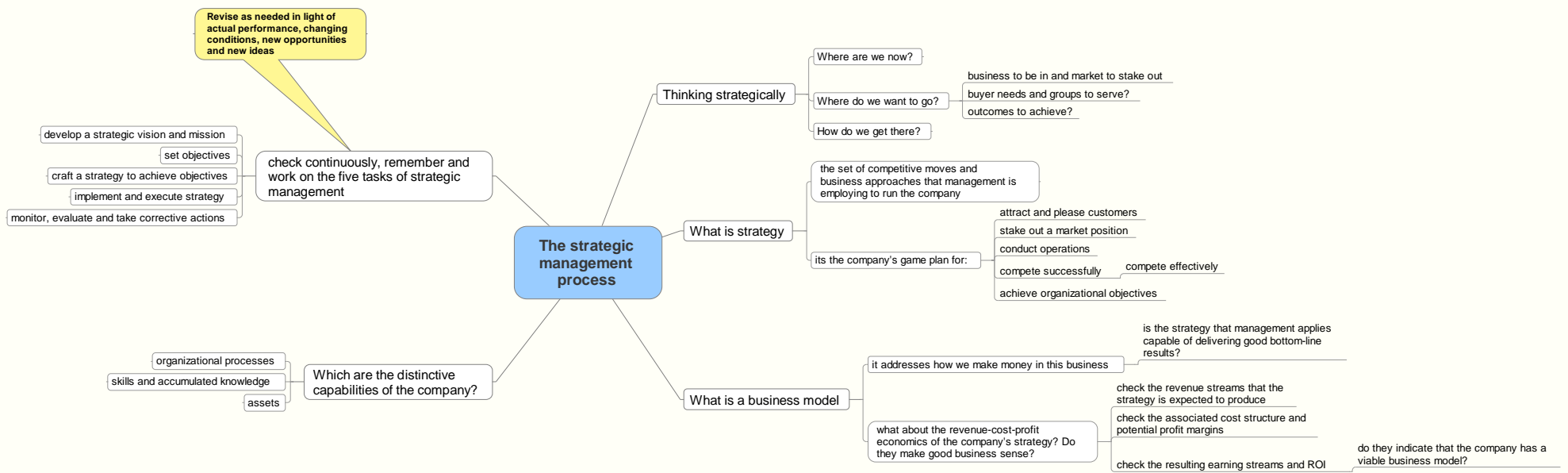
Nevertheless, the new management under the supervision of David Barger, is expected to re-invent the original idea but through a pre-defined framework with strategic approach. Soon, by the time it undertook the first moves were towards a drawn in their horns, in terms of redefining (a) where are we now, (b) where do we want to go, (c) how do we get there.

The company currently owns a number of good attributes and assets despite the difficulties and the discrepancies. However, its condition in combination with the loss of its stock price decreased its market value, possibly lower than the real book value. As a result, this is a sign for a possible aggressive takeover. Lufthansa is expected to be the number one investor, since it had placed in JetBlue some years ago. In any case there are some legal issues in terms of maximum participation of a foreign company that could owe in a USA domestic flight carrier. But, this is under consideration.

Therefore, JetBlue and the new management should consider the option of allowing a bigger investor to undertake and share the same vision.

# The strategic management process





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