



Stanford eCorner

Seeing Failure as Opportunity

David Neeleman, *JetBlue*

April 30, 2003

Video URL: <http://ecorner.stanford.edu/videos/286/Seeing-Failure-as-Opportunity>

Neeleman tells the story of his first startup failure during college, and the airline partner he was working with went out of business. He shortly thereafter received a call from June Morris, who encouraged him to come and build Morris Air. Morris Air grew and prospered, and was sold to Southwest for 130 \$M, with Neeleman as the second largest shareholder at the time.



Transcript

You know, one of the lessons I think that I've learned and I think would be a valuable lesson for you is that sometimes things happen in your career or in your life that you think at the time as a devastating thing and you wonder how you can recover from that. And you wonder how you are going to be able to kind of turn it around. And a lot of times, and I really and truly believe this, it's not really what happens to your life. It's just how you react to it and how you are able to come back and rebound. And I've had a couple of such events in my business career. Prior to working at Morris Air and starting Morris Air, I had a small tour operator company in Salt Lake. I was in college. I had dropped out of college to run this company. Zero debt, money in the bank and we were using an airline to fly people back and forth between the West Coast and Hawaii. One day, I got a phone from the airline saying, "Oh, by the way, we're out of business." I said, "You can't be out of business.

We paid all this money and you need to complete your obligations." They said, "Well, we're out of business." My business failed when I was in my early 20's, and that was my first example. And then I received a call, and I was out of business and I just didn't want anything to do with it. So I received a call from June Morris. He said, "Hey, come work for us and help us do this." I said, "No. I hate this business." She convinced me finally that it was something to do. And so from that really small beginnings became Morris Air. And Morris Air grew and prospered and we sold that company to Southwest for \$130 million. And I was the second largest shareholder at the time. So that was obviously something that I -- it took a really negative situation. I learned a lot from that experience.

I learned about capitalization and never being beholden to someone. Never again would I let an external event affect me, that I would go out of business because of one action of one company. So I really kept that in mind. And so the second thing was that I started this company and it was great and I was the second largest shareholder. By the time that we sold and we had a -- a certain percentage of the company was owned by venture capitalists and they didn't want to sell the company and I said, "OK, well, what is it that you think is fair? You invested \$15 million a year ago. What do you think is a fair amount because you're owed about \$24-25 million based on what your ownership is versus what the take is?" And they said, "At least 2.5 X." I said, "Tell me, what the figure is." They said, "Well, \$42.5 million." I said, "OK, \$42.5 million, giving us fair --" The Morris and I were still split \$90 million after we took care of the management team. And I personally had \$25 million and I was 32 years old. So that was a fair thing. So I was starting my company, got the money. Going to work for Southwest, everything was wonderful.

And within five months, I was being terminated in Southwest, "You just don't fit in here. It's just not going to work." I was

driving them crazy and they were driving me crazy. And I was like, "I had all this money. I was completely miserable. I sold my little baby. I thought things were going to be different." And I had signed a five-year non-compete, that I couldn't compete in the US domestic airline business for five years. And so I had four and a half years to go and, to me who was impatient, that was like you might as well told me I was out of business for 100 years because it was just something I could hardly even see my way to. And I was, like I said, in my early 30's. So it was during that period of time that I was able to really think about exactly what this new airline would be. And I started this technology company.

Then I did some work up in Canada with West Jet and was very successful in helping found West Jet. But as it turned out, it was really the best thing that ever happened to me. It was the single best thing that ever happened, that Herb had the foresight to say, "Look, it's not working here. This isn't good for you." About a year later, I said, "Well, how about this non-compete?" "He said, "Are you kidding me? We don't want you in the airline business. You're the last person we want to see in the airline business." It took time to really think about it and develop the process and develop the technology, and think about the customer experience would be at JetBlue. And what kind of people we wanted to hire, how this process of hiring would take place, how we would train our people, how we would compensate them, how we would set expectations from Day One, how we would develop the values of the company and what those values would be. It was a really valuable time for us, to be able to spend that time during that four and a half-year non-compete. When that non-compete was over, and by the way, when it came time to raise money again, I went back to those investors that were at Morris Air. I knocked on the door and I said, "I wanted to do it again." These investors, by the way, only had invested in one airline. And because they were investors in Morris Air, the whole world thought, "Well, these guys are suckers that they'll go invest in airline." So they got over 200 business plans from people wanting to start airlines, all these people that keep dreaming of being in an airline business.

And they didn't invest in any one. When it was time, the repeat was there. It was time to do it again, every single investor at JetBlue -- I use the past tense because they were all blown out and have taken their profits now, with the exception of Soros, George Soros. Every one of those people were at Morris Air, and they said, "Oh, yeah, you're the CEO that said, 'What's a fair number,' and gave us our money. Yeah, we want you back here again. We like your horse. We like that none --