

Sky is the limit... or is it?
The American Airlines AAirpass Case

TEACHING NOTES

Introduction

The following document is a guide to a class discussion on how American Airlines could have dealt with the AAirpass fiasco. American Airlines AAirpass case demonstrates indecisiveness by the board of management in rectifying the problem. We will offer the class the relevant facts of the case and the theory it relates to. Our aim however is to avoid influencing the class on the course of action that should have been carried out. A managed discussion will allow the class to solve the case in an unbiased manner.

Case Synopsis

During the seventies and eighties American Airlines ran with the slogan “We’re American Airlines, doing what we do best” subtly emphasising their attention to customer service. In 1981 American Airlines launched a loyalty initiative in order to gain a quick influx of revenue due to financial difficulties the previous years. This initiative was known as the ‘AAirpass’ program, which allowed customers a purchase a lifetime American Airlines first-class travel ticket for \$250,000 (A companion pass was also available for \$150,000). American Airlines miscalculated the cost of such a program and failed to factor in inflation in turn costing the company millions. A lack of regulation on AAirpass also led to some customers abusing the offering. Such abuses of the AAirpass landed American Airlines in years of lawsuits to justify their reasoning as to why some customers had their passes cancelled. Indecisiveness on the board’s behalf followed the AAirpass system throughout the years with the pass being cancelled and relaunched numerous times along with constant changes in an attempt to make the pass viable for the airline.

Learning Objectives

We will examine the American Airlines case using the Corporate Identity Matrix. Examining which of the aspects of the corporate identity matrix did American Airlines fail in, the matrix allows us to pinpoint where it went wrong for American Airlines. The role a reputational audit can have in analysing a situation that has occurred and what the next step should be? Applying the reputational audit to American Airlines post initial air pass failure and the effect it had on the organisation's reputation. Students should have a clear understanding of what happened in the air pass case

Reputational Audit

A reputational audit allows an organisation to assess their current situation regarding reputation. It is recommended for a PESTLE analysis be undertaken before considering a reputational audit (Roper and Fill, 2012). American Airlines should have carried out a reputational audit before relaunching the air pass program in 2004. The initial phase of a reputational audit diagnoses the current state of affairs, the second stage is designing the future state and the third is managing the transition.

Carrying out a reputational audit in the early stages of it being revealed the air pass was a failure would allow American Airlines to measure the extent of the damage caused to their reputation. Being a customer-centric organisation air pass was a failure in customer service due to the lack of consistency in the messaging. A brief overview of American Airlines' reputation during the years post-Airpass may look like the following:

- **Stage 1 (Diagnosing the Current State):** The identity of the organisation is centred around experience, premium and customer service. The latter aspect of customer service was being negated due to inconsistencies surrounding constant price changes and regulation changes of the air pass program. The image of American Airlines was one of reliable and friendly customer service however American Airlines' image at the time was tarnished as it was widely known the airline was struggling financially which led to the air pass system which in turn was deemed a failure by the media and non-stakeholders.
- **Stage 2 (Designing the future state):** Looking at the future state from the air pass perspective. The direction of the air pass should have been concise. Determine whether or not it was viable, if non-viable there would have been two clear-cut options 1. To spend a significant amount of time redeveloping the program and identifying flaws 2. Abandon the air pass program entirely and communicate to consumers why the air pass was abandoned.
- **Stage 3 (Managing the transition):** This stage focuses on reviewing the plans for implementation towards the future state. A genuine consideration for American Airlines would have been to figure out the timespan of the airpass' revamp (if this was the chosen option).

(Roper and Fill, 2012)

Corporate Brand Identity Matrix

The purpose of the identity matrix is to answer nine key questions about a brand's identity: What are our key offerings? What should be the nature of our stakeholder relationships? What is our intended position in the market? What is distinctive about how we communicate? What do we promise? What is our corporate character? What engages and inspires us? What are our attitudes? What are we particularly good at? (Urde, 2021).

EXTERNAL	<p>VALUE PROPOSITION <i>What are our key offerings and how do we want them to appeal to customers and non-customer stakeholders?</i></p>	<p>RELATIONSHIPS <i>What should be the nature of our relationships with key customers and non-customer stakeholders?</i></p>	<p>POSITION <i>What is our intended position in the market, and in the heart and minds of key customers and non-customer stakeholders?</i></p>
INTERNAL/ EXTERNAL	<p>EXPRESSION <i>What is distinctive about the way we communicate and express ourselves and makes it possible to recognize us at a distance?</i></p>	<p>BRAND CORE <i>What do we promise, and what are the core values that sum up the essence of what our brand stand for?</i></p>	<p>PERSONALITY <i>What combination of human characteristics or qualities forms our corporate character?</i></p>
INTERNAL	<p>MISSION AND VISION <i>What engages us (mission) and what is our direction and inspiration? (vision)</i></p>	<p>CULTURE <i>What are our attitudes and how do we work and behave?</i></p>	<p>COMPETENCES <i>What are we particular good at, and what makes us better than the competition?</i></p>

Figure 1 Corporate Brand Identity Matrix, Urde (2021) Unpublished Book Chapter

<p><u>Value Proposition</u> Providing a premium travel experience to customers.</p>	<p><u>Relationship</u> Establishing trust and loyalty.</p>	<p><u>Position</u> Premium full-service airline.</p>
<p><u>Expression</u> “We’re American Airlines, doing what we do best”.</p>	<p><u>Brand Core</u> Delivering a premium travel experience.</p>	<p><u>Personality</u> Confident, innovative and customer focused.</p>
<p><u>Mission and Vision</u> “Delivering safe, reliable and convenient air travel”.</p>	<p><u>Culture</u> Innovation, competitiveness, and customer service.</p>	<p><u>Competences</u> Operational efficiency and customer service.</p>

Figure 2 Custom Identity Matrix (Greyser and Urde, 2019)

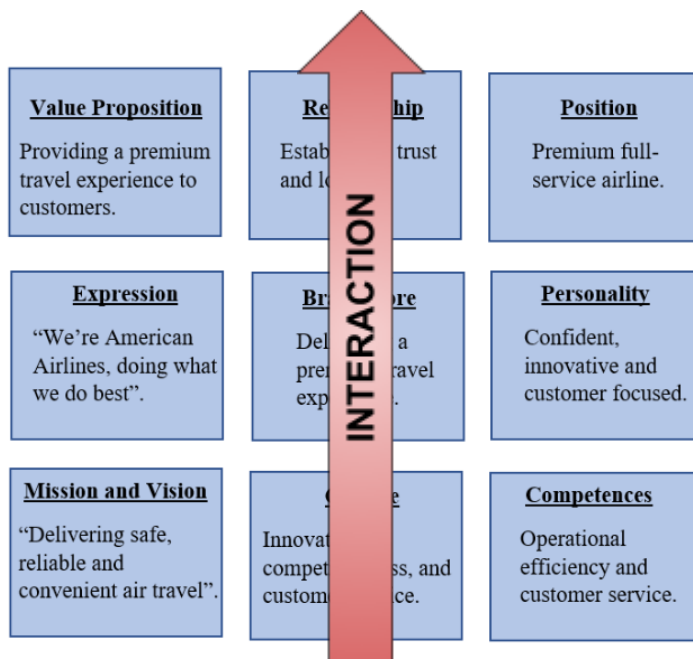


Figure 3 Custom Identity Matrix: Interaction path (Greyser and Urde, 2019)

The main effects of the Airpass disaster came in the interaction path of the identity matrix. Gaps within the corporate identity matrix weaken the identity of the brand. In this case, American Airlines is seeing relationship and culture affected due to the timescale taken to resolve the Airpass blunder in clearly explaining to consumers what the course of action is.

An effect is also seen on the character of American Airlines due to their personality. American Airlines can no longer command trust from their customers due to constant changes to the AAirpass system. Constant changes to the AAirpass loyalty scheme over the course of 41 years has led to some consumers viewing American Airlines as fickle. "From a reputational perspective, Ryanair does not fair too well in the traditional measure of successful airlines but its low cost, low fare reputation elevates it." (Roper and Fill, 2012). Roper and Fill (2012) outline how despite having a negative brand perception Ryanair does not see a significant effect on sales due to their low price point, however, this does not apply to American Airlines as they position themselves as a premium airline. Due to its premium positioning, American Airlines along with other premium and luxury airlines rely heavily on catering to customers along with customer service. American Airlines faced heavy competition within the premium airline industry from companies such as Pan American World Airways, Eastern Airlines and Trans World Airlines.

Discussion Questions

The main question of this case is as follows: *How would you rectify the situation having launched the AAirpass system two years previous and discovered it is not profitable?*

Assisting Questions

In order to create an effective and insightful discussion, the main question can be further divided into several sub-questions as follows:

- How do you think the AAirpass offering would unfold in the 21st century in the context of corporate reputation?
- How could American Airlines have modified the AAirpass program to make it more sustainable over the long-term, while still providing value to customers?
- What other business models or pricing strategies could American Airlines have considered meeting the needs of high-value customers, while still maintaining financial stability?
- What role did customer loyalty play in the success of the AAirpass program, and how American Airlines could leverage this loyalty to create a competitive advantage?
- In hindsight, what were the long-term financial implications of the AAirpass program for American Airlines, and what lessons can other companies learn from this experience?
- How could American Airlines leverage brand equity and customer loyalty to create a competitive advantage?
- If you were the American Airlines board, would you amend the AAirpass program with careful consideration and relaunch or scrap it?

Epilogue and Rationale for Evergreen Case

The case of American Airlines and its AAirpass program is an Evergreen Case because it offers several timeless lessons that can be applied to a wide range of business and management contexts. First of all, the case highlights the challenges that companies face in balancing the needs of their most valuable customers with the need to maintain a profitable business model. This tension between customer service and financial sustainability is a perennial issue that many companies still struggle

with today. Another reason is the AAirpass program was a highly innovative concept at the time, offering customers a unique and valuable service that set American Airlines apart from its competitors. The case illustrates the importance of innovation in business and the potential risks and rewards that come with developing new products or services.

It also has an ethical part, in which, the case raises important ethical questions about corporate responsibility and the obligations that companies have to their customers. It also highlights the risks associated with implementing policies or programs that are seen as discriminatory or unfair. Lastly looking at this case from a financial management side, the AAirpass program was ultimately a significant financial liability for American Airlines, highlighting the importance of sound financial management and the need to carefully evaluate the risks and rewards of new business initiatives. In conclusion, the American Airlines case offers valuable insights that are relevant across a wide range of business contexts, including the importance of innovation, balancing customer needs and profitability, ethical considerations, and financial management.

Widerøe: Explore Norway

A small airline in terms of global scale (third biggest in Norway) Norway called Widerøe offered 'unlimited flights' within Norway for \$435 for one week (Within one zone of Norway) and \$844 for three weeks (Within all of Norway). On March 23rd 2020 during the covid pandemic, Widerøe became the busiest passenger airline in Europe according to flight radar (Leigh, 2021) during their 'unlimited flights' incentive. Despite the success of the Explore Norway offering Widerøe emphasised they doubted they would ever repeat the feat of temporarily being Europe's busiest airline.

Teaching Suggestion

In the following sections different recommendations and suggestions will be presented. They aim to help the teacher or instructor of the case be better prepared for presenting the case of American Airlines. Before presenting, the teacher is advised to take time to thoroughly look into all material available in the case to gain a deep understanding of the situation. There will be different suggestions for different preparation phases: pre-presentation, introduction, discussion, and conclusion. The case is built up in a way to stimulate a real scenario, including visual aids, for example, PowerPoint slides and continuous activity on the whiteboard. This will help the students stay focused, highlight key points, and lead the discussion forwards by real-time summarizing. Since the managerial decision that was undertaken will not be presented until after the discussion is ended, it is important to make a plan of what will be said during what stage of the presentation, and stick to it.

Pre-presentation

In the pre-presentation phase, it is recommended that the teacher becomes familiar with the case material, preferably well in advance so that there is time to gain deep knowledge about the case. All parts of the case: the written case, the managerial decision, the teaching notes, and the visual presentation, will provide important information and knowledge to the teacher, studying these is, therefore, a must. While studying the case, it is highly recommended to start taking notes and lay out a possible structure of the presentation. After studying the whole case, the teacher should plan the presentation. A suggestion is to follow the time plan below. The first part of the presentation will be the introduction, which is to be followed by the discussion. Thereafter, the discussion part will follow. The teacher is advised to set up a separate plan for this, in terms of time, content, and structure. It is valuable to use different media tools during the entire presentation to maintain focus and keep the direction of the discussion.

It is also important to give the students time to prepare, so they actively can participate in the discussion. Hence, the written case should preferably be handed out at least 24 hours in advance. This document will ensure a basic knowledge of the case and provide them with all the information they need to discuss the managerial decision.

Introducing the Case

At the beginning of a presentation, it is always useful to have a few tricks to break the ice and make the participants feel at ease in the room. Such a soft introduction may include your own experiences, either of American Airlines or general travelling, preferably with a few questions to the students about their experiences. After this, the teacher can move on to presenting the facts of the case according to the pre-preparations structured above, for example with a visual presentation. Only the material from the written case will be announced at this point and it is the teacher's responsibility to present the case in a way that the participants can follow.

Leading the Discussion

Once the introduction to the case is finished, the teacher should remind the participants what role they should take on for the discussion. In this case, the participants should imagine themselves being on the board of AA in 2008 and about to make a decision about the company's future. The discussion will go easier if there is a relaxed atmosphere in the classroom. To lay the ground for a good discussion, and create the desired climate, the teacher can ask the students to summarize the key points of the written case. He or she can also ask the participants if they need any additional information before starting the discussion. Thereafter, remind the

students about the main question presented in the written document and then initiate the discussion. For a high quality throughout the discussion, the teacher must ensure that the word is equally distributed in the classroom so that everyone feels they have contributed and had their say. This can easily be done by agreeing that the participants raise their hands before speaking. In a real situation, the CEO should not say her or his opinion until the others have had their chance. In the classroom, the teacher must act in the same way and remain an objective moderator throughout the discussion. To guide the students in the discussion, or to speed up if needed, the teacher may interpose with alternatives or follow-up questions to relevant points that have been said earlier in the discussion. It is important that the teacher is aware of the time plan and the board plan, both found in the sections below.

During the discussion, the teacher, or one of the case presenters if there is more than one, should structure arguments on the whiteboard. In this way, it is easier for the participants and the teacher to keep up with the arguments. This will also help the participants to add to earlier parts of the discussion, argue on different levels, ensure that the same argument is not repeated too many times, and categorize arguments of similar nature. The whiteboard could be set up as a matrix with alternative solutions for different times, e.g. one column for short-term solutions and one for long-term solutions. If needed, the teacher can encourage participation by asking one student about their opinion on a specific solution or time frame. In the end, the teacher summarizes what has been said by returning to the biggest talking points from the discussion, or the keywords for the long and short-term solutions. If there are very separated opinions, the teacher may end the discussion with a vote.

Presenting the Conclusion and Leading the Q&A

When all students have had their chance to express their options, and both different time frames and solutions have been brought to the table, it is time for the concluding phase. Now the real managerial decision will be presented using the same tools as when presenting the case, for example returning to the same PowerPoint presentation, and the outcome compared with the solutions discussed in class. Comparing the actions made in AA with the ones decided on in class is important for the learning outcomes of the case. The students can also be asked to share their opinion of the actions taken in the real case to further strengthen the learning experience. The teacher is also recommended to guide the students in a reflection of what they have learnt from this case. A good way of doing so is by creating a list with 13 bullet points of the lessons learned. If the participants have any more questions at this point, there should be time set aside for a short Q&A. This session can continue organically with questions back and forth between the students and the teacher before ending the presentation.

Board Plan

Problems	Solutions	Actions
<ul style="list-style-type: none"> - Non-Profitable Airpass program - Keep the program or ditch the program. - Premium airline: highly competitive industry - Identity of the airline is centred around customer service - Failure to offer sufficient problem resolution 	<ul style="list-style-type: none"> - Remove the offering - Regulate the offering - Explain clearly to consumers why the Airpass program has been aborted - Take a long term approach to entirely reworking a new loyalty program 	<ul style="list-style-type: none"> - Reputational audit carried out following the uncertainty of cancelling or relaunching airpass - Examine American airlines through use of the corporate identity matrix

Figure 4 Board Plan

Time Plan

The time plan suggested below is a guideline for the presenter on how many minutes each section of the case requires. The total amount of time is 45 minutes and 45 minutes divided into five main sections, as displayed in the figure below. The presentation starts with an introduction to the case and presents the background story & history of American Airlines till the time the incident happened. This leads the audience to have a better understanding of the case and the short incident phase starts thereon. The aim of this phase is to get the audience ready to discuss the case with the knowledge that has been gained. The third phase, discussion, takes place after the incident and the presenter introduces the management decision on the actions American Airlines made right after the discussion. Afterwards, with a short Q&A session, upcoming questions regarding the whole presentation will be answered by the presenter.

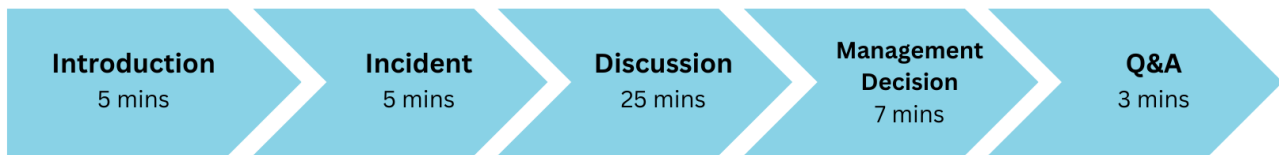


Figure 5 Time Plan

Reflections on Case Writing

Challenges

One of the objectives of the “BUSN35 Corporate Brand Management & Reputation” course was to writing a case report and presenting it in class. We were divided into groups of three in the beginning of the course and tasked with presenting three one-pager written cases to the professor. After the consultation with the professor, we had to think of more examples and schedule a meeting with the professor again with another case/s. That was the first challenge of ours but with the received feedback, we came up with a better idea and better discussion points with the case of “American Airlines and AAirpass”.

There have been external challenges also. First of all, gathering comprehensive and accurate information about the case was a challenge. This case involves a complex and multifaceted story that spans several decades. It was challenging to find and analyze all the relevant information to present a comprehensive and accurate account of the case. Another element was the understanding the business and aviation industry context. It was our first time writing a case study about the aviation industry. To present a successful written case, it’s important to have a deep understanding of the aviation industry and the broader business context in which American Airlines was operating during the time of the AAirpass program. Another factor was addressing the ethical considerations. The case raises important ethical questions about corporate responsibility in the 1980s and the obligations that companies have to their customers. It can be challenging to navigate these issues and ensure that they are addressed in a thoughtful and nuanced way.

Eureka Moments & Learnings

The American Airlines AAirpass case illustrates the importance of balancing customer needs with financial sustainability. It highlights the potential risks and rewards of offering innovative and valuable services to customers. The case also demonstrates the ways in which technological advancements can disrupt traditional business models and present new challenges for companies.

The role of corporate responsibility in business decision-making. The AAirpass program raised important ethical questions about corporate responsibility and the obligations that companies have to their customers. The case provides an opportunity to reflect on these issues and consider how businesses can operate in a socially responsible manner while still maintaining profitability. The case teaches us about the importance of risk management and forecasting. The AAirpass program was an innovative and risky move for American Airlines, and the company faced significant financial losses as a result. The case highlights the importance of risk management and forecasting in business decision-making.

The AAirpass program was initially successful because it was marketed as an exclusive and prestigious service that only the wealthiest and most loyal American Airlines customers could access. The case demonstrates the power of branding and customer loyalty in driving business success. The AAirpass program faced legal and regulatory challenges, and American Airlines had to adjust its strategy accordingly. The case highlights the importance of staying informed about legal and regulatory issues and adapting business strategies accordingly. This loyalty program was initially successful in generating revenue for American Airlines, but the long-term financial consequences of offering unlimited lifetime travel passes were not fully considered. The case demonstrates the potential consequences of short-term thinking and highlights the importance of considering the long-term implications of business decisions.

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