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JetBlue Airways: Starting from Scratch

Where have you heard this before? We're starting a new low-fare airline. We're going to offer low-fare tickets and go to the big cities.[1]

—Financial Analyst

If you want to be a millionaire, start with a billion dollars and launch a new airline.[2]

—Richard Branson, Founder, Virgin Atlantic Airways

Keep an eye on JetBlue. That could prove to be a successful operation.[3]

—Herb Kelleher, Co-founder, CEO, Southwest Airlines

Ann Rhoades looked up from the stack of papers in front of her and gazed out the window. She watched with pride as a JetBlue plane lifted off from Kennedy Airport. She knew from the departure time that this one was bound for Buffalo. She paused for a moment to reflect on what had been a very exciting year for the start-up. JetBlue's service had grown from 9 departures per day at launch in February 2000 to more than 50 per day in the past 11 months. The fleet had grown from 2 planes to 10 with the arrival of one new Airbus A320 every five weeks (see **Exhibit 1** for first year growth). The business plan called for adding 10 new planes every year through the end of 2003, bringing the fleet to 40.

Rhoades, Executive Vice President for People, had been extremely busy – growing the JetBlue team from the original 10 people to almost 1000. She knew that she would continue to add approximately 100 new "crew members" with the arrival of every new airplane and that, if they hit their plan, JetBlue would employ nearly 5000 people within the next 4 years. She was charged with achieving this rapid growth while building a values-based, high commitment organizational culture.

Her experience as head of human resources for Southwest Airlines from 1988 to 1994 provided Rhoades with both appreciation for the challenge and expertise to meet it. She was committed to attracting, developing and retaining outstanding people who could make the JetBlue concept a reality. Still, she recognized that JetBlue's expansion goals were more aggressive than any she had met before.

Birth of an Airline

JetBlue was the best-funded start-up in U.S. aviation history, founded in early 1999 with an initial capitalization of $130 million. JetBlue's strategy was to combine common sense with innovation and technology to "bring humanity back to air travel." To accomplish this, JetBlue aimed to be the first "paperless" airline, substituting computers and information technology for everything from flight planning to aircraft maintenance to the sole use of e-tickets. But the company wasn't only about efficiency, it was also focused on service. In the words of founder David Neeleman, "We like to think of ourselves as customer advocates. We believe that all travelers should have access to high quality airline service at affordable fares."[4]

Brave words in the face of the depressing reality that of the 51 U.S. airlines founded during the 1980s, only two, America West and Midwest Express, were still in operation– and America West had flirted with bankruptcy on several occasions. Between 1989 and 1999, 39 jet carriers began operating within the U.S. In 2000, only 17 of these remained in operation. Experts were mixed in their outlook for the company. One airline analyst who was positive, commented that "When the big boys do as terrible a job as they've been doing, of course guys like JetBlue have a chance." But another airline observer was less sanguine. "It's a really risky business to take on these eight-hundred pound gorillas. You have to be a little nuts to want to do this."[5]

David Neeleman

David Neeleman, the founder of JetBlue, had gotten his start in the airline business in 1984 when he partnered with June and Mitch Morris to run the Southwest Airlines' look-alike, Morris Air. Neeleman raised $20 million in venture capital from Michael Lazarus of the Weston Presidio group, and in just over one year increased the value of Morris Air from approximately $59 million to $130 million.

Herb Kelleher, CEO of Southwest Airlines, watched the growth of Morris Air and its route network centered in Salt Lake City, Utah, and made Southwest's first and only acquisition to date. Southwest Airlines was the most prominent success story in the U.S. airline industry, and had always prided itself on growing from within at a steady rate of 12% to 18% per year. But Morris Air was so similar to Southwest, by design, that Kelleher believed the merger would be a success.

Neeleman and the Morris family sold Morris Air to Southwest Airlines in 1993, and Neeleman joined Southwest's top management team as an executive vice president. Rumors abounded within the company that Neeleman was slated to be Kelleher's successor. That, along with Neeleman's aggressive, restless personality, always seeking to innovate, created tension in Southwest's top management team. Ann Rhoades, as the executive vice president of human resources at the time, was given the task of letting Neeleman go in 1994. According to Rhoades:

> David came running into a closed environment. He was ahead of Southwest in technology. He initiated the e-ticket at Southwest. But he didn't fit the culture. Herb can't fire a living soul so after he talked to David, David and I discussed why this particular marriage would not work![6]

Though disappointed, Neeleman did not drop out. Having signed a five-year non-compete agreement with Southwest as part of the Morris Air sale, he turned to developing a new reservations system called Open Skies (sold to Hewlett Packard in October of 1998). Neeleman then went on to work as a consultant to a Canadian low-fare start-up carrier, West Jet Airlines.

In 1998, when the non-compete agreement with Southwest Airlines ran out, Neeleman decided to capitalize on his Morris Air, Open Skies and West Jet successes to develop a new start-up airline. He wanted to follow the successful example of Southwest, stimulating demand in under-served markets with low fares, enabled by the highly productive use of employees and aircraft. But Neeleman also felt he could improve on the Southwest model. His new airline would improve the passenger experience with technology, and would use technology to increase employee and aircraft productivity even beyond the record levels achieved by Southwest.

Neeleman illustrated his idea for a new type of airline by describing his experience with his local dry cleaners. "I hate long lines," he said. "When you go to the dry cleaners, why can't they already have your credit card number so all you do is pick up your clothes without having to stand in line?" While at Southwest, he noticed that in spite of the emphasis on efficiency, passengers would have to stand in as many as three lines; one to check bags, another to get a boarding pass, and again to get in the boarding queue to avoid being stuck in a middle seat. In talking about airlines, Neeleman said, "I'm not a pilot, and I don't even like to fly. But when I do, I've always thought, this could be better."[7]

Based on his earlier industry experience, Neeleman had several ideas about how to start a new airline that would capitalize on technology and make the customer experience better than existing offerings. First, he believed that a start-up needed to be well capitalized.

> A number of airline start-ups did many things correctly but were not adequately capitalized. There's nothing worse than running a business and scraping for capital. I decided that I wouldn't do another start-up without enough funding. With an airline, there are so many moving parts that it's important to have enough capital.[8]

Neeleman was a great admirer of Kelleher and Southwest. But he also noted that there were two seemingly contradictory forces at work if an airline was to be successful. First, there was the need to stay focused on one's strategy--in the words of Peters and Waterman, "to stick to your knitting." But, he also noted that markets and consumer tastes change and there was also a need to continually adapt to these changes.

For his new airline, Neeleman began with several fundamental beliefs. "First," he said, "you need to go where people want to fly." He noted that one of the interesting things about the airline business is that virtually all numbers about operations are in the public domain. This means that you can easily see what the demand for air travel is in different markets and at different prices. "This lets you do lots of computer modeling to check sensitivities of loads at different prices," he said. Reflecting on an unsuccessful attempt to open a new route while at Morris Air, he said "If people don't want to go, you can't even fill seats by giving them away for free."

Second, Neeleman wanted to set up a new kind of airline; one that would leverage technology for safety and efficiency and with a commitment to people. In describing his new approach, Neeleman said:

> We're a new kind of low-fare airline, with deep pockets, new planes, leather seats with more legroom, great people and innovative thinking. With our friendly service and hassle-free technology, we're going to bring humanity back to air travel.[9]

The strategy was to use new airplanes, offer great personal service, create a state-of-the-art revenue management system, and a single class of service with fares averaging 65% less than the competition. In doing this, all seats would be assigned, all travel would be ticketless, there would be no discount seats, and all fares would be one-way with a Saturday night stay over never required. JetBlue would strive to be truly customer-friendly, with computer terminals that could be rotated to show the customer what the agent was looking at, giving a $159 voucher whenever a flight was

delayed for more than four hours for reasons other than weather or air traffic, and giving a $25 voucher for misplaced bags. Like Southwest, however, JetBlue did not sell tickets to coordinate with other airlines, nor would they transfer a passenger's bags to another airline.

JetBlue's target market, in the words of Amy Curtis-McIntyre, Vice President of Marketing, was "... people who aren't going to travel, people who are disgusted with their current choices, people who would drive, or people who wouldn't go at all."[10] An important part of this segment was business travelers who the major airlines had targeted with high fare differentials for walk-up seats.

Venture Capital Funding

Neeleman knew that getting adequate capital for the start-up would be essential to its success.

It's a capital-intensive business, but without a lot of capital available. Not a lot of equity has been raised in the past, but airlines need to be set up properly from the beginning. You need a cushion to do things right, to make the right decisions. People try to hoard ownership, and they don't raise enough capital. I said, "If I get $130 million, I'll do it." I was told I don't need that much. My own business plan said I would only spend $30 million before becoming cash flow positive. I said, "I don't care."[11]

Most recent start-ups in the industry had taken advantage of the growing opportunities to lease rather than purchase aircraft. But Neeleman had sat on the board of a leasing company and had seen how lucrative the leasing business was. "Leasing companies make a ton," he observed. "I decided we are going to buy our airplanes."

Turning to those who had invested in Morris Air and who had done well when Neeleman sold Morris Air to Southwest, Neeleman raised his target $130 million in short order. Michael Lazarus of Weston Presidio once again became Neeleman's lead investor with an equity stake of $30 million. Lazarus' enthusiasm was based on the fact that Morris Air had been Weston Presidio's second investment ever and had been one of its first big successes. Chase Capital invested $20 million, and George Soros unexpectedly joined in to the tune of $40 million. With three others participating at the $10 million level, and Neeleman's own equity stake of $10 million, the first round of venture capital funding was completed ... months after he began circulating his plan. "My philosophy is that you can never have too much cash in the airline business...An IPO is a necessary evil, but the beauty of our funding is that the timing is up to us. We don't have to go public simply to raise capital."

Reflecting on his efforts to get funding for JetBlue, Neeleman said:

It was all "chicken and egg." I got the money with no deal on planes, no airport slots, without certification to fly. And the management team wasn't all tied up yet. There was a lot of trust involved.[12]

Building the Top Management Team

The next order of business was putting the management team together. Neeleman himself would serve as the chairman and CEO of JetBlue. He drew upon veterans of the industry who were looking for a chance to start from scratch and "do it right." With his own record of success in the industry and the funding he had amassed, he was able to attract some of the industry's top talent, including:

Thomas Kelly, executive vice president and general counsel, and a long-time partner of Neeleman from his days at Morris Air and Open Skies.

Dave Barger, president and chief operating officer, who had ascended through the ranks of New York Air during the 1980s, then spent 10 years running Continental Airlines' Newark hub.

John Owens, chief financial officer, the treasurer of Southwest Airlines for 14 years.

Ann Rhoades, executive vice president of human resources, with more than 30 years of experience in service-based businesses. Six of these years were spent at Southwest Airlines during its rapid growth years. (See **Exhibit 2** for Rhoades' resume)

Other members of the new management team included marketing executives with experience at Virgin Atlantic.

Why were these talented people, with established reputations in the industry, attracted to the JetBlue venture? According to Barger, who was simultaneously offered a leading role at Delta's Atlanta hub, it was the chance to "create something new, unencumbered and fun."

I thought it would be like it was at New York Air when I was 22, with a focus on people, teamwork and esprit de corps. That was before I knew that New York Air was part of [Frank] Lorenzo's scheme to bust the unions. At Newark, I was at Ground Zero for the turnaround of Continental Airlines under [Gordon] Bethune. But we were always facing union organizing efforts. JetBlue is a chance to do it right from the start.[13]

Rhoades joined the JetBlue top management team for similar reasons.

I loved my time at Southwest, and was personally close to Herb [Kelleher]. Likewise at DoubleTree. But I am a builder, not a maintainer. I like to put the basic systems in place and move on.[14]

JetBlue's top management team was in many respects a virtual team. Several members of the team lived in locations other than New York City. Rhoades' home was in Phoenix, Arizona, Kelly's in Salt Lake City, Utah and Owens' in Darien, Connecticut. David Neeleman maintained homes in both Salt Lake City and in Westchester, NY. Only Dave Barger lived in Manhattan. This geographical dispersion reflected the diverse lifestyles and preferences of JetBlue's top management team. Some members had been persuaded to join the team based in part on the possibility of doing so without disrupting their families and personal lives.

In addition, JetBlue's corporate offices were geographically split. The operations and human resource functions were housed in Kew Gardens, New York, near JetBlue's hub in JFK Airport. The CEO, financial and legal functions were based in JetBlue's Connecticut offices, about 45 minutes away.

Senior management meetings were conducted weekly, every Tuesday morning, via a two-hour telephone conference call. In addition, senior managers met face-to-face each quarter in a two-day off-site meeting, held alternately in New York City and Salt Lake City.

Critical Decisions

JetBlue had to make several critical decisions at the outset: where would the new airline be based, what type of aircraft would it fly, and how could JetBlue deliver on the vision of leveraging technology and people to deliver a low-cost high service experience?

Home Base

New York City was designated in the business plan as JetBlue's home base. The logic for this was clear: the New York area was an enormous population center, with 19 million people living within a 60-mile radius. More importantly, the city was seen to be at the heart of several under-served markets. Since deregulation occurred in the early 1980s, origin and destination traffic had increased throughout the U.S. except in New York City. For instance, low fares offered by People Express and New York Air stimulated traffic enormously in the mid-1980's, but once they were taken over by Continental, high prices returned and traffic fell to near previous levels. As an example, there were 230 enplanements per day from Buffalo to New York City in 1981, rising to 2400 per day in 1986 with the help of People Express' low fares, then, after People Express's failure, returning to 310 enplanements per day in 1996.

Using these kinds of calculations, Neeleman's initial business plan identified several under-served routes to New York City. For instance, he found that former People Express and New York Air cities were complaining of poor service and high fares. Unrestricted roundtrip fares to New York City from Buffalo, Rochester, Syracuse and Burlington were $500 to $800. As a comparison, an unrestricted roundtrip fare on American Airlines from La Guardia to Fort Lauderdale was $509 ($222 if booked two weeks in advance and including a Saturday night stay). At the same time, an unrestricted roundtrip fare on JetBlue was $158. Local and state leaders were demanding improved fares and service for their constituents. JetBlue stood to benefit from these political forces.

But with the congestion in La Guardia and Newark airports, it was not obvious where JetBlue would establish its New York City base. Initially, the JetBlue team approached Islip Airport on Long Island. But officials at the airport had recently enticed Southwest Airlines and were not interested in "another start-up airline." The team then considered John F. Kennedy International Airport. But as Dave Barger, the COO, noted, "This is an airport no one wanted to go to. It's a terrible place." Like several other major urban airports, including La Guardia and Chicago's O'Hare, JFK was heavily used and slot-controlled, not an obvious choice for a start-up airline. Under the system of slot controls, which was managed by the Department of Transportation under the High Density Rule, JetBlue would have to purchase departure slots from the airlines that currently held them.

But it turned out that the slot controls were in force only from 3:00 p.m. to 8:00 p.m. Except for that five-hour period, JFK was under-utilized. In addition, TWA was looking to reduce its presence at JFK as its financial woes increased, opening up new space in Terminal six. JFK therefore looked attractive compared to the more-congested La Guardia and Newark airports.

JetBlue would still need authority to operate during the slotted hours at JFK. Through a political alliance with New York State's congressional delegation, JetBlue received an exemption to the High Density Rule at JFK for 75 take-off and landing slots in September 1999. The exemption allowed JetBlue to gain these slots without going through the usual process of purchasing them from one of the major airlines that currently held those slots. In return, JetBlue promised service to Buffalo, Rochester and Syracuse. Vermont also promised support for JetBlue's service to Burlington.

In describing the state support, Governor Pataki of New York said, "Our administration has worked with (JetBlue) to help them succeed in providing low-cost accessible air service that is long overdue for so many New Yorkers."[15] U.S. Senator Charles Schumer reinforced this view, "The high fares at Buffalo, Rochester, and Syracuse Airports have had a crippling effect on the local economy and the prospect of adding a new, low-cost air service will provide a boost to the region's economy." In announcing a one-way fare from Rochester to Florida of $89 or connecting service to California for $129, Neeleman commented that "The people of Rochester have been paying some of the highest

airfares in the country for a long time, so it is especially rewarding for us to be the carrier who will force other airlines to drop their prices to this city."[16]

But Neeleman wasn't being altruistic. He noted that one of the factors that he believed had helped Southwest succeed during its early days was its lock on traffic at Love Field in Dallas that provided a secure revenue base to help finance expansion. He believed that JetBlue had a similar beachhead at JFK through its protected landing slots. Neeleman estimated that these 75 protected slots would translate into $60 million in annual revenue, based on the fact that there were a potential 2.5 million passengers living within 10 miles of JFK. Furthermore, he also noted that so long as aircraft weren't flying transcontinental or transatlantic, they would be able to avoid air traffic congestion by using alternative flight paths into JFK. Most flights in and out of JFK were transcontinental or transatlantic and their arrival and departures paths were above 30,000 feet. This would allow JetBlue aircraft to come in during crowded times at under 16,000 feet and avoid congestion. For these reasons, "crowding and congestion won't be a problem," Neeleman argued.[17]

JetBlue could use its protected slots to get up and running, relatively safe from immediate threats. Then, Neeleman explained, "once we get our costs per available seat mile down, we can go everywhere."[18] (See **Exhibit 3** for JetBlue's route structure.)

Boeing versus Airbus

Another critical decision faced by JetBlue was the type of aircraft to fly. Neeleman had already decided that JetBlue would rather own than lease its aircraft, and the initial investors insisted that the aircraft be new, to counteract the image of low cost start-ups as shoe string operations. Given Neeleman's experience with Morris Air and Southwest, he felt that the obvious choice was the Boeing 737, made famous as the only aircraft Southwest Airlines would fly. In the end, however, JetBlue entered into a contract to purchase more than 80 Airbus A320s instead of Boeing 737s. Neeleman described this unanticipated change.

> It was a classic American negotiating story. We had John Owen, who did the aircraft purchasing for Southwest Airlines. He knew what Southwest was paying for its 737s. We wrote down a number and Boeing choked. More for due diligence than for anything, we went to visit Airbus. They asked, "Are you using us as a foil to get a better deal from Boeing?" I asked, "Did anyone ever come in here using you as a foil and you convinced them that Airbus was the right decision?" They said, "Yes." I said, "OK, so sell us."

> And they did. We were surprised. The A320 was better on so many dimensions. It burns less fuel, it has better cabin technology, and it has a wider cabin. Each seat gets an extra inch, relative to the Boeing 737, and the back rows don't get narrower like they do on the Boeing. Passengers love it. We talked to airlines flying both side-by-side and they all said they preferred the Airbus. The financial and the operational arguments were in agreement. It was a win/win.[19]

Operations Strategy

Al Spain was Vice President of Flight Operations at the company. He was recruited from Continental where he was a line pilot. But Spain described himself as someone who had always liked challenge and thinking outside the box. While completing an MBA degree a number of years ago, Spain did a paper in which he asked what would happen if pilots had an electronic "gizmo" that allowed them to get rid of the enormous amounts of paperwork that flying a commercial jet

required? Spain joined JetBlue to realize this dream. He saw JetBlue as an opportunity to build an airline from the ground up and to make it a fun place as well as efficient. In Spain's mind, as in Neeleman's, JetBlue could be the world's first "paperless" airline.

To realize this vision, Spain and his colleagues did several things that others often said should be done, but because of regulatory and bureaucratic inertia, thought would never happen. At JetBlue each pilot was provided with a laptop computer into which was loaded all the required flight and operations manuals, software to do the load and flight planning, and communications software. While other airlines filled office floors with people to do this work, JetBlue pilots did the pre-flight checks themselves in four minutes on their laptops, with no paper required. Spain recalled discussing this idea with a senior pilot at another airline who listened in disbelief and said, "Do you have any idea how many people will be put out of work?" When JetBlue filed the papers necessary for official flight certification with the Federal Aviation Administration (FAA), they submitted a four-inch three-ring binder that contained a single sleeve with a CD-ROM that represented JetBlue's entire submission, rather than the usual boxes of files and paperwork.

Spain also described how, because the A320 was so highly computerized, almost all maintenance logs were also computer based. He listed the many savings attributable to an airline being paperless, ranging from the labor costs saved from not having to manually update the numerous flight and maintenance manuals, to safety and efficiency gains from always being current in operational details and in regulatory compliance, to the sheer motivational gains from pilots not being burdened with reams of paper. Spain also indicated that the pilots could and did frequently communicate new ideas and concerns directly to his office using the e-mail capability on their lap-tops. When asked about the volume of e-mail he received, Spain shrugged and indicated that he'd rather deal with hundreds of daily e-mails than a unionization campaign among an unhappy flight crew.

Spain was generally satisfied with JetBlue's operational performance. He had a task force working to develop "the perfect 30-minute turnaround" so that JetBlue could maximize aircraft utilization, which was already at 13.5 hours a day compared to an industry average of about 10. "That's how you keep fares low," Barger observed. Southwest had originally succeeded with a 15-minute turnaround, moving to a 20 then 25-minute turnaround as they expanded beyond business travelers to include leisure travelers, and as they moved from the southwest region of the United States to more congested areas of the midwest and northeast.

In August 1999, JetBlue turned in its first monthly operating and net profit. In just six months of operation, JetBlue's founders had built an airline with 48 flights to nine cities of the 44 initially listed in their FAA filing as target destinations. The company had carried over 500,000 passengers. In doing this JetBlue had compiled an on-time record of 80% compared to 74% for the 10 largest U.S. airlines and had received, according to Department of Transportation accounts, only 0.6 complaints per 100,000 passengers compared to an average of 2.99 for their major competitors. Dave Barger commented that "The operational performance figures would be very impressive for an established airline, but they are spectacular for an airline that began flying just over seven months ago, especially considering the difficult weather conditions experienced this summer along the East Coast." All-in-all, things were going well on the operational side.

Leveraging Human Resources

It is one thing to aspire to create an airline that provides low fares and great service, and another thing to deliver on that promise over time. Success during the start-up phase was no guarantee of continuing high performance as the airline scaled up. Previous airline start-ups had enjoyed early

success only to come apart later as they grew. The management team at JetBlue was sensitive to the risks that lay ahead. Dave Barger, the COO, was explicit in his intent not to be a part of just another low-fare airline like ValuJet or People Express. For Barger, this meant creating an esprit de corps that was fun for crew members and customers. "This means staying focused on people...and keeping the company union free." Ann Rhoades agreed, emphasizing that a team environment depends on not having work rules and big distinctions between the line and management. For Rhoades, the big question was "What do we stand for?" Drawing on her previous experience in building people-centric organizations, she claimed:

> To me, the most important element was caring. I want JetBlue to care about our people from end to end. Southwest Airlines really cares about the people who work there. It's not pretend, it's real. But that doesn't mean you need to stay forever. And it doesn't mean you need to treat everyone the same.[20]

Values

Rhoades wanted to take the best from all other airlines and apply these lessons in building JetBlue. Her first efforts were devoted to helping the founding members of the management team define what they wanted their new organization to stand for—to define their values. In fact, Rhoades made this one of her conditions for joining JetBlue.

> Values were central at Southwest Airlines, but they just happened. I think it's better to decide up front what they will be. Then we can judge every action based on our values. I said I won't come unless we talk about values. So we sat down to get to those values. Everybody had a passion for being different. Many wanted to focus on financial goals. But Dave Barger and I had a particular focus on values.[21]

She believed that values drove all other activities and were the basis for the development of an organization. Unlike mission statements that could be seen as hot air, values represented the bedrock for the development of human resource policies and practices and management style. To define the values upon which JetBlue would be built, Rhoades held a two-day meeting for 20 members of the top management team at a Manhattan hotel. She began this session by asking people to think about what characterized the best organizations they knew. Several people wanted to include financial goals in this list, but Rhoades argued that they shouldn't be on the list. If they really lived their espoused values, financial performance would follow. The group ultimately came to a consensus around five core values that were to characterize the company:

Safety
Caring
Integrity
Fun
Passion

Safety was placed clearly first and above the others. No airline, especially a start-up, could succeed without safety. The remaining four values were seen as equal and not prioritized.

Barger commented on the meeting and the values that emerged:

> Those discussions were a key building block for us. We didn't want a mission statement nobody reads. We wanted words that allow everybody to talk together. Having shared values makes decision-making so much easier.[22]

The importance of values was emphasized in The Blue Book or crew member handbook provided to all employees. The opening section of the book described the relationship of the company and its values to the employee:

> JetBlue is a value-based company built on the principle that to be extraordinary on the outside you must first be extraordinary on the inside. Hiring the very best people and treating them exactly the way we expect our Customers to be treated is essential to this goal. Fair compensation/benefits programs, great two-way communications, terrific training, career growth opportunity and a safe, fun environment are all components of this effort. In short, we want to be the best place to work in town.[23]

JetBlue's values were defined in behavioral terms (Exhibit 4). Rhoades described how the values were intended to drive other activities, not in some abstract sense but in concrete terms. The work was designed to give people lots of autonomy. Rather than attempting to control people through rules and supervision, they would simply be judged on how their decisions fit with the values. Supervisors would function as coaches rather than bosses.

A Non-Union Environment

The airline industry was one of the most highly unionized industries in America—80% of its employees were organized versus about 15% nationally. Start-ups in the industry often became unionized within five years, so the JetBlue team had to decide on its stance vis-à-vis unionization (Exhibit 5 for unionization at selected start-ups). Rhoades described the JetBlue decision:

> We are not like Southwest Airlines in this respect. Herb [Kelleher] invited the unions in from day one. We prefer to operate without unions. If I have the opportunity to be a leader without work rules, I strongly prefer that. Not having a union creates a team environment. As long as we are working together well, we won't need unions.[24]

COO Barger took a similar position: "We need to daily create the positive environment to keep this place union-free. We don't need unions. If our people think we need unions, boy have we failed."[25]

Customized Employment Packages

Rhoades was charged with designing JetBlue's human resource practices. She developed a customized human resource management approach that tailored jobs, pay, and benefit packages to the distinct needs of different employee groups, but was intended to ensure overall equity in treatment. Some employee groups were concerned about current compensation while others worried about retirement. Why should all employees receive exactly the same package? In Rhoades' view, "Conventional HR departments often do what makes their lives easier, not what the employees necessarily want."

The intent at JetBlue was to deliver customized pay and benefit packages that met or exceeded the industry standard. Benefits started on day one, with no so-called "probationary" period, which Rhoades found demeaning and associated with union contracts. Benefits for full-time employees included medical benefits and personal time off rather than the conventional holidays, with double pay for those who worked the holidays. Within these broad parameters, HR packages were highly customized.

Rhoades believed that many flight attendants considered their jobs as relatively short term (one to five years), so the company offered three distinct job options for flight attendants. There were one-year employment contracts designed for college students. They got medical coverage plus $500 per month of additional pay, in lieu of other benefits, to help them afford to live in Manhattan. This option was designed to appeal to young people who wanted a year of fun and travel, before they moved on to the next stage of their lives. A second option was job-sharing offered to two people who wanted to share a job. This option was designed to appeal to people seeking to balance work and family responsibilities. Finally, the company also offered a standard full-time flight attendant position but with a pay scale designed to appeal to those who wanted to work more hours per month than industry norms. The highest hourly pay for starting flight attendants in the industry was $19. JetBlue offered $20/hour for those who worked up to 70 hours/month and $30/hour for those who worked more than 70 hours/month. However, unlike the industry norm, pay increases were not associated with seniority. According to Rhoades:

> We believe in taking care of people. But we do not believe in staying there forever. We believe firmly that some jobs are short term. We've designed the flight attendant job to be from one to five years in duration.[26]

Similar customization applied to other types of jobs. Both customer service and ramp workers were paid one dollar more per hour than the highest rate at the airport where they worked, plus shift differentials. Almost all employees in the outlying airports were part-timers, but they all received medical, 401k and profit-sharing benefits, as well as double pay if they worked holidays. "We are trying to care about them," said Rhoades. "They are the most overlooked group in the industry." So far, JetBlue had had little trouble recruiting for these positions.

The pilot contract was based on the Southwest Airlines pilot contract. Pilots were paid the industry average for similar sized carriers and were entitled to 20 days off per year. Unlike the other employee groups, JetBlue pilots, dispatchers and technicians got stock options. According to Rhoades, the other employee groups preferred higher pay to stock options. "We asked flight attendants and some of the more sophisticated ones did want options. But most did not. Unlike pilots, they are not planning for their retirement." Pilot contracts were dated to begin anew for each incoming class of pilots, typically 12 per group, so the contracts would come up for renewal for small groups of pilots at a time rather than for all JetBlue pilots at once.

Unlike all other airlines, JetBlue did not have a central reservation center. Rather, its 500+ reservations agents, all of whom were from the Salt Lake City region, worked from home. Agents were set up with computers and worked a minimum of 20 hours per week at the industry standard rate of $7.50 an hour, but earned $1/hour extra if they came on line to take calls when needed. Based on a single local advertisement for reservation agents in a Salt Lake City newspaper, Rhoades reported that they currently had a waiting list of 2,500 interested applicants.

When asked, "Why customize employment packages?" Rhoades replied, "My goal is to always say yes. They say you can't do it. But I say you can if you really listen to what each group wants." She also argued that by offering more variation in the design of jobs, compensation, and benefit packages, it was possible to give employees what they wanted. She believed that degree of customization would reduce the likelihood that JetBlue employees would want union representation. "People don't complain when they have a choice." In addition, contractual distinctions among people in a given occupational group might discourage a union organizing drive, given that unions were accustomed to standardization.

Selecting the Right People

Ann Rhoades placed enormous importance on hiring the right people. "To me, hiring is the most important thing you can do if you know what you want to look like." Barbara Shea, a colleague of Rhoades in the People Department, saw her job as hiring people with great attitudes. Often, this meant that she had to look for people *without* previous airline experience.

Taking the five values as a guide, JetBlue used a targeted selection process to identify employees who were most likely to fit. In this process, the five values were systematically translated into specific desirable and undesirable behaviors and questions were then asked with respect to applicants' past behavior. For example, applicants were asked to recall incidents in a previous job in which they exhibited a particular behavior, to describe how they arrived at the decision to take the action, and to describe the consequences of the action. A pilot, for example, would be asked to talk about a time he or she had a customer request that was in conflict with company policies and what actions he or she took. Multiple interviewers were used and the interviewers had to come to a consensus decision (not an average) before anyone could be hired.

In describing how this process worked in practice, Rhoades recounted how a mechanic who was being interviewed was asked to think of a time that "integrity" was an issue in his previous employment. He described how as a junior mechanic, he got a plum job at a major airline. Soon afterwards, he was pressured to certify an aircraft for an international flight, even though it wasn't in complete compliance. He refused to "sign off" on the airplane and the flight was delayed, much to the annoyance of management. The mechanic was subsequently let go, reflecting the obvious displeasure of his superiors. "We hired him," Rhoades said. In another instance, she refused to hire a pilot because of his arrogance.

Dave Barger described how, in pilot recruitment, JetBlue not only looked for a high comfort level with computers but also paid careful attention to cultural fit. In his view, this practice had paid off because happy pilots were a great source for recruiting their friends from competing airlines. Barger underscored the importance of cultural fit by noting that unlike most airlines, JetBlue covered the cost of the seven weeks of pilot training for qualification on the A320--roughly $30,000. Attrition after such an investment was costly, so finding people who fitted into the organization was critical.

But the hiring process wasn't perfect and about 20 people were let go in the first year. Barbara Shea recounted that she framed her feedback to employees in terms of how the individual didn't live the values. She recalled how a week earlier she had fired a person based on her lack of fit with the values. After listening to her explanation, the person actually apologized to Shea for not having lived up to her own expressed commitments.

Other HR Practices

JetBlue was still a small company and, as such, had not fully developed all the formal HR practices typically seen in a larger firm. However, consistent with their emphasis on hiring people who fit, great emphasis was placed on the initial orientation for employees. The orientation included talks by Dave Barger, the COO, describing why the company existed and what its aspirations were, and by Neeleman on what it took to make money in their industry and how each person's job performance could affect this. Ann Rhoades always began her portion of the orientation program by describing the three things that she believed all employees had to do if they were to be successful with JetBlue: (1) they had to show up and be productive; (2) they had to be safe, which meant no alcohol or drugs; and (3) they had to be customer-oriented. She then linked these to the company's

values and the behaviors that were expected. Other aspects of the orientation included discussions of safety and the importance of the 30-minute turnaround process.

Rhoades believed that, as they grew, more formal training and development processes would be needed. She had already introduced a 360-degree performance management process (called a "320-degree" process to reflect their use of A320 aircraft). The dimensions rated in this process reflected the five core values.

JetBlue managers were sensitive to the importance of communication within the firm. For example, Al Spain knew from previous experience that measurement of delays had the potential to undermine teamwork:

> We all come from airlines where finger-pointing was the international salute. We don't want to be so metric-oriented that we forget to focus on the customer's experience. We only discuss delays if it's going to be productive. [27]

As part of his effort to avoid a culture of blame, Spain used the term "flight clarification report" and de-emphasized the search for which group was primarily responsible for causing the delay.

Because Dave Barger felt that the best way to convey the values was through one-on-one conversations, he scheduled visits to each of the company's 20 locations at least once a quarter. "In principle," he said, "the supervisor is another important component of communicating with the front-line though, so far, we really haven't done the training for this role." Communication with front-line employees was also achieved through the formation of Tiger Teams to solve problems that emerged in any area of the company. Rhoades explained:

> When we have a problem, I pick the worst complainers and put them on a Tiger Team. They get together to solve the problem, then come back to me with a recommendation. [28]

JetBlue managers were also sensitive to the power of language. All employees were referred to as "crew members" and supervisors as "coaches." As at Southwest Airlines, the word "Customer" was capitalized in company documents to signal the central importance of the customer.

The Challenges Ahead

Rhoades reflected that it had been an exciting and successful first year for her personally as well as for the company. From an operational standpoint, things were going well. The team had delivered on its promise of providing a "cool, convenient, cost-effective" service to the customer and a fun, productive environment for JetBlue employees. The business press reported favorably on the quality of the equipment and service. Customers seemed to love the airline with its new planes, low fares, and its blue tortilla chips, blueberry muffins, and blue M&M snacks.

But Rhoades was also concerned about how JetBlue could maintain its success through long periods of sustained growth. In the next 12 months, 10 new aircraft would be delivered which would require hiring another 1,000 employees. Given JetBlue's selection ratio, Barbara Shea, Director of Flight Operations Recruiting, estimated that this meant interviewing almost 900 pilot applicants in 2001 and again in 2002 and 2003. She expected there would be 5,000 new employees by 2004. It also meant expanding the number of cities served, opening new facilities including a second hub-city, and all the while, in the words of Dave Barger, "Keeping a small company feeling." Rhoades wondered what it would take for them to meet these growth targets and remain productive and flexible.

Exhibit 1 First-Year Growth (2000) Source: JetBlue Airways

	Aircraft	Employees	Flights/Day	Available Seat Miles
January	0	0	0	0
February	2	90	9	19,661,616
March	3	190	15	55,841,076
April	3	290	17	67,962,564
May	3	390	17	68,221,926
June	4	490	18	72,173,916
July	5	590	28	116,230,950
August	7	600	39	176,148,756
September	8	690	43	171,688,734
October	9	800	46	185,674,518
November	10	850	51	205,575,246
December	10	950	53	232,394,184

Exhibit 2   Ann Rhoades' Resume, Source: Ann Rhoades

MARGARET ANN RHOADES
13519 PINO CANYON PLACE NE
ALBUQUERQUE, NEW MEXICO 87111-7102
505/823-1756 (HOME)
480/421-0370 (OFFICE)

POSITIONS HELD

1999 TO PRESENT	EXECUTIVE VICE PRESIDENT, PEOPLE JETBLUE AIRWAYS CORPORATION NEW YORK, NEW YORK
1995 – 1999	EXECUTIVE VICE PRESIDENT, TEAM SERVICES & PUBLIC RELATIONS PROMUS HOTEL CORPORATION/DOUBLETREE HOTEL CORPORATION MEMPHIS, TENNESSEE/PHOENIX, ARIZONA
1989 – 1995	VICE PRESIDENT, PEOPLE SOUTHWEST AIRLINES DALLAS, TEXAS
1984 – 1989	SENIOR VICE PRESIDENT, MBANK DALLAS, TEXAS
1977 – 1984	VICE PRESIDENT, HUMAN RESOURCES FIRST INTERSTATE BANK SANTA FE, NEW MEXICO

EDUCATION

1985	MASTERS OF BUSINESS UNIVERSITY OF NEW MEXICO ALBUQUERQUE, NEW MEXICO
1977	BACHELOR OF BUSINESS SUMMA CUM LAUDE COLLEGE OF SANTA FE SANTA FE, NEW MEXICO

SIGNIFICANT COMMITTEES AND BOARDS

CHAIRMAN, UNIVERSITY OF NEW MEXICO FOUNDATION BOARD
ALBUQUERQUE, NEW MEXICO

BOARD MEMBER, ANDERSON SCHOOL OF BUSINESS
ALBUQUERQUE, NEW MEXICO

BOARD MEMBER, RESTORATION HARDWARE CORPORATION
CORTE MADERA, CALIFORNIA

CHAIRMAN, UNITED WAY
SANTA FE, NEW MEXICO

CHAIRMAN, NEW MEXICO BANK WOMEN

BOARD MEMBER, YMCA
PHOENIX, ARIZONA AND DALLAS, TEXAS

BOARD MEMBER, PHOENIX CHILDREN'S HOSPITAL
PHOENIX, ARIZONA

TREASURER, LOU GALLEGOS FOR CONGRESS CAMPAIGN
SANTA FE, NEW MEXICO

BOARD MEMBER, FIESTA BOWL COMMITTEE
PHOENIX, ARIZONA

BOARD MEMBER, COMPAS
PHOENIX, ARIZONA

GREATEST ASSET

SENSE OF HUMOR

Exhibit 3   JetBlue's Current and Projected Route Structure (December 2000)

Routes Offered By End of 2000	Flights/Day	Routes Offered by End of 2001	Flights/Day
JFK to Fort Lauderdale, FL	5	JFK to Fort Lauderdale, FL	7[a]
JFK to Tampa, FL	3	JFK to Tampa, FL	3
JFK to Orlando, FL	3	JFK to Orlando, FL	4
JFK to Fort Myers, FL	1	JFK to Fort Myers, FL	2[a]
JFK to West Palm Beach, FL	2	JFK to West Palm Beach, FL	4[a]
JFK to Burlington, VT	2	JFK to Burlington, VT	2
JFK to Buffalo, NY	5	JFK to Buffalo, NY	5
JFK to Rochester, NY	5	JFK to Rochester, NY	5
		JFK to Syracuse, NY	3
JFK to Salt Lake City, UT	1	JFK to Salt Lake City, UT	
JFK to Oakland, CA	1	JFK to Oakland, CA	2
JFK to Ontario, CA	1	JFK to Ontario, CA	2
		JFK to Long Beach, CA	2
		JFK to Seattle, WA	
		JFK to Denver, CO	
		JFK to New Orleans, LA	2

[a]Some additional seasonal flights were also offered to these cities.

Exhibit 4   JetBlue Value Definitions

SAFETY

*Supports compliance with all regulations

*Sets and maintains consistent
high standards

*Committed to "safety first"

*Ensures sense of security for co-workers
and customers

*Never compromises safety in making
business decisions

CARING

*Maintains respectful relationships with
each other and customers

*Role model at work and in community

*Embraces healthy balance between
work and family

*Takes responsibility for personal and
company growth

INTEGRITY

*Exhibits honesty, trust and mutual respect
in all aspects of the job

*Gives the values a heart beat

*Unwillingness to compromise the values
for short term results

*Possesses and demonstrates broad
business knowledge

*Committed to self-improvement

FUN

*Exhibits a sense of humor and ability to
laugh at self

*Adds value to "customer's" experience
through humor

*Demonstrates/creates enthusiasm
for the job

*Converts a negative situation into a
positive customer experience every time

*Creates a friendly environment where
taking risks is OK

PASSION

*Celebrates diverse needs of co-workers
and customers

*Champions team spirit

*Craves and delivers superior performance

*Shows excitement and eagerness of break
down and eliminate barriers to service

*Colors outside the lines to solve business
issues

Exhibit 5 Unionization at Selected Start-Ups as of December 31, 2000

Carrier	Pilots	Flight Attendants	Mechanics	Ramp	Customer Service/ Reservations	Carrier Age (years)
Southwest	yes	yes	yes	yes	yes	29
America West	yes	yes	yes	yes		17
Midwest Express	yes	yes				15
AirTran	yes	yes	yes			7
Midway	yes	yes		yes		5
Frontier	yes					5

Source: Airline 10K reports as compiled by Andrew von Nordenflycht, Sloan School of Management, Massachusetts Institute of Technology.

Endnotes

[1] P. Greenberg, "Why JetBlue will be different," *MSNBC*.

[2] Ibid.

[3] "The Top Entrepreneurs," *Business Week*, January 8, 2001.

[4] Interview, August 3, 2000.

[5] "A good idea, but will it fly?' *Condé Nast Traveler*, December 1999.

[6] Interview, December 18, 2000.

[7] "A good idea, but will it fly?" *Condé Nast Traveler*, December 1999.

[8] Interview, December 18, 2000.

[9] Ibid.

[10] J. Levere, "Low-fare airline aims to build on attitude and hostility," *New York Times*, December 1, 2000.

[11] Interview, December 18, 2000.

[12] Ibid.

[13] Ibid.

[14] Ibid.

[15] Press Release, August 3, 2000.

[16] Ibid.

[17] H. Hegeman, "Yeah, Baby, JetBlue is here," *TheStreet.com*, July 14, 1999.

[18] Interview, December 18, 2000.

[19] Ibid.

[20] Ibid.

[21] Ibid.

[22] Ibid.

[23] *The Blue Book, JetBlue Crew Handbook*, 2000.

[24] Interview, December 18, 2000.

[25] Ibid.

[26] Ibid.

[27] Ibid.

[28] Ibid.