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United Airlines Shows How Not To Run Your Business

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As the world now knows, last year a guitarist named Dave Carroll was sitting in a window seat on a United plane at O'Hare airport in Chicago when he looked out and saw baggage handlers hurling guitar cases through the air. He pointed it out to flight attendants; they responded with indifference. When he arrived in Nebraska, he found that his instrument had been smashed. After months of complaining to the airline and getting no response, he wrote and performed a song, "United Breaks Guitars," and posted it on YouTube. It was viewed more than 3 million times in its first 10 days.

Across the world in China, Wang Jianshuo, a famed blogger, posted about a United flight he took to the U.S. A surly flight attendant refused to help an elderly passenger stow his carry-on luggage. The audio on the movie channels didn't work. The overhead lights turned off and on the entire trip. His return trip was worse: The plane sat on the tarmac for three hours and then was cancelled until the next day because of a fuel leak.

How does a company perform so badly? United Airlines' stock price was tottering even before the financial crisis. Now that even stellar airlines like Southwest suffering, a weak player like United seems doomed to follow in General Motors' and Circuit City's footsteps unless it makes major changes. This week, United announced a quarterly profit of $28 million, but that included fuel hedges and other accounting gains, without which it lost $323 million. It also named a new president. The airline's missteps over the past decade provide a case study of what not to do when running a company.

Here are three key lessons we all can learn from United.

Create Brand Loyalty, Not Simply Satisfaction

It is doubtful that the millions who have watched Carroll's video or read Wang's blog will want to fly United anytime soon, unless they have no choice. That is terrible for the airline. It is fighting for every last passenger dollar, and trying to make inroads into the emerging Chinese travel market. Part of the problem is that the company, like many, makes satisfying customers part of its mission statement but fails to go nearly far enough beyond that.

Winning companies like Apple go past mere satisfaction to try to create true brand loyalty. Not only do loyal customers spend more, they are more likely to become brand ambassadors and bring along other customers. When everyone from the mailroom to the chief executive buys into the mantra of creating brand loyalty, the result is increased profits.

Consumers are more price sensitive in this economy, and they are trading down, but it's still a great time to capture loyalty. People don't want to waste money on brands that fail to meet their expectations. They're buying only what they trust, and they'll return to trusted brands repeatedly.

Instead of watering down its frequent flyer benefits to save costs, United should be taking the exact opposite tack. It should take a page from hotel stalwarts like Starwood and Marriott, which are offering more goodies than before to their most loyal clients. In consumer studies that my organization, China Market Research Group, has conducted, we've found that the No. 1 reason people fly United regularly is because they have racked up points in United's Star Alliance loyalty program. Why would United want to disenfranchise its most loyal customers?

As consumers think harder about where to spend their money, aiming to satisfy them is not enough. Only striving to create true loyalty will work.

Don't Forget Why You're Here

Many companies forget their main purpose and become bogged down in just sustaining their operations. United forgets that it's not only selling a means of transportation that is faster than trains or cars. For vacationers, who make up most passenger traffic, it's selling dreams and memories. An airline flight is typically the first and last part of a newlywed couple's honeymoon, or a family's overseas trip in planning for years. People remember such journeys forever. I fondly recall my own first flight on TWA when I was six years old, to Italy and Greece with my parents. Likewise, my childhood flights on Delta to see my grandmother in Florida. What United fails to get is that it is selling dreams, not just a form of transportation. Few United employees take pride in their jobs, and it shows.

One company that gets it right is Disney. A trip to Disney World is not simply an outing to an amusement park like Six Flags or Universal Studios. It is a time when families can create memories that last a lifetime. Disney trains its employees, from the monorail drivers to the people selling fast food, to be more than just salespeople. They are weavers of dreams. That is one reason families repeatedly return to Disney World, according to research my firm has conducted with visitors from eight different countries.

Unilever got it right with its Axe deodorant. That company understands that it is not selling a way to stop sweat or to smell a little better. It's selling a way for young men to be more attractive. Axe put together a TV commercial that shows a dorky guy, who happens to use Axe, getting more glances from attractive women than Ben Affleck, the movie star. The spot uses humor to imply that you, too, can be as appealing as the Hollywood star who dated Gwyneth Paltrow and Jennifer Lopez and is married to Jennifer Garner.

To create real customer loyalty, you have to offer more than just functionality. And you have to train everyone in your organization to have the pride to sell an emotional connection, not just tools.

Don't Forget Employee Morale

United's workers have been a beleaguered group for years now. They have had their wages, pensions and benefits cut even as the chief executive officer, Glenn F. Tilton, has been paid nearly $20 million dollars over the last five years (despite United's stock dropping 43% during his tenure). Does that seem fair?

Employee morale has gone into the gutter. Unhappy workers mean terrible customer service--as Dave Carroll and Wang Jianshuo and millions of their followers know. The company may have no choice but to lay off workers and reduce benefits in the downturn, but it has to do so with respect and with effective communication to the rank and file about why such pain is necessary. Every company everywhere must have an effective strategy for ensuring that its remaining employees don't lose hope or happiness, just as it must maintain its focus on creating brand loyalty.

One thing to do is to make sure that all employees share the pain equally. If there are big cutbacks anywhere, senior management should take substantial pay reductions and limits on its privileges, such as fewer business class flights and trips on private jets. The troops look to senior management for direction. If those troops see the top brass caring for itself at the expense of others, the spirit of the entire organization erodes.

In today's economy you can't get by on decent prices or acceptable service. You have to stand out and win the hearts of your customers. To do that you have to go beyond satisfaction to true loyalty. You have to provide a compelling reason, beyond basic service and price, for consumers to choose you. And your organization must be unified in that mission. Otherwise, you may be the next to follow GM into Chapter 11.

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