

**To Open Up the World for Those Who Want To See**



**The Strategic Move of Flight Center Limited**  
*(A Blue Ocean Strategy Case Study in Australia)*

Submission by Phillip Ng

Country Manager, UCSI Blue Ocean Strategy Regional Centre Australia Office

Email: [phillipng@ucsiblueoceanstrategy.com](mailto:phillipng@ucsiblueoceanstrategy.com)

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# 1 Introduction

In 1982, Flight Centre Limited (FCL) opened its first store in Sydney, Australia with an aggressive growth strategy in mind and a goal of being one of the largest travel retailers in the world.

Today, FCL operates **11 retail, corporate and wholesale brands internationally**, with more than **1700 locations**, a global staff of over **12,000 team members**, and a geographical footprint spanning **60 countries**.

At its height, FCL rolls out one new store every 36 hours and has generated average profit increases of 25% per year – arguably the fastest growing travel company in the world. How did they achieve this?

Before we study how FCL was able to create this successful business growth, let us take a look at the background history and key milestones of the company which is outlined below:

## **1982**

Top Deck employs 220 people and owns 90 buses. Top Deck Travel decides to set up a travel agency in Sydney. Flight Centre Limited is incorporated and the first Flight Centre store is opened.

## **1987**

Flight Centre has 30 stores and the company implements standard names, logos, uniforms and systems and stores.

## **1990**

Flight Centre has 80 shops in Australia and New Zealand.

## **1995**

Flight Centre opens first store in the UK, Canada (Vancouver) and South Africa.

*Flight Centre Limited floats on the Australian Stock Exchange (FLT:ASX).*

## **1999**

Flight Centre opens first store in Los Angeles.

## **2003**

Flight Centre merges its Canada East, Canada West and USA operations into one North American wide travel agency operation: Flight Centre North America.

## **2004 Mar**

Consolidation & expansion of corporate travel operations into FCm Travel Solutions. Acquisition of travelthere.com. Entered into joint venture corporate travel operation with China-based China Comfort Travel Co. Ltd.

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## **2005 Jul**

Flight Centre has more than 1,200 stores in the Canada, the United States, the UK, South Africa, Australia and New Zealand, as well as corporate travel operations in China and Hong Kong and employs more than 5,500 people.

## **2006 Jun**

The Flight Centre brand network spans Australia, New Zealand, the United Kingdom, South Africa, Canada and the United States. The company has over 1,500 shops and a global staff of over 8,000 team members.

## 2 Scope of Study

FCL's success was not achieved overnight.

It was evolutionary – learning from their mistakes as much as their successes. It was not in the product that they offered. It was in the way they did things, the way they organized themselves and the way they thought. It was their willingness to challenge conventional ideas and their own views.

The evolution of FCL's business can be divided into 5 stages.



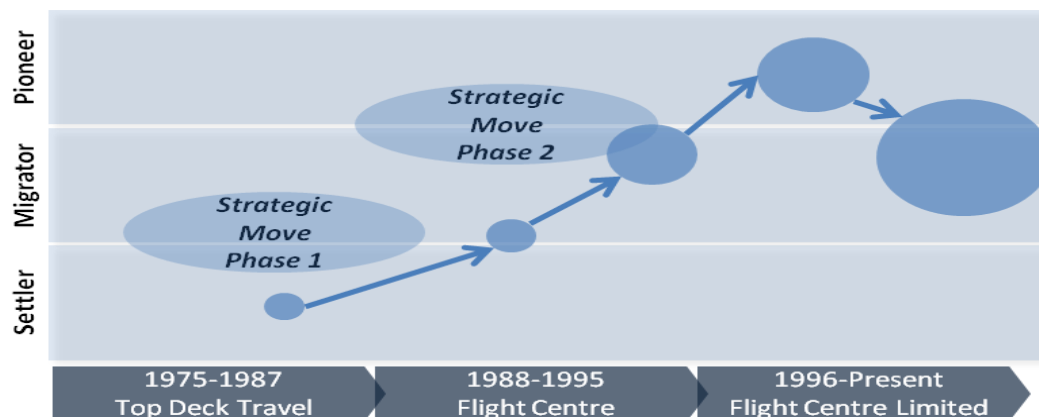
FCL's remarkable period of growth was achieved between 1995-2006 as shown in the table below:

|                          | 1995  | 2000   | 2006   |
|--------------------------|-------|--------|--------|
| Profit before tax (\$ m) | 13    | 61     | 119    |
| Turnover/TTV (\$ m)      | 759   | 2,400  | 7,800  |
| No. of stores            | 199   | 552    | 1,500  |
| No. of staff             | 1,100 | 3,000+ | 8,000+ |

In this case study, we shall look at 2 phases of the company's history prior to the above mentioned period of growth which led FCL to where they are today:

- 1975-1987:** when directors of Top Deck decided to set up a business in Sydney to sell discounted air tickets. They made a series of decisions and actions which moved what would be a "me too" travel offering from that of a settler to that of a migrator. We shall refer to this as Strategic Move Phase 1.
- 1988-1995:** when all FCL stores acquired a "same look and feel" prior to its public listing on the Australian Stock Exchange. They built on their earlier successes, standardised to facilitate rapid expansion and leveraged technology to further move their offering from a migrator to that of a pioneer by offering unprecedented value. We shall refer to this as Strategic Move Phase 2.

The scope of this case study therefore covers the strategic decisions and actions taken by FCL during the 2 periods. This is illustrated in the Pioneer-Migrator-Settler (PMS) Map as follows:

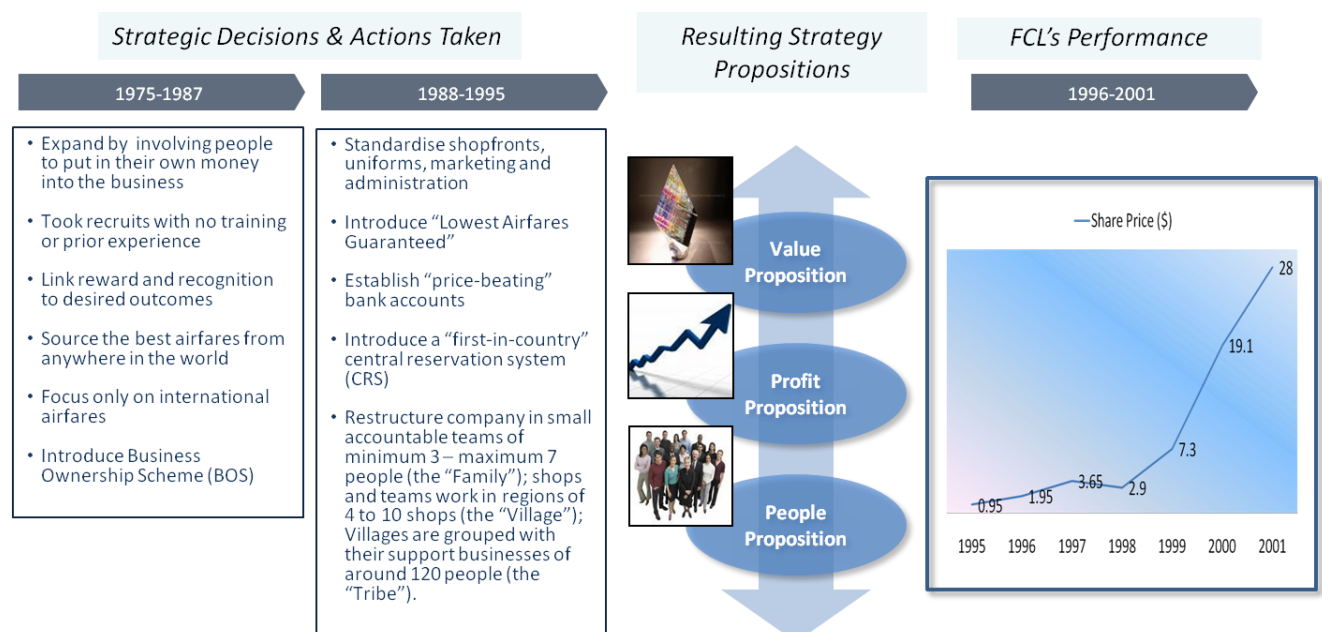


FCL's strategic move during these 2 periods transformed their then 30 disparately-branded general travel agencies in 1987 to become a world-leading air travel specialist with 975 shops which in 2002 generated sales of \$3.6 billion and profit after tax of \$62 million. The company was also able to retain a stock market price-earnings ratio in the high 20s in arguably the worst aviation market environment in history.

We shall now look at

- the insights that led to key strategic decisions and actions** taken between 1975-1987(pre-FCL phase) and 1988-1995(pre-public listing phase), and
- how this resulted in a value, profit and people proposition that were in alignment** to set the stage for FCL's phenomenon growth between 1996-2001.

The following diagram provides a summary of what those key strategic decisions and actions are and how it affected FCL's share price performance from 1996-2001.



### 3 The Industry Landscape Then: 1970s in Australia

Graham Turner and his partners, founders of FCL, stumbled on an idea called a “bucket shop” in the 1970s. “Bucket shops” were airfare retail outlets which had been operating in London since the late 1950s specialising in discounted air travel.

With a start-up capital of \$8,000, the founders of FCL adopted the “bucket shop” model and set up the first Flight Centre type store in Sydney in 1982 when there was a ban on airfare discounting.

The operating “industry rules” when FCL started their business was as follows:



The International Air Transport Association (IATA) & the Australian Federation of Travel Agents considered it **illegal and unethical for travel agents to discount airfares**.



Traditional travel agencies **mainly dealt with the well-known, (then) government-owned airlines** such as Qantas or British Airways.



Travel agents were not perceived as independent business entities but merely **as agents of airlines subject to the latter's restrictive rates and conditions**.



Traditional travel agencies were generalists **selling multiple travel related products and services with an ever mobile workforce**.

Added to this, they were entering a state of play where it was a mature market with the usual characteristics of entrenched competition:

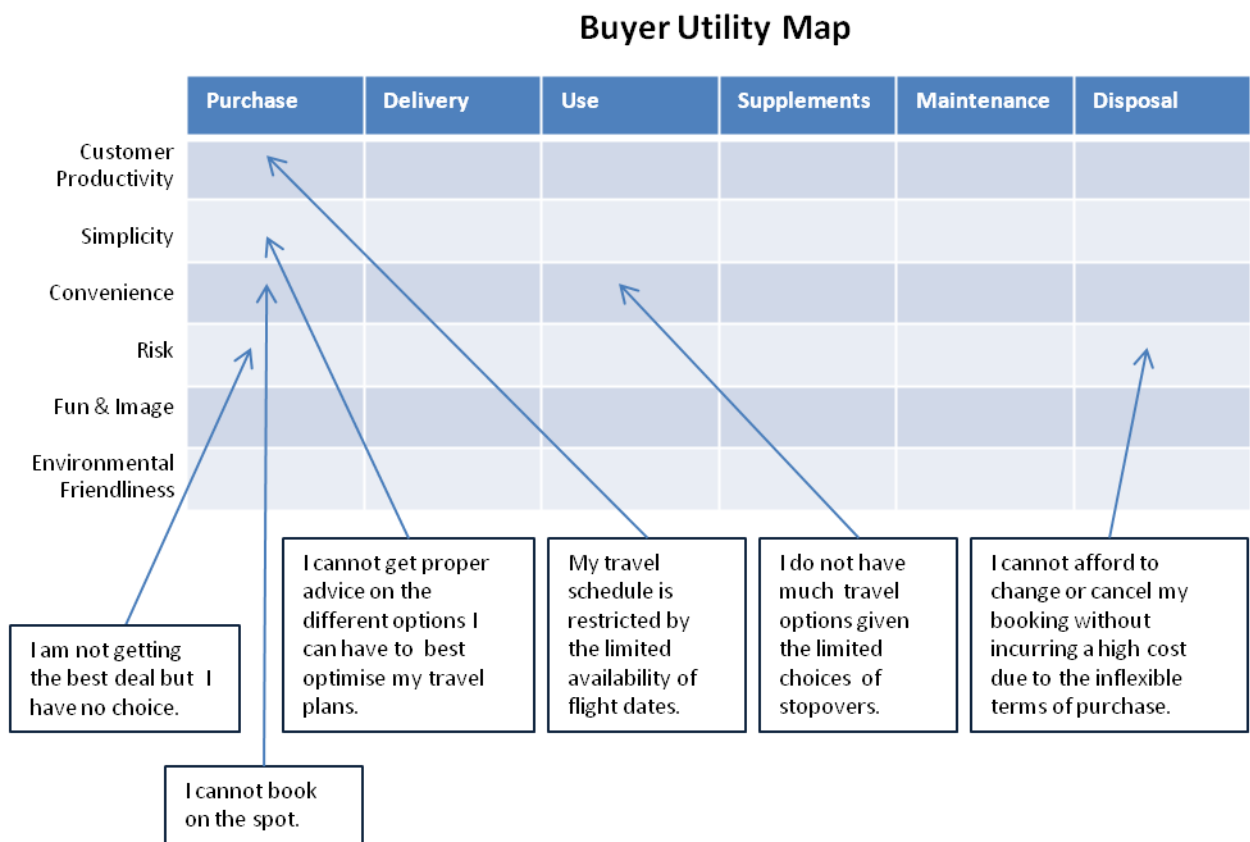
- There were over 3,000 travel outlets in Australia.
- These were operated by some 2,000 firms.
- Bank-owned travel agencies and large corporations such as American Express and Thomas Cook dominated the market. They took 75% of all bookings.
- The airlines and small one-off travel agents fought over the remainder 25% of all bookings.

## 4 Blocks To Utility Created By The Industry Practices (1970s-1980s)

Deregulation of the airline industry in Australia only took place in 1991. Prior to the deregulation, there was government sponsored price-fixing in that airfares were set and approved by the government under the Air Navigation Regulations. It was an offense to charge less than the airfares prescribed under those regulations. The travelling public were the biggest losers.

The regulated pricing and industry practices created blocks to utility across the buyer experience cycle for customers and noncustomers.

Some of these are shown in the Buyer Utility Map as follows:



These practices

- (a) restricted competition,
- (b) limited travelling by air because of its price, and
- (c) did not drive airlines/air travel services providers to improve their efficiency and quality of service.

We need to understand how the decisions and actions taken by FCL removed these blocks to utility and changed the face of the Australian travel industry.

## 5 Reaching Beyond Existing Demand

Today, 1 in 4 Australians travel overseas by air. Back in 1970s when airfares were regulated by the government, the number of Australian air travellers was only 1 in 15. This was due to the prevailing industry practices which resulted in travel offers that were

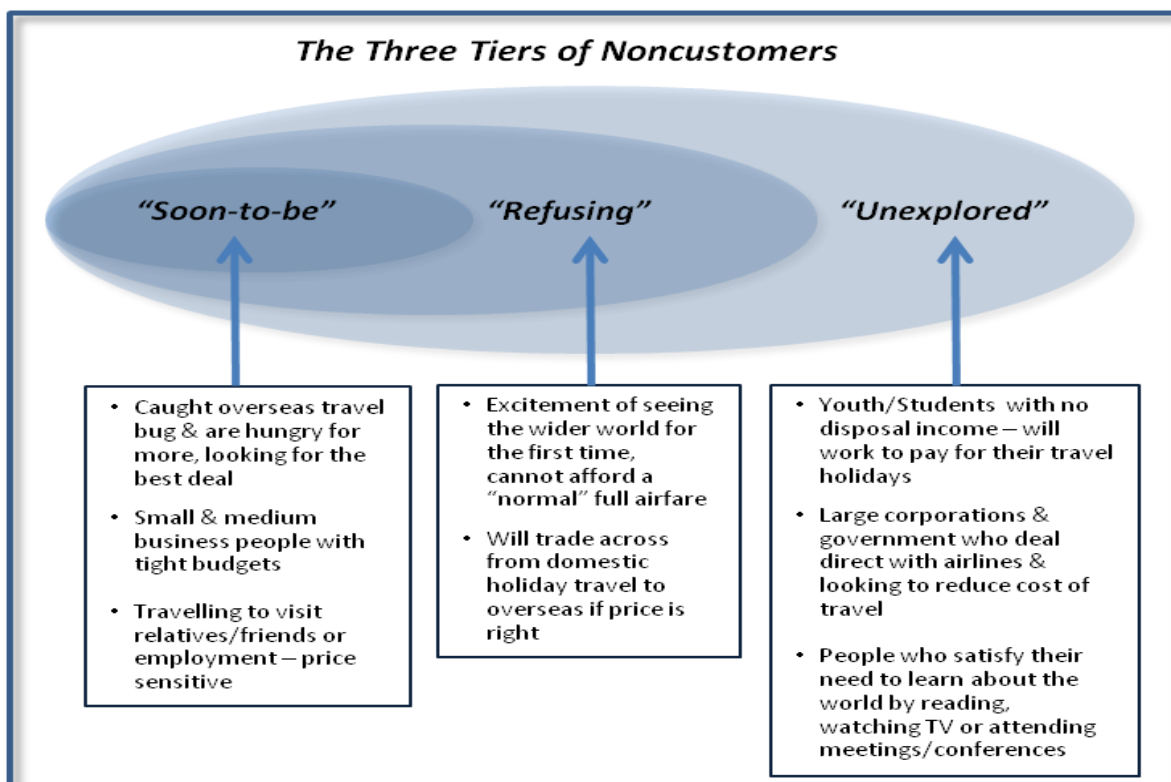
- restrictive in terms of buyer choice and options
- beyond a reasonable price that was within the reach of the mass of buyers,

It created a huge latent demand for air travel which was waiting to be unlocked among noncustomers of the industry.

Some of the noncustomers included:

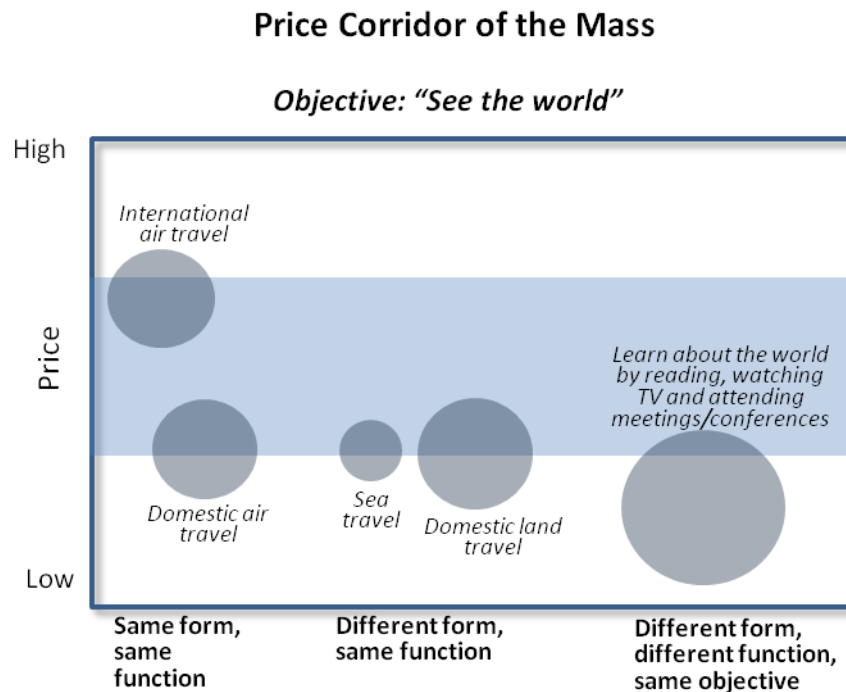
- people who had travelled overseas and would want to travel more often if they could afford it
- people from small and medium businesses and are looking for airfares within their tight budgets
- people who will only travel in a group (with family members or friends) and cost is a key consideration
- people who will want to travel to see the world for the first time but do not have the disposal income to do so
- people who often travel within the country for holidays and have not considered overseas travel as it was too costly then

A profile of the industry's noncustomers is shown in the diagram below:





In developing the Flight Centre model, the partners of FCL set out initially with the objective of offering a price level that will make it more affordable to travel by air and to do so more frequently (refer to diagram “Price Corridor of the Mass”).



In doing so, they were also able to address the other key commonalities in what was of value to customers and noncustomers of the industry. These were:

- (a) Opportunity to see different places and to meet different people,
- (b) More options as to the choice of destinations, flight times and dates

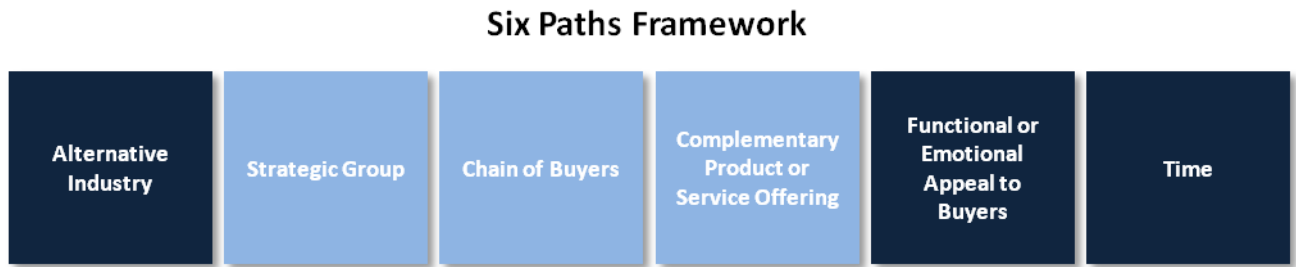
By building on the idea of **“a ticket at the right price to fly on right time to the right place”**, FCL was able to effectively convert the majority of customers and noncustomers of the air travel industry to buy from them.

To achieve this, FCL had to challenge the conventional thinking and practices of the industry.

We shall now take a look at the insights that led FCL to

- offer a leap in value for the company and its buyers,
- outperform the existing players within the industry, and
- unleash new demand.

## 6 Insights That Led To Reconstructing Market Boundaries



FCL was able to break out of the accepted boundaries that defined how the rest of the industry competed as a result of insights they gained from

1. Looking across alternative industries (Path 1)
2. Look across functional or emotional appeal to buyers (Path 5)
3. Look across time (Path 6)

### 6.1 Looking across alternative industries

During the 1970s, the founders of FCL were successfully operating **bus tours (an alternative industry of land travel)** in UK to different European locations. They were able to buy cheap discounted air tickets from “bucket shops” for their passengers who flew in from different parts of the world.

“Bucket shops” were small ‘backyard’ travel agents who could sell seats at a discount without upsetting the airlines or the major travel agency chains. This was possible because airlines were offloading empty seats to these non-traditional travel agents.

The insight they gained here was they could **unlock the demand for air travel** if they can **get the price of the airfare right** based on the “bucket shop” model.

At the same time, they had the foresight to move away from the poor image of the bucket shop to business model **where affordable price (right price) and quality service (right timing, right place) are offered at the same time.**

### 6.2 Look across functional or emotional appeal to buyers

FCL entered an industry which was becoming more emotionally oriented. Their competitors clearly competed largely on appealing to the feelings of their buyers. Advertisements of the time used shots of beaches and scenery to sell tickets. It was not an industry practice to advertise ticket prices. Their offices were well furnished and had more space for clients to spend hours.

The insight they gained here to strip away whatever extras the industry offered to create a fundamentally simpler, lower-priced, lower cost business model that their buyers would welcome.

They made a decision to put prices on the destinations they offered – just as they had done when they advertised their bus tours. They leased smaller shops and paid lower rents to allow the company to genuinely sell cheaper flights. Their office interior was made simple to **appeal to their clients who did not feel they were paying for fancy overheads.**

### 6.3 Look across time

Prior to 1986, it was illegal to sell discounted airfares in Australia.

In the United Kingdom however, although airlines there had to sell airfares at regulated prices, discounting was the norm for travel agents, particularly the 'bucket shop' retailer. These bucket shops were often run-down and went broke with alarming regularity. Despite these shortcomings, they were often always inundated with clients because of their cheaper fares.

The insight they gained was the government-sponsored price-fixing of airfares in Australia clearly **did not benefit the public.** It was **a matter of time when the lifting of this barrier would create an opportunity** for first-mover advantage.

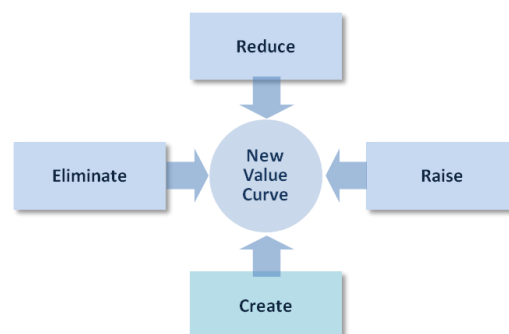
## 7 Challenging the Industry's Strategic Logic & Business Model

The first Flight Centre store was set up in Sydney on 29 March 1982. Within a month, the store was making up to \$60,000 in turnover a week. It made a \$100,000 profit in its first year. The shop had no stock or debtors and required minimal capital input and staff supervision.

Comparisons were made with Top Deck's tour business. Their European division had 90 buses, a staff of over 200 people and a lot of hard work was put in to yield a maximum of \$50,000 profit a year.

There were no doubts that their new venture was a huge success.

We shall now use the 4 Actions Framework to better understand how the Sydney Flight Centre model broke the trade-off between differentiation and low cost to bring about this success.



### 7.1 Which of the factors that the industry took for granted were eliminated?

- To get around the ban on discounting imposed by IATA in Australia, FCL bought its lower fare tickets either via the UK or directly from airfare wholesalers, known in the industry as consolidators.
- The problem was domestic tickets as Sydney FC couldn't ticket these without an IATA license. The commission paid by consolidators on these fares was minimal and it wasn't worthwhile for the consultants to sell them.

The action FCL took was to **do away with ticketing domestic flights and to focus only on international airfares instead.**

### 7.2 Which factors were reduced well below the industry's standard?

- The traditional travel agent model was one of a generalist – they were all things to all people.
- In those days when the use of information technology in the industry was still limited, servicing buyers added to the complexity of the product offering and increased the cost structure.

The action FCL took was to **simplify the product and service offering by selling only discounted airfares.**

### 7.3 Which factors were raised well above the industry's standard?

- In those days, traditional travel agencies mainly dealt with the well-known, (then) government-owned airlines such as Qantas, or British Airways.
- FCL didn't care which airlines it dealt with as long as their fares were cheap.

The action FCL took was to **source the best airfares from anywhere in the world.**

### 7.4 Which factors were created that the industry never offered?

- FCL was entering a market where industry rules and competition were entrenched.

The action FCL took was to create a new category of buyer value - the first-in-country International Airfare Specialist to **provide the lowest airfare** and at the same time **expert consultation on ALL airlines.**

We shall look at how these actions led FCL to create a value, profit and people proposition that were in alignment to set the stage for the company's rapid growth from 1995 to 2006.

## 8 Creating the Value Proposition

FCL created their value proposition by their decisions and actions they took as shown in the ERRC Grid as follows:

|           |        |
|-----------|--------|
| Eliminate | Raise  |
| Reduce    | Create |

- FCL took the action to eliminate **all offerings related to domestic ticketing and other add-on travel products** such as bus tours, sea cruises and accommodation.
- In doing so, FCL differentiated themselves from the rest of the industry by their focus on international air fares.
- At the same time, all service and overhead costs not related to international air ticketing was removed.

|           |        |
|-----------|--------|
| Eliminate | Raise  |
| Reduce    | Create |

- FCL took the action to become the first travel agency to implement a central reservation computerised system (CRS) into all its stores in 1988. It would be another 5 years before the industry switched to computerised pricing.
- In doing so, FCL differentiated themselves from the rest of the industry by being able to **check availability and make bookings on the spot**. Other non-computerised agents had to make reservation via time-consuming phone calls to airline offices.
- At the same time, the cost of having to update photocopied spreadsheets of prices to different destinations was work-intensive and some prices were obsolete before they were even sent out by courier to the shops. This was replaced with the CRS and FCL consultants could now **quote clients on the spot and in a third of the time**. It would be another 5 years before the industry switched to computerised pricing.

|           |        |
|-----------|--------|
| Eliminate | Raise  |
| Reduce    | Create |

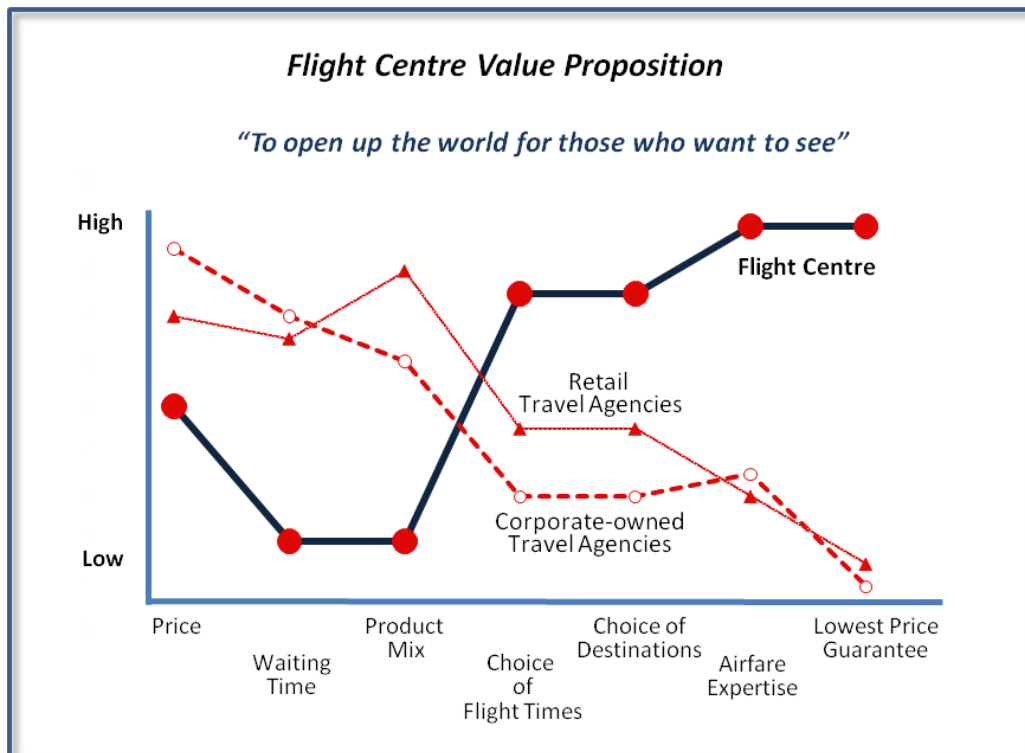
- FCL took the action to significantly raise the number of airlines and air travel consolidators they dealt with.
- In doing so, FCL differentiated themselves from the rest of the industry by being able to source for the best airfares from anywhere and any airline.
- This gave their buyers **flexibility in their choice of flight times, destinations and stopovers**.
- At the same time, costs were reduced through increased efficiencies by (a) volume of sales, and (b) operational standardisation and systematisation.

|           |        |
|-----------|--------|
| Eliminate | Raise  |
| Reduce    | Create |

- FCL took the action to offer the **“lowest airfares guaranteed”**. FCL also placed ads under the heading :Reservation Hotline Offering **Expert Advice on ALL Airlines**”,
- In doing so, FCL differentiated them from the rest of the industry by creating a new category of airfare specialist.
- At the same time, the cost of standing by the guarantee and the marketing was backed up in practice by the increase in extra enquiries and sales.

The resulting value proposition was one that set Flight Centre as the No.1 Discount Flight Specialists who offers expert and responsive advice on ALL airlines.

The value proposition is shown by the strategy canvas as follows:



## 9 Creating the Profit Proposition

FCL created their profit proposition by their decisions and actions they took as shown in the ERRC Grid as follows:

|           |        |
|-----------|--------|
| Eliminate | Raise  |
| Reduce    | Create |

- FCL took the action to eliminate **prior training and experience as requirements for** recruitment by the company.
- In doing so, FCL differentiated them from the rest of the industry by allowing motivated people to break straight into the travel industry.

In those days you had to complete a travel and tourism course and then work as a domestic consultant for several years selling bus and train tickers before you could become an international travel consultant.

- The wage for new consultants in their first 3 months was 40% of the office commission on everything they sold. After their third month, FC consultants went on to a salary plus 10% commission.
- If the new recruits were skilled at sales or highly motivated to learn, then they made a lot of money and stayed. Those without selling skills made little money and usually left.
- The trial system was beneficial for both consultant and employer as those who stayed made far more money than their industry counterparts.

|           |        |
|-----------|--------|
| Eliminate | Raise  |
| Reduce    | Create |

- FCL took the action to **reduce the basic salary** of each consultant and pay them a percentage of commission for each ticket sale.
- In doing so, FCL differentiated themselves from the rest of the industry because the common practice was to pay the travel agent a flat wage while the agency was paid the commission.

- At the same time, the FLC consultant's incentive was based on percentages structured upwards in tiers based on the total office commission each makes per month.

Consultants were therefore rewarded for improving their performance to reach the level where they make the most money for themselves, which correspondingly makes the most money for the company.

- FCL took the action to **reduce the cost of setting up and running** each store by implementing common operating standards and systems.
- In doing so, FCL differentiated themselves from the rest of the industry with the capability to have ten, fifty or a hundred shops all operating well and profitably.

- For instance all shops had red carpets, curtains and airline-style counters with stools. This took up less space than traditional office furniture such as table and chairs. In this way, FCL could lease smaller shops and pay lower rent for the same number of people.

|           |        |
|-----------|--------|
| Eliminate | Raise  |
| Reduce    | Create |

- FCL took the action to **raise the number of airlines and consolidators the company dealt with to get the lowest airfares.**

For instance for \$1600, a FC client could buy return flights to London that retailed at \$2000 in every other agency in Australia.

It took advantage of the fact that London-Australia return airfares bought in UK were \$400 cheaper than Australia-London return airfares set by the Australian government. When a FC consultant had a client wishing to travel to London, he/she telexed their office in UK; the cheaper London-Australia-London ticket was issued and posted back to Australia by registered mail. When it arrived, the consultant then changed the dates on each ticket so that clients could use the sectors in reverse (i.e. Australia-London-Australia).

- In doing so, FCL differentiated themselves from the rest of the industry by coming up with an unbeatable fare.
- At the same time, FCL was able to negotiate for even better fares as a result of the increasing number of ticket sales they generated. This was due to growing demand for discounted airfares and the expansion of the FCL's geographical coverage.

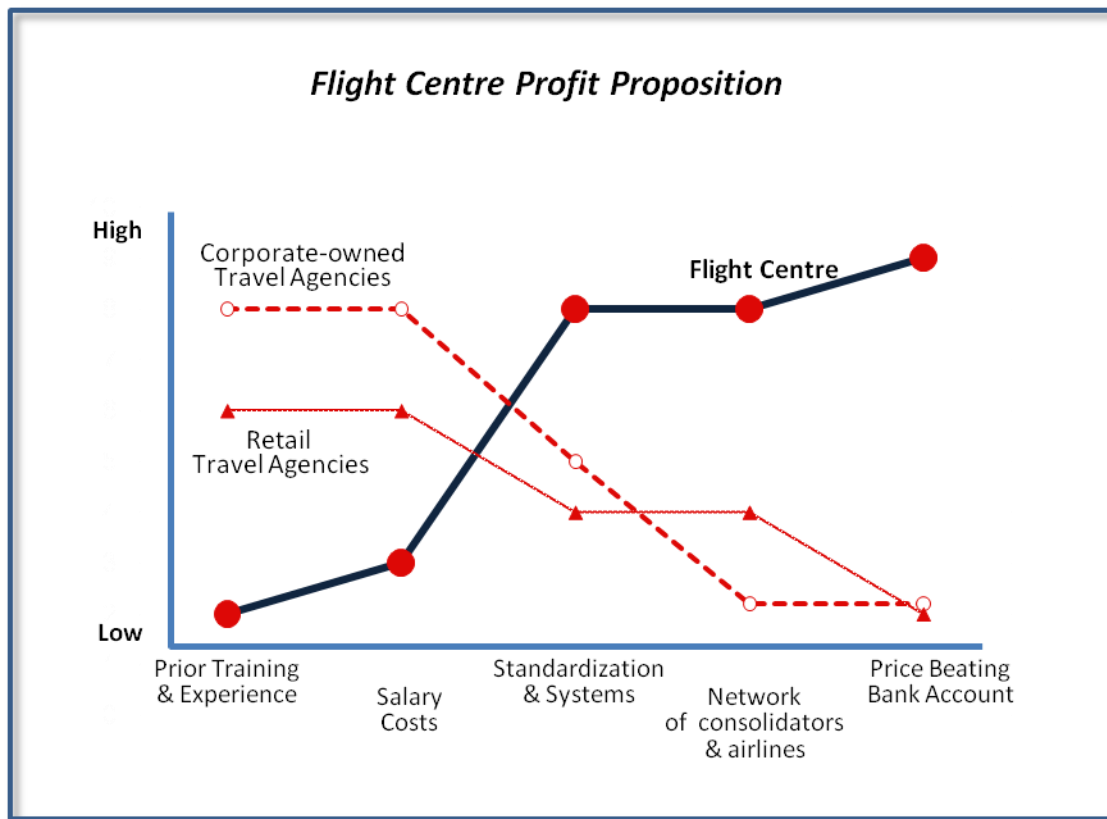
|           |        |
|-----------|--------|
| Eliminate | Raise  |
| Reduce    | Create |

- FCL took the action to create **a price-beating bank account to back up the lowest airfare guarantee.** Instead of consultants having to pay to beat a lower quoted fare out of their own commission, they could now claim the difference out of this account.
- In doing so, FCL differentiated themselves from the rest of the industry as the client got the lowest price and the consultant still made money on the booking.
- At the same time, this brought in more money than FC would ever have to pay out to stand by the guarantee.

The resulting profit proposition was a result of narrowing the product focus and simplification. Their success in this area was due to the company's ability to see opportunities where others see none because they valued common sense over conventional wisdom,.



The profit proposition is shown by the strategy canvas as follows:



## 10 Creating the People Proposition

FCL created their people proposition by their decisions and actions they took as shown in the ERRC Grid as follows:

|           |        |
|-----------|--------|
| Eliminate | Raise  |
| Reduce    | Create |

- FCL took the action to eliminate **varying privileges** for different people within the company, regardless of who they were or from which department they belong to.
- In doing so, FCL differentiated themselves from the rest of the industry by making it a company practice for everyone, from the day they joined the company to have equal privileges.
- No one had separate office, receptionists or secretaries.
- Rewards and recognition was based on performance. The intent was to create a fair environment.

|           |        |
|-----------|--------|
| Eliminate | Raise  |
| Reduce    | Create |

- FCL took the action to **reduce bureaucracy and hierarchy** by structuring the company into (a) *families*: teams of a minimum of 3 and a maximum of 7 people (b) *villages*: 3 to 5 geographical teams that support each other (c) *tribes*: a maximum of 25 teams with a single identity that come together for celebration & interaction.
- In doing so, FCL differentiated themselves from the larger enterprises by having a small team structure to promote accountability and effective decision-making.
- At the same time, it gave their people a continuing sense of personal and social identity that is usually nonexistent in large organizations.

|           |        |
|-----------|--------|
| Eliminate | Raise  |
| Reduce    | Create |

- FCL took the action to raise **career development and growth opportunities** for their people by promoting from within.
- Promotion is merit-based.
- At a time when FCL was opening a new shop every 36 hours, the company offered people tremendous career opportunities to better themselves.
- FCL took the action to raise **the personal autonomy of** each consultant by implementing the small team structure of “family, village, tribe” and “pay on performance scheme”.
- In doing so, FCL differentiated themselves from the rest of the industry by telling their people “Do the job right and on time, and you can be your own boss.”
- Walk into a Flight Centre shop and one consultant will look after every aspect of your booking. The consultant will determine the price she/he charges you and the airline she/he uses.

If you are a high-spending client, the consultant may even use some of her/his commission to buy you a thank-you gift for the bookings. All this without any input or interference from her/his manager.

If you return to the same shop to make another booking and you’ve been impressed with her/his service, you’ll always be referred back to her/him as your regular consultant.

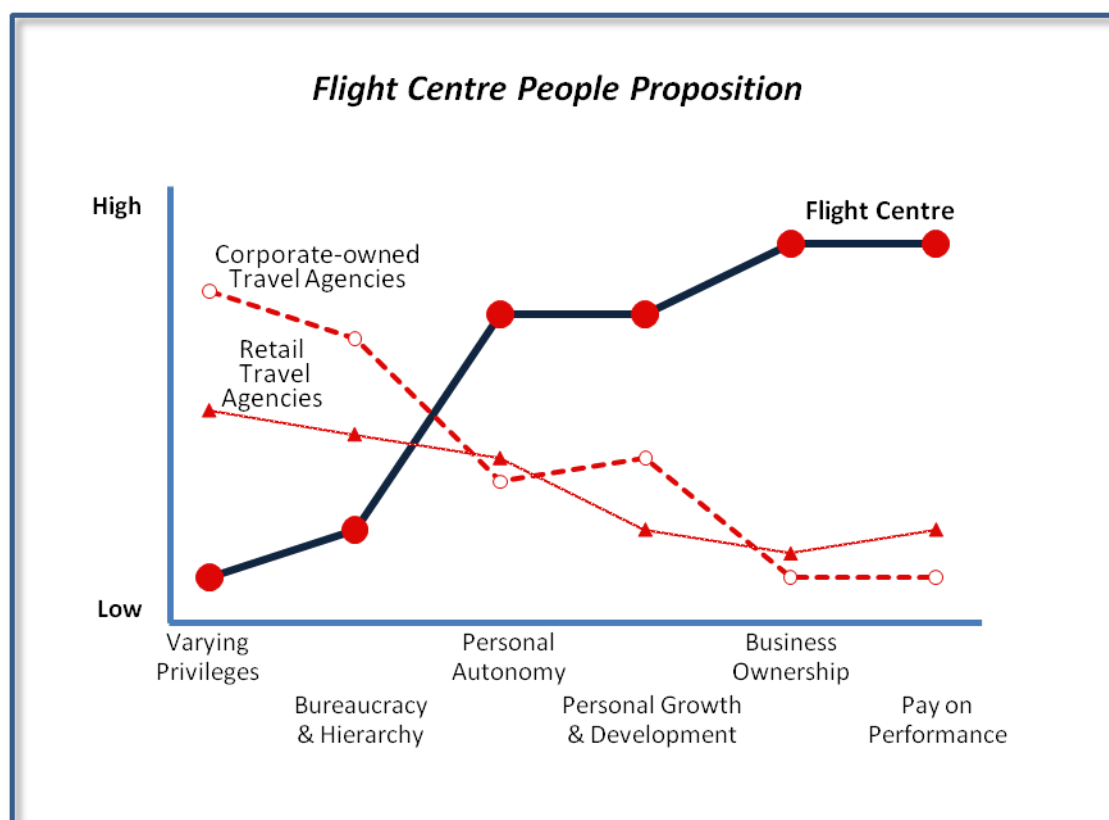
Hence a good consultant builds up a substantial client base of loyal repeat and referral clients. The consultant has a guaranteed income stream and can offer a far better service than in a one-off encounter.

|           |        |
|-----------|--------|
| Eliminate | Raise  |
| Reduce    | Create |

- FCL took the action to create **a rewards and recognition scheme** based on “what gets rewarded gets done”.
- Commission is only the start of the monetary rewards that FCL offers. The incentive scheme escalates when a person becomes a manager. First, they get an automatic profit share in their shop of 0-13%, in addition to their consulting commission.
- In order to motivate people to run their shops as their own business, FCL took the action to **create a special system called the Business Ownership Scheme** where the company team leaders can buy up to 20% more of the profit of their business.
- This became an official philosophy where the company believes that each individual has the opportunity to own part of their success.

The people proposition was a result of FCL living the principle that its people are its most important asset. The company’s reward and recognition motivated people to achieve more than they had ever thought possible. The company’s people physically and emotionally own their own business, within the business. And the company’s practices are inherently just.

The people proposition is shown by the strategy canvas as follows:



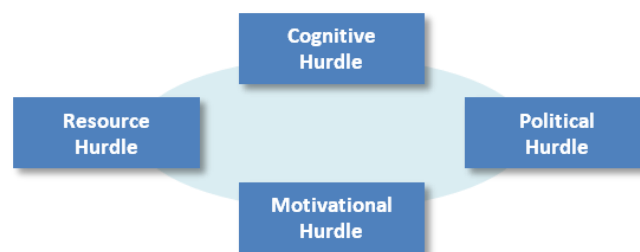
## 11 How FCL Overcame Execution Hurdles

Flight Centre founders was still running Top Deck in London when on March 1982 they set up their first store in Sydney.

They faced numerous hurdles and were isolated from the rest of industry. It was the view of airlines and the industry that Flight Centre would be lucky to survive 12 months.

In spite of this, by the end of the year, the Flight Centre operation had grown to a total of 9 retail shops. Within 18 months, Flight Centre succeeded in revolutionising the way airfares were sold in Australia. Shopping around for the cheapest airfares became normal behaviour.

FCL was able to translate thought into action effectively because they were able to overcome the cognitive, resource, motivational and political hurdles that are faced by any organization having to execute a strategy.



### 11.1 Breaking Through the Cognitive Hurdle

Flight Centre recruited people with no training or prior experience.

Tennis coach, forestry worker and bank teller are some examples of professions of people who were recruited.

Those who started in shops had to rely on their own initiative. They therefore had no respect for the established status quo and were not weighed down by years of travel industry convention.

They used their energy to get bookings and outperform their competitors.

### 11.2 Breaking Through the Resource Hurdle

The vision of FCL founders was simple. It was 'To have a lot of shops and make a lot of money'.

Funding was Top Deck's biggest obstacle. They decided that the best way to expand was involve other people by them putting in their own money.

This was how the second store of Flight Centre was set up in Melbourne at the end of April 1982, a month after the Sydney store was running. Within 8 months, the Australian Flight Centre operation had grown to a total of 9 retail shops, six of which were start-up joint partnership businesses.

### 11.3 Breaking Through the Motivational Hurdle

Flight Centre's rewards and recognition policies are based on "What gets rewarded gets done". They are not cheap but are worth every penny because of the level of ownership they inspire.

For example, an individual FC recruit can

- start immediately,
- sell the products they love,
- determine their own salary,
- become a manager within 12 months,
- earn up to 30% profit share in several shops,
- track their ranking within the company,
- win awards and recognition as high-achieving consultants or business leaders,
- attain a very cheap MBA,
- fly to 2 or 3 overseas conferences a year,
- make many like-minded friends, and
- be in the running to open a new business overseas or start up a new venture within the company.

This is far more exciting than most career paths available in the retail industry and in fact in any industry.

### 11.4 Breaking Through the Political Hurdle

The political hurdle Flight Centre faced was not within but from the industry – the Australian Federation of Travel Agents(AFTA), International Air Transport Association(IATA) and airlines.

When Flight Centre stepped into the game in 1982, it was illegal and unethical for travel agents to discount airfares. The fine for non-compliance was a hefty \$5000.

To circumvent the embargoes, Flight Centre bought its tickets offshore or via travel industry wholesalers known as consolidators. There was nothing AFTA or IATA could do to stop them.

Flight Centre however did have a major support group – the public. Flight Centre stores were always inundated with clients because of their cheaper fares. Other travel agents couldn't beat them, so eventually they joined them. The retailers who didn't discount lost a lot of business.

The compliance system collapsed due to non-payment of thousands of dollars of fines. Flight Centre's tactics had worked.

Over the next few years, the industry was deregulated and market forces were allowed to prevail.

## 12 Fair Process in Action

Flight Centre's success is due to the constant attention the company focused on providing value to their people.

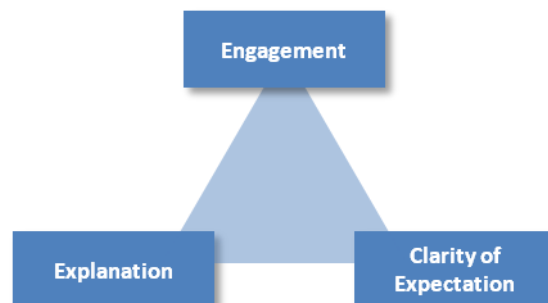
This is evident from the numerous awards and recognition they received from the industry.



Each individual is rewarded “on the outcomes the company wants, right from the start’. This is achieved by making sure

- (a) Those outcomes are clearly measurable,
- (b) The right people are placed in the right places to produce those outcomes, and
- (c) That people are trained in exactly how to achieve those outcomes.

The underlying principle governing its successful execution is clearly based on the three principles of fair process:



We shall now take a closer look at how FCL was able to build execution into strategy-creating the commitment, trust and voluntary cooperation required to execute successfully.

## 12.1 Communicating management's respect for each individual

It is Flight Centre's belief that every individual has equal privileges.

For instance, **everyone** wears a uniform, has a bland workstation, shares a hotel room at conferences, and pays for business-class upgrades and car parking from his or her pocket.

Similarly, promotion is merit-based with demonstrated achievement the main criteria.

A good consultant today could be a manager in 6 months, a middle manager in 12, and run the Marketing department within 2 years. That same person could also start up a loyalty program, negotiate advertising deals or open a new business overseas.

## 12.2 Communicating the thinking that underlies decisions

Consultants receive a copy of the Flight Centre Handbook each month to help them track their progress in achieving their goals. The Handbook details every person's individual commission figures and the profits of every shop.

Also included in the handbook is a table that ranks consultants, novice consultants and shops in order of merit. In this way, all consultants can see exactly how much they've earned and where they stand in regard to everyone else in the company.

Those who do well are praised in the monthly newsletter and awarded a prize on stage at the regional Buzz Night – a monthly dinner and information forum for shops in the same area. When Flight Centre introduced a car as a prize for any consultant who made over \$200,000 in individual profit in one year, that profit target had never been reached before. The following year the company gave away 5 cars.

## 12.3 Stating clearly the rules of the game

Besides the wage and incentive system based on "What gets rewarded gets done", Flight Centre went an extra step to put in place a system of recognition that honours and praises high-achievers on a regular basis.

This process begins from the moment someone starts with Flight Centre.

As part of the induction training, new consultants learn about the many awards they can win for outstanding performance. They are taught how to set their own daily, monthly and annual financial goals based on what they can reasonably achieve. This then determines which award category they will strive for.

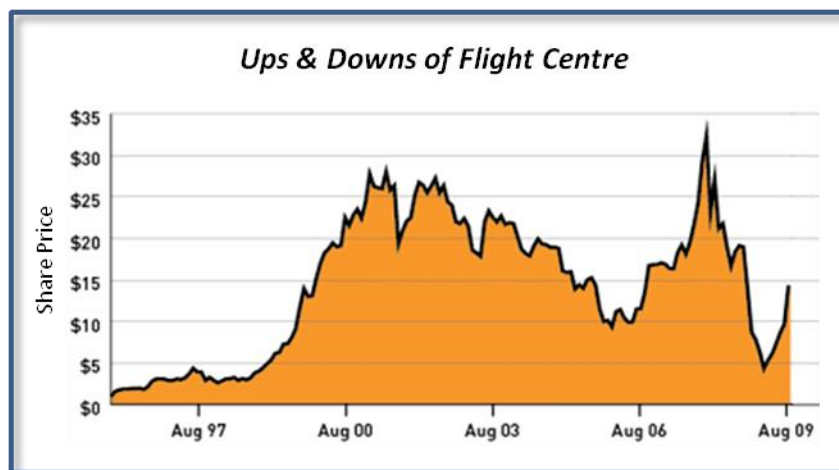
Flight Centre doesn't set any mandatory targets. The company believes that people develop at different rates. They leave it up to the individual and his or her level of motivation as to what targets are set and whether he or she reaches them or not.

### 13 Imperative for Flight Centre to Value Innovate Again

The scope of this case study has looked at the strategic move made as a result of decisions and actions taken by the management of Flight Centre between 1975-1987 and 1988-1995.

This provided the platform from which the company's number of stores grew to 552 with over 3,000 employees in 2001. Profit before tax was \$61 million compared to \$13 million in 1995.

From the high of \$28 in 2001, the shares would fluctuate over the next few years, down to a low of \$16 following a profit downgrade in January 2005.



This was due in part to

- (a) Difficulties that were a direct result of the company's rapid growth
- (b) The increasing impact of technology in the travel industry, and
- (c) The growing number of imitators who set up to grab a share of the market space Flight Centre has created.

It is time for Flight Centre to get back to basics and to value-innovate again to ensure that over time, the buyer, and not the competition, may come to occupy the centre of their strategic thought and actions.

In the words of Graham Turner, Managing Director of Flight Centre Limited:

*"It is January 2005 and Flight Centre Limited has just put out a profit warning. In one day our share price fell to \$16 from \$19. And so far it has stayed there."*

*"It is now up to us to get back to the simplicity of our business model. I realise that it has taken us 30 years to identify and develop our fairly unique set of business basics, yet some of these have been undermined or ignored as we have grown. Now we are paying the penalty."*