

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

MANAGEMENT DECISIONS

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MANAGEMENT DECISIONS

Short Term Solution: May Day

(July 1978 – May 1981)

In 1978 the airline industry saw a relaxation in regulations allowing more competitors to enter the market and see the price of airline tickets reduced. Following these deregulations, AA saw heavy effects with the firm posting a loss of \$76 million dollars in 1980. AA was in dire need of revenue and decided to target their wealthy consumer base. In May 1981 AA launched the lifetime unlimited airpass for \$250,000.

Initial AAirpass amendments

(May 1981 – January 1994)

AA saw a change of CEO in 1985 with the introduction of Robert Crandall succeeding Albert Casey. Crandall said he “was on a mission to cut American down to the bone.” (Loh & Hardiman, 2022). AA made a slight adjustment to the airpass program by including coach class travel in July 1986. Once AA had realised their miss calculation of the lifetime airpass in 1990 AA increased the price from \$400,000 to \$600,000 (including companion). The board had believed they had amended their initial mishap although three years later they hiked the lifetime airpass price to \$1.01 million. In 1994 a decision was made to abandon the airpass system completely, however, continue to honour the lifetime passes of those who were not seen to be using the lifetime airpass in a fraudulent manner. After 20 years at AA Robert Crandall stepped down as CEO in 1998 and was replaced by Donald Carty (Former Canadian Airlines CEO).

AAirpas Rebirth

(December 2004 – January 2007)

AA revived the airpass in 2004 but they only allowed consumers to purchase it as a one-time sale in the pages of a Neiman and Marcus Christmas catalogue, however, the price was now dramatically higher. The pass now included a multitude of strict regulations.

Changes Included:

- Further price increases (\$1.5 million)
- Restrictions on companion passes (Companion passes made non transferable)
- Increased Scrutinization of passes (Additional documentation required by members)

AA board were once again left with egg on their face (this time around it was a less expensive embarrassment) with zero people buying the amended airpass scheme.

Turbulence

(January 2007 – June 2012)

AA once again found itself in financial trouble in 2007. A decision was made by AA to set up a 'revenue integrity team'. Tasked with finding those airpass consumers who were seen to be costing the airline considerable amounts so the board could take the next step in revoking their lifetime passes. Former AA CEO Robert Crandall reflected on the board's initial idea in offering the lifetime airpass as he stated *"The idea was that firms would buy this for their top performers...but as usual, the public is way smarter than any corporation. People immediately figured out we'd made a mistake pricing wise"*. (Loh & Hardiman, 2022)

Due to the investigation findings of the revenue integrity team, AA board of management decided to pursue lawsuits against two customers who they deemed to have been abusing the terms of the lifetime airpass. Original contracts of the airpass had been followed by both consumers but this did not prevent American airlines from cancelling their memberships. Once both airpasses had been cancelled the lawsuits were exchanged. It was determined the use of fake names to take complete strangers on flights was deemed as fraudulent activity (fraudulent usage clause). The court ruled American airlines was well within its rights to terminate the contracts of these customers. Former AA CEO commented on these two individuals who had their airpasses revoked in saying "I assume they were cheaters. If they were cheaters, they deserved it" (Crockett, 2022). During the years of legal battles, AA's parent company AMR Corporation filed for bankruptcy in 2011. AMR's bankruptcy however was not solely down to airpass implications but also due to rising labour costs, economic downturn and intense competition.

From Grounded to Relaunch

(June 2012 - January 2020)

In June 2012 AA once again cancelled the airpass for new customers. It was communicated that the high fuel cost along with numerous other economic factors was the reason for airpass once again being discontinued.

Three years later (2018) the airpass was reborn. Precautions were taken surrounding the marketing of the airpass and it was not widely advertised. The airpass included price benefits for first-class although it was only made available to a limited number of customers in an attempt at avoiding another unlimited crisis.

Final Approach

(January 2020 - March 2022)

In 2020 the board also determined the pass would allow consumers to change last-minute travel plans without charges. The following year in 2021 amidst the covid pandemic American airlines announced further benefits for existing airpass customers allowing free Wi-Fi annually and use of the airpass with partnering airlines (British Airways, Cathay Pacific, Qantas and Japan Airlines). These changes came as Delta airlines announced they would be limiting membership for their loyalty scheme.

Change in Command

(March 31st 2022)

AA CEO Doug Parker retired on March 31st 2022 being replaced by Robert Isom. Several other changes were made to the board following the economic downturn due to the covid pandemic.

Grounded

(November 30th 2022 – present)

American Airlines communicated via a press release on their website on November 30th, 2022, that they would no longer be issuing air passes. This statement did not communicate to consumers the full extent of why the program had been cancelled. AA did however assure consumers those with existing flying miles left could avail of a refund or use the flying miles within three weeks. AA also assured those with lifetime airpasses could continue to travel for free (with the exception of the three consumers who saw their passes cancelled) The board allowed concierge members to keep their concierge status which offered reduced fees. It was later revealed AA communicated scrapping the airpass system as *“simplifying everything we do”*.

The statement was as follows: *“Beginning November 30 [2022], the AirPass program will no longer accepting any new or renewal contracts or any additional fund deposits. All customers with current contracts will be able to use their remaining funds or request a refund between now and the end of their contract period. American will continue to honor its commitments to Lifetime AirPass members.”* - American Airlines. (Leff, 2022)

Today there are some remanence of unlimited flight passes, however, those that do exist are heavily restricted. Norwegian airline Wideroe offered potential consumers the chance to purchase an ‘Explore Norway’ pass for £450. This pass allowed holders to make an unlimited number of flights within Norway for a two-week period.