

Nothing blue about JetBlue

In a chronically troubled industry, JetBlue focuses on a culture of low costs, great service, and a certain fun factor.

By [Marc Gunther](#), contributor

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(Fortune Magazine) -- "Welcome aboard," says the CEO of JetBlue Airways. "I'm Dave. It's a first-name-basis airline. My door is open." It's a steamy Florida morning, and Dave Barger, a 51-year-old airline-industry lifer, is addressing a new class of about 160 students at JetBlue University, the airline's training center next to Orlando's airport.

In a few days, after a brief history of the airline (it was originally going to be called Taxi), a thorough immersion in its core values (safety, integrity, caring, passion, and fun), a sobering analysis of industry economics (including the meaning of VFR, CASM, and BELF), and mundane sessions on uniforms and employee benefits, these new crew members will go to work as ticket takers, baggage handlers, and ground crew at some of the 56 airports served by JetBlue ([JBLU](#)).

The scene tells you a few noteworthy things about JetBlue. The first is that the airline is growing, even in these rough times. While revenues are down slightly (\$1.4 billion in 2009's first half), this year JetBlue will add nine new planes, expand into eight new cities, and hire about 2,300 new people.

At this rate the company, which ranked No. 629 on the Fortune 1,000 list last year, is a good bet to join the 500 before long. Its rivals, by contrast, are retiring aircraft, slashing capacity, and laying off thousands.

Most surprising: JetBlue is modestly profitable, earning \$14 million during the second quarter, a period when its major competitors -- including Delta ([DAL](#), [Fortune 500](#)), American ([AMR](#), [Fortune 500](#)), United ([UAUA](#), [Fortune 500](#)), Continental ([CAL](#), [Fortune 500](#)), and US Airways ([LCC](#), [Fortune 500](#)) -- collectively reported losses of about \$1 billion.

Finally, Barger's desire to lead these pep rallies for newcomers -- he has been to about 250 in the past decade -- indicates that the culture matters at JetBlue. While the airline is known for the amenities in its cabin and a brand-new \$875 million terminal at New York's J.F.K. airport, this approachable CEO says the airline's friendly relationship with its crew members is what sets it apart.

"The hard product -- airplanes, leather seats, satellite TVs, bricks and mortar -- as long as you have a checkbook, they can be replicated," Barger tells the new hires. "It's the culture that can't be replicated. It's how we treat each other. Do we trust each other? Can we push back on each other? The human side of the equation is the most important part of what we're doing."

The airline must be doing something right. Despite a near-catastrophic collapse of its system after a 2007 snowstorm, which forced the cancellation of 1,000 flights and led to the ouster of founding CEO David Neeleman, JetBlue has topped all airlines in J.D. Power's annual customer-service survey for five years in a row.

The airline boosted its buzz factor in August, when it sold \$599 All-You-Can-Jet passes that allow unlimited travel between Sept. 8 and Oct. 8, typically a slow period. The carrier sold thousands -- it won't be more specific than that -- which will help JetBlue reach its BELF, or breakeven load factor.

"What's really significant," says Barger, "is the word of mouth, the advertising, the new social media." Internet traffic to the company's route-map page jumped 700% when the deal was announced.

JetBlue has 1.1 million followers on Twitter, more than any company except Whole Foods ([WFMI](#), [Fortune 500](#)) and Zappos. Barger would love more of them to sample JetBlue.

JetBlue's culture

It's not the usual airline experience. Waiting to fly to Orlando with the CEO, I stop to eat in T-5, the JetBlue terminal at J.F.K. that opened last fall.

So what's on the menu? Tapas from Piquillo, a Spanish place; lobster tempura from Deep Blue, an Asian-themed seafood restaurant; and Kobe sliders from Five Steak, a high-end steakhouse. Yum.

Rick Blatstein, CEO of OTG Management, which runs the restaurants for JetBlue, tells me that they sometimes sell \$1,000 bottles of wine. Budget travelers can opt for a sports bar with 48 brands of beer on tap or a food court that sells affordable, made-to-order organic fare.

T-5 is designed to be the physical embodiment of the JetBlue brand. (The company says its brand values are nice, smart, fresh, stylish, and witty.) T-5 has more security lanes than any other terminal in the U.S., free Wi-Fi, and an abundance of desktops and outlets for laptops. Best of all, it's quiet. Instead of irritating nonstop announcements, JetBlue pipes in music from XM Radio.

Unfortunately the airline can't do much about the chronic late-afternoon traffic jams at J.F.K. Barger and I board the Airbus A320, which then sits on the ground for close to an hour. He makes good use of the time, donning an orange vest to greet baggage handlers and then chatting up the pilot.

Some JetBlue pilots tried unsuccessfully to organize a union this year, and while they said they had no beef with the current management, Barger was unhappy. "We need to do better at nurturing individual relationships," he says. "How do you keep the company feeling small as it grows?"

The turbulent airline industry

One way is to avoid getting too big, too fast. "We had to calm it down," Barger says about the airline's growth. In response to the economic slump, capital outlays have been reduced,

including plans for a dorm and softball field at JetBlue University.

No one was laid off or furloughed, but crew members had their hours cut, and Barger volunteered to cut his base pay from \$500,000 to \$250,000 last year. "It was symbolic," he says. Altogether he made about \$875,000 in 2008, including salary, bonus, and stock grants.

Another reason for Barger's wariness is the turmoil in his industry, which never fully recovered from the catastrophe of 9/11. Fourteen U.S. airlines, most of them small, have gone bankrupt in the past two years. Domestic passenger revenue as a percentage of GDP has fallen sharply.

"The events of 9/11 marked a permanent decline in domestic airline demand," wrote analyst Gary Chase of Barclays Capital. Airport-security measures make flying a hassle. Vacationers shop online and demand low fares. Businesses are cutting travel budgets and investing in videoconferencing.

On the cost side, airlines have little control over the biggest item of all: jet fuel. "It's a much bigger portion of the cost structure for low-cost, highly efficient carriers than it is for high-cost, less-efficient carriers," explains Chase.

JetBlue's new hires get a short course in airline economics from Mike Barger, who plays several roles at the company. He was the first pilot to be hired, he's chief learning officer, and he's Dave's wisecracking kid brother. "How many of you have worked in the airline industry before?" About half raise their hands. He feigns shock. "What," he declares, incredulous, "are you doing here?"

Barger's flight roots

You can't say that Dave Barger didn't know what he was getting into at JetBlue. Barger has the business in his DNA. His father was a pilot for 37 years, and his mother was a flight attendant. Growing up in a Detroit suburb, he loved the Tigers and airplanes. "My mom would take me to the airport as a kid, and I would collect airline timetables," he says. "Why is it going from A to B? Where's the crew based? It was this fascinating puzzle."

He wanted to be a commercial pilot, but his eyesight wasn't good enough. So, just a few credits shy of graduating from the University of Michigan, he joined a startup called New York Air. "My friends were going to med school and law school," he says. "I started at \$5.50 an hour as a part-time agent and took a pay cut because the airline was having financial difficulties."

Barger rose through the ranks at New York Air and then Continental, moving all over before landing in Guam to oversee Asian operations. He resigned over philosophical differences with a colleague who was very tough on people. "I believe in collaboration as opposed to pummeling," he says.

He was rehired and named director of Continental's big Newark, N.J., hub; his New York region experience led the initial JetBlue investors to bring him on as the operations guy, one of eight original executives, after he turned down an offer from Delta. "You're always going to have an opportunity to execute somebody else's vision," Barger says. "It's not too

often that you can determine what the paint scheme is on an airplane."

JetBlue's strategy - then and now

Once JetBlue took off in 2000, it proved that an airline could deliver low fares, excellent service, and steady profits. In 2001-04, while the 10 biggest U.S. carriers lost a total of \$28.5 billion, JetBlue booked almost \$250 million in profit. JetBlue keeps its costs in check today in much the same way it did then -- by flying newer, more fuel-efficient planes and employing a younger workforce than other carriers.

Southwest Airlines ([LUV](#), [Fortune 500](#)) was the model: Both carriers fly point to point, offer one class of service, hire extroverts, and make funny commercials. (Check out [welcomebigwigs.com](#) to see JetBlue poke fun at CEOs and their private jets.)

But while JetBlue has been dubbed "the Southwest of the Northeast," it's different from its bigger low-fare rival: JetBlue flies internationally and offers reserved seating, DirecTV, and unlimited free snacks.

Until now JetBlue and Southwest have steered clear of each other. They are about to butt heads in Boston, a JetBlue stronghold, and Baltimore, Southwest's biggest market. Flexible fliers can find Boston-Baltimore tickets on JetBlue for \$39, which is \$20 less than Southwest's lowest fare. That could be because JetBlue's CASM -- that's cost per available seat mile, a key efficiency measure -- was 8.88 cents in the second quarter, while Southwest's was 9.76 cents.

For all his caution about growth, Barger is eager to ramp it up again when opportunities knock. After other airlines cut flights to the Caribbean, JetBlue jumped in to serve what has become the biggest part of its passenger base, a segment known as VFR, which stands for "visiting friends and relatives." Typically, they are immigrants traveling to and from the U.S.

"It's not recession-proof, but it's recession-resistant," Barger says. JetBlue has close to 30 flights daily to Puerto Rico. Montego Bay, Jamaica, which JetBlue began serving last spring, has become "our strongest launch ever," Barger says. On the horizon? Flights to Haiti, and maybe Cuba.

Coming soon is a closer alliance with Lufthansa, which bought a 19% stake in JetBlue in 2007. That will most likely enable JetBlue's frequent fliers to earn miles on domestic routes and use them on Lufthansa's international trips.

Barger also aims to win over more business travelers, particularly as they become more budget-conscious. "We've earned the right to grow the business again," he tells me, as we touch down in Orlando. "JetBlue is positioned very well, but you never take tomorrow for granted. Not in any business. And certainly not in this business."

That's why he's heading for the exit to shake the hand of every passenger leaving the plane and thank them all for flying JetBlue.

Reporter associate Scott Cendrowski contributed to this article.