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INTRODUCTION

THE HISTORY OF WESTJET AIRLINES¹

NOTE

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Over the next months, the team worked with Neeleman to develop a comprehensive business plan and financial model. This information was the blueprint for the start-up of a three-aircraft,

WestJet
July 1999,
of 2.5 mil

low-cost, low-fare, short-haul, point-to-point airline to serve markets in Western Canada. With the business plan in hand, a number of local business people were approached, and within 30 days, the needed capital (Cdn\$8.5 million) was raised.

After this, developments moved quickly in bringing WestJet to life. In July 1995, WestJet's first staff members moved into the company's first office in downtown Calgary. In November of that year, the team purchased two Boeing 737-200 aircraft and added a third to the fleet in January 1996. In late January of 1996, the team completed a second offering to retail and institutional investors and raised over Cdn\$20 million to commence operations on February 29, 1996.

The airline started operations flying to the cities of Vancouver, Kelowna, Calgary, Edmonton and Winnipeg. Since then, the company has continued to expand, bringing more Western Canadian cities into WestJet's world. In March of 1996, WestJet added Victoria to its route network.

WestJet was started in an "ideal" environment—Western Canada—where the main competition came from Canadian Airlines, which had experienced financial troubles. Although Canadian initially tried to match WestJet's rock-bottom fares (and attempted to compete in various other ways), it could not afford to compete against the upstart's low-cost structure (e.g., WestJet provides no meals, offers no frequent flier programs and has incredible turnaround times at the gates).

In June 1996, the airline purchased its fourth Boeing 737 aircraft and added service to the new market of Regina. In August that year, Saskatoon was added. In June 1997, Abbotsford-Fraser Valley was added, making WestJet the only scheduled carrier to operate at that airport. March 1999 saw the addition of the two new destinations of Thunder Bay and Prince George, and in September 1999, WestJet added Grande Prairie to its service area.

WestJet met a major business goal when, in July 1999, it completed its initial public offering of 2.5 million common shares. The share price

at closing was Cdn\$10. It was an exciting day for all WestJetters, representing the achievement of a major goal and raising the necessary capital for expansion of the company in the coming years. The capital raised from the offering, Cdn\$25 million before post-closing adjustments, would be used for the purchase of additional aircraft, as well as the building of new head office and hangar facilities in Calgary, in order to meet the needs of the company's expanding workforce.

In 1999, unprecedented changes and restructuring were seen in the airline industry in Canada (e.g., plans for a merger between Canadian Airlines and Air Canada, small carriers that discovered viable market niches, and carriers that failed within a short time-span), offering a window of opportunity for WestJet to expand its service beyond its existing route structure. In December 1999, WestJet announced that it would be extending its successful low-fare strategy across Canada. Steve Smith, WestJet's president and chief executive officer in 1999, justified the expansion by stating:

Our success over the past four years has proven that the travelling public will embrace any expansions to our airline's route network and schedule, while continuing to maintain the low-fare structure and exceptional customer service that has become synonymous with the WestJet name.

In March 2000, WestJet added services to Hamilton and began to build the John C. Munro Hamilton International Airport as its eastern hub. In April 2000, WestJet added Moncton to its network and in June 2000, Ottawa was also added. Bill Lamberton, WestJet's vice-president of marketing and sales, noted that these schedule enhancements included services added as a result of the addition of the third-generation aircraft for 2001. He stated:

This new aircraft will allow us to enhance our long haul schedule to provide greater connections between our Western hub in Calgary and our Eastern hub in Hamilton. As we continue to expand our airline, we will look for new cities to add to our

network, new niche routings, as well as better connections, so that more and more Canadians will be able to benefit from our low-fare, high-volume service.

Hamilton was chosen as the Eastern hub for several reasons. First, it was a niche route, meaning no other airline operated from the airport, hence making WestJet the airline of choice for people who lived in this Southern Ontario area. Second, costs were an issue. For example, landing fees for Toronto were steep. Third, efficiencies were a consideration. For example, WestJet could land an aircraft in Hamilton, deplane and board guests, refuel, restock and load and unload bags within 20 minutes. At Pearson International Airport in Toronto, it would be hard to taxi to the gate in this time! The more time in the air, the more efficient and profitable airlines can be. Moncton was also a niche market. Halifax had significant competition, whereas Moncton had little.

THE FOUNDERS

Clive Beddoe, Don Bell, Mark Hill and Tim Morgan founded WestJet and, in April 2001, remained part of the executive team. Beddoe was the president and chief executive officer as well as chairman of the board of directors. Bell and Morgan were senior vice-presidents, and Hill was vice-president. Bell was responsible for the airlines' customer service areas including reservations, information technology (IT), customer service, and frontline services including flight attendants and airports. Bell and Beddoe were credited with creating the carrier's bottom-up management structure and energizing the staff. Morgan, a former pilot with Canadian Regional Airlines, was responsible for maintenance and flight operations. Hill was in charge of strategic planning.

All four entrepreneurs were substantial shareholders in the company—2000 data indicated that, combined, they owned nine per cent of the airline, a stake worth Cdn\$85 million.

COMPANY PERFORMANCE

Since the beginning, WestJet had been consistently ranked among the most profitable airlines in North America. WestJet had been profitable since its inception in 1996. In an industry where 90 per cent of startups fail financially, WestJet grew from two planes in 1996 to 21 in 2000. Revenues in 2000 were Cdn\$332.5 million, and expected revenues in 2001 were Cdn\$460 million. Despite more competition, higher fuel costs and a slowing of the North American economy, the airline's earnings per share for the first quarter of 2001 increased to 13 cents from 10 cents during the same period in 2000.

All employees shared in company profits. WestJet's generous profit sharing plan allocated bonuses based on profit margins: if the airline's profit margin was 10 per cent, then 10 per cent of the net income would be spread among employees, prorated to salary. This profit sharing plan had a ceiling of 20 per cent of net income, and cheques were handed out twice a year.

In November 2000, more than Cdn\$8 million was handed out to employees, with the average cheque amount being Cdn\$9,000. One manager quipped, "That's why we have motivated people." But Beddoe insisted it was not just about money, saying, "They know their contributions have gone above and beyond anything we've asked of them, and that's what generated the profits."

In addition, right from the start, many of WestJet's employees owned equity in the company. WestJet matched every dollar their employees invest in company stock. For example, in 2001, 83 per cent of the airline's staff members were shareholders. Many of the original employees invested prior to WestJet's initial public offering and have more than Cdn\$400,000 in stock value. The first 20 pilots at WestJet became millionaires.

In exchange for profit sharing and the stock purchase program, WestJet's employees worked for 95 per cent of the industry's median salary in their job category.

WestJet took pride in the customer service it provided to its guests. Since the Air Travel Complaints Commission began tracking passenger complaints in 2000, it had received only two from WestJet guests. In the same time period, the Commission logged 769 complaints from Air Canada passengers. This translates into 24,000 guests flown per complaint for Air Canada versus one million guests flown per complaint for WestJet (all data pertain to domestic flights).

Satisfaction with the job and colleagues among the 1,700 people working for WestJet was high. Bell explained:

As for reality versus expectations, I found that, in general, an employee's actual experience on the job is better than what he or she had anticipated. For example, call centre customer service associates said that they found their job experience better than expected, and their colleagues warmer, kinder and more willing to help than expected. Most of them rate eight or nine out of 10 for pride in the organization. That shows me that we have to remind people how good we are. It's the one or two per cent that causes a cancerous environment. The day we find that employees' on-the-job experience is worse than what we believe it is, we're finished.

CULTURE

Beddoe insisted that WestJet's corporate culture was the primary reason for the airline's superb performance. "The entire environment is conducive to bringing out the best in people," stated Beddoe. "It's the culture that creates the passion to succeed."

Siobhan Vinish, director of public relations and communications, described the culture as a very relaxed, fun, youthful environment in which creativity and innovation are rewarded. For example, in the call centre where people take bookings (called the "Sales Super Centre"), the representatives had the authority to override fares, make decisions not to charge fees for cancellations and bookings, and waive fees for unaccompanied minors, on a case-by-case basis. People were trained to understand the ramifications of the

decisions that they made. Senior management trusted the representatives in looking out for the interests of the company, customers and shareholders. Nevertheless, overrides were tracked and monitored each month. Additional training and coaching were provided if patterns emerged (e.g., overriding change fees on a consistent basis).

Pilots were considered to be "managers," and were encouraged to think with the executive team. One example of WestJet implementing a suggestion from its pilots came from significant fuel savings as a result of taxiing with one engine instead of two.

Prior to launching WestJet, Beddoe and his colleagues had no experience running a scheduled airline. One of the industry's biggest problems was dealing with a largely absentee workforce, spread all over the country, working at airports, hangars or in the air. Beddoe stated, "What occurred to me is we had to overcome the inherent difficulty of trying to manage people and to hone the process into one where people wanted to manage themselves."

Thus, the founders set out to create a company that was managed from the bottom up. WestJet gave workers a high degree of latitude to perform their jobs without interference from supervisors. Beddoe continued, "I don't direct things—I just try to persuade. We set some standards and expectations, but don't interfere in how our people do their jobs."

Vinish explained:

The flight attendants are asked to serve customers in a caring, positive and cheerful manner; how they do that, however, is left up to them. Resource books are provided for them to refer to, and there is a team of people who continually updates these books.

In addition, Bell offered:

A lot of the stuff is intuitively obvious—we don't focus on culture. We believe that culture is defined by the actions of executives. I may focus on empowerment and trust, Clive on profit sharing, and another one focuses on fun. This forms

the circle of influence. It's very fragile—all our combined actions contribute and form part of our brand—whenever we start to do things offside, it affects the culture. We think of our customers as guests. We have agreements and partners, as opposed to contracts and employees. Profit sharing and stock purchase plans are important, but that's the icing on the cake. They're critical components of our company, but they don't define the culture.

People with a great attitude always see the glass as half full. We're an opportunity culture versus an entitlement culture. We create opportunities for people. For example, lots of people have made a lot of money but have given WestJet a lot in return. In contrast, at Air Canada, a lot of money is paid to get a little work done. This is because unions stripout opportunity. We're creating wealth and sharing that wealth.

In a feature article in *Canadian Business*, December 25, 2000, it was noted that:

Some executives entertain lavishly on the company dime. If Clive Beddoe tried to, he would probably get lynched. Consider what happened when the president and CEO of WestJet Airlines Ltd. threw a catered barbecue one weekend for the company's senior and middle managers at his private fishing lodge on the Bow River, downstream from Calgary. News of the party spread quickly through the company, and when Beddoe returned to work the following Monday, a WestJet maintenance worker stormed into his office. Pounding on Beddoe's desk, the employee demanded to know why the boss was blowing company profits on hamburgers and beer for the folks at head office. WestJet has a generous profit-sharing plan, and the maintenance guy figured his cut was being squandered on a soiree he wasn't even invited to. Beddoe told him not to worry. "I pointed out that I paid for the party out of my own pocket," says Beddoe, grinning. "He was a little humbled, but I congratulated him on his attitude. He's like a watchdog, and he hates inequities. That's the spirit of WestJet."

The company's accountants (located in WestJet's head office under the sign "Beanland") said that profit-sharing plan was front and centre and transformed each employee into a

"cost-cop," constantly scouting for waste and possible savings.

Derek Payne, treasury director, boasted, "We are one of the few companies that has to justify to employees its Christmas party every year."

All employees had a sense of humor and played practical jokes on one another. Morgan, vice-president of operations, was also a pilot for WestJet. For new people who had never worked at an airport, Morgan would send them to "run and get the keys for the airplane." Of course, an airplane does not need keys, but the attendant would rush into the office, pick up the key with a huge tag that said "airplane" and rush back through the aisles to loud applause from passengers.

Another quality that set WestJet apart from its competition was the team spirit of its management and staff. On a visit to the night shift in the maintenance department, CEO Beddoe, dressed in coveralls, offered to go outside in sub-zero temperatures to change an airplane tire. He had to push the toolbox across the tarmac in 30-degree weather, check the tire pressure and change the tire. Eventually, Beddoe succeeded at the task. WestJet's people tended to give for the collective well-being of each and all, and there was an egalitarian spirit. It also showed that work at WestJet is a team effort. These values began at the top and trickled downward.

Bell, who oversees customer service at WestJet, routinely helped out the representatives in the Super Sales Centre when there was high call volume.

Sandy Campbell, the chief financial officer stated, "There's peer pressure among the employees. They recognize who buys into this program and who doesn't, and peer pressure is an amazing thing."

The culture is so customer-centred and so well defined that, at WestJet, employees sometimes joked that WestJet is more "Southwest" than even Southwest.

Beddoe concluded:

We have a philosophy of trust here. Sometimes you get burned when you trust people, but most times you don't. Workers have pride in what they do because they are the ones making the decision

about what they're doing and how they're doing it. They are not just functionaries. They actually take ownership of their jobs.

OVERALL PRODUCTIVITY

The benefits of creating WestJet's type of environment appeared substantial. WestJet avoided the cost of a significant layer of supervisory people. Next, it achieved a higher level of productivity per person. WestJet operated with about 59 people per Boeing 737 aircraft, compared with more than 140 at a typical full-service airline such as Air Canada.

The airline's focus on controlling costs and its specific cost-cutting measures had been well publicized. It flew only one type of aircraft, the 125-seat Boeing 737, offered a single class of service, utilized the Internet as much as possible to sell tickets, operated without paper tickets, offered no frequent flyer programs, provided no meals and minimal in-flight service, had no airport lounges or link-ups with other airlines, and aggressively hedged against rising fuel costs. This can be contrasted, for example, with Air Canada and its 16 different planes from nine different manufacturers, which resulted in much higher maintenance and training costs. WestJet's cost-cutting measures resulted in operation costs being almost half those of Air Canada's.

To reinforce its cost-cutting strategies, the company stressed teamwork. With no unions to insist on job descriptions, all employees had wide discretion in their day-to-day duties. WestJet's pilots often went into the cabin and tidied up between flights. Even Beddoe would help out when he was aboard. Job behaviors such as these meant annual savings of up to Cdn\$2.5 million in cleaning costs and facilitated quick turnarounds, often within a half-hour. The record was an incredible six minutes.

Striving towards savings, Bell added:

Once, I created a "report card" for the company with two or three colors in the design. Employees asked me why it was not in newsprint.

Most important of all are the actions of the executive team. People trust the executive in doing a good job. I need to link the impact of savings onto profit sharing. Cdn\$8 million in savings does not mean anything to employees until you link it to their pocket book.

Because of these strong cost-cutting measures, WestJet could make money with ticket prices 50 per cent below the industry average. In an interview with the *Financial Times*, November 21, 2000, WestJet officials stated that its low costs meant it could break even when its planes were just 63.3 per cent full. In the second quarter of 2000, WestJet averaged 76.2 per cent capacity.

WestJet increased fares three per cent at the start of 2001, but resisted the temptation to raise prices even further or reduce the number of its cheapest seats, even though it flew at near capacity. Rather than fight for market share with larger carriers, WestJet's strategy was to use low prices and unrestricted tickets to lure people who would otherwise drive, take the bus or train or stay home. "To move our pricing higher quickly just means our whole philosophy of market stimulation doesn't work," said Bill Lamberton. It would also mean that there would be more room for a new competitor such as CanJet Airlines or Royal Airlines Inc. to enter the market with lower prices in an effort to capture the market segment that WestJet is pursuing.

HIRING

WestJet received between 3,000 and 4,000 résumés every week. Most of the new hires were new to the airline industry. "We prefer it that way," stated Beddoe. "This is a new culture, a new vision. It's better to start with a clean slate."

WestJet looked for two character traits—enthusiasm and a sense of humor. This was a theme borrowed from Southwest Airlines, which was known for its practical jokes and free spirit. It was common aboard WestJet's Boeing 737s for the flight attendants to crack jokes, hold contests (e.g., singing contests and aisle bowling

games) with the passengers. Most passengers did not seem to mind the jokes and, in fact, most came to expect it.

The specific hiring process varied from department to department. Behavioral interviews were used to assess a fit between the person and the WestJet culture. WestJet made a conscious effort to provide realistic job previews to job applicants. Job simulations were also part of the hiring process. For example, WestJet held group interviews for flight attendants, in which it explained what WestJet was about, what WestJet stood for and what in particular WestJet was looking for. One interview session included making a lighthearted, creative presentation to the group, describing what the person would bring to WestJet.

Vinish and Bell stressed that the hiring and orientation period is of critical importance to WestJet. Bell offered:

People by nature are negative, but there are some who are criminally enthusiastic. I do things called fireside chats. I talk to new hires about culture and what makes us tick. This is their orientation into our culture, our mission and our values. I want to find out what company people want to work for.

MAINTAINING A UNION-FREE WORKFORCE

WestJet did not have a union. Instead, WestJet's senior management team created the Pro-Active Communication Team (PACT), an employee association that allowed management to keep in touch with its employees, addressing their concerns before they became a problem. PACT provided WestJet employees with the services they might want to receive through a union, without the hassles, rules and adversarial environment that a union typically brings.

PACT covered the entire company with a number of chapters representing the different work groups. Each chapter had at least one representatives who sat on a council. Besides

dealing with personnel issues, PACT aided in setting salary scales. Said Beddoe, "It takes away the opportunity for conflict because the employees are part of the solution, not the problem."

If an employee group, such as the flight attendants, wanted to leave PACT, it has to get approval from 75 per cent of its members. Beddoe added:

It ensures we have a successful relationship with our people on a long-term basis. It took me two years to convince our people to embrace the concept of PACT because everyone here is so anti-union. But the staff voted 92 per cent in favor of it. We have since had some extremely successful resolution to issues that have cropped up.

COMMITMENT TO MAINTAINING THE CULTURE

A vibrant corporate culture was so central to WestJet's success that preserving it was Bell's and Beddoe's main obsession. Not fitting in with the WestJet culture could have dramatic consequences. The sudden resignation of Steve Smith in September 2000 was a case in point. Smith was hired in early 1999 to take over Beddoe's job as CEO. Beddoe stayed on as chairman of the board, but wanted someone to take over the day-to-day operations and represent the carrier as it evolved from a private concern into a public company. Smith was running Air Canada's regional airline, Air Ontario, at the time, and WestJet's board of directors liked his amiable, energetic personality.

But it became apparent almost immediately that Smith did not fit with WestJet's culture. For example, Smith would override decisions made by WestJet employees who were "empowered" for over four years. Company sources said that Smith had a top-down management style and was accustomed to dealing with hostile unions. Beddoe stated:

Steve got off on the wrong footing with PACT. He treated PACT like a union and they resented that

immediately. He came from a background where you weren't open and straightforward, where you don't play all your cards at once. Well, we don't do that. We tell it like it is. We tell the employees what our issues are, and we try to work to a solution. We don't hold back half the deck.

Beddoe maintained that Smith's interaction with PACT improved over time, but the bad feelings lingered. There were other issues. According to one source, Smith locked horns with Beddoe and the board over how quickly the airline should grow. In his first business plan for WestJet, Smith called for revenue and earnings to grow at 27 per cent per year. The board ordered him to maintain the airline's current growth rate, in the 45-per-cent to 50-per-cent range. A source from WestJet stated, "When he first arrived, Steve had no sense of how much momentum the company had and how aggressively to grow it. You'd have to dismantle the thing to grow at only 27 per cent."

Employees became agitated, morale suffered and the culture that built the airline was at risk.

Vinish had spoken to Beddoe about how he would communicate the sudden resignation to WestJetters and the public. Beddoe did not want to announce that Smith was "moving on to better things." If he had said that, and if he had not mentioned anything about culture, Beddoe believed he would lose credibility with his employees. After all, he was the one who was the foremost proponent of open communication, and candid communication is what the executive team expected from its employees. Thus, Beddoe decided to talk candidly about the differences between Smith and the WestJet culture. Beddoe believed that this would show that management had credibility to "say it like it is." He explained:

There is no question in my mind that if I had left it three or four months or even six, it would have been a precipitous event, because then we would have lost the core of the executive team, and by that I mean the senior management team of the company.

Beddoe was greeted with high-fives, hugs and hurrahs from everybody once he walked back into the executive office to take over Smith's responsibilities.

Steve Smith denied that a cultural rift led to his departure and "vehemently disagrees" with WestJet's assessment.

COMPETITION AND EXPANSION

As recently as 1999, Beddoe was content to be in Western Canada. But the merger of Air Canada and Canadian Airlines changed the situation for him. WestJet's board decided to expand eastward before new carriers, such as Halifax-based CanJet, cornered the low-fare market. WestJet started flying out of Hamilton, Ontario, in the spring of 2000, and served Ottawa and Moncton and had plans to enter Montreal.

By using Hamilton as a hub, WestJet avoided head-to-head route competition with Air Canada as it tried to establish itself in the East. CanJet, in comparison, was fighting Air Canada on its home turf at Toronto's Pearson International Airport, and it admitted in late 2000 that it was struggling. One industry insider predicted that CanJet would not even be around in 2002.

Other airlines noticed the success of WestJet and were in the process of attempting to mimic WestJet, that is, its culture and operations. Canada 3000 merged with Royal and CanJet in April 2001. Air Canada intended to enter the discount market through forming a strategic partnership with Toronto-based Skyservice to fend off competition from WestJet and Canada 3000. Skyservice owned 80 per cent of Roots Air. However, WestJet appeared not to be too worried about other airlines introducing no-frills versions. Vinish explained:

Air Canada would have to reduce their costs in order to be successful. This game is all about costs—Air Canada has operated for many years in their current state—for them to go into the low-cost market is difficult. Air Canada has many operational

requirements. For example, we don't hire cleaners. If I decide to fly to Saskatoon, my promise to my fellow employees is that I help to clean the plane. We don't have a mentality that says, "That's not my job, I'm not prepared to do that." Air Canada has a union—an employee would not be able to get up and serve coffee to passengers even if he or she wanted to. Such behaviors are not encouraged at Air Canada because serving coffee is somebody else's job. Low fares need low costs. Low costs need concessions from people in order to do that.

Historical data indicated that setting up a competitive, profitable low-fare subsidiary had proven to be a problematic endeavor for the conventional airlines. Several of these airlines had tried and failed.

Beddoe was more blunt, stating that Air Canada's plan "is another disaster in the making."

CONTINUED GROWTH

Beddoe continued, "We fly only five per cent of the available seat miles in Canada. We've only just started. Look at Southwest Airlines. It's still growing, and its stock today is the highest it has ever been."

Amid the vast changes taking place in the airlines landscape in Canada, WestJet had big expansion plans. In August 2000, it ordered 36 of the next-generation Boeing 737-700 series aircraft, with an option to pick up 58 more. That would give the carrier a fleet of 94 aircraft. With the new planes, WestJet intended to start flying non-stop from Calgary to Hamilton. This plan would enable WestJet to add frequency and non-stop flights to its schedule, further enhancing customer service.

Other possibilities included a future alliance with JetBlue, the discount airline launched in 2000 by Neeleman, who built and then sold another successful Southwest clone, Salt Lake City-based Morris Air, before becoming one of WestJet's founding shareholders. Neeleman's latest venture, JetBlue, is active in the northeastern

United States. WestJet co-founder Hill observed, "They're in New York, and we're in southern Ontario. We operate off the same reservation system. We know each other well. Anything is possible down there. I wouldn't discount it."

CONCERNS

Industry watchers voiced concerns about WestJet's future, arguing that an economic downturn could hurt a carrier dependent on leisure travellers, and its expansive growth would make it hard, if not impossible, to keep the "fun" culture alive. Beddoe countered by saying that WestJet was prudent as well as ambitious. It had protected itself against rising fuel prices with hedging contracts. He also noted that British Columbia had been one of the fastest-growing markets, even though the province had been in a recession.

Moreover, because 58 of its 94 new jets are optional orders, the growth rate can be slowed to a rate equal to two new jets a year once its older jets are retired. The management team at WestJet believed that, in a depressed economy, it could manage performance expectations by communicating openly with its people, by being honest with them.

As for the corporate culture, Beddoe offered that Southwest, on which WestJet was based, has kept its culture alive 25 years even as its workforce swelled to 30,000. He agreed that protecting the culture is essential. "It's focus No. 1. Our risk, in my view, is internal, not external, and that's why we put so much emphasis on it."

Vinish added:

What is the impact on our culture as we continue to grow? We all could fly into Calgary and find the WestJet culture. How can we perpetuate the culture in Moncton? We've thought about that. We need to send WestJetters to go and spread the feeling out there.

Bell concluded by saying that culture was paramount at WestJet, that as it grew, it was essential it kept its unorthodox, irreverent feel. He was concerned about not overextending WestJet so that its success would come to a halt. It would be unfortunate, he thought, if WestJet developed into a big and bureaucratic

organization, unable to sustain its culture because of its success.

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1. Taken from www.westjet.com, April 15, 2001.