

University of Phoenix Material

SCENARIO: CLASSIC AIRLINES

Company Overview

The world's fifth largest airline, Classic Airlines, commands a fleet of more than 375 jets that serve 240 cities with over 2,300 daily flights. In the 25 years since its inception, Classic has grown to an organization of 32,000 employees, and last year, it earned \$10 million on \$8.7 billion in sales.

Though profitable, Classic is no stranger to the challenges that plague today's airlines. Increased uncertainty about flying has affected industry stock prices, and Classic has seen a 10% decrease in share prices in the past year. With a concerned investment community on the watch, the airline industry operates under a microscope, subject to scrutiny from all sectors. Not surprisingly, the negativity from Wall Street, the media, and the public has affected employee morale, which is the lowest it has ever been.

Consumer confidence also appeared to be waning. By January 2005, Classic's declining Classic Rewards program measured a 19 percent decrease in the number of Classic Rewards members, and a 21 percent decrease in flights per remaining member. Loyal customers were jumping ship and the ones still aboard seemed to be flying less frequently -- or at least less frequently with Classic Airlines.

Rising costs, particularly of fuel and labor, have limited Classic's ability to compete for the valued frequent flier. Although the travel downturn that followed September 11, 2001 has subsided, Classic and many of its rivals overestimated the reversal and expanded too quickly. Now, these companies face a restrictive cost structure that younger airlines do not.

To counter any further financial crisis, Classic's Board of Directors recently mandated a 15 percent across-the-board cost reduction over the next 18 months. Within that mandate, Classic must still find a way to beef up its frequent flier program with methods that will demonstrate a measurable return on any investment (ROI). While the board is playing their cards close to the vest, the rumor mill is churning with word that if Classic cannot meet the reduction, the company faces bankruptcy.

Attachments:

A: Financial statements (past two years)

B: Chart of stock prices (past two years)

C: Cost reduction plan by department

Key Players

Amanda Miller, Chief Executive Officer (CEO): Amanda was hired as Senior Vice President of Operations in 2000 and groomed to take over as CEO following the retirement of former CEO Jack Broadway in 2002. Prior to that, Amanda was CEO of Jackson Energy, the leading utility provider to the Southeastern United States. A graduate of a leading business school with an Ivy League JD, Amanda had a private law practice before going corporate. Her pragmatic approach to operational excellence often leaves her little patience for "soft" business disciplines such as marketing.

Catherine Simpson, Chief Financial Officer (CFO): More than 20 years ago, Catherine graduated business school and immediately began work as Classic's financial analyst, ultimately working her way up to CFO. Catherine is "driven by numbers," and her practical philosophies

about business are frequently in line with Amanda's.

Kevin Boyle, Chief Marketing Officer (CMO): The new kid on the block, Kevin came aboard just six months ago as part of the restructuring of the global marketing organization. Kevin is an airline industry veteran who spent the early years of his career in operations, and the past 15 years marketing for one of Classic's competitors. Recognized as possibly the leading mind in airline marketing, Kevin has spent his first six months observing, listening, and speaking with Classic's employees, customers and shareholders. He believes that marketing is critical to the company's ability to move forward profitably.

Renee Epton, Senior Vice President of Customer Service: Four years after joining the company in 1989, Renee implemented a customer relationship management (CRM) program. Renee's background is in retail, where she spent 12 years in myriad management positions before coming to Classic. As the top management's view of customer service becomes more operations-based, Renee has frequently found herself battling for the customer.

Ben Sutcliffe, Senior Vice President and General Counsel: Ben has been with Classic for more than twenty years, following a 10-year stint as senior counsel for UK petroleum giant KP. A well-educated and seasoned professional, Ben has a long history of conservative outcomes in Classic's major legal decisions. Lately, he has been suggesting potential compromises with the union in order to pave the way for Classic's continued success.

Doug Sheflin, Senior Vice President and Union Representative: Doug is a labor relations expert and has steered Classic's relatively clear of major obstacles in an increasingly volatile union climate. A fair but firm negotiator, he has invested many years in building relationships with the union organization. Now, he is concerned that Classic will be unable to meet its current and future obligations to its employees, and advocates action over the status quo in the coming months.

John Hartman, Senior Vice President, Human Resources: A bright, young MBA graduate on the fast track to senior management, John has been with Classic for three years. John firmly believes that frontline employees represent the organization's face to the customer, and are critical to customer service and marketing effectiveness. He has worked to educate and train all customer service employees on their importance to the organization, and is recognized as a thought leader on the subject of melding the human resource and marketing functions.

JANUARY 7, 2005
MEETING WITH CEO AMANDA MILLER AND LEADERSHIP TEAM
Excerpt of meeting dialogue

Amanda: As the Customer Loyalty Report clearly shows, membership in Classic Rewards is down nearly 20% from this time last year. That translates to more than 160,000 allegedly loyal customers who are now flying airlines other than Classic. And that's not the worst of it. It seems we can't even get the frequent flier customers we've retained to choose Classic over our competition. The average number of flights per member is down more than 20% as well.

Those of you who were here a year ago may remember that I was virtually assured by the former head of marketing that if I agreed to the price cuts he proposed, we'd be able to lure our customers back from the competition. I hate to admit it, but I got sucked into that strategy and where did it get me? Where did it get Classic, or our shareholders? Right in the middle of a battle over price - a battle that has every indication of becoming a full-blown war. I don't know who will win but I know who won't: Classic. We have absolutely no room to cut our margins any further. Period.

Attachments:

- D:** Customer Loyalty Report
- E:** Pricing structure report (average fare, past two years)
- F:** Frequent Flier Program Overview

JANUARY 7, 2005
E-MAIL
TO: Kevin Boyle, Renee Epson, and John Hartman
CC: Catherine Simpson
FROM: Amanda Miller
RE: Today's meeting

Kevin, Renee, and John:

I think we had a productive meeting this afternoon and I'm happy that the three of you are eager for the opportunity to turn around our Classic Rewards program. Kevin, thank you for spearheading this project.

I don't need to tell you how important it is that we lure back our frequent fliers. If we don't, our chances of restoring stock prices to last year's levels are slim. Your challenge is going to be rising above our competition without discounting airfare. That's going to take some real creativity but the simple truth is that we are not in a position to cut our margins any further and still survive.

I have a meeting with our board on April 7. At that meeting, they'll be expecting a progress report that demonstrates a measurable, positive trend. Because this deadline is just three months away, I expect frequent updates on your plans, so that I can be sure we're headed in the right direction.

If anybody can do this, it's the three of you. Good luck!

Sincerely,
Amanda Miller, CEO

Attachment:

- G:** Loyalty Program Expected Results Report

JANUARY 8, 2005

E-MAIL

TO: Kevin Boyle, Renee Epton, and John Hartman

FROM: Catherine Simpson

RE: Today's meeting

Kevin, Renee, and John:

Call me redundant, but as a follow-up to Amanda's message yesterday, I must explicitly remind you of our corporate-wide cost reduction target of 15 percent over the next 18 months. That means that even as you identify alternatives to retool Classic Rewards, you must engineer this turnaround with 15 percent less in marketing expenses.

Do you remember that fuel-hedging program I implemented last year? By locking in our fuel prices for the next year, we've been able to reduce our overall fuel costs by 12 percent. Every dollar that we spend on marketing (Classic Rewards included) is a dollar that won't go to fuel-hedging. We already know the program works, so continuing to contribute to it will enable us to reach our 15 percent cost reduction target.

Best of luck,

Catherine

Attachment:

H: Report reflecting results of fuel hedging program

JANUARY 9, 2005

E-MAIL

TO: Kevin Boyle

FROM: Ben Sutcliffe

CC: Amanda Miller, Catherine Simpson, Doug Sheflin

RE: Today's meeting

Kevin:

As you lead the Classic Rewards project team, please remember the conversation we had a few months back regarding Classic's union contract. Our commitment to the current contract is an investment in Classic's future. At no time should your creative efforts on the reward program's behalf include any revisions to the current union agreements in an attempt to reallocate funds to your marketing programs. I assure you that any ground you anticipate to gain by such an action would be immediately surrendered.

Best regards,

Benjamin Sutcliffe, Esq.

Attachment:

I: Press release outlining Classic's position with labor unions

JANUARY 9, 2005

FIRST PROJECT TEAM MEETING – KEVIN, CMO; RENEE, SVP Customer Service; JOHN, SVP of Human Resources.

Excerpts from meeting dialogue

Renee: I can't help being a little upset that it's come to this. For the past two years, I've been saying we've lost touch with our customers, and I should know. Every day, I monitor the customer service calls. I hear customers tell us what they want, but we don't have the service elements, operations procedures, or marketing programs in place to deliver. The higher-ups think they know what makes our customers tick, but they haven't listened at all. If they had, they wouldn't be surprised that we've suffered a 20 percent loss in Classic Rewards.

Kevin: I know, Renee. I heard your story over a handshake the first day we met. Just kidding! Trust me, I hear what you're saying, and I've seen companies like ours get burned before. The question now is what do we do about it?

Renee: We've got to reconnect with our customers. We have to show them that we understand their needs and we understand what's important to them. We've got the research, we've got the data, we just need to put it to work.

Kevin: But what about the CRM system?

Renee: Our CRM system is no more about *customer relationships* than the system we use to order office supplies! Don't get me wrong, the platform itself is one of the best on the market, but it's not a systems issue. When we set it up, all we were concerned with was decreasing the amount of time our reps spent on the phone with customers or, better yet, driving these customers to the Internet so we didn't have to talk to them at all. Because then we could reduce headcount and deliver cost savings by getting rid of the only people in the company who actually listened to our customers! And what's worse is that we configured the system in a way that doesn't integrate the phone channel with the Web channel. If our customers choose to interact with us over both channels, we don't know they're the same person. The system has the capability to integrate channels seamlessly, but it would have required more time than we were prepared to invest. So much for making the most of every customer interaction.

John: I agree, Renee; I've heard it in exit interviews, ever since I've been here. I've talked to Amanda about it as well, but I think she's got too much political capital invested in the CRM implementation to take any corrective action. I also know that when it comes to marketing campaign execution, we don't even use the information from the CRM system. Like you said, it's not the system, but the philosophy, or really the lack of philosophy, that's the problem. But the system might be our answer in this case. It's a strong platform, much stronger than that of our competitors, and with a little recalibration of our strategy, it could do everything we want it to, maybe more.

Kevin: John's right; the CRM cloud could turn out to have a silver lining. When I first took the marketing VP job at the last airline I was at, we had no system. But we did have a strong loyalty program, one that was in tune to the wants and needs of our customers. When we began our CRM implementation, the CEO came to me and asked me what I thought it would take to make CRM work from marketing's perspective. I was candid, and told him that if the system took the philosophies and practices of our current customer retention efforts, including the loyalty program, and integrated them with our reservations and customer service functions, and spoke to the customer in a unified voice as a result, we would succeed. We've got to champion the concept that CRM is far more than a system; it's a top-down philosophy that puts the customer at the center of our business. We have the marketing know-how to make this work. In fact, I know a lot of my former colleagues who would love to have the experience and market knowledge that we have in this room.

Renee: I know one thing: Catherine sure loves the reports we get out of the CRM. She grins from ear-to-ear at the sheer fact that she can get data on our rep call time in real time. I've even seen her confront my reps on the floor if she sees their call times start to increase – my reps, my department, *her* report. She and Amanda both live and die by the numbers. If we can use the CRM system to deliver the same kind of metrics and reporting for the loyalty program that we do for our operations functions, we'll at least have that part of the battle covered.

Kevin: Well, with all due humility, I can tell you this much – I've seen it done before. Marketing can deliver on this challenge, my friends, and the CRM system can play a starring role. I'll also tell you this: I've spent the past 10 years talking to frequent fliers of all levels, and I've spent the past six months talking to Classic's top-level frequent fliers. And you know what? They don't always put price at the top of their decision-making criteria when choosing an airline. Both Amanda and Catherine seem to think we can't win this game without playing the price cut card, but I think they're wrong. I put together this "picture of the customer" that sheds a lot of light in this direction; check it out.

Renee: Wow, that's slick. But I think we need even more research before we get started. Why don't I head up a quick customer survey with the inbound group, and John, you could pull together any secondary reports that you can get your hands on.

Kevin: Sounds like a plan. It will keep us on course and defend the flanks, if you know what I mean.

John: Definitely; there will be plenty to steer clear of!

TO: John Hartman, SVP Human Resources; Renee, SVP Customer Service

FROM: Kevin Boyle CMO.

Subject: Please Review

I have attached documents that outline our picture of the customer as well a few documents that present clues related to Classic's current level of customer service, and employee satisfaction.

Attachments:

J: Boyle's customer profile and feedback from his discussions with customers

K: Transcripts from call monitoring

L: Excerpts from exit interviews

M: Customer service call reports

JANUARY 11, 2005

TO: Kevin Boyle, CMO; Renee Epton, SVP Customer Service

From: John Hartman SVP Human Resources

Subject: Secondary research reports

Here's what I've come up with so far regarding secondary research reports. Please click the following to access the reports:

Attachments:

N: Datamonitor Report "Airlines in the United States"

O: Plunkett report on the travel industry.

P: John Hartman's informal evaluation of the direction of Classic's top three competitors

JANUARY 13, 2005

Renee conducts phone interviews with current and former top-level frequent fliers

Attachment:

Q: Summary of Renee's customer interviews

JANUARY 16, 2005

PHONE CONVERSATION BETWEEN KEVIN BOYLE AND JOSEF WYMAN, MARKETING EXECUTIVE OF SKYWAY AIRLINES

Josef: Kevin Boyle, please.

Kevin: Speaking.

Josef: Kevin, Josef Wymann here.

Kevin: My goodness, Josef, it's been a long time! How are things in Switzerland? The last I heard you were back at Skyway -- the top marketing man!

Josef: I'm still there; that's actually part of the reason for my call. To cut to the point as we like to do in Zurich, I've been finalizing talks with a top Latin American airline to enter into a marketing alliance. The plan is to take it to a code-sharing level, integrate all customer-facing elements, and deliver a seamless program. We've already built one of the most extensive and strategic selection of rewards options in the industry, and we've got a couple of automated service features that could eventually change the baseline customer experience. We need the third leg to the stool, Kevin, and I think you and Classic may be it.

Kevin: Josef, you have impeccable timing as usual. I'm in the midst of a project with unbelievable expectations. I'm confident we'll deliver, but this is as bad as it was in the early '90s when we worked at Transit Worldwide Air. Our customer loyalty is the pits, and we've got to reconnect with our customers. But, I'm working against a CEO who doesn't believe in alliances. She thinks "no one can satisfy our customers better than we can." There hasn't been a marketing alliance here in the history of the company. And on top of that, the board has mandated a universal 15 percent cost reduction by next fall. Not to mention that if I can't clean up our customer loyalty situation, I don't have a lot to bring to the table.

Josef: Understood, understood. It does sound like you have your hands full; your boss has been pretty clear in the media that costs *will* be controlled.

Kevin: That's nothing compared to what we hear. I love your idea, Josef, and I'm going to float it by my team and see if we can't figure out a way to sell this upstairs. I know our CS person will love it, so who knows?

Josef: Very well, cheers, Kevin.

Kevin: Speak with you soon.

JANUARY 17, 2005

IMPROMPTU MEETING WITH KEVIN BOYLE, RENEE EPSON, JOHN HARTMAN

Excerpts from conversation:

Kevin: So that's the deal in a nutshell.

Renee: And how well do you know this Wymann guy?

Kevin: Josef and I go back quite a way. We worked side by side to turn around Transit Worldwide Air's marketing in the early '90s. He's one of the sharpest marketers in the industry, probably number one or two in Europe. I know there are a couple of our competitors who would be thrilled to just listen to Josef's presentation.

John: Sometimes I don't think Amanda and Catherine see the forest for the trees. I've never understood why all of our competitors have formed alliances and we haven't.

Renee: Because that would be too customer-focused!

Kevin: Okay, okay, enough with the daggers....are you two on board with this or what?

John: On board that we should move in the alliance direction?

Kevin: One step at a time. Right now, all I want to know is if you think the idea deserves consideration.

Renee: Oh, it definitely warrants attention.

John: Call it unanimous.

JANUARY 19, 2005

OFFICE CONVERSATION WITH AMANDA MILLER AND CATHERINE SIMPSON

Amanda: Have you heard anything from Boyle and friends?

Catherine: Not a word, you?

Amanda: Nothing. Nothing against Kevin, but in all my years I've yet to see the marketing department drive anything but budgets through the roof. He'd better not come in here talking about dropping the prices even one more dime. If I could take back any decision I've made in the past ten years, it would be letting them talk me into that last time.

Catherine: Well, that's an understatement. Since the day that guy walked in this place, there's been something about him that irked me. I don't think he's all he thinks he is; put it that way. At least I can't see the point in gambling on another spin of the marketing wheel, when we can put the money to good use hedging against fuel prices. But, that's your call...

JANUARY 23, 2005

OFFICE CONVERSATION WITH KEVIN BOYLE AND RENEE EPSON

Excerpts from conversation:

Kevin: Renee, can you drill down a bit into what you feel needs to be done differently in the CRM area?

Renee: Where do I start? I actually think you made a good point at our first meeting about our having a fundamentally solid and robust system that's globally accessible. That's more than most companies can hope for. The problem is our segmentation strategy. It's outdated; customers don't think the way we think they do anymore. We need to listen to them, and recalibrate the buckets we put them in, and the way we talk to them. It's really nothing more than a little perceptual mapping, experience mapping. But those are foreign concepts around here; not only would you never get anybody to agree with me, you'd never get the kind of budget you need to do it right.

Kevin: Don't be so sure; it's all a matter of how the story gets told or, better yet, tells itself. If you step back, you start to see that what customers value may, in fact, be *value*. Value and price are not the same thing. If we can make people feel good about the money they spend to fly with Classic, they'll be less concerned about every penny. When you have a good experience, you are far less likely to question the price.

Renee: Kevin, you're preaching to the choir. But can you get Amanda and Catherine to start singing? That's not going to be easy.

To: Kevin Boyle
From: Renee Epson
Subject: Segmentation Strategy

Kevin,
Here's the segmentation strategy.
Thanks,
Renee.
Attachment:
R: Segmentation Strategy

JANUARY 24, 2005

MEETING WITH KEVIN BOYLE AND JOSEF WYMANN

Excerpts from tail end of meeting:

Kevin: Josef, we can't thank you enough for making the trip over to discuss this opportunity. I think the team and I have a lot to think about over the next few days.

Josef: I did give you a lot to consider. Frankly, Kevin, I think you could just as easily go it alone and succeed. My alliance presents some advantages, but the idea makes the most sense from a European perspective; the United States is a different market. Well, you know the pros and cons; it's up to you and your team to weigh them and make the best decision for Classic.

Attachment:

S: Wymann's presentation slides

JANUARY 25, 2005

E-MAIL

TO: Kevin Boyle

FROM: Amanda Miller

RE: Magazine article

Kevin:

Please take a look at the article I've linked below. You'll see that our friends at GlobalAir have made some significant changes to their frequent flier program recently. It seems the changes they made two years ago resulted in quite a few angry customers. In fact, the customers were so unhappy that they created their own Web site as part of a formal protest.

That's not to say that our customers, at least the ones we have left, would ever do anything like that to you!

Regards,

Amanda

T: GlobalAir Article

JANUARY 25, 2005

E-MAIL

TO: Kevin Boyle

FROM: Benjamin Sutcliffe, Esq.

RE: GlobalAir

Dear Kevin:

I'm sure you've seen this article by now, and I do hope you are reminded about the significance of the decisions you are about to make.

What took place at GlobalAir was not customer-focused, and the company may never recover from the damage they created for themselves. I know we can count on you to avoid a similar misstep, and keep the union contract unaltered.

Best regards,
Benjamin Sutcliffe, Esq.

JANUARY 25, 2005

E-MAIL

TO: Renee Epson, John Hartman

FROM: Kevin Boyle

RE: FYI on potential cost-saving recommendations

Renee and John:

It is always important to anticipate the other side's next move and, in that interest, I've put together some thoughts on cost-savings recommendations, in case we need them.

I expect that Amanda and Catherine will be evaluating any potential solution our team proposes against the concept of taking the same amount of money and applying it to the fuel-hedging program. I've spoken with some old contacts, and have several alternative cost-savings suggestions that could a) be offered as alternatives to fund fuel-hedging or b) subsidize a portion of our marketing budget.

The ideas include:

- Reduce the number of reservations operations centers
- Eliminate travel agent commissions
- Develop an employee buyout or attrition program

We may or may not need to bring them into the conversation, but if we do, it's best that we all are aware of the specifics.

Thanks,
Kevin