

FLYING HIGH

How JetBlue Founder and CEO David Nelleman Beats the Competition ...Even in the World's Most Turbulent Industry

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1. The Early Days

David Neeleman was born in October 1959 in Sao Paulo, Brazil where his father was on temporary assignment as the Latin America bureau chief for United Press International. David was five years old when his family returned to their home in Salt Lake City, Utah. By this stage, he actually spoke Portuguese better than English, and getting back into school was a challenge, heightened by the fact David had an inability to focus and a very short attention span.

By the age of nine, David was working part-time in his grandfather's convenience store. Here he learned the importance of keeping customers happy by providing them the best product possible. In fact, his grandfather was so dedicated to keeping the customer happy that if a customer asked for something he didn't stock, his grandfather would stall the customer with a doughnut and a cup of coffee while David would bolt out the back door to the local Safeway store to buy and then bring back the needed items. His grandfather instilled in David the concept that you should never, ever disappoint a customer.

In addition to having a short attention span, David Neeleman was also hyperactive. On graduating from High School in 1977, he decided to go to the University of Utah to study accounting. He also continued working part-time and took on the job as manager of the school's basketball team. This didn't last too long, however, because when he turned 19, David decided to serve for two years as a missionary for the Church of Jesus Christ of Latter-Day Saints or Mormon Church. He was assigned to go back to Brazil.

On returning from his mission, David Neeleman reenrolled at the University of Utah in 1980. During his sophomore year, someone in David's accounting class mentioned that her mother knew someone in Hawaii who was having trouble selling timeshares in a hotel which had been converted into condominiums. Neeleman called the condo owner, and offered to pay him \$125 for each week he couldn't rent them. The owner agreed, so Neeleman started advertising these units in a local newspaper. It turned out to be a great business because he was soon collecting \$500 a week for each condo he rented out. David also decided he might as well handle the travel as well, so he started his own travel agency to buy discount tickets to Hawaii.

By his junior year at college, Neeleman's travel agency had 20 employees and \$8 million in annual sales. Despite his parent's reservations, he decided to drop out of college to run his business full-time. Then, in late-1983, one of the airlines Neeleman was using, Hawaii Express, went out of business, taking with it all the money Neeleman had paid in advance to get cheaper seats. Despite the fact the travel agency was debt-free, the loss of the advance money was devastating and Neeleman's travel agency was made bankrupt. David Neeleman was now 24-years old.

When word got out about his travel agency's demise, Neeleman was approached by June Morris, the owner of Utah's largest travel agency. Morris Travel was at that time a \$50 million travel agency with 100 employees. She told David Neeleman he could come work for her agency putting together the same sort of vacation packages he had already mastered. It was a very open ended arrangement.

"I said, 'Now David, why don't we do this: You come to work – work as many hours as you want to, do whatever works out for

you – and then in a few weeks you tell me how much you're worth.' He was the perfect person at the time, and Morris Travel was the perfect springboard for his creativity. And it was great. So that's how we started."

– June Morris

With the reputation of Morris Travel behind him, David Neeleman decided to take up where he had left off – marketing vacation trips to Hawaii. None of the airlines flying out of Salt Lake City at that time offered much in the way of deals, so Neeleman and Rick Frenndt (June Morris's son and president of Morris Travel) flew to Hawaii to meet with a vice president at Hawaiian Airlines. While there, they noticed something interesting.

"Hawaiian Airlines had an old DC-8 sitting around one day a week, so we suggested they should fly it on Thursday night to Salt Lake, and Friday morning, back to Honolulu for us. The goal was to start the 204-seat flights in May and run them through the summer, until the peak travel season ended in September. But as difficult as finding seats in the first place had been, filling them would be a bigger challenge. David made the commitment that he would somehow put butts in all those seats. He always had an idea a minute."

– Rick Frenndt

Despite the fact their packages were a couple of hundred dollars cheaper than anything else on the market, they still struggled to sell them. They began offering the first 20 to 40 seats each week at an even lower price to generate interest. While others were charging \$800 for a round-trip ticket from Salt Lake City to Honolulu return, Morris Travel offered fares of \$399, with rooms at \$20 a night.

"Whatever it took, we'd fill the seats. Again, that's where David's creativity came in like you can't believe. David would be out in the malls recruiting people: 'Hey, you want to go to Hawaii? \$100? Day after tomorrow? We even had a guy, a grocery guru, and he'd buy groceries with coupons and trade them to us for seats, so then we'd have like a grocery store at the office. If it wasn't a 100-percent load factor, it was 99-percent all summer long, and we went through the fall and were able to fill that, too."

– Rick Frenndt

When Hawaiian Airlines decided to retire the DC-8 used for these weekly flights from scheduled service, they offered to base the plane in Salt Lake City and make it available for Morris Travel to arrange more charter flights. Neeleman, Frenndt and Morris loved the idea, and wasted no time in setting up three-times-a-week charter flights between Salt Lake City and Los Angeles. At that time, Western Airlines was charging \$200 one way for this journey, so when Morris Travel started selling tickets for \$59 (plus tax), the phones went crazy. To handle the incoming calls, six agents were hired. They sat at card tables and hand wrote reservations on booking sheets for each flight.

"Morris Travel sold tickets for \$59, plus federal excise tax, a pricing ploy they later found was illegal. The law required that all taxes be included in the advertised fare so that the price consumers saw was all-inclusive. 'We didn't know that was illegal', Frenndt says, laughing as he looks back on what they thought was a clever marketing effort. 'We were a bunch of stupid kids'."

– James Wynbrandt

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