Strategic Audit

Group 1
Maria Campana
Jou Her
Debbie Argote
Erik Thor
Michelle Klein
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Introduction

Background

JetBlue Airways, Inc. (JetBlue) is a low-cost carrier (LCC) that is based in New York's John F. Kennedy International Airport. The founder, David Neeleman, developed JetBlue's business plans in 1998, and established the company in February 1999 after raising the needed financial resource to create the airline. JetBlue started its operations in February 2000, with its first flight from JFK to Fort Lauderdale airport in Florida. The September 11, 2001 terrorist attacks caused a very devastating time for the airline industry. Even though this occurred only a year after JetBlue started as a LCC, the company was one of three airlines to produce a profit at the end of 2001. Their performance in this year alone showed many other airlines that JetBlue was a big competitor in the airline industry who couldn't be ignored. In the following years JetBlue grew substantially as one of best-rated airlines in the industry for customer satisfaction.

In May 2007, JetBlue now decides to change its command structure. David Neeleman is being replaced by David Barger, former chief operating officer (COO) and president of the company, as chief executive officer (CEO). After gaining his new title as CEO, Barger is still remaining the president of the airline. David Neeleman has been assigned to be the non-executive chairman of the board. This decision is the product of various factors including the rising of fuel costs, weather conditions, new competition, and maintenance and labor costs that negatively impacted JetBlue as a whole. These factors do not include the service breakdown in February 2007 that was a result of a severe snowstorm that hit the Northeast and Midwest Regions of the U.S. This event left many customers unsatisfied as many were stranded on boarded planes for 11 hours, and others were stranded in the airports awaiting their plane to arrive. Customers were subjected to unacceptable delays, flight cancellations, lost baggage, and other major inconveniences. Analysts believe the airline expanded too rapidly for the company to sustain its steadily progressing posture. JetBlue now feels they need a new vision to regain the market share and revenues that were lost. This vision is needed in order to restore the reputation and reliability of JetBlue as a productive airline.

Current Performance

In 2006, JetBlue ended the year with a net loss of one million dollars, which was a great achievement as opposed to the previous year, in which JetBlue ended the year with a net loss of twenty million dollars (JetBlue 2006 10-K). Even though JetBlue sold five of its Airbus aircrafts in 2006, which resulted in a gain of twelve million dollars, this did not help JetBlue in achieving any net income in 2006, but helped to lessen the net loss that would have resulted if no aircrafts had been sold (JetBlue 2006 10-K). JetBlue's current ratio in 2006 was 1.08, in which their current assets were barely enough to cover their current liabilities. For every dollar of current liabilities, JetBlue was able to cover it with $1.08 of current assets, as opposed to 2005, in which the current ratio was .94, in which current liabilities outweighed current assets six cents per dollar.

As a result of how JetBlue was doing in 2006, JetBlue's earnings per share was in a better state than it had been in the previous year. In 2006, JetBlue's earnings per common share was zero, as opposed to 2005, in which the earnings per share was a loss of thirteen cents per common share. Even though JetBlue's earnings per share had no gain or loss, JetBlue stock was a risky choice which may have deterred investors from investing in JetBlue due to the amount of earnings per share they would receive.

Strategic Posture

JetBlue's number one priority is customer satisfaction. The airline represents this utmost important commitment in their operations and culture. The Customer Bill of Rights states "JetBlue Airways exists to provide superior service in every aspect of our customer's air travel experience. In order to reaffirm this commitment, we set forth this Bill of Rights for our customers." David Neeleman claims the company was founded on "the promise of bringing humanity back to air travel and making the experience of fling happier and easier for everyone who chooses to fly with us." JetBlue goes out of its way to not trouble customers by enforcing a policy of never cancelling flights, overbooking flights, and informing customers well in advanced if there was a delay. If there is to be an extreme delay, gift vouchers are handed out for a future flight. JetBlue has a reputation of having the best customer service and the passenger complaint numbers are among the lowest in the industry.

JetBlue also knows the key to cutting costs in the most efficient way possible. Instead of using older planes like its competitors, JetBlue first invested in a new uniform fleet of Airbus A-320 aircraft. These aircraft alone saved money, although they cost more initially; the maintenance, easier pilot training, five-year warranty, and fuel-efficient qualities cut costs in the long run. In all the investments JetBlue has made, the airline always thinks about the future and the investment's long term value. This keeps the airline not only with the most up to date luxuries for its customers, it keeps the cost of airfare as low as possible; which makes JetBlue highly competitive with other airlines. All the planes are fitted with leather seats instead of cloth. This costs twice as much, but also lasts twice as long. The aircraft are constructed to have a single class, with a single level of service. JetBlue offers complimentary light snacks instead of meals, which saves about $3 per passenger. After saving money from serving snacks instead of meals, JetBlue could now offer free satellite television to all the passengers, which many of its

competitors could not think of offering for free. JetBlue also feels that using the latest technology is another way to cut costs. It is one of the first airlines in the United States to offer automatic check-in and electronic bagging, and paperless cockpits. These technologies not only cut costs in resources and labor, but also saved between 15-20 minutes in takeoff.

JetBlue is one of the few airlines in the U.S. that does not have a unionized workforce. Employees are called “crewmembers” and top management focuses to construct a family-like atmosphere. The airline is well aware that if it treats its employees with the utmost respect, the employees in return will treat the customers the same way. JetBlue emphasizes in hiring people with positive attitudes and high energies. Many customers who have flown JetBlue in previous years were “impressed by the energy and attitude of the employees”. All crewmembers are free to suggest ideas to improve operations and cut costs. Employees don’t mind to pitch in and go above and beyond their job descriptions. All are expected to clean up the cabin between flights, and because of this they are frequently rewarded with bonuses and profit sharing programs.

Corporate Governance

Board of Directors

David Barger – From the year 2001 to present, Mr. Barger has served as Chief Executive Officer along with President and Director. He also belongs to the Airline Safety Committee. He went to school at the University of Michigan.

Edward Barnes – Senior Vice President and Chief Financial Officer (Principal Financial Officer)

David Checketts – From the year 2000 to present, Mr. Checketts has served as an Independent Director and is also part of the Compensation Committee. He received his Bachelor's Degree from the University of Utah and received his Master's from Brigham Young University in 1981.

Robert Clanin – Mr. Clanin is the Director and Chairman of the Audit Committee. He received his Bachelor's Degree from Bradley University in 1996.

Kim Clark – Since 2002, Mr. Clark has served as an Independent Director. He also belongs to the Audit Committee and Nominating Committee. He received six different degrees all from Harvard University. He received his MA, Doctorate, PhD, Bachelor's Degree, BA, and Master's Degree.

Virginia Gambale – Has served since 2006 as Director and also a Member of the Audit Committee. She received her Bachelor's Degree and BS from New York Institute of Technology.

Angela Gittens – As of September 30, 2005 she has served as Director and is also a part of the Audit Committee.

Neal Moszkowski – From 1998 to the present year, Mr. Moszkowski has served as the Chairman of the Audit Committee and is also an Independent Director and belongs to the Compensation Committee. He received his Bachelor's Degree from Amherst College and later received his Master's from Stanford University.

Joel Peterson – Has been on board since 1999 to present as Chairman and also serves on two different committee's which are the Nominating Committee and the Compensation Committee. He went to Brigham Young University where he received his Bachelor's Degree and also Harvard Business School where he received his MBA.

Ann Rhoades – Ms. Rhodes has been serving since 2001 to present. She is the Director and also Chairman of the Compensation Committee. She went to the University of New Mexico where she received her MBA.

Frank Sica – Mr. Sica has been with JetBlue since 1998 to present. He serves as Vice Chairman along with Chairman of Airline Safety Committee. He is also part of the Corporate Governance and Nominating Committee. He received his BA from Wesleyon University in 1973 and later received his MBA in 1979 from Tuck School of Business at Dartmouth.

Executive Officers

David Barger – He is currently the Chief Executive Officer since May of this year. Apart from that, he also serves as a member of the Board of Directors. From August 1998 to present he is President and Chief Operating Officer. Also in 1992 he was with Continental Airlines and worked in different management positions along with director level positions.

Edward Barnes – Mr. Barnes came aboard in October 2006.He serves as Vice President, Cost Management and Financial Analysis. From April 2005 to September 2006 he was the Vice President Controller of JDA software. While working for Assisted Living Concepts, he was Senior Vice President and Chief Financial Officer from December 2003 to March 2005. And also held a position as Vice President Controller from June 2000 to December 2003 while at Pegasus Solutions. He is a Certified Public Accountant and participates in the American Institute of Certified Public Accountants.

Russell Chew – Serves as President and Chief Operating Officer since September and March of this year. He is also Chief Operating Officer of the Federal Aviation Administration since 2003 to present. He also worked for American Airlines back in 1985 all the way up to 2003. There he served as Managing Director of Systems Operations Control.

James Hnat – Mr. Hnat plays various roles. He is the Executive Vice President Corporate Affairs, General Counsel, and Secretary. Back in March 2006 all the way up to this year he is Senior Vice President, General Counsel, and Assistant Secretary. He held his position as General Counsel and Assistant Secretary for three years from February 2003 to March 2006. And held position as Associate General Counsel for almost two years from June 2001 to January 2003. He currently belongs to the bar of New York and Massachusetts.

Robert Maruster – Since February 2006 he is the Senior Vice President of airports customer services. In October 2004 thru July 2005 he was Vice President of Customer Service and Operations at Jackson Atlanta International Airport. In early 2001 before he became Vice President, he was also a part of a management team that dealt with airport operations, procedures, and technology. He received his Bachelor’s Degree in Political Science from Auburn University and later on received his Master’s from Emary University.

TOWS Factors

	Importance						Performance					
External Threats	**J**	**E**	**D**	**MC**	**MK**	**Average**	**J**	**E**	**D**	**MC**	**MK**	**Average**
Accidents/Terrorist attacks	5	7	6	6	6	**6**	8	8	7	8	8	**7.8**
Inconvenient TSA Procedures	7	7	8	8	8	**7.6**	7	7	8	7	7	**7.2**
Increase in Fuel Prices	10	9	7	9	8	**8.6**	1	9	1	3	1	**3**
Intense Competition	6	9	6	9	9	**7.8**	5	9	6	8	8	**7.2**
Strict Laws and regulations	4	3	3	3	3	**3.2**	8	6	5	8	8	**7**
High User Taxes	7	4	5	5	5	**5.2**	5	3	5	5	1	**3.8**
Inconsistent Currency Exchanges	2	4	5	5	5	**4.2**	2	4	5	6	5	**4.4**
Operation Hindering Weather	10	10	7	8	7	**8.4**	2	3	1	2	1	**1.8**
Consolidation of Airline Industries	6	8	6	7	6	**6.6**	5	7	7	8	8	**7**
External Opportunities												
Possible Destinations	9	9	6	9	9	**8.4**	2	9	3	1	1	**3.2**
Technology Improvements of the Industry	7	6	5	7	7	**6.4**	6	7	6	7	7	**6.6**
Deregulation of International Air Travel	7	6	7	7	7	**6.8**	5	5	6	8	9	**6.6**
Competitor Inefficiencies	5	7	7	7	7	**6.6**	6	7	10	7	6	**7.2**
Currency Exchange	7	4	6	5	5	**5.4**	7	5	5	5	2	**4.8**
Laws and Regulations	3	3	3	3	3	**3**	5	3	5	5	2	**4**
Internal Weaknesses												
Newer Company	7	8	5	8	7	**7**	10	7	5	8	7	**7.4**
Concentration on Middle Class	6	7	6	8	8	**7**	5	8	7	9	10	**7.8**
Change in Leadership Structure	8	9	6	6	6	**7**	10	8	6	8	6	**7.6**
Shift in Customer's Needs	10	9	7	8	7	**8.2**	1	1	1	1	1	**1**
Slow Turn Around	6	7	8	8	8	**7.4**	10	6	7	7	8	**7.6**
High Debt	4	8	8	9	8	**7.4**	1	7	10	7	2	**5.4**
Internal Strengths												
Low Operating Costs	9	10	7	9	9	**8.8**	10	10	6	7	6	**7.8**
Strong Brand	10	9	7	9	9	**8.8**	10	9	7	9	8	**8.6**
Efficient Employees	8	8	5	8	8	**7.4**	7	7	5	8	8	**7**
Consumer Satisfaction	8	10	8	10	9	**9**	10	10	10	7	4	**8.2**
Effective Use of Technology	7	8	6	7	7	**7**	7	8	7	7	7	**7.2**
Marketing and Distribution Strategies	9	4	7	8	8	**7.2**	10	4	6	8	9	**7.4**
High Aircraft Utilization	8	7	6	8	8	**7.4**	9	8	6	8	9	**8**

TOWS Analysis

External Threats

	Importance						Performance					
External Threats	**J**	**E**	**D**	**MC**	**MK**	**Average**	**J**	**E**	**D**	**MC**	**MK**	**Average**
Accidents/Terrorist Attacks	5	7	6	6	6	**6**	8	8	7	8	8	**7.8**
Inconvenient TSA Procedures	7	7	8	8	8	**7.6**	7	7	8	7	7	**7.2**
Increase in Fuel Prices	10	9	7	9	8	**8.6**	1	9	1	3	1	**3**
Intense Competition	6	9	6	9	9	**7.8**	5	9	6	8	8	**7.2**
Strict Laws and Regulations	4	3	3	3	3	**3.2**	8	6	5	8	8	**7**
High User tax	7	4	5	5	5	**5.2**	5	3	5	5	1	**3.8**
Inconsistent Currency Exchanges	2	4	5	5	5	**4.2**	2	4	5	6	5	**4.4**
Operation Hindering Weather	10	10	7	8	7	**8.4**	2	3	1	2	1	**1.8**
Consolidation of Airline Industries	6	8	6	7	6	**6.6**	5	7	7	8	8	**7**

Accidents/Terrorist Attacks- Despite the fact that statistics tells us that flying is one of the safest modes of transportation many people still fear flying. Some people are so afraid of flying they will never travel by air. This is a huge threat because no matter what someone says the fear never fully goes away.

Inconvenient TSA Procedures- Unfortunately TSA regulates the airlines security requirements and every US airline must abide the TSA government laws. They mandate airlines, passengers and airline staff to follow regulations of screenings.

Increase in Fuel Prices – The price of fuel is constantly fluctuating and since 2005 jet fuel prices have increased from $3.29 to $4.49 in 2007. (www.abacuspub.com) The rising cost in fuel have affected all airlines in general and many airlines have even resorted to the internet to search for low costing jet fuels.

Intense Competition- Currently travel has decreased and airlines are struggling to keep people traveling. Therefore all airlines are running current specials or low affordable prices which make competition tough.

Strict Laws and Regulations- There are laws and regulations for airline companies such for the aircraft, aviation and examiner/inspectors.

High User Taxes-Airlines and their customers pay special fees and taxes to a variety of authorities both domestic and international. Such as homeland security, environmental protection, disease control, infrastructure enhancement, airport and airway operations and maintenance and agency financing.

Inconsistent Currency Exchange-The currency exchange if you travel outside the US fluctuates every day. The strength of the dollar can fluctuates to make the dollar cost higher per (pound, euro, peso etc.) making travel expenses much higher than in the states.

Operation Hindering Weather-Weather is the greatest contribution to delays. The problem is traffic control may cut operation due to the weather conditions however the airlines have no control over their decisions. Weather may cause customers to become aggravated and airlines may have to compensate due to something that was out of their hands.

Consolidation of Airline Industries-Acquisitions or mergers of airlines are becoming more common. Fear of being devoured by larger companies haunts most new entrants in the airline industry

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External Opportunities

	Importance						Performance					
External Opportunities	**J**	**E**	**D**	**MC**	**MK**	**Average**	**J**	**E**	**D**	**MC**	**MK**	**Average**
Possible Destinations	9	9	6	9	9	**8.4**	2	9	3	1	1	**3.2**
Technology Improvements of the Industry	7	6	5	7	7	**6.4**	6	7	6	7	7	**6.6**
Deregulation of International Air Travel	7	6	7	7	7	**6.8**	5	5	6	8	9	**6.6**
Competitor Inefficiencies	5	7	7	7	7	**6.6**	6	7	10	7	6	**7.2**
Currency Exchanges	7	4	6	5	5	**5.4**	7	5	5	5	2	**4.8**
Laws and Regulations	3	3	3	3	3	**3**	5	3	5	5	2	**4**

Possible Destinations-By expanding the routes that JetBlue currently takes will open a variety of options for consumers. JetBlue can appeal to wider markets.

Technology Improvements of the Industries-Technology changes every year and improvements are constantly being made, so when you enter a technology driven environment you have the opportunity to make wiser decisions when it comes to the products you use for the service. By choosing high quality technology will offer the ability to lower the long term expenses.

Deregulation of International Air Travel-International travel by not long ago was only an option for high class society and was never ioen for the middle class. Now that countries "are closer than ever" international travel is an option for almost anyone, which creates a totally new market for entering.

Competitor Inefficiencies-If the weather is bad where a connecting flight for another company is flying to yet Jetblue has a direct flight to the same destination you have the opportunity to gain customers you originally didn't have before.

Currency Exchanges-Just like in threats currency exchange all depends on the strength of the dollar however we can us this to our advantage by outsourcing from international companies which will actually cost us less depending on the currency exchange.

Laws and Regulations- There are laws and regulations for airline companies such for the aircraft, aviation and examiner/inspectors. However all regulations and laws must be abided by all the airlines therefore creates opportunity if we educate the employees.

Internal Weaknesses

	Importance						Performance					
Internal Weaknesses	**J**	**E**	**D**	**MC**	**MK**	**Average**	**J**	**E**	**D**	**MC**	**MK**	**Average**
Newer Company	7	8	5	8	7	**7**	10	7	5	8	7	**7.4**
Concentration on Middle Class	6	7	6	8	8	**7**	5	8	7	9	10	**7.8**
Change in Leadership Structure	8	9	6	6	6	**7**	10	8	6	8	6	**7.6**
Shift in Customer's Needs	10	9	7	8	7	**8.2**	1	1	1	1	1	**1**
Slow Turn Around	6	7	8	8	8	**7.4**	10	6	7	7	8	**7.6**
High Debt	4	8	8	9	8	**7.4**	1	7	10	7	2	**5.4**

Newer Company-Jetblue is a young company therefore figuring out what works and what doesn't is still a learning experience. This is a weakness because where you are learning large companies have already perfected and they are moving onto problems that newer companies don't even know of yet.

Concentration on Middle Class-By concentrating on the middle class JetBlue is catering to a small declining market. By sticking to one certain class it doesn't bring in a variety of customers.

Change in Leadership Structure- Changes in leadership structure is nothing new in corporate America however when a change happens in a young company the company focuses on the change which can take away from a company's integrity.

Shift in Customer's Needs-Currently the market "should" be focusing on the baby boomers which make up most of the middle class however in the next 5 years the generations that will utilize the airline industry will be a younger generation. This creates a new problem for a young company that focuses all the marketing on the middle class.

Slow Turn Around- Currently JetBlue's turnaround time is low and they spend only 11 hours in the air per aircraft. By priding the airline on inexpensive comfortable flights means that turn around should be short spending more time in the air then on land.

High Debt- JetBlue's debt in 2006 1.809 billion dollars which creates a problem when offering low cost luxury flights.

Internal Strengths

	Importance						Performance					
Internal Strengths	**J**	**E**	**D**	**MC**	**MK**	**Average**	**J**	**E**	**D**	**MC**	**MK**	**Average**
Low Operating Costs	9	10	7	9	9	**8.8**	10	10	6	7	6	**7.8**
Strong Brand	10	9	7	9	9	**8.8**	10	9	7	9	8	**8.6**
Efficient Employees	8	8	5	8	8	**7.4**	7	7	5	8	8	**7**
Consumer Satisfaction	8	10	8	10	9	**9**	10	10	10	7	4	**8.2**
Effective Use of Technology	7	8	6	7	7	**7**	7	8	7	7	7	**7.2**
Marketing and Distribution Strategies	9	4	7	8	8	**7.2**	10	4	6	8	9	**7.4**
High Aircraft Utilization	8	7	6	8	8	**7.4**	9	8	6	8	9	**8**

Low Operating Costs-By having low operating costs provides an advantage in an industry which allows JetBlue to reach a higher level of operational excellence. By monitoring operation cost closely allows for improvements where operation and maintenance cost fluctuate.

Strong Brand- By creating a strong brand creates recognition, loyalty, strong image of quality, size, experience and reliability. Having a strong brand means a consumer is much more likely to remember the business.

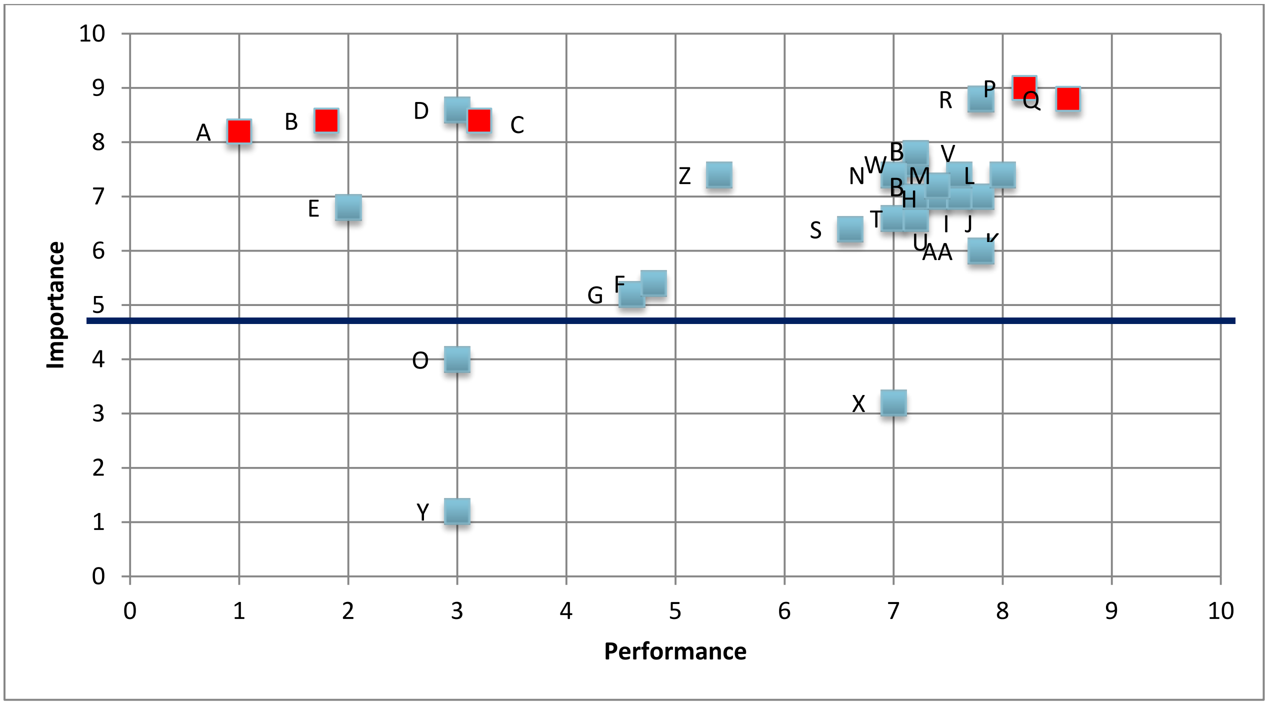
Efficient Employees- Giving employees incentives to do their best everyday creates a cohesive and efficient employee working environment. Because JetBlue has such efficient employees give the company a better image and corporate a peace of mind. When hiring employees a company wants the employees to be the best because they are the face of the companies they are the ones the customers see and interact with on a daily basis.

Consumer Satisfaction- Without customers you do not have a company. This is the most importance aspects of a company. Customer satisfaction is the key component between thriving or failing in a business. Because customers have a large variety of options customers are becoming more demanding and less tolerant.

Effective Use of Technology- In 2005 JetBlue was rate #10 in Top Performing Airline in Aviation week & Space Technology magazine. In an airline company performance and technology go hand and hand.

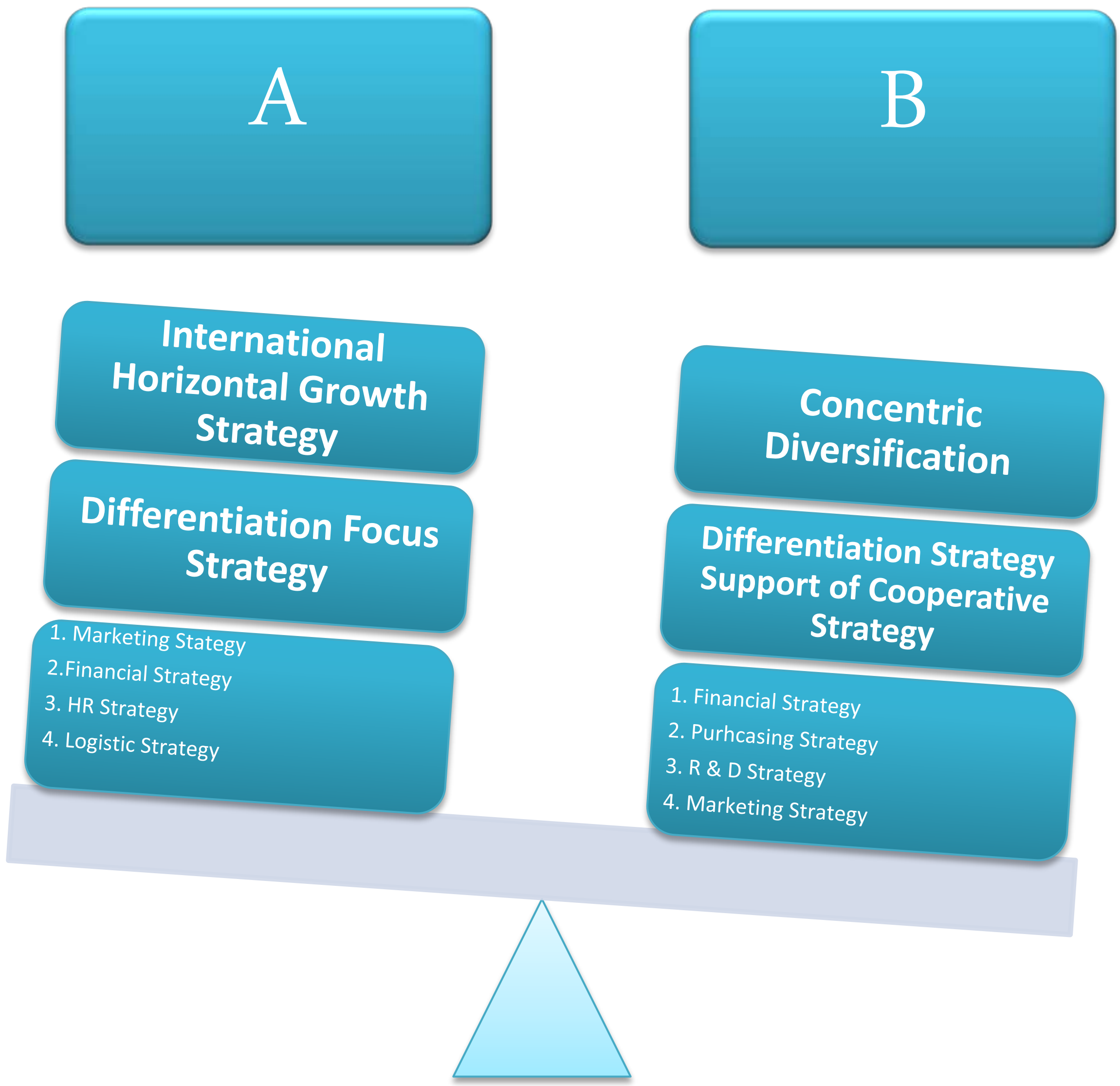
Marketing and Distribution Strategies- The strategies that JetBlue decided to take after the 2001 attacks were humbly. “We know you need time to heal but when you are ready JetBlue is here.” They also created a JetBlue loyalty program rewarding their regular travelers on top or the customer’s flyer miles to give a little extra above and beyond the customer’s expectation.

TOWS Matrix



External Threats		External Opportunities		Internal Weaknesses		Internal Strengths	
Accidents/Terrorist Attacks	**AA**	Possible Destinations	**B**	Newer Company	**I**	Low operating cost	**R**
Inconvenient TSA Procedures	**BB**	Technology Improvements of the Industry	**S**	Concentration on Middle Class	**J**	Strong Brand	**Q**
Increase in Fuel Prices	**D**	Deregulation of International Air Travel	**E**	Change in Leadership Structure	**K**	Efficient employee	**L**
Intense Competition	**Z**	Competition Inefficiencies	**U**	Shift in Customer's Needs	**A**	Consumer satisfaction	**P**
Strict Laws and Regulations	**Y**	Currency Exchanges	**F**	Slow Turn Around	**W**	Effective Use of Technology	**H**
High User taxes	**G**	Laws and Regulations	**O**	High Debt	**N**	Marketing and Distribution Strategies	**V**
Inconsistent Currency Exchange	**X**					High aircraft Utilization	**M**
Operation Hindering Weather	**C**						
Consolidation of Airline Industries	**T**						

Strategies


A
B
International Horizontal Growth Strategy
Differentiation Focus Strategy
1. Marketing Stategy
2.Financial Strategy
3. HR Strategy
4. Logistic Strategy
Concentric Diversification
Differentiation Strategy Support of Cooperative Strategy
1. Financial Strategy
2. Purhcasing Strategy
3. R & D Strategy
4. Marketing Strategy

Strategy A – International Horizontal Growth

Corporate Strategies

The benefit of JetBlue's growth expanding toward a Horizontal Growth strategy would give ample opportunities, while also having a wide variety of options when choosing types of action plans. The Horizontal strategy that we are focusing on is the acquisition of International gates in at least 25 major International airports in the next 5 years. As well as out-sourcing our maintenance with GE Aviation. The plan is to acquire external acquisitions of smaller gates within the airports. By acquiring smaller firms and gates allows us to move into an International area rather quickly. When choosing the firms that we will acquire we look at a company that has strong complimentary service and a good distribution line. However due to many country restrictions of acquisitions we will research many of the regulations regarding mergers and purchasing of smaller companies.

Business Strategies

Because we are focusing our growth on luxury middle class international travel we have decided differentiation focus would be the best strategy. Focusing on a particular market, i.e. middle and lower class, which can enjoy luxury international travel at affordable prices, allows us to target more effectively than the competition. The weakness in these two strategies is entering in a highly competitive market. Even though we are an established domestic flight services doesn't guarantee that we will make a successful international company. As well as, focus limits the broad market to a much targeted market which we may lose out on other opportunities.

Functional Strategies

Marketing Strategy – We will use the marketing strategy in order to determine whether there is a market for luxury middle class international travel. We plan on using surveys for our domestic travelers as well as find out what are intended market looks for in an international flight. We will also look at the competition and compare the price to a flight that has upper and lower class cabins to our intended flight of all middle class seats.

Financial Strategy – In order to acquire the smaller firms or gates we plan on using two types of strategies for funding. First being though loans on our assets (i.e Planes) and second being international investors interested in having luxury flights at affordable prices.

HR Strategy – Our employees are the most important part of the company. They are the face of JetBlue; the ones that customer interacts with on a daily basis. When going through the hire process we want to make sure we are hiring qualified and educated people for each position. We also require that the people being hired be happy, friendly and works well under extreme pressure. We say “extreme pressure” because the moods of people travelling are a constant fluctuation which can range from happy, to angry, to sad and can take a toll on an emotional employee.

Logistic Strategy – International travel brings new regulations, restrictions and requirements therefore we need to calculate the flow of the flight services into and out of the out-sourced maintenance and manufacturing company, GE Aviation.

Strategy B- Concentric Diversification

Corporate Strategies

Since its inception in 1999, JetBlue has been positioned as a fun and colorful airline because of the expanded customer services that are not as available with other airline companies. Our idea is to increase the amount of services that are at our customers' disposal. We have decided to implement concentric diversification that is supported by cooperative strategies. With the civilian aviation market still recuperating from its most turbulent time in history, the use of cooperative strategies will aid JetBlue in both obtaining and maintaining a competitive advantage in the market. We are not suggesting any form of collusion with competitor airlines, but instead we are looking to create strategic alliances with firms in separate markets that are looking to achieve more consumer exposure to their products and service which relate to what we at JetBlue offer our consumers. Alliances within businesses are very common in today's business dealings and have proven to increase the businesses values. The question then is what strategic alliances should JetBlue make?

Business Strategies

Advancements in consumer technologies have enabled people with many fun new gadgets they can purchase. The newest technology that has been made available to consumers is the Kindle developed by Amazon. The Kindle is an electronic-book reader which uses wireless technology to allow its users to browse and purchase magazines, newspapers, e-books, and other digital media. The Kindle is an ideal technology for JetBlue to pursue as it currently has little physical exposure to its consumers and its service relates to the needs of a JetBlue customer. Another strategic alliance we suggest to make is in regards to hotel and taxi services. Since air travel is directly related to hotel and taxi use, there is a possible alliance that can be made to provide mutual gains. The Marriott hotel company has many locations nationwide which is a favorable attribute for JetBlue. We require that the Marriott offer a lower rate both daily and hourly to JetBlue customers in exchange for promotion exclusivity on our planes. While these additions will only affect the short term returns for JetBlue, the ultimate goal is to gain the funds necessary for expanding our destinations available to customers. The cities we are looking forward to having gate representation in are Phoenix, Denver, Atlanta, Dallas/Fort Worth and Columbus.

Functional Strategies

Financial Strategy - Figuring out how JetBlue can afford to add these services to what it currently offers is a delicate subject. However, JetBlue is in effect offering a service back to Amazon and Marriott by exposing customers to their products and services. Because of this, the prices to implement these services are perceived to be very low. With the Kindle, a percentage of the charge for use of the product during flight will go directly to Amazon to help pay any costs for having the Kindles on board.

Purchasing Strategy – The kindle is the only e-reader that JetBlue is looking to utilize in this plan. Therefore, we would be sole sourcing with Amazon and not including other companies. This should decrease our transaction costs and improve the supplier quality. This could lead to a long relationship and partnership.

HR strategy – While the human resources for the Kindle will be maintained by its developer Amazon, we at JetBlue need to stay updated and informed on any findings regarding the Kindle.

It is important that all features and faults of the product are explained and understood so that we at JetBlue understand what we are offering to our customers.

Marketing Strategy – The pricing decisions that need to be made for both the use of the Kindle during flights and the hotel/taxi exclusivities will be contingent upon the results of consumer surveys. After interpreting the results from the surveys we can then asses a proper price for the services. We must create a push strategy for the hotel service, and a pull strategy for the Kindle. Finally JetBlue can keep up with how our customers feel about the services we offer through customer satisfaction surveys.

Implementation

We are choosing to go with Strategy B; to establish partnerships with other companies such as Amazon and Marriott to eventually expand our domestic routes to other major cities. This horizontal growth strategy will ensure that JetBlue meets or exceeds its competition by having a more diverse set of routes to offer its customers and upgrades that other airlines can't afford to offer. JetBlue will utilize its effective cost strategy it has used in previous years and apply it to this new project.

The main goals for JetBlue at this point are:

1. Keep the stockholders happy, and
2. Remain a Low Cost Carrier; which is to provide its customers the lowest possible airfare. If JetBlue went International at this point in time, we believe the expansion will have a great deal of cost that will require JetBlue to raise its ticket prices not just internationally, but

also domestically. This is why Strategy B fits the most with JetBlue's current goals and expectations of stockholders.

First, JetBlue will expand routes to additional popular destinations. Currently in 2007, JetBlue has routes to the following locations:

- Boston, MA
- Buffalo, NY
- Charlotte, NC
- LA/Long Beach, CA
- Fort Lauderdale, FL
- Newark, NJ
- Newburgh, NY
- New York/JFK
- New York/LaGuardia
- Oakland, CA
- Ponce, Puerto Rico
- Raleigh-Durham, NC
- Richmond, VA
- Syracuse, NY
- Washington, DC/Dulles
- White Plains, NY

The first important step to implement new routes would be to research costs associated with each popular airport destination JetBlue would like to fly to. We believe JetBlue should look into the most popular vacation and cost effective routes. Currently, JetBlue offers nonstop flights to 16 destinations. An additional 5 locations would be sufficient to gain needed revenues and to remain competitive. A second step would be to look away from the most popular routes, and look into airports that most other airlines don't offer their services to. This will be measured by researching other airlines' ticket sales and costs associated with desired destinations. Once this project has been implemented, a change JetBlue's ticket sales will also be measured. We chose the new locations to be Phoenix, Denver, Columbus, Atlanta, and Dallas.

JetBlue also wants to upgrade its travel experience to offering the use of Kindles; which are being first introduced late this year. A partnership with Amazon will be established, and Amazon will donate 1,000 Kindles to the airline. A large incentive to Amazon to donate the Kindles is to purely gain exposure on its newly developed product. After a customer has tried out the new product that he or she couldn’t have been able to before, they may go out and buy this product in their normal daily lives. This partnership will also offer JetBlue the opportunity to give its customers a new luxury that isn’t being offered on any other airline. JetBlue will have to update its website to allow customers to register to use a Kindle during their flight when they purchase their boarding ticket. During this process, the customer’s credit card will be used to register, and if the Kindle is lost or damaged the customer will be held liable. JetBlue will also receive 20% of the purchase revenues made from customers buying magazines, books, and games on the Kindle. Flight attendants and other employees will also have to be trained on the new procedures that will take place in the implementation process. JetBlue will measure the amount of Kindles that are actually used during flights, which routes the Kindles are mostly used on, revenues received, customer satisfaction ratings from surveys, and Amazons increase in sales of Kindles.

JetBlue is also going to develop a partnership with Marriott. Marriott will offer JetBlue customers a 15% discount on their hotel stay, and in return JetBlue will offer the Marriott free limited advertising in airport areas and on the website. One of JetBlue’s main priorities is to offer its customers direct flights. Having this in mind, a hotel stay will not necessarily be an important factor, unless the customer chooses that hotel during their vacationing stay. Since this was realized, we don’t expect to change operations to accommodate this partnership. JetBlue will measure the amount of customers that actually seek to use the discount, how much revenue is made from this partnership, and customer satisfaction ratings from surveys.

In order to have a successful partnership it's always important to have some similar traits. We found that Marriott and Amazon would be good to establish partnerships with because they also share similar values and vision like JetBlue does. Not only are these companies' main goals to offer low-cost services, but most importantly what makes the company who they are would be their employees; they are what makes the company culture. Marriott believes that their associates are one of their greatest assets just like JetBlue believes their crewmembers are. In fact, it is one of two things that have contributed greatly to JetBlue's success. All the crewmembers that work for JetBlue are caring, fun, and passionate. They care about safety and integrity; based on those key values is what makes up the culture of JetBlue. Amazon is also big on putting their customers first. One of Amazon's core values about customer obsession states that they start with the customer and work backward. They also state that if you don't listen to your customers, you will fail. But if you only listen to your customers you will also fail. Although we should always put the customer first, there are also other things that have to be taken into consideration before making any abrupt decisions.

Another one of Amazon's core values is about frugality. They believe in spending their money on things that really matter. They also stated that they believe frugality develops resourcefulness because being able to deal with difficult situations is important, especially if it's a threat to the company. That's why as stated in the beginning it's always important to share similar traits when deciding to establish a partnership. You will need to be able to communicate effectively with your partner to make decisions, set goals, and drive the business forward which is what brings success in a partnership and also do whatever it takes to provide the employees with the greatest opportunities and the customers with superior service like Marriott's culture states.

Assumptions & Evaluations

Expected Results

At the end of 2006, JetBlue was operating with a net loss of one million dollars. In looking at the percentage of change that occurred for JetBlue over the three prior years to 2007, the average change in percentage was determined to predict our assumptions for years 2007-2011 in Figure 1 below, resulting in a net loss on average. Total operating expenses required about 96 percent of revenue generated on a given year during the time period of 2004 to 2006. Of the total operating expenses, aircraft fuel contributed the most to high operating expenses at 29 percent with the rise in fuel costs, closely followed by salaries, wages, and benefits at 25 percent.

Figure 1: Rough Average in Change of Percentage, 2004 – 20

JetBlue Airways Inc.	2007-2011
Assumptions Without Projects	**Millions**
Change in Revenues	**29%**
Operating Expenses	
Salaries, wages, and benefits	25%
Aircraft fuel	29%
Landing fees and other rents	6%
Depreciation and amortization	7%
Aircraft rent	5%
Sales and marketing	5%
Maintenance materials and repairs	4%
Other operating expenses	15%
Total operating expenses	**96%**
Operating income	4%
Government compensation	0%
Other income (expense)	-5%
Income (loss) before income taxes	0%
Income tax expense (benefit)	0%
Net income (loss)	**-1%**

**JetBlue Case Analysis (17)

If Strategy B, in which JetBlue will partner with Amazon and the Marriot and work to expand flights domestically is not implemented, the following results were forecasted, which would result in an increase in loss over the next five years, 2007 through 2011, as seen in Figure 2 below.

Figure 2: Annual Forecast if Projects are Not Implemented, 2007 – 2011, Based on Figure 1

	Forecast Period					
JetBlue Airways Inc.	**12/31/11**	**12/31/10**	**12/31/09**	**12/31/08**	**5/31/07**	**5/31/06**
5 Year without Projects	**Millions**	**Millions**	**Millions**	**Millions**	**Millions**	**Millions**
Operating Revenues	**$ 8,441**	**$ 6,544**	**$ 5,073**	**$ 3,932**	**$ 3,048**	**$ 2,363**
Operating Expenses						
Salaries, wages, and benefits	$ 2,026	$ 1,570	$ 1,217	$ 944	$ 732	$ 553
Aircraft fuel	$ 2,350	$ 1,822	$ 1,412	$ 1,095	$ 849	$ 752
Landing fees and other rents	$ 486	$ 377	$ 292	$ 226	$ 176	$ 158
Depreciation and amortization	$ 567	$ 440	$ 341	$ 264	$ 205	$ 151
Aircraft rent	$ 405	$ 314	$ 243	$ 189	$ 146	$ 103
Sales and marketing	$ 405	$ 314	$ 243	$ 189	$ 146	$ 104
Maintenance materials and repairs	$ 324	$ 251	$ 195	$ 151	$ 117	$ 87
Other operating expenses	$ 1,216	$ 942	$ 730	$ 566	$ 439	$ 328
Total operating expenses	**$ 8,104**	**$ 6,282**	**$ 4,870**	**$ 3,775**	**$ 2,926**	**$ 2,236**
Operating income	$ 338	$ 262	$ 203	$ 157	$ 122	$ 127
Government compensation	$ -	$ -	$ -	$ -	$ -	$ -
Other income (expense)	$ (422)	$ (327)	$ (254)	$ (197)	$ (152)	$ (118)
Income (loss) before income taxes	$ (84)	$ (65)	$ (51)	$ (39)	$ (30)	$ 9
Income tax expense (benefit)	$ -	$ -	$ -	$ -	$ -	$ 10
Net income (loss)	**$ (84)**	**$ (65)**	**$ (51)**	**$ (39)**	**$ (30)**	**$ (1)**

These results were forecasted using the average change in percentages from 2004 to 2006 in Figure 1 above. The increase in net loss would start with the net loss of one million in 2006, and due to the increase in operating expenses, the result would still be a net loss, even though operating revenues have also increased. This is due to the fact that operating expense are growing at a much faster rate than revenues are increasing, if a new action plan is not implemented to contribute to and create new revenues for JetBlue in order to cover the cost of rising operating expenses.

With the implementation of Strategy B, the projects will increase revenue and with the expansion of flight routes domestically, more revenue will be generated. Even though operating costs are also increasing due to the implementation of the projects and route expansions, revenue is forecasted to grow at a faster rate than if the projects and expansions did not take place, which will cover the increasing operating costs and ultimately result in net income over the next five years in which the projects and route expansions take place. The estimated average change in percentage from year to year can be seen in Figure 3 below from 2007 to 2011.

Figure 3: Estimated Average Change in Percentage, 2007 – 2011 if Strategy B is Implemented

JetBlue Airways Inc.	**12/31/11**	**12/31/10**	**12/31/09**	**12/31/08**	**12/31/07**
Assumptions of Projects	**Millions**	**Millions**	**Millions**	**Millions**	**Millions**
Change in Revenues	**44%**	**38%**	**33%**	**30%**	**29%**
Operating Expenses					
Salaries, wages, and benefits	27%	27%	27%	26%	25%
Aircraft fuel	33%	34%	33%	31%	29%
Landing fees and other rents	6%	6%	6%	6%	6%
Depreciation and amortization	8%	8%	7%	7%	7%
Aircraft rent	6%	6%	6%	5%	5%
Sales and marketing	8%	7%	7%	7%	5%
Maintenance materials and repairs	2%	1%	2%	3%	4%
Other operating expenses	10%	10%	11%	13%	15%
Total operating expenses	**100%**	**99%**	**99%**	**98%**	**96%**
Operating income	0%	1%	1%	2%	4%
Government compensation	0%	0%	0%	0%	0%
Other income (expense)	4%	3%	0%	-2%	-4%
Income (loss) before income taxes	4%	4%	1%	0%	2%
Income tax expense (benefit)	1%	1%	0.3%	0%	1%
Net income (loss)	**3%**	**3%**	**0.7%**	**0%**	**-1%**

As the years progress, we expect JetBlue’s revenue to increase due to the implementation of the following projects in the following years:

Year	Action Plan
2007	Developing Relationships with Potential Partners
2008	Partnership with Marriot Partnership with Amazon
2009	Expand Routes to Phoenix, Arizona and Denver, Colorado
2010	Expand Routes to Columbus, Ohio and Atlanta, Georgia
2011	Expand Routes to Dallas, Texas

Using the estimated average change in percentage in Figure 3, the forecast for the next five years, 2007 to 2011, is forecasted below in Figure 4, with an increase in operating revenues and resulting with a net income in the years that the action plans above take place.

In 2007, JetBlue will be developing relationships with potential partners and making decisions as to who they would like to partner with in order to expand services offered to JetBlue customers. As a result, JetBlue is forecasted to have a net loss of 30 million dollars due to the fact that no action has been taken to contribute to generating more revenues, as shown in Figure 4 below.

Partnerships with the Marriot and Amazon for a percentage of the proceeds they receive from JetBlue customers will help increase revenues in 2008 to $3,963,000,000. Sales and marketing expenses will also increase in 2008 due to the limited marketing that JetBlue will provide for the Marriot and Amazon in exchange for their services and products, respectively, which will increase sales and marketing by two percent. As a result, 2008 is forecasted to net zero, in which revenues will just be enough to cover expenses.

With the expansion of routes to Phoenix, Arizona and Denver, Colorado in 2009, revenues are expected to rise to about $5,270,000,000. In expanding JetBlue's routes to these additional two destinations, unprofitable routes will be shifted to these two routes, therefore, the estimated percentage of change in aircraft rent will slightly increase to six percent from five percent, with a net income of 37 million in 2009.

Figure 4: Annual Forecast if Strategy B is Implemented, 2007 - 2011

	Forecast Period					
JetBlue Airways Inc.	**12/31/11**	**12/31/10**	**12/31/09**	**12/31/08**	**5/31/07**	**5/31/06**
5 Year with Projects	**Millions**	**Millions**	**Millions**	**Millions**	**Millions**	**Millions**
Operating Revenues	**$ 10,473**	**$ 7,273**	**$ 5,270**	**$ 3,963**	**$ 3,048**	**$ 2,363**
Operating Expenses						
Salaries, wages, and benefits	$ 2,828	$ 1,944	$ 1,409	$ 1,010	$ 732	$ 553
Aircraft fuel	$ 3,456	$ 2,448	$ 1,722	$ 1,204	$ 849	$ 752
Landing fees and other rents	$ 628	$ 432	$ 313	$ 233	$ 176	$ 158
Depreciation and amortization	$ 838	$ 576	$ 365	$ 272	$ 205	$ 151
Aircraft rent	$ 628	$ 432	$ 313	$ 194	$ 146	$ 103
Sales and marketing	$ 838	$ 504	$ 365	$ 272	$ 146	$ 104
Maintenance materials and repairs	$ 209	$ 72	$ 104	$ 117	$ 117	$ 87
Other operating expenses	$ 1,047	$ 720	$ 574	$ 505	$ 439	$ 328
Total operating expenses	**$ 10,473**	**$ 7,201**	**$ 5,218**	**$ 3,883**	**$ 2,926**	**$ 2,236**
Operating income	$ -	$ 73	$ 53	$ 79	$ 122	$ 127
Government compensation	$ -	$ -	$ -	$ -	$ -	$ -
Other income (expense)	$ 419	$ 218	$ -	$ (79)	$ (122)	$ (118)
Income (loss) before income taxes	$ 419	$ 291	$ 53	$ -	$ -	$ 9
Income tax expense (benefit)	$ 105	$ 73	$ 16	$ -	$ 30	$ 10
Net income (loss)	**$ 314**	**$ 218**	**$ 37**	**$ -**	**$ (30)**	**$ (1)**

Domestic routes will also increase in 2010, with two additional destinations going to Columbus, Ohio and Atlanta, Georgia. At this point, revenues are expected to increase by five percent due to the fact that partnerships with the Marriot and Amazon have been established for two years, therefore, JetBlue customers are aware and utilizing these exclusive services provided to them. The expansion of flights to four new destinations are expected to be profitable because these are new routes in which JetBlue has not ventured into before and include two major

airports across the country—Denver and Atlanta. In 2009, JetBlue is forecasted to end the year with a net income of 218 million dollars.

An expansion route to Dallas, Texas will be implemented in 2011, totaling five new destinations that JetBlue will be providing air transportation to, over the course of three years. With the establishment of new partnerships with Marriot and Amazon, along with the new destination flights to Phoenix, Denver, Atlanta, Columbus, and Dallas, revenues in 2011 are expected to reach a high of $10,473,000,000—a six percent change from 2010. By decreasing flights going to unprofitable destinations and shifting them to these new routes, operating expenses do not drastically change, therefore, increase at a slower rate than operating revenues, which results in a net income of 314 million dollars in 2011.

Case Update

In 2010 JetBlue made it a point to enhance the services offered to their customers to improve the “JetBlue Experience”. In this way 2010 was a building year for the company as many groundbreaking accomplishments and expansions were made. JetBlue wanted to tweak their business model in order to meet the demands of the marketplace and to also find new avenues to attract potential new revenue. The idea was that changing the approach previously used in capital spending, and instead investing in high-value options that should aid JetBlue in the long-term. Some of these investments include the tools that power the business through customer experiences, building a low cost culture and growing the network offerings through expanding destinations and travel related services (hotels, car rentals, cruises, etc.).

A significant transition the JetBlue took part in was using a new customer service system known as Sabre. To help the transition be as seamless as possible, JetBlue made the necessary investments in a back-up call center and reducing flight loads and schedules and found there to be very little disruption in the process. Since Sabre has been introduced it has generated immediate results in a variety of forms including: revenue enhancing opportunities, variable pricing for different products, website functionality, and an improved revenue management system.

JetBlue has continued its “Culture is Service” stance to maintain its leadership position in customer service. In doing so they were awarded their sixth consecutive J.D. Power and Associated award. Another improvement to the services we offer is better connectivity at altitude through ViaSat, a leader in satellite technologies.

JetBlue also focused investments towards building their operations in Boston, the Caribbean, and New York. The Caribbean destinations were found to only have relatively low costs for JetBlue making them it an attractive destination with the expectations to expand in the near future (services were added to Punta Cana in May of 2010). Other significant outcomes include: a secured lease to Terminal 6 at JFK, a terminal in Long Beach, CA, and combined operations in Orlando for improved international connections.

The goals the JetBlue wants to achieve in the near future include improving their revenue performance and enhancing product offerings for business travelers through revamped True Blue programs.

2010 10K Exhibit

	As of December 31, (in millions)				
	2010	2009	2008	2007	2006
Balance Sheet Data:					
Cash and cash equivalents	$ 465	$ 896	$ 561	$ 190	$ 10
Investment securities	628	246	244	611	689
Total assets	6593	6549	6018	5592	4839
Total debt	3033	3304	3144	3022	2804
Common stockholders' equity	1654	1546	1270	1050	972

	Year End December 31, (in millions)				
	2010	2009	2008	2007	2006
Operating Statistics (unaudited):					
Revenue passengers (thousands)	24254	22450	21920	21387	18565
Revenue passenger miles (millions)	28279	25955	26071	25737	23320
Available seat miles (ASMs)(millions)	34744	32558	32442	31904	28594
Load factor	81.4%	79.7%	80.4%	80.7%	81.6%
Aircraft utilization (hours per day)	11.6	11.5	12.1	12.8	12.7
Average fare	$ 140.69	$130.67	$ 139.56	$123.28	$119.75
Yield per passenger mile (cents)	12.07	11.30	11.73	10.24	9.53
Passenger revenue per ASM (cents)	9.82	9.01	9.43	8.26	7.77
Operating revenue per ASM (cents)	10.88	10.11	10.45	8.91	8.27
Operating expense per ASM (cents)	9.92	9.24	10.11	8.38	7.82
Operating expense per ASM(excluding fuel cents)	6.71	6.33	5.80	5.34	5.07
Airline operating expense per ASM (cents) (5)	9.71	8.99	9.87	8.27	7.76
Departures	225501	215526	205389	196594	159152
Average stage length (miles)	1100	1076	1120	1129	1186
Average number of operating aircraft during period	153.5	148.0	139.5	127.8	106.5
Average fuel cost per gallon including fuel taxes	$ 2.29	$ 2.08	$ 3.08	$ 2.18	$ 2.08
Fuel gallons consumed (millions)	486	455	453	444	377
Full time equivalent employees at period end (5)	11121	10704	9895	9909	9265

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