

Realtime Strategy: Examining Four Successful Organizations and Their Strategic
Planning

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“On my honor as an Aggie, I have neither given nor received unauthorized aid on this
academic work”

Four organizations were researched in order to understand the mission and goals of each and the types of strategy used to achieve these. Also examined were the manner in which each organization analyzed and adjusted its strategy over time. Two of these organizations have devised successful strategies within the video entertainment industry. One has found its success in the airline industry and one in manufacturing.

NetFlix, Inc.

CEO Reed Hastings founded NetFlix in 1998. Hastings formulated his idea after returning an overdue movie and paying \$40.00 in late fees. His vision of a by-mail DVD rental service, through which subscribers could rent videos and keep them for as long as they wanted, sought to exploit consumer frustration over late fees. Since that time, the company has significantly eroded the business of its storefront competitors, including Blockbuster, Inc., which is in the midst of recovering from bankruptcy and lags behind NetFlix with its own version of the movies-by-mail idea (Ellis, 2007).

The average Blockbuster store carries about 1,500 titles, while NetFlix can offer its customers over 100,000 (Ellis, 2007) The extent to which NetFlix has effected the industry was demonstrated in May 2007, when the mega-retailer Wal-Mart announced the end of its foray into the video rental business and joined forces with NetFlix, directing its customers to NetFlix for rentals. In return, NetFlix now points its customers to Wal-Mart for DVD purchases. (Ellis)

“A friend of mine at Morgan Stanley says that luck is 75% of business strategy. He may well be right. But as baseball's Branch Rickey said, ‘Luck is the residue of design.’ Netflix's design lets it be lucky.”(Ellis, 2007) So what are the overall goals of the company, and through what strategies do they go about achieving them? NetFlix

states that “Our core strategy is to grow a large subscription business consisting of DVD by mail and streaming content.” (“Investor Relations,” 2009)

In its investor relations materials, NetFlix delineates key points of its strategy:

- Leverage our online DVD rental leadership to grow both subscribers and net income.
- Make the best product – and the best consumer experience – even better.
- Lead the expansion of Internet delivery of content by offering our subscribers both mail delivery and a continuously improving Internet delivery option.

(“Investor Relations,” 2009)

These key points have remained consistent over time. The means by which they are achieved have changed over the years. In 1998, Hastings and NetFlix foresaw the rise of the DVD, and from the outset rented only DVDs to NetFlix customers. The company later added the option of renting discs in Blu-ray format. Now NetFlix is investing many of its resources in what it sees as the future of the industry--movies delivered to subscribers via streaming video. (Ellis, 2007) “We expect that DVD will continue to be the primary means by which most Netflix subscribers view content for the foreseeable future. However, at some point in the future, we expect that Internet delivery of content directly to the home will surpass DVD.” (“Investor Relations,” 2009)

Other aspects of NetFlix’s strategy include its many corporate partnerships, which help to ensure that the company receives added exposure and promotion. Vital to the company is its high-tech distribution system, which moves returns through a series of scanners and an computerized sorter, providing tracking information and routing movies on to the next customer as soon as they are received from the previous one. NetFlix

values its warehouse workers for the key role they play with subscribers. They even receive free subscriptions and DVD players “in order to understand what customers go through when Finding Nemo doesn’t arrive in time for their kid’s birthday party.” (Ellis, 2007)

NetFlix intends to lead the way in delivery of its product via streaming video. The company’s current strategy is to offer the service to its existing subscribers, who can opt to receive their selected movies by mail or by streaming video, if it is available for a particular title. The company, in effect, is able to beta-test the system within the context of its established service. (Ellis, 2007) “By offering the service gratis, Netflix made the smart move of letting customers test a service, risk-free, that might have felt unfamiliar at first.” (Yang, 2009) NetFlix is using this advantage now, while preparing for an expected onslaught of competition. “We believe this creates a competitive advantage as compared to a streaming only subscription service. This advantage will diminish over time as more content becomes available over the Internet from competing services, by which time we expect to have further developed our other advantages such as brand, distribution, and our proprietary merchandising platform.” (“Investor Relations,” 2009)

Customer service is the unrelenting focus of NetFlix, and “the biggest star in Netflix's customer-experience script is its technology, even if it's been cast in a nonspeaking role.” (Ellis, 2007) The company uses constantly-evolving technology, most of which is kept under wraps and developed in-house, in order to understand customer likes and dislikes and continuously find ways to better individualize the movie selection experience. (Ellis)

How does NetFlix review its strategy for effectiveness? “Management periodically reviews certain key business metrics within the context of our articulated performance

goals in order to evaluate the effectiveness of our operational strategies, allocate resources and maximize the financial performance of our business.” (“Investor Relations,” 2009) These metrics, which NetFlix studies in relation each to the other, are:

- the monthly “churn” rate, or the number of customer cancellations in relation to gross subscriber additions (NetFlix’s churn rate historically has been very low) (Ellis, 2007);
- subscriber acquisition cost, which includes the cost of marketing in relation to gross subscriber additions; and
- gross margin, with respect to operations and variable costs. (“Investor Relations,” 2009)

NetFlix was created by an individual who envisioned a new and improved way for customers to rent videos. Because of this, it could be said that the company’s strategy is entrepreneurial in nature. But the thing about entrepreneurial strategy is that it relies so much on the intimate knowledge of one person that as a company continues to grow and the nature of an industry continues to evolve, it is difficult for an individual to remain knowledge, efficient and creative in his or her control of the entire organization. “Such concentrated knowledge can be incredibly effective...so long as the business is simple and focused enough to be comprehended in one head.” (Mintzberg, Ahlstrand, & Lampel, 1998, pp. 140-141) It may be that NetFlix has moved beyond the entrepreneurial frame of reference and into the realm of the learning school of strategy.

In its drive for innovation and willingness to evolve, NetFlix reflects the type of strategy found in a learning organization. Instead of becoming a stagnant, one-trick pony, part of NetFlix’s strategy is to innovate and lead the industry. This is apparent in their

response to streaming video technology. Its fluid approach to strategy seems to have kept it ahead of its competition in an ever-changing industry.

Hulu, LLC

Hulu, went live as provider of Internet streaming video in March of 2008. A partnership of NBC and Fox parent company News Corp, Hulu runs as an independent company under the command of a group of young, hip, twenty-to-thirty-something executives. These include including former Amazon division chief Jack Kilar as CEO and former Microsoft researcher Ed Feng heading a team of engineers in China who wrote the code that runs the service and its platform. (“Blog,” 2009) “Hulu’s team has been custom built for its mission: the creation of a high-quality online video service that users, content partners, and advertisers unabashedly love.” (“Media F.A.Q.,” 2009) The company states that its main demographic is men and women aged 18-49. (Dana & Steel, 2008)

“Ultimately, we think that users want to consume media on their terms. We’re strong believers in the ideology that media is an impulse business, so making online video easy-to-use and consume when, where and how people want is where we’re headed in the future. Our first priority is to build a compelling service in the U.S. In parallel, we are working with content partners to acquire distribution rights and licenses to bring the Hulu experience to users in additional markets globally.” (“Media F.A.Q.,” 2009)

Headquartered in Los Angeles, Hulu has taken steps that have ultimately served to solidify the standards of streaming video. (“Hulu who?” 2009) What is more, Hulu seems to have discovered a formula for actually making money with the technology, which until now has been a shaky proposition. Currently, the hands-down giant of streaming video viewing is the Google-owned You-Tube. However, Kilar believes that

ultimately, viewers will turn away from this type of content. “Fun as it may be to watch someone’s kitten playing with a piece of string, last night’s episode of “The Office” makes for a more compelling experience.” (Lyons, 2009)

Advertisers have been less than enthusiastic about placing ads on You Tube because technical quality and subject matter of content is highly uneven and unpredictable. This is what places Hulu above the fray in comparison to most streaming video providers. The company seeks to be known as a premium provider of video in terms of production value and its high-resolution quality picture. Theatrical releases and television programming from the vaults of the two parent companies are presented within an elegant, user-friendly interface. (Kilar uses his mother as a litmus test in determining whether the site is truly navigable to most viewers.) (“Blog,” 2009)

In addition, viewers can use the video in many different ways because of Hulu’s partnerships with social networking and other sites. “You can watch it when you want it, where you want it and how you want it. You can clip it. You can share it. You can embed it in your blog. You can embed it in your social-networking page on Facebook or MySpace. These are things that haven’t been done before.” (Lyons, 2009)

Content is free to Hulu subscribers. Advertisement brings in the revenue. “It might seem that this would be an annoyance to viewers, but there are far fewer ads than than one would find during a televised program, and Hulu is experimenting with different ways of the presenting the ads, including giving viewers the choice of when ads are displayed during a program, and even the option of which of an advertiser’s products it would like to see advertised.” (“Media F.A.Q.,” 2009)

Hulu is estimated to have earned a gross profit of \$12 million dollars last year in contrast to You-Tube, which generated \$114 million in U.S. revenue with no gross profit at all. (Lyons, 2009) Of the top ten video providers, Hulu experienced the largest increase in viewers, growing growing 42 percent. (“Number of Hulu video viewers,” 2009)

The company’s steadily growing success is now turning the heads of many potential content providers. As of April 30, media heavyweight Walt Disney Co. became part of the joint venture, adding a flood of valuable programming to the service. “Hulu’s content library has grown 333 percent, from 12,000 videos in March 2008 to 40,000 videos as of today. Today it includes over 7,100 hours of premium video.” (“Blog,” 2009)

It would seem that any organization using what looks to become the latest revolutionary technology would be wise to allow strategy to reveal itself in at least somewhat of a fluid, emergent manner. “Any organization that faces a truly novel situation usually has to engage in a process of learning, in order to figure out what is taking place.” (Mintzberg, et al., 1998) This seems to be the case with Hulu. However, some of Hulu’s board members are executives of parent companies NBC and News Corp. (“Media F.A.Q., 2009) Because of their enormous sizes, these companies are much more likely to use formal, prescriptive planning in the creation of strategy. Surely there is a marriage of these two schools of thought in the strategy-creation at Hulu.

This also leads to questions regarding strategic control at Hulu. Gold and Campbell (1987), as described in Mintzberg, et al. (1998), view strategic control as “a means to review and accept proposed strategy.” (p. 59) Within this concept are two

pertinent “strategy-making styles” (p. 59) which may apply to the NBC/News Corp/Hulu relationship. These are “strategic control,” in which the smaller unit of the parent company is responsible for strategy, but the parent makes the final decision; and “financial control,” in which there is minimal direct involvement from the parent company, though it maintains control through budgeting. (Mintzberg, et al.) It could be that NBC and News Corp shape strategy at Hulu in one of these ways, with the less-invasive financial control the most likely method.

Tools for measuring strategic success are not detailed in any of the materials examined during this research, but Hulu’s success is reflected in the number of viewers that it attracts. Its top executives have created a culture of innovation in a laid back, convivial atmosphere that is apparent in Kilar’s blog entries on the site. Hopefully Hulu has taken the cue from NetFlix in dedicating itself to the ongoing use of innovative technology to monitor user likes and dislikes, though nowhere on its website is this kind of customer feedback described. The Hulu website does, however, maintain a traditional feedback page, consisting of several discussion boards on a variety of topics.

Interestingly, whereas NetFlix’s strategy is to provide movies to fee-paying subscribers, with the method of distribution evolving as technology develops, Hulu’s mission is to excel in providing video free of charge to all online users, deriving its profits from advertising. Will one strategy come to dominate? Will these two services simply co-exist?

JetBlue Airways

Based in Forest Hills, NY, JetBlue was a startup airline that within eight years of its inception became the eighth-largest airline in the United States. With Southwest

Airlines as his inspiration, founder and former CEO David Neelman built the airline upon a strategy of exceptional quality and customer service, with the idea that customers would pay slightly higher fares if they could get perks like comfortable seats and their own TV screens complete with video on demand options. (Salter, 2007) One recent promotion allows customers who pay a little more to take advantage of the airline's "Even More Legroom" seating. ("JBlue Investor Relations," 2009) The airline describes itself as having created a new category in airline service, "a "value airline" — based on service, style, and cost." As with Netflix, customer loyalty is very high among those who fly JetBlue. For the last four years, the airline received the top customer service ranking among low cost carriers. ("JBlue Investor Relations,")

Satisfaction is high among employees as well. "Neelman believed that a strong culture, one that empathizes with customers while taking care of employees, would help sustain the airline through economic downturns. (Salter, 2007) Unique to JetBlue is its cadre of reservation agents., most of whom are part time and work their shifts from home. These employees are highly motivated, many are stay-at-home moms, and receive high ratings for the response to customers. The company stays in steady contact with the agents, making sure that they are connected to the rest of the company through special e-mails called "Blue Notes" and through informal get-togethers. (Salter)

"We've built JetBlue with quality customer service, low costs, and a really strong balance sheet. I'm a firm believer that if you have those elements, you'll survive rough spots in the road." (Neelman, as quoted in Salter, 2007) A rather prominent rough spot was encountered in February 2007, when an ice storm grounded most of JetBlue's fleet,

and the airline took nearly 4 days to get flights moving again. (Schlangenhein & Mildenberg, 2007)

Neelman sought to unwind the catastrophe and learn from it, issuing an apology, and creating a customer bill of rights . But JetBlue's board asked him to step down as CEO and eventually, as chairman of the board. (Schlangenhein & Mildenberg, 2007) Some experts felt the company would have rebounded because of its customer loyalty. "A big part of that trust and consumer loyalty was based on Neelman's personal agency in the company's structure, culture and values. His departure raises the question: What does it mean when a company loses its visionary founder and the entrepreneur responsible for the culture and strategy that made it a success?" (Salter, 2007)

Clearly, JetBlue was founded by an entrepreneurial leader whose personal approach to running an airline made a difference to both customers and employees. As with NetFlix, there were also elements of a learning organization in the philosophy of the airline while under Neelman's control. "I didn't want to be a prisoner of our business model. There are two contradictory axioms in business. One says that when you figure out what makes you successful, take the cookie-cutter approach: Don't change a thing and be the best at that. The other says that you have to continue evolving in order to take advantage of new opportunities." (Neelman as quoted in Salter, 2007) This aligns with the learning school in that "the role of leadership thus becomes not to preconceive deliberate strategies, but to manage the process of strategic learning, whereby novel strategies can emerge" (Mintzberg, et al., 1998, p. 208) But can an airline maintain a fluid strategy as does a company like NetFlix, for example? "This is, of course, the test all entrepreneurs face if they're lucky enough: Can the genius that helped them create a

successful company from nothing be redirected to the very different challenges of running a vast enterprise?" (Salter, 2007)

Those who have taken the reins since Neelman's departure maintain a different perspective as to the process of formulating strategy, namely that an airline must substantially quantify its strategy in order to uphold operational soundness in an industry where unpredictable conditions can ground a flight and outrageous fuel costs combined with the stagnated world economy have brought many other airlines to their knees. Mintzberg, et al. (1998) assert that within such complicated environments lies the dilemma of determining just how formal and complex the strategy should be in response.

When COO Russ Chew was hired in May 2007, he "found a carrier that had little sense of itself and operated as a small, growing enterprise rather than the large, complex organization it had become." (Straus, 2007) "The airline has reached a certain size where visionaries are being pushed aside and the hard-core operations guys are taking over." (Neidl, as quoted in Schlangenstein & Mildenberg, 2007) JetBlue now conducts what seems to be contingency planning or scenario planning. "All concerned say the airline is according greater respect to the unpredictability and speed with which myriad factors interact during an event and is modeling for more contingencies. There will be no guessing or instinct involved during the moment of truth."(Straus, 2007) This can be seen in the airline's response to a similar weather-related situation that took place in March 2007. COO Rob Maruster (who replaced the transitioning Russ Chew) stated that "The next day the carrier operated approximately 90% of its schedule. Two-to-three days before the weather even got here we were already in scenario planning. We established the rules of the game." (Maruster, as quoted in Straus, 2007)

The departure of Neelman seemed to signal a change at JetBlue from a more entrepreneurial and learning school focus to one in which strategy is more formalized, detailed and concrete, with an increased emphasis on fleet capacity, current markets and cost reduction.

Our objective is to optimize our fare mix to increase our overall average fare and, in certain markets, utilize our network to maximize connecting opportunities while continuing to provide our customers with competitive fares. When we enter a new market, our fares are designed to stimulate demand, particularly from fare-conscious leisure and business travelers who might otherwise have used alternate forms of transportation or would not have traveled at all. (“JBlu Investor Relations,” 2009)

JetBlue’s current strategy, time and again, is described as one of disciplined growth. (“JBlu Investor Relations,” 2009) But in reviewing this strategy, one actually detects a pull-back from the expansion strategy apparent during Neelman’s tenure. Some routes have been discontinued. (“JBlu Investor Relations”)

JetBlue’s strategy also reveals itself in what it describes as its “value proposition.”

The components of this proposition are:

- high quality service and product
- low operating cost
- brand strength
- the strength of its workforce (“JBlu Investor Relations,” 2009)

We strive to strike a balance between preserving the integrity of our brand and remaining competitively aligned with our peers. As a result of our efforts, our 2008 ancillary revenues increased significantly compared to 2007. At the same time, we remain focused on building customer loyalty. (“JBlu Investor Relations,” 2009)

More than with Netflix and Hulu, it is the financial data, the bottom line, that seems prominent in determining for JetBlue whether strategy has been successful. A combination of fare revenue, fleet costs and workforce costs seem to be important

indicators. The company recently announced its expectation of 4 profitable quarters in 2009 (“JetBlue airways expects,” 2009).

The current strategic approach seems far more prescriptive in nature than it was during Neelman’s tenure. A shift toward the planning or positioning school seems to have taken place. With its emphasis on external conditions, abstract calculation and hard data (Mintzberg, et al., 1998), it is easy to presume that JetBlue has become more positional. In some ways operational concerns have become very prominent at JetBlue, so that set patterns for dealing with them have become a large part of the company’s strategy. If not leaning toward the positional, at the very least one could say that JetBlue is leaning toward the planning school. The airline’s use of contingency and/or scenario planning is further evidence of this more formalized approach. “Planning is built around the categories that already exist in the organization, such as established corporate, business, and functional strategies as well as existing structural units (around which the whole process is organized.” (Mintzberg, et al., p. 64)

Viking Range Corporation

Viking founder Fred Carl, Jr. was a builder in Mississippi. In constructing high-end kitchens for clients he saw a niche to be filled. Clients, including his wife, were requesting the installation of industrial ovens in their newly remodeled kitchens, but their uninsulated, ultra-high heat construction made them too dangerous in a residential setting. “Carl became convinced that the ideal solution would be a hybrid range that would combine the most desirable features of both a commercial range and the old Chambers range his wife so badly wanted. This left him with a dilemma – he realized both he and his wife wanted something that didn’t exist. But he also saw this as an

opportunity. If no one was making such a product, why shouldn't he?" ("The Viking Story," 2009)

Carl saw a niche to be filled. He made inquiries and did manufacturing research. The end result was the Viking Range. Carl knew how to work the trendy design circles and trade shows. By the time the first range was manufactured, he had a waiting list of buyers. (Harrington, 2001)

The luxury design was the selling point. In keeping with this, Carl characterizes Viking as a culinary company, not a manufacturer. Carl's vision is to make Viking an experience rather than a group of products. With that in mind, Viking's strategy has expanded to include brand extension into high-end refrigerators, small luxury appliances, and several cooking schools. "I see Viking being the flagship of a collection of luxury goods in the shelter category." (Carl, as quoted in Harrington, 2001) Whether a formal strategy is delineated by Viking is questionable. Strategy is broadly outlined on the company's website, but not to the same extent as Netflix and JetBlue. Bhide (1994) as cited in Mintzberg et al., (1998) asserts that entrepreneurs often don't formulate a detailed business plan. "They thrive in rapidly changing industries and niches that tend to deter established companies. And under these fluid conditions, an ability to roll with the punches is much more important than careful planning..." (p. 135)

Clearly, Fred Carl, Jr. *is* Viking Range, and this is a highly personal endeavor for him. "In spite of its tremendous growth and success, Viking Range Corporation remains essentially the same entrepreneurial company it was at its inception." ("The Viking Story," 2009) Strategy may be more intuitive and easier to implement and adapt in a privately-held organization under the control of a sole individual than in the other three

organizations, which are beholden to shareholders and must justify and quantify strategy in the form of annual reports. “The effectiveness that power brings evolves from two kinds of capacities: first, access to resources, information and support necessary to carry out the task; and, second, ability to get cooperation in doing what is necessary.” (Kanter, 1979, in Shafritz, Ott, & Jang, 2005).

A strong element in Viking’s strategy that underlies many of its decisions is the company’s culture. All Viking ranges are manufactured in Carl’s hometown of Greenwood, Mississippi, and Carl refuses to send any manufacturing overseas. “We employ nearly 10% of the local population, and we take care of our people well – as evidenced by one of the highest retention rates in the country.” (“The Viking Story,” 2009) The company prides itself on being more of an extended, yet close-knit family, than a group of employees. Though the other three organizations emphasize and support the importance of company culture, there is a deeper cultural component here than is found in those organizations. Does such an intimately-constructed structure make a difference in Viking’s goal of providing “culinary perfection” to a small niche of consumers? “Culture is critical to guiding behaviors and making choices about organizational design.” (Rothwell, Sullivan & McLean, 1995, p. 208)

“It was clear from the beginning that Viking wasn’t a traditional company. Quite the contrary, it thrived on change and innovation.” (“The Viking Story,” 2009) Though predominantly entrepreneurial in nature, Viking’s strategy is also emergent and innovative. It is worth noting that Carl knew nothing about manufacturing before founding Viking. In organizing his manufacturing process he reached out to Toyota in order to organize an efficient “just-in-time” facility. “Production is set up so that if there

is a problem, everyone on the line is instantly aware. And the problem is instantly solved on the plant floor. An essential facet of TPS is that problem-solving involves everyone.”

(“The Viking Story,” 2009)

In looking to the future, Viking’s strategy is to continue to produce products that are part of a lifestyle perception, a pursuit of culinary perfection, so to speak. “Viking plans to continue its aggressive growth and expansion to further increase its already strong presence in the worldwide major appliance and related culinary lifestyle industries.” (“The Viking Story,” 2009)

In examining the strategic planning of these four organizations, some patterns seem to emerge. Three out of four companies were started by an individual with an inspiration. All four companies sought to fill a void within their respective industries. “The essence of strategy is in the activities – choosing to perform activities differently or to perform different activities than rivals.” Porter (2000)

In all four organizations, the essence of the strategy can often be summed up in a label of very few words: NetFlix is a “subscription service for DVDs and streaming video” (this moniker leaves room for the method of distribution to evolve); Hulu is a provider of “premium” streaming video (this connotes the high quality of its studio-produced content); JetBlue positions itself as a “value” airline (which seems to be meant to combine the ideas of quality and low-cost); and Viking Range prefers to call itself a “culinary company” (which can mean just about anything, depending on the desires of Viking’s client base).

Finally, all four organizations, no matter how obviously they seemed to align with a certain school of thought, seemed to also include elements from other schools as well.

Mintzberg, et al. (1998) state that this should in fact be the case and that strategic management has become more eclectic in recent years.. “There are categories out there, but they should be used as building blocks, or better still, as ingredients of a stew.” (p. 368)

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