

Classic Airlines Company

Problem Solution: Classic Airlines

Classic Airlines (Classic), an image and service based company, is the fifth largest airline in the world serving 240 cities with more than 375 jets. Although the airline is profitable, its stock prices have decreased by 10% and which has resulted in low employee moral and motivation due to increased scrutiny by Wall Street and the media (University of Phoenix, 2008).

In 2005, the company experienced a 9% decrease in Classic Rewards Members and a 21% decrease in the number of member flights, which has created concerns over customer loyalty and the future of the company (University of Phoenix, 2008).

In addition to the decrease in reward members and low employee moral, the airline is now faced with a restrictive post-September 11th cost restructure; a 15% across-the-board cost reduction mandated by the Board of Directors (BOD) for the next 18 months (University of Phoenix, 2008).

The mandate states Classic must find ways to improve its frequent flier program that will ensure a measurable return on investment (ROI) while still meeting the cost reduction goals (University of Phoenix, 2008). By taking the time to listen to its customers, Classic will be more in tune with their wants and be able to implement the service elements and marketing programs needed to retain existing customers and attract new ones.

Describe the Situation

Issue and Opportunity Identification

Classic Airlines currently faces various issues. The first issue is the decline in customer confidence and loyalty has resulted in a 19% decrease in the number of reward members and a 21% decrease in flights per remaining members. There are numerous opportunities available to solve this issue. First, Classic can perform an environmental analysis, using the SLEPT or PESTLE model (Freiwald, 2007, p. 1-2), which will allow the company to identify internal and external forces that can have an affect on the organization and airline industry as a whole.

Using these models, the company can conduct effective surveys on the phone and on-line enabling them to become the "voice of the customer" (Freiwald, 2007, p. 1) turning attention to their needs and revising its current CRM system to fit a marketing strategy appropriate for accomplishing the company's goals and objectives. Not only will this show the company's customer focus efforts, but also could prove to be profitable by helping to maintain and increase the customer base.

This issue also represents the airline with an opportunity to redevelop its Classic Rewards Program. Classic could benchmark other companies, such as other airlines, grocery stores, and automobile clubs to compare the success of their customer reward programs or memberships that seem to be successful. This measure could also present Classic the opportunity to form an alliance with another airline carrier.

Teaming up with another airline could not only increase the frequent flyer mile purchase and create partnership opportunities, but it would give the customers more options in turn making the airline's frequent flyer program more rewarding, creating value add. Thirdly, the airline could collaborate with a credit card company to offer extra reward points or flyer miles to customers every time they use that particular credit card when purchasing tickets.

The second issue is that rising fuel and labor cost have caused the airline to be unable to compete with younger airlines for frequent flyers. This issue has resulted in the BOD's mandate of a 15% across-the-board cost reduction over the next 18 months. With the rise in these operational costs, the airline must come up with a way to enhance its fuel efficiency. Currently, the airline has a fuel-hedging system in place where they lock in fuel prices for the next year.

This measure has allowed them to reduce fuel costs by 12%. This system seems to be working thus far, however it is only successful if there is not a need to spend money towards marketing. With many of the suggestions mentioned, choosing not to implement a marketing plan is not an option; therefore, the airline needs to consider having a backup plan. If Classic does not want to raise prices to compensate for the fuel increase, perhaps the airline should consider benchmarking other airlines and the measures they have taken to reduce fuel and labor costs.

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The third issue revolves around the drop in employee moral, which is due to the scrutiny from the media concerning the airlines decrease in stock price and customers (University of Phoenix, 2008). In order to improve the motivation levels of the employees, Classic could look at implementing an employee rewards or incentive program that promotes teamwork and boosts moral.

This program can focus on the individual goals of the employee and his or her ideas, which could be implemented to improve departmental practices and processes, possibly reducing costs. The company can also involve the employees in the beginning phases of creating a program to find out what motivates them. This system can encourage them to go above and beyond their assigned job duties.

Stakeholder Perspectives/Ethical Dilemmas

The stakeholders involved in the Classic Airline scenario consist of the stockholders, management, employees, the union, and its customers. These stakeholders should be considered since they each are affected by the success or failure of the company. Often times the different stakeholder groups will disagree with one another, which makes it a challenge to concentrate on reconciling any issues that may arise. The stakeholders of Classic Airlines may possess the following perspectives:

- The stockholders are interested in finding ways to increase the stock price of the company. Turning attention to focus on the customer can possibly help increase customer confidence and possibly help raise the stock price as the customer base and profit margin grows. In order for this to happen, the company will need to change its marketing strategy and incorporate the target or segmenting style (Kerin, Hartley, Berkowitz, & Rudelius, 2006).
- The management team wants the company to succeed in its endeavors and remain a major player in the airline industry; however, they want minimal associated costs while trying to remain profitable.
- The employees want to be able to work without all the negativity from the media. All the negativity could cause employees to leave their jobs or even cause the union to call a strike for those employees they protect. Perhaps the employees who work with the CRM system could use a little more training or better yet, be involved in meetings to discuss the good, the bad, and the ugly of the system since they deal with the customers daily.
- The union has a duty and responsibility to have the employees' best interest at heart. It must protect the benefits, salaries, jobs, and rights of the employees. With all of the problems Classic Airlines is facing, the union feels the company will be unable to meet current or future obligations made to the employees.
- The customers want a renewed confidence that airline is there to provide a service pleasing and acceptable to them; however the current CRM system used by the company does not seem to be working in their favor. Although Classic is having money problems, the customers still want to receive the best deals for their money without incurring extra costs.
- The airports, surrounding communities, and local businesses rely on and benefit from the presence of Classic Airlines. If the airline decided to close or layoff employees, hundreds of jobs would be lost. The local businesses stand to lose customers, which they may already be experiencing since the airline is seeing a decrease in flights, and reward members.

With every stakeholder involved, conflicts will be ever present. Management will have to be proactive in finding ways to balance the needs of the business and staying committed to the employees and customers or the business will not be successful. The stockholders, although focused on making a profit, will have to determine, along with

management, what is really best for the company as related to its goals and objectives along with solutions to get the stock prices to increase.

The union will have to work along with the airline to determine how the company can continue to meet its obligations to the employees, and prevent things such as strikes or walk-offs from occurring. This must be accomplished by the company while continuing to provide excellent service to its customers.

Frame the “Right” Problem

Classic Airlines’ future rests on their ability to focus on their existing problems and the opportunities available to them. In order to increase profits and sales, they must incorporate a new and improved CRM system and use it successfully to pinpoint customer desires. The new CRM system will enable Classic to look at different avenues that can add value to its existing customer rewards program. The company must deliver the services desired by the customer’s or continue losing market share in the airline industry.

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Within eight months, Classic Airlines should have a strategy in place to address the above items. Classic must also recognize the needs of the employees since they counteract with the customer’s daily and deal with the bulk of the customer complaints. The company will look to implementing some sort of rewards program to help boost employee moral and motivation within the next six-eight months. To deal with the inflation of gas and labor, Classic immediately prepare bi-weekly lost horse forecasts to successfully have a working budget within six months to determine the best alternative to free up resources without passing on extra expenses to customers.

Describe the “End-State” Vision

Classic Airlines will focus on several goals that will support the goals and objectives of the company, employees, and customers. The goals will aid Classic in retaining and gaining customers, boosting employee moral, and become more profitable for its stockholders while remaining reasonably priced for the customers. Classic Airlines will do whatever necessary to (a) provide unsurpassed customer service, (b) increase its reward program customers, (c) reduce operational costs, (d) improve employee moral, and (e) increase profits and stock price.

Identify the Alternatives and Benchmarking Validation

After identifying some of the issues faced by Classic Airlines, there are several alternative solutions available to the company. The first alternative is for Classic to redevelop its Classic Rewards Program by adding additional benefits focused on the needs of its many customers, which includes collaborating with another airline. A

company that Classic can benchmark is AAA Auto Club South (ACS). ACS's membership offers over 20 different services and benefits to its customers, which road service, travel, insurance, automotive, and financial services (AAA Auto Club South, 2008a).

With the AAA membership, customers can save on many expenses such as dining, restaurants, attractions, car rentals, shopping venues, and hotels. ACS members can also save money when purchasing a new or used car through the Car Buying program, which includes various dealerships that offer low, no haggle pricing (AAA Auto Club South, 2008b). Members can also receive discounts on auto repairs by visiting any AAA Approved Auto Repair facility.

Through a partnership with Bank of America, the company offers the AAA Cash Rewards MasterCard, AAA Platinum Plus Visa, and the AAA Rewards American Express (AAA Auto Club South, 2008b). Its Platinum Plus Visa gives customers the opportunity to receive up to a five percent gas rebate when paying at the pump. The AAA WorldPoints Visa allows customers to earn a point for every dollar spent on retail purchases and double points on gas purchases redeem them for any reward, from travel to cash to merchandise. This card also has no blackout dates for travel points redeemed (AAA Auto Club South, 2008b).

A second solution is for Classic to collaborate with a major credit card company to offer extra reward points or flyer miles to customers every time they use that particular credit card when purchasing tickets. For example, Chase offers the Southwest Airline Rapid Rewards Visa Signature Card and the British Airways (BA) Visa Signature Card (Chase, 2008).

With the Southwest card, members can earn double reward dollars on flights or vacation packages through the airline carrier (Chase, 2008). With the British Airway card, members earn 20,000 bonus BA points after the first purchase, along with other savings such as the opportunity to receive free companion tickets from the airline (Chase, 2008).

A third solution is for Classic to enhance its fuel efficiency with the rise in fuel costs and labor. Currently, the airline has a fuel-hedging system in place where they lock in fuel prices for the next year. If Classic does not want to raise prices to compensate for the fuel increase, perhaps the airline should consider some of the measures taken by Northwest Airlines and Air Canada.

These airline companies are planning to ground planes, reduce capacity, or even cut jobs in the fall and winter months (Carey & Prada, 2008). Virgin America is also considering cutting seat capacity and reducing frequent flights in the off peak seasons to reduce operational costs and use the saved funds towards fuel (Carey & Prada, 2008).

The fourth solution is for Classic to implement an employee rewards program that promotes teamwork and boosts moral. The airline can benchmark AAA Auto Club South (ACS) and the success of its employee incentive programs. ACS started experimenting with educational assistance by providing employees \$500 per year as an opportunity to improve their work skills and upgrade their knowledge in an effort to develop their career within the organization. Due to the increasing interest and efforts of the employees, the amount was increased to \$1000 per year (AAA Auto Club South, 2006).

To promote teamwork, ACS implemented the quarterly incentive bonus, which is based on the accomplishment of departmental goals and not the individual. Another reward, which is awarded annually, is the Extraordinary Performers Bonus (AAA Auto Club South, 2006). This program focuses on goals set by the employee and his or her ideas that can be implemented to improve departmental practices and processes, possibly reducing costs. It urges employees to think outside the box and look beyond their assigned job duties.

The amount awarded to the employees nominated for this award is based on the company's success in meeting the organizational goals for the year. ACS also offers non-monetary incentives to motivate employees and help them build feelings of confidence and satisfaction. Some of the non-monetary rewards ACS offers are t-shirts, mugs, and certificates.

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Many people feel these awards have memory value because of the continued meaning they have long after a cash award would be spent. They also have trophy value because it can be shown off to others (Ballentine, Kepner, McKenzie, & Wysocki, 2003). Although, non-monetary rewards are less costly than cash awards, they still provide the same level of motivation for performance improvements.

Evaluate the Alternatives

In rating the alternatives, the highest-ranking solution is for the airline to redevelop its Classic Rewards Program. Classic must turn its attention to the customer and really listen to their complaints and suggestions in order to keep them as members and gain new members. By adding additional benefits and savings to the rewards program will give the customers more options geared towards their needs and allow them more opportunities to gain additional points.

The second highest alternative is to collaborate with a major credit card company. This alternative would allow the airline to offer extra reward points or flyer miles to customers every time they use that particular credit card when purchasing tickets or other items.

The solution for Classic to implement an employee incentive program ranked at number three. This solution will aid the airline in boosting employee motivation by offering them

an incentive for providing excellent customer service. Since this solution will not immediately help Classic with its major issues, it is something that can be implemented in the future.

Finding other means to enhance fuel efficiency ranked at number four. This solution ranked the lowest due to the company's existing fuel hedging program. The airline needs to focus on the major issue of retaining its customers first since that is the source of the company's revenue.

Identify and Assess Risks

In order for the two highest-ranking solutions to work, Classic would have to achieve acceptance and buy-in from the customers. The risks associated with redeveloping the program is the company would waste time researching additional benefits to add to the reward program if they continue to lose members or are unsuccessful in attracting new members. Another risk is the loss of money depending on the terms of the contract if they find an airline that would enter into a partnership with the company. The risk associated with collaborating with a major credit card company is the loss of time and marketing involved in advertising a new product.

Make the Decision

After identifying all the issues, opportunities, and alternatives, the best solution will be for Classic to redevelop its rewards program to include collaborating with another airline. Performing surveys and getting feedback from its customers will allow Classic to add additional benefits to the reward program, which are focused on the customers and more tailored to their individual needs. The collaboration with another airline will give the customers a chance to earn points when they fly out of terminals where Classic Airlines is not present or to destinations that may not be on Classic's schedule.

Develop and Implement the Solution

The implementation plan for the optimal solution will be as follows:

- Starting immediately the management team will determine the date for implementing the new rewards program. Along with the help of marketing, the group will start benchmarking other companies and their reward programs to find out what benefits they offer have turned out to be successful and frequently used by the customers.
- The customer service and marketing departments will begin doing customer surveys on the phone, by mail, and on the internet to determine the benefits members are looking for in a rewards program. Once the information is gathered, marketing will be able to refine its marketing strategies and determine which MAM and AMM (Freiwald, 2007) to use to advertise the new program.

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- Within two weeks, the management team will start contacting other airlines to identify those who would be interested in a partnership, which will give added benefit to the reward program. Once a final decision has been made on a partner, a strawman proposal will be drawn up with the details outlining the partnership and then a final contract will be signed by the end of week three.
- With four weeks, the new Classic Rewards Program should be available for use by the customers.

Evaluate the Results

The evaluation process allows companies the opportunity to identify areas for improvement in order to achieve its goals. Classic Airlines' solution requires regular evaluations to monitor the progress with the project and its ability to achieve the desired goals of the organization. After the implementation plan is in place, the company will use customer surveys, financial reports, industry and competition comparisons, and weekly progress reports to measure the success of its optimal solution of redeveloping the rewards program.

Using the above metrics, the company hopes to achieve the following results:

- Achieve a 10% growth rate within the first 6-12 months of implementing the newly redeveloped Classic Rewards program.
- Have a 95-100% customer retention rate within 12-16 months.
- Achieve 80-85% customer satisfaction in the first year and maintain 95% thereafter.
- Achieve 10% increase in profits and stock price within six months.
- Stay within the 15% cost reduction effort mandated by the BOD.
- Boost employee moral and motivation by 30% by getting their input through surveys and ideas concerning a new incentive program to be implemented in the future.

Conclusion

In order for Classic Airlines to remain one of the top airlines, the company will have to implement strategies that will help them maintain a competitive advantage, increase profits, and customer satisfaction. The optimal solution for Classic was to redevelop its Classic Rewards Program and determine the target market for with the new benefits being added. The newly revamped program will not only allow the company to accomplish its goals of increasing growth, expanding customer base, profits, and stock price (University of Phoenix, 2008), but it will also allow them to maximize shareholder wealth.

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