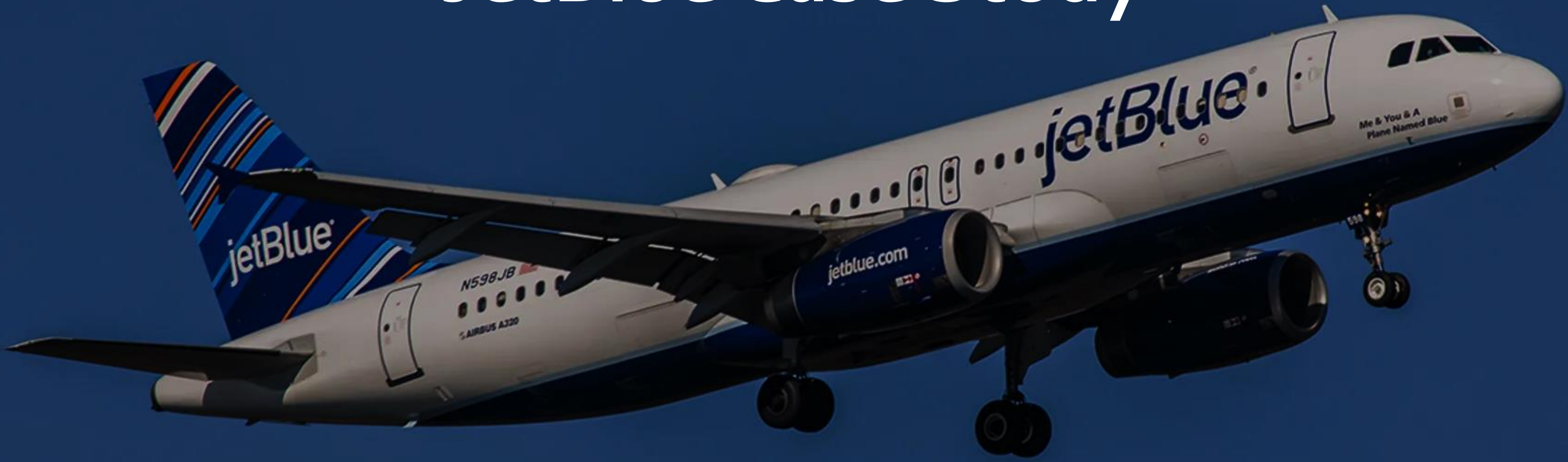
JetBlue Case Study



Ashley Larrondo

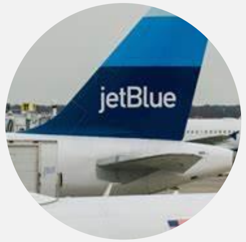
Zoom link: https://youtu.be/FXc7HBMcBS0

Agenda

- Background information
- Threat of new entrants
- Threat of substitutes
- Bargaining power of suppliers
- Bargaining power of consumers
- Rivalry among existing firms
- References

Background Information

- Founded by David Neeleman in the 1990s at Long Island City, New York.
- JetBlue flies more than 100 destinations across North America, Latin America, the Caribbean, and Europe.
- Low-cost alternative in which tickets were priced 65% less than competitors and the flights included some full-service.
- Focused on direct flights instead of hub-and-spoke flights.
- Only airline to offer free WIFI.
- They have a code-sharing agreement with Aer Lingus, Lufthansa, and American Airlines.
- JetBlue ships cargo. They signed a partnership in 2019 with AeroNex to ship cargo to and from Fort Lauderdale-Hollywood International Airport (FLL), Miami National Airport (MIA), John F. Kennedy Airport (JFK), Los Angeles Airport (LAX), and Boston Logan International Airport (BOS).
- JetBlue acquired Spirit Airlines in 2022.



Threat of New Entrants

New Entrants

- There is a low threat of new entrants since there is a high barrier to entry and exit.
- The barriers to entry are high because you need minimum $1 million to buy 4 narrow body aircraft. In addition, government regulations for the airline industry are complex.
- The barriers to exit are high because you lose a lot of money due to equipment and there are also regulations when leaving the industry.
- Also need specialized knowledge to run an airline business.
- Economies of scale is difficult to achieve.

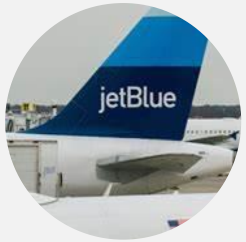
JetBlue response

- New businesses will not want to enter the market, if JetBlue is successful at making money. There's no room for competition.
- JetBlue uses their economies of scale to provide full-service flights without the extra fees.
- JetBlue has cost advantage by providing quality service at a low price because they have optimized their operations by only doing direct flights or not serving food, which saves money in buying food or spoilage.

Threat of Substitutes

- There is rarely threat of substitutes within an airline industry. If people need to travel, they must take a plane.
- There are other means of traveling such as car, boat, or train, but is rarely used.

Bargaining Power of Consumers



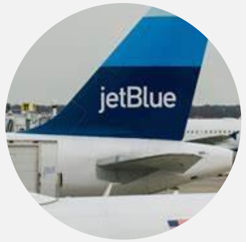
Consumer Power

- Buyers have high bargaining power because they can choose to fly with a cheaper airline.
- Buyers are price sensitive, so they choose to buy their tickets in advance which is cheaper.
- There are websites and mobile applications such as Booking.com or Expedia which compare flights from different airlines and consumers will buy the best flight for the cheapest price.

JetBlue Response

- JetBlue should market their rewards program TrueBlue about their benefits such as 2x points when booking directly through JetBlue and the points can be redeemed for tickets.
- JetBlue should roll out a program in which they have planes that transport only first-class passengers and cargo, and if it is successful, then they can eventually transition to fully cargo. If fully cargo, they will not need to deal with losing money due to customers cancelling their flights or by not having to use flight attendants on their flights.

Bargaining Power of Suppliers



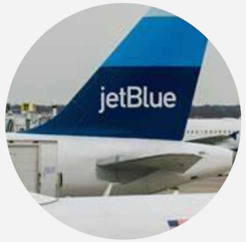
Supplier Power

- The suppliers have strong bargaining power.
- The supplies needed within the airline industry are aircraft and fuel.
- The price of fuel is not negotiable because it is based on global fluctuations.
- Airbus and Boeing are two main suppliers of aircraft, but there are more smaller suppliers.

JetBlue Response

- JetBlue needs suppliers that solely depend on JetBlue's business, because then the supplier needs JetBlue to make money for the suppliers to make money.
- JetBlue can also build and maintain their planes from different suppliers, so they can have quality product at an economical price
- Having suppliers from different locations benefit their efficiency because they will have supplies wherever it is needed.

Rivalry Among Existing Firms



Existing Firms

- Airline industry is an olipology, because the four main airlines that hold the majority of domestic market share are American airlines (19.5%), Southwest airlines (17.4%) Delta airlines (16.3%), United airlines (12.9%)
- Each airline business differentiates its products, so there is customer loyalty.
- Difficult and expensive to leave the industry due to the great amount of investment when running an airline and the regulations faced when leaving the industry.

JetBlue Response

- JetBlue airways domestic market share is 5.3%.
- They have a partnership with Aeronex so they can tackle the cargo sector of the industry. With cargo, they can charge based on weight, urgency, or weather conditions.
- JetBlue has cost-leadership and differentiation because it differentiates itself by providing more service at low cost such as free live TV, free WIFI, and more leg room.
- JetBlue acquired Spirit Airlines.

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