

Executive Session

Change Framework

Major US Airline
Sample Output

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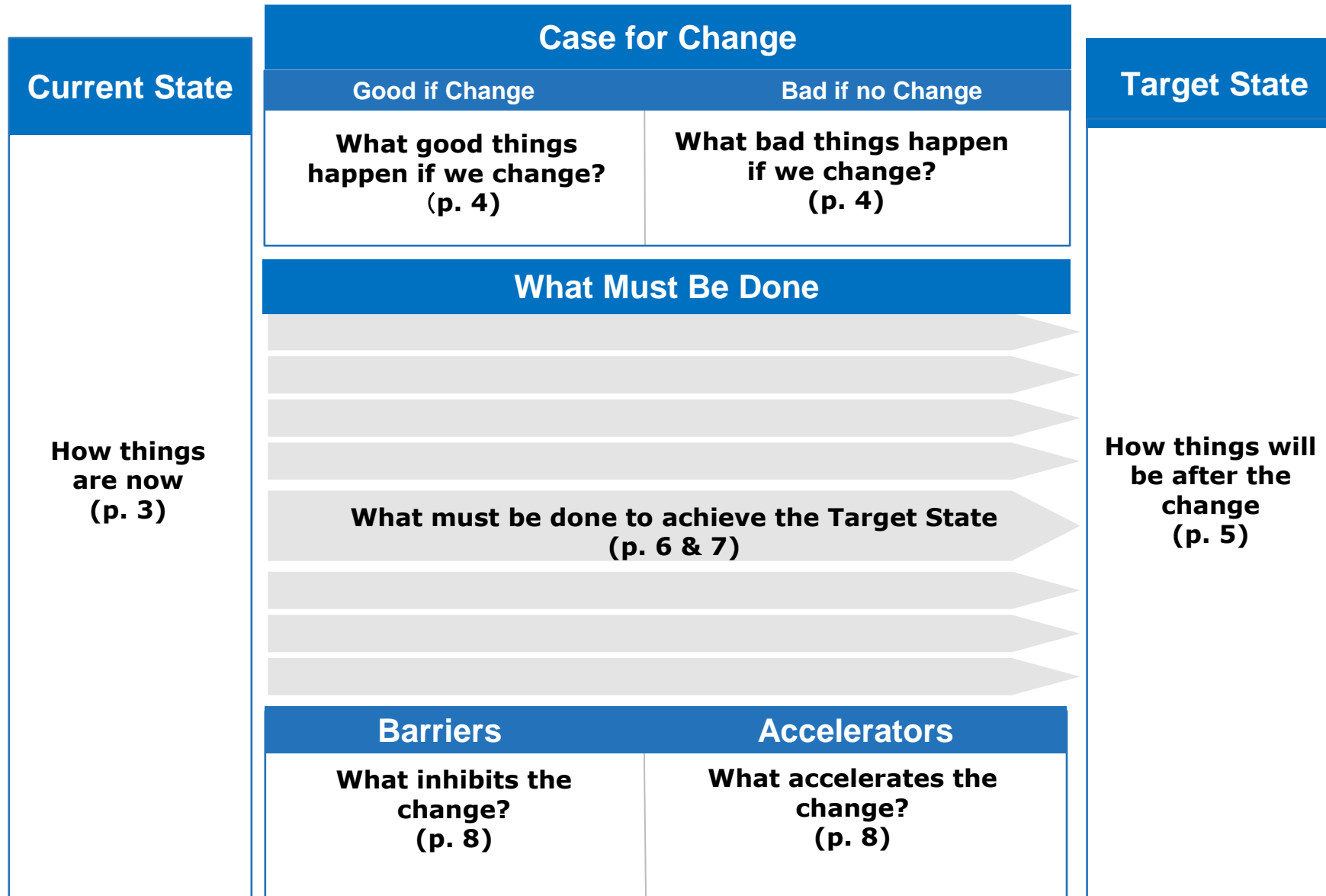
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Current State

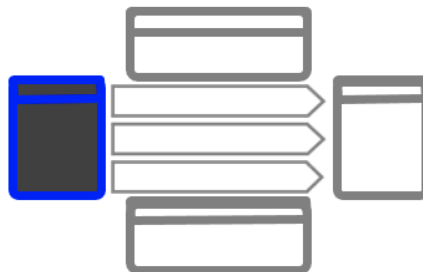
- **Strong position in tight market**
 - Strong local reputation
 - Strategically expanding (e.g., managing West Coast yield, opening Haneda)
- **Quality operation with good results**
 - **Finances:** Strong 2009, well out of bankruptcy, stock doing well
 - **People:** Resolved two-year pilot disputes and a negotiation
 - **Operations:** Expanding to Haneda; new launch; progress on IT usage; renovating lobby
- **Change-resistant culture**

“We are the dominant carrier. We have 80% of market”

“We have our niche”

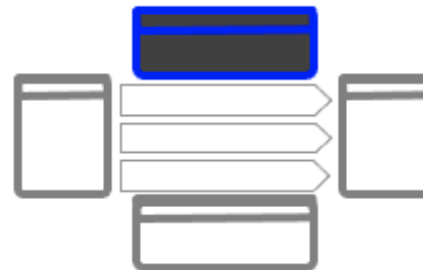
*“We have come out of bankruptcy; **these are some of our best years**; we have resolved a two-year pilot dispute and a negotiation”*

*“A lot of our financial performance has been **luck**; reduced competition, reduced operating prices”*



Case for Change

- **Desire for improvement**
 - Management team able to run larger company
 - Team has drive to make things better
- **Industry future is uncertain; particularly vulnerable to cost increases due to:**
 - New competitors
 - Operating price increases
 - Tax increases
- **Feeling unready for future**
 - Success in past does not secure success in future.
 - Improvements must continue or risk strong place in market
 - Easy changes have been made
 - Cultural differences in new markets could prove challenging
 - Need for momentum but also desire to be cautious



*“Our main weakness is that we are a small business in a big business industry...We are a 5.5. on a scale of 10; **we are doing well but could be doing better.**”*

*“**In this business, you have no idea what will happen tomorrow** New competition? New regulation?...Market could change...Operating prices will double...Potential for tax increases...We just renewed our labor contract with significant increases.. .This is a thin margin business that quickly exposes uncompetitiveness. There is no more competitive, knife-edge business than this..”*

*“We have been so successful. There is a tendency to sit back but our success breeds competition...**The easy things are done. 2010 could be difficult after a positive 2009.**...We are unquestionably most successful re competition. The road ahead gets tougher and harder.”*

*“There is no time to sit on our laurels...**If we are not going forward, then we are going backward.**”*

Target State

- **Effective**

- An energetic, aggressive top team always focused on most important initiatives; not complacent
- High-quality people at all levels operating at above industry benchmarks
- High share price (e.g. \$10/share)

- **Efficient**

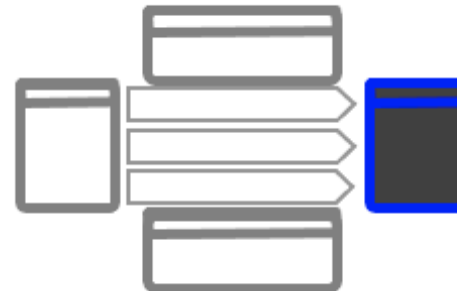
- Expense ratios in-line with industry standards
- Productivity leads the industry

- **Growing**

- Expanded routes in current markets
- Opened routes in new markets

- **Respected**

- Employees are happy; known as a great place to work; attrition is low and hiring top talent is easy
- Exposed to interest in buying company
- New relationships are productive and helpful
- Culturally in-tune with new markets



“We are a young, energetic, up-and-coming, aggressive team. We’d be focusing on these issues all of the time.”

*“We have a **few clear initiatives** with tight focus”*

*“We have become pretty good competitors in the last 6-7 years. We **need to fight complacency**”*

*“The goal is to be **the most respected in America**. This would drive share price, hiring and new relationships”*

*“Long term, **develop route networks into new markets** – Asia and E. Coast US.”*

*“People are **happy**”*

“We are exposed to someone wanting to buy us; our union contract makes them back off.”

*“We have increased safety; greater corporate advantage. Growth: **better position to tie up strategically with competitors.**”*

What Must be Done

- **Continue to deliver what we do well**

- In-flight and customer service;
- Improve customer experience in Honolulu
- On-time performance
- Deliver on current plans

- **Assess market opportunities and threats**

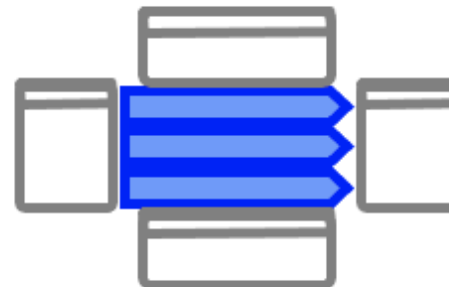
- Determine target: size, scale, structure, relationships
- Adapt all facets of the company to new markets
- Develop new sources of revenue (e.g. new markets and products); Expand in Asia; Do not be as dependent on West Coast

*“Increase our vigilance on our interaction with our customers and our employees and **not lose our current advantage in product, service and reputation in the marketplace**”*

“Continuing to balance the competing priorities of opportunities with challenges and threats”

*“We must be **flexible in thought and action** to take advantage of opportunities.”*

*“We need some new ideas on how we do things. Are there **other businesses we want to be in?**”*



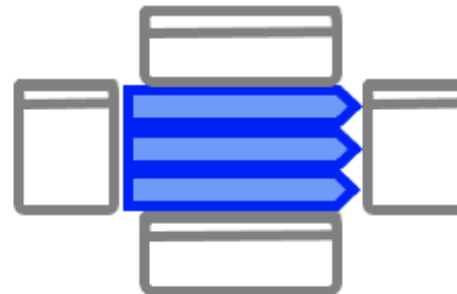
What Must be Done (Continued)

- **Raise the level of staff quality**

- Strengthen middle-management
- Hire and develop more strong players at all levels
- Give larger raises to strong people in key roles
- Reduce the number of middling performers

- **Identify “need-to-dos” vs. “nice-to-dos”**

- Identify business processes
- Map out steps for each process
- Determine personnel capabilities and skills, required for each step in each process
- Assess current staff relative to needs



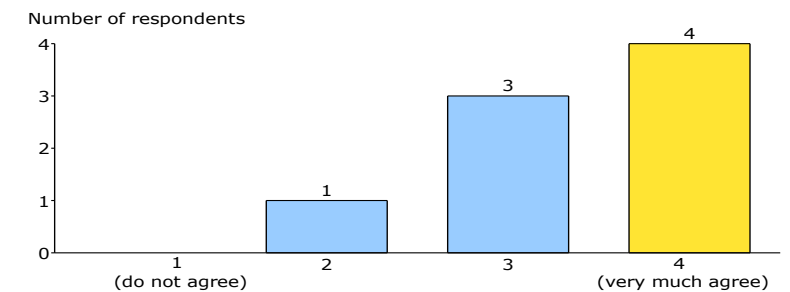
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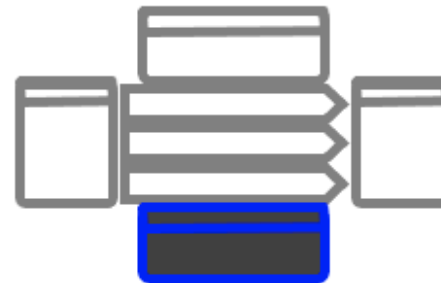
*“We need some new ideas on how we do things. Are there **other businesses we want to be in?**”*

Do you think it is important to further streamline and lower costs of corporate and operations functions?



What Will be Hard

- **Little experience with process engineering**
- **Hard to get comparative industry data**
- **Outside help (e.g., Accenture, Booz Allen, Bain) can be expensive**
- **Letting people go will be tough**
 - Aversion to making tough personnel decisions
- **Hard to get everyone aligned, involved, and committed to making required changes**
 - Senior Officers
 - Middle managers
 - Communications effectiveness tends to wane further into the organization
- **Follow-through and governance will be hard to execute**



“Staying focused; things pop up and we react to the fires; we take our eye off the ball...Significant numbers of secondary projects compete for time and attention.”

*“No one is all bad. **Difficult decisions.** Pushback from other senior leaders. Would like some cover for difficult decisions; everybody is watching.”*

*“Getting things down through the ranks. A lot of these things will raise concerns with managers. **As you go down through the levels, it becomes harder and harder to implement...**”*

“We tend to underestimate cultural differences...We need to adapt to different markets like Haneda.”

*“We struggle with having **enough people in the organization who have the experience and capability to bring about change.**”*

Thank you.

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