Being Boeing (A)[1]

The Boeing Company, desperate to find ways to stem its loss of market share to Airbus SE, had hired an actor to impersonate its lower-priced competitor's top salesperson John Leahy. The goal was to inspire Boeing salespeople to compete aggressively.

Reading from a script pulled together from public interviews and presentations, the John Leahy imposter walked into a meeting of Boeing's sales and marketing team in Seattle in 2002, two years after Airbus had begun siphoning Boeing's market share, and walked out with accolades. "This guy was so good that there were people in the room who were ready to meet him in the parking lot after it was over," said Toby Bright, Boeing's top sales executive at the time. Leahy epitomized Airbus's aggressive sales style that led Airbus to grow during 2000-2004. Airbus sales people are empowered to make deals, refusing to take no for an answer, and negotiating without having to check in with headquarters for every sale.

Boeing offers its sales team little leeway on pricing. The company insists it offers customers a product that will save them money in the long term. These savings result from reduced fuel and maintenance costs, thereby justifying its higher initial prices, in return for lower total-cost-of-ownership.

Boeing's top executives blame sales strategy, not pricing. When the manufacturer lost a major Air Berlin deal for more than 100 single-aisle planes to Airbus in March 2003, for example, Boeing chairperson and chief executive Harry Stonecipher said the sales team was "not engaging with the customers. We don't seem to have a strategy."

What Happened?

The Sept. 11, 2001 terror attacks had a major impact on the commercial airline industry. Among other things, they caused a downturn in new airplane demand, as many passenger carriers struggled. That meant pricing on aircraft became more important than ever.

Boeing, known as the Mercedes of commercial jets for its high prices and luxury offerings, was most affected by the market changes. Indeed, the company decreased production by more than 50% and let 35,000 employees go in the wake of the terrorist attacks.

"[We] became more inwardly focused than we would have liked," said Alan Mullaly, president and chief executive of Boeing's commercial airplanes unit.

Airbus, meanwhile, focused on sales to budget airlines. By the time the dust settled in 2004, the European company had surpassed U.S.-based Boeing as the world's largest producer of commercial jetliners.

It was certainly time for Boeing to make some changes. But some executives believed the company was in good position to retake the lead from Airbus. Mullaly, for example, said his division was still profitable. “Our next priority is to strengthen and enhance our support of customers worldwide,” he said.

Sales Decline

In 2004, when Boeing lost the Air Berlin deal to Airbus, many saw it as emblematic of the American manufacturer’s larger problem. Air Berlin was a long-time customer of Boeing. What
American manufacturer’s larger problem. Air Berlin was a long-time customer of Boeing. What
made Air Berlin shift allegiances? Was it price? Or was it a failing on the part of the sales team?

According to Air Berlin CEO Joachim Hunold, Boeing’s salespeople “never thought we would go to the competition, and they took us for granted.” Hunold ruminated, “that’s a dangerous thing to do when your competitor is so strong.”

Still, members of the sales team felt they were hamstrung by Boeing’s strict adherence to their value proposition and firm pricing structure. They blamed Boeing’s policies for their failures. Boeing relied too heavily on a “government by committee” approach to structuring its deals. “Airbus seems to know what our bottom line is, so they go two steps beyond that and we’re finished,” said one sales executive speaking on condition of anonymity. “We told them what it would take to win, and they sent us out with something less than that.”

“Boeing sends nice people to talk to us, but they aren’t empowered to make decisions,” said Steven Udvar-Hazy, CEO of International Lease Finance Corp., both Boeing’s and Airbus’s largest customer.

In the Air Berlin deal, the salespeople said they believed their superiors indeed never thought the customer would flip and buy jets from Airbus. That is why they stayed the course on price and eventually lost the deal. In February 2004, Hunold sat down with Leahy’s team and signed a cost-effective $7 billion deal.

At Boeing, Stonecipher was undeterred. “If you get down to where price is the only discriminator, then you lost the campaign long before that,” he said.

Choosing a Path

Boeing had one more problem to contend with. The major airplane finance companies had noticed the company’s decline and begun to doubt whether structuring deals for higher-priced, highly customized airplanes was worth their time.

“Boeing's senior management is going to have to roll up their sleeves and really get competitive, or they will be strengthening the perception that they are conceding market leadership to Airbus,” Udvar-Hazy said.

The company did have an ace in the hole, though—its product. While Boeing had begun to lose sales of its single-aisle 737 and the newer, high-cost 777 to Airbus, it had made several changes to both models' performance to increase their appeal.

"These decisions were the direct result of the efforts we have been making to improve our responsiveness and competitiveness," a Boeing spokesperson said.

Boeing was also in the process of bringing the high-tech, twin-aisle 7E7 Dreamliner to market, and Airbus was behind on production of its lower-cost competitor, the A350. Boeing executives promised the 7E7 would be 20% cheaper to operate than anything on the market, keeping with Boeing's standard sales pitch: The company's aircraft are lighter in weight and more fuel-efficient than competing Airbus models, so they should be priced higher.

Which flight plan would Boeing end up following? On the one hand, the post 9-11 environment suggested the pricing pressure was real. Perhaps taking a few losses to build momentum en route to bigger contracts in the future might make sense. Or should it focus on revamping its sales force? What exactly should be done on that front to empower sales teams to make decisions on the fly without resorting to lowering price? What should Boeing do to meet its customers' needs to win in the long run?

Table 1: Boeing Versus EADS (Airbus): Key Financial Figures

BOEING	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sales and other operating revenues (million $)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cost of products and services (million $)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net earnings (million $)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EPS (million $)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total assets (million $)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total commercial jet aircraft deliveries (unit)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ROA (net earnings/total asset)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EADS (Airbus)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Revenues (million €)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cost of sales (million €)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net income (Profit after 2003: million €)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EPS (million €)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total asset (million €)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deliveries (unit)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ROA (net income/total asset)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]