

The Journey Begins

David Neeleman claims he still recalls the moment from his second birthday. Whether he remembers the actual event, or only the ingrained impressions of early viewings of it captured in a family photograph, as his father, Gary, suggests with a chuckle, no one knows. But anyone looking for clues to the future course of this airline innovator's life can't ignore the significance of his recollection, imagined or otherwise. When the birthday cake was brought out, it wasn't the glowing candles that caught David's attention. There atop the confection sat a small red airplane. Something about the ornamental craft transfixed him, he says. This fascination followed him into adulthood, leading to a series of successful aviation businesses and eventually the founding of an airline that is transforming the airline industry, sparking copycat competitors, and forcing the old-line carriers that historically dominated the domestic skies to rethink their operating principles and practices.

The birthday was celebrated in São Paulo, Brazil, where Neeleman was born in October of 1959. He was the second son and child in a brood of seven, four boys and three girls. His father,

Gary, a Salt Lake City native, was the Latin America bureau chief for United Press International (UPI), a high-profile position in the sophisticated city. His mother, Rose, had been Gary's assistant before becoming his wife.

The Neeleman family (they pronounce their name in three syllables, Nee-le-man) had immigrated to the United States from Holland, where they'd been members of the Mormon church, around the turn of the last century. Gary's father, John, was born a few months after the Neelemans arrived in Salt Lake City.

Gary graduated with a degree in fine arts from the University of Utah, but took up journalism because it offered more of a future. His fluency in several languages, including Portuguese, had served him well in his theater studies and helped him win the choice posting in Brazil. UPI's Latin American desk—also known as Latam or the Chester desk (referring to either a radio transmitter in Chester, Pennsylvania, or a long-forgotten telex operator by that name, according to UPI lore)—was the heart of UPI's Spanish-language wire news service. For much of the last century it was the preeminent international news organization in Central and South America. Latin America was also one of UPI's most successful and lucrative markets.

Reporting the news was only one of the challenges of Gary Neeleman's job. Just getting the hardware the bureau needed to operate was a monumental task. "It was a torment," Gary recalls. "You couldn't import anything. We'd go to the foreign ministry and say, 'Look, we've got to have another seven teletype machines because Eisenhower is coming,' and they might (occasionally) give us a break."

Young David Neeleman was clearly a precocious boy. Early on he exhibited his own unique talents in a family of high-achieving children. "David was one that was full of ideas, very, very active, and thinking outside the box all the time," says Gary Neeleman.

Brazil in the early 1960s was a time and place of rigid class distinctions, doubly so for the U.S. citizens who worked for American companies with operations in Brazil. The country's upper class, to which the foreign-born executives of multinational companies belonged *de facto*, and the teeming masses of the poor were in permanent conflict. Yet upper- and lower-class Brazilians were united in their antipathy for what was seen as heavy-handed American influence over the country's business and culture.

Anti-Americanism was a driving force in the country's body politic. "One group put out a booklet entitled 'A Day in the Life of a Brazilian,' in which a cartoon character wakes up, brushes his teeth with Colgate toothpaste, eats his Kellogg's cereal with orange juice packaged by General Mills, then drives his Ford to work, where he takes an Otis elevator to his office," says Gary Neeleman, recalling the prevailing attitude of the time.

Gary Neeleman exhibited none of the colonialist attitudes common to foreign-born managers of the era, who often displayed a condescending and patronizing manner to the locals. While many U.S.-born news executives in Latin America questioned the abilities and sympathies of Latin-born reporters, Neeleman fiercely defended their professionalism during his 27 years at the news organization.

"Just because wages are lower in those countries does not mean the talent is less," he maintained. "I know journalists in those countries who can write rings around most U.S. journalists. . . . I want to debunk the 'fact' that just because somebody is a local hire he's inferior."

When David Neeleman was five, his father was transferred back to the United States and returned to Salt Lake City with his family. David was enrolled in the Peruvian Park Elementary School. Though the name may have provided some link to his early years in South America, the transition to primary school

wasn't an easy one. "It was an adjustment," Gary admits. "The kids spoke better Portuguese than they did English." Gary recalls that David was "a handful," a child who was "clearly bright but a window gazer who constantly fell behind on his lessons" and who "was always looking out the window, thinking of something else."

David Neeleman's third grade teacher prophetically told his mother that he could be "tremendously successful when he grows up—if he hires himself an assistant." But the teacher was more sanguine than others about young David's chances for eventual achievement. In fact, Neeleman recalls he was almost left behind that year. "They wanted me to repeat the third grade, but my parents said, 'He's a smart kid. You don't know what you're talking about.'" In the end, Neeleman was permitted to move up to the fourth grade.

An inability to focus and a short attention span dogged Neeleman outside the classroom as well. "David hated fishing," his father remembers. "He didn't have the patience. He would start fishing, and two minutes later, he is throwing rocks in the pond."

FIRST LESSONS IN CUSTOMER SERVICE

It was during this time of educational turmoil that Neeleman acquired his initial lesson in the ingredients of business success, through the example of the family patriarch—his grandfather, John Neeleman. John, the first of the Neelemans born in the United States, started what has been purported to be the first convenience store in the country. Called the Miniature Market, on South Street in Salt Lake City, it was in business before the first 7-Eleven opened its doors. From the start, John Neeleman had strong ideas about customer service, according to Gary, his son.

“Dad’s main idea was that you don’t tell the customer you can’t do it or you don’t have it,” Gary Neeleman explains. “You do everything humanly possible to make it happen.”

In fact, though it was open around the clock, John Neeleman didn’t consider his establishment to be a convenience store, but rather a “service store.” It served a collection of customers that included split-shifters, truck drivers, college students, late-working waitresses, and entertainers. As local reporter Fred Ball recalls, John “cashed their checks when nobody else would, delivered groceries to nearby apartment houses, shut-ins, and to anyone who needed something, even if he didn’t carry it.

“If someone asked for a product the store didn’t have, John would stall the customer with a doughnut and a cup of coffee or a cold drink while Gary was sent to the back room with a wink to ‘look’ for the item,” Ball continues. “Gary would then bolt out the back door to the Safeway store a few blocks away to bring back the needed item.”

As Gary Neeleman notes, “Dad hated to tell anyone he didn’t have what was needed.”

Everyone in the family helped out at the store. John depended on his children and later his grandchildren to pitch in. All are said to remember checking out items at the cash register while standing on a milk crate, so they’d be tall enough to see over the counter. David Neeleman gained his first work experience when he started working at his grandfather’s store at age nine. This focus on customer service had a lasting impact on the boy.

“If there wasn’t an item in the store that somebody wanted, he’d actually run out and buy it somewhere else and bring it back, because he [my grandfather] hated disappointing customers,” Neeleman says. “He knew the value of a valued customer, and I think that was instilled in me.”

John Neeleman’s ideas about delivering the best possible product

were also absorbed by young David. “We had these great sandwiches that he’d make, using the best bread and making sure that he had the best quality meat, and knowing that if he made the best product, that people would come back and [keep] buying those sandwiches,” David Neeleman says. “And, before long, he was selling 500 of those things a day.”

Who knows what might have happened had the grandfather coupled his drive for customer service and the concept of around-the-clock convenience with his grandson’s vision and creativity? Likewise, who can say whether David Neeleman would have recognized customer service as a key to the business success he would eventually achieve were he not exposed to his grandfather’s tutelage? Fortunately, John “Grandpa” Neeleman was able to see at least some of the fruits of his lessons. By the time he died in 1990, his grandson was president of a successful Salt Lake City-based airline. In his eulogy at the funeral, David Neeleman related that much of his creative business sense was owed to his grandfather.

Whatever lessons nine-year-old David Neeleman was learning behind the counter of his grandfather’s Miniature Market weren’t following him into the classroom. His difficulty with reading and writing continued throughout his school years. He took easy courses just to maintain respectable grades. “I felt like I was always behind,” he remembers. Neeleman cites his parents’ support through these times as being instrumental in helping him to overcome his doubts about himself. Says his father, “We didn’t say, ‘Oh, you dumb cluck. What on earth’s going on with you? Can’t you get better grades?’ And all that kind of thing. We just sort of went along with him and said, ‘No, you’re going to be okay.’”

Whatever the endeavor, it seemed Neeleman’s scattered attention interfered. Both of his parents remember a band concert at his elementary school in which Neeleman played drums. Provid-

ing a steady beat was difficult enough for the hyperactive youngster, but Neeleman complicated the task by acting as the pseudo leader of the band, according to his parents. “He couldn’t hardly concentrate on what he was supposed to be doing,” Gary says about the performance, “because he wanted to make sure everyone else was doing the right thing.”

Gary Neeleman maintained his connection with Brazil and South America, frequently traveling there both on business and for the educational and cultural exchange programs he was involved with. He often took David and his other children along on these journeys. David accompanied his father, for example, on exhibition tours Gary arranged for U.S. college basketball teams. As he did at his grandfather’s store, David pitched in to help.

“If they wanted a drink, he’d get them a drink,” Gary Neeleman says of his son’s assistance. “If they wanted a ball, he’d get them a ball. If they wanted more dessert, he’d get them more dessert.”

But in the classroom, problems persisted throughout his four years at Salt Lake City’s Brighton High School, leaving the adolescent Neeleman concerned about his future.

“When I got out of high school, I didn’t feel I could read or write that well,” he says. “I couldn’t sit down and read a whole book. I thought, ‘How am I ever going to be successful in anything if I can’t read and write?’”

I n 1977, after graduating from high school, Neeleman enrolled at the University of Utah, choosing accounting as his area of specialization. The work with numbers wasn’t as intimidating to him as other majors that required more reading and writing. He also became a manager of the school’s basketball team, something he’d gained experience in on exhibition trips to Latin America with his

father. Schoolwork continued to be a chore, but Neeleman absorbed other lessons that transcended reading and writing, and even business acumen, from both his parents and the Mormon faith he held so dear.

“I was raised in a great family,” Neeleman says. “I had great examples in my parents. I’m a deeply religious person.”

That religious conviction led him to leave college after his freshman year to serve the church as a missionary. Members of the Church of Jesus Christ of Latter Day Saints believe it is their duty to act as emissaries in spreading the word of God in the same way Jesus urged his disciples to proselytize in Matthew 28:19: “Go ye therefore, and teach all nations, baptizing them in the name of the Father, and of the Son, and of the Holy Ghost.” Initially, married men served as the church’s missionaries, leaving their wives and families for an unspecified period. Today the majority of missionaries are single men who serve for about two years. Following an interview with the prospective missionary, church officials recommend where the candidate will be posted. For David Neeleman, the church’s assignment was to serve as a missionary in the country of his birth: Brazil.

The life of a Mormon missionary is demanding and ascetic. They live simply and aren’t permitted to watch television, listen to the radio, or go to places of entertainment. Rising at 6:30 in the morning, they spend their days in religious study and spreading the Mormon message. This life transition was no doubt especially dramatic for Neeleman, who was assigned to spread the word in Rio de Janeiro’s *favelas*, the notorious slums of the city.

“When I was [first] living in Brazil, I ran with all the rich and famous and hung out at all the fancy clubs,” Neeleman reflects. “Then when I went back as a missionary, I hung out with the poor

and the humble.” He describes his service as “a life-changing experience,” one that forever altered his outlook on life and, for that matter, business.

“I felt a contrast there and I saw that the poor and humble were the most wonderful, sweet people. . . . Then I realized that everybody is equal and you should treat people the same [and] with respect.”

Neeleman not only became fluent in Portuguese, he discovered he had a gift for salesmanship: He baptized more than 200 converts. “It was really the first time I felt like I had some talent,” he says. He also demonstrated the frugality he would practice throughout his career. A missionary’s family is primarily responsible for providing his financial support. During his two years in the country, Neeleman’s family sent him a total of \$3,000. He saved \$1,300 of it.

The lessons he learned, and the things he saw in the *favelas*, continue to resonate with Neeleman more than two decades later. “I found a lot of greed, and a lot of people that were being taken advantage of. Even today, when I see executives of companies that have stock worth umpteen [millions] and they’re taking down, you know, \$10 million salaries, or another \$80 million . . . I can’t understand that. You know, how much money do you need?”

NEELEMAN’S FIRST BUSINESS

Neeleman returned to Utah in 1980 and married his college sweetheart, Vicki Vranes. Their first child, Ashley, was born a year later. Neeleman also reenrolled at the University of Utah, where he continued his studies in accounting.

Whatever future awaited Neeleman as an accountant, the business opportunities of the present seemed limited. The recession of the early 1980s made the economic environment more difficult for almost everyone. During his sophomore year, a coed in Neeleman's accounting class told him that her mother knew someone in Hawaii who was having trouble selling time-shares in a hotel he had converted into condominiums. While Neeleman often alters the terms of the financial transaction he engineered with the property owner in various retellings, the basic story remains the same:

"I called him and said I'd pay him \$100 plus the condo maintenance fees for each week he couldn't rent them," Neeleman offers. The owner agreed, and Neeleman started advertising the condos in a local newspaper, soon finding a market for the units. "I was paying \$125 a week, and was collecting \$500 a week," Neeleman says. "And before you knew it, I was doing three or four of these a day in college, thinking, 'Wow, this is a pretty good business.'"

As demand picked up, Neeleman negotiated with other properties to take on more rooms. At the same time, he began packaging the condos with seats on charter flights to Hawaii. Despite the problems he had in school, the lack of attention he struggled with, and the fears about his abilities, Neeleman had finally found something he could focus on and be successful at. He was as creative and energetic in his marketing as he was shameless. Neeleman was even known to approach newlyweds at their nuptials and hawk his Hawaii package as an ideal honeymoon.

Neeleman soon expanded his business, starting a full-fledged travel agency. He used his growing marketing muscle to buy discount tickets from a couple of upstart airlines—The Hawaii Express and, to a lesser extent, Pacific East Air. Both airlines

offered fares to the islands from the West Coast that were far below the major carriers. That way, Neeleman was able to further reduce his prices and make his package deals to Hawaii even more attractive.

The Hawaii Express was founded by Michael Hartley, a long-time Hawaii resident. Hartley was a young airline entrepreneur, and elements of his operations would later be echoed in Neeleman's. A large, athletic man with exotic good looks, a perpetual grin, and well-groomed thick mustache, Hartley started Island Pacific Air, a small discount interisland carrier, in late 1973 while in his early 20s. He sold that business for a small profit in 1977 and moved to Oahu, where he ran an aviation services company. As a condition of the sale, Hartley signed a five-year noncompete agreement. He came up with the idea for The Hawaii Express one day while sitting on the beach.

The Hawaii Express began non-stop service from Los Angeles to Honolulu on August 26, 1982, flying a single leased Boeing 747. Formerly owned by Alitalia, the plane was one of the oldest 747s in the world. Hartley configured the all-coach cabin to hold an amazing 491 passengers. There were so many seats squeezed in, there was even one stuffed deep in the nose of the plane.

The airline's pilots were mostly former employees of Braniff Airways, which had folded a few months earlier. Many of the flight attendants hired by The Hawaii Express were on furlough from other carriers and joined the promising new upstart with great anticipation.

"This was just like a dream come true, because the Hawaii routes are so senior. Here we were, young and energetic, flying a

great route that only required us to work about seven days a month,” says Rebecca Reeder Hunt, one of the airline’s original 50 flight attendants. “The other days we were on the beach having a good time.”

The original mission of The Hawaii Express was to make getting to the islands fun and affordable. For the first year, the airline’s only flight was a daily run from Los Angeles to Honolulu and back, often with the same cabin crew. The plane would leave LAX around 11 A.M., spend a couple of hours on the ground in Honolulu, and get back to California by midnight. “We thought we were on the ground floor of something really big, maybe even the next Southwest-type success story, except serving Hawaii with wide-body aircraft,” Reeder Hunt says, adding that many crew members turned down offers from other carriers to stay on board.

The Hawaii Express eventually added two DC-10s to its fleet, though it still only flew the Los Angeles–Honolulu route. Every plane was packed. Passengers were attracted by the airline’s low fares, which went as high as \$128 and as low as \$79 each way—significantly less than before The Hawaii Express arrived on the scene.

“We had movies and food—a hockey-puck sandwich, little bag of chips, and a brownie—and everyone had a great time,” Reeder Hunt remembers. “It seemed like everyone in California had taken at least one flight on The Hawaii Express.”

The airline was so popular for cost-conscious vacationers looking for an economical trip to the islands that the major carriers started to notice—and they responded aggressively. United among others began matching—and often beating—fares offered by The Hawaii Express. Still, the carrier dubbed “the big pineapple” continued to thrive—or so it seemed.

CHOOSING BUSINESS OVER A COLLEGE DEGREE

By his junior year of college, Neeleman's small travel company had 20 employees and recorded \$8 million in annual sales. Neeleman wanted to drop out of school and run his fledgling operation full-time. His parents, who'd helped him start his business by letting him work on it from their kitchen table, weren't pleased. After all, his mother had a master's degree, and his older brother had a law degree from Georgetown. "We're education minded," his father says. "We thought maybe he should stick around and go to school, but he was a rambunctious and active kid, and he wanted to get on with his life, so we didn't discourage or encourage him."

It wasn't a hard decision for David Neeleman. He hated every minute of his three years at the University of Utah. With his business flourishing, he felt he wouldn't need a degree in accounting to be a success after all.

"I couldn't focus," he later said of his college career. "I'm not ashamed that I don't have a degree."

Neeleman's success began drawing the attention of more than just the happy vacationers who felt they were getting a good bargain. "He was really doing things with Hawaii," says Rick Frendt, who at the time was president of a large Salt Lake City travel agency called Morris Travel. "He was doing the things we tried to do, things that couldn't be done. He was putting lots of people in rooms at prices half of anyone else. He just had a lot of charm."

Neeleman's travel company was debt-free. Bookings were growing. And by paying cash in advance for the rooms and seats on The Hawaii Express, he was able to negotiate even better

rates. It seemed everything was going perfectly. Then the unexpected happened: The Hawaii Express ran into turbulence.

By the airline's first anniversary, insiders say, they noticed a mood change. New faces were beginning to appear in the executive suite, including an attorney who specialized in bankruptcies. Observant outsiders could see other indications of the company's ill financial health. For instance, aboard the planes, all the magazines stocked for passengers (other than the carrier's own thin in-flight guide) came from the homes of flights crews, who carefully removed any personal address labels from the covers before handing them out. According to some, The Hawaii Express's operating expenses were higher than what the airline was charging its passengers. The price wars grew so brutal, the airline was forced to cut its already low fares even further to remain competitive. While the major carriers could absorb any temporary losses by hiking fares on other routes, The Hawaii Express flew to only one destination. And while there were plans to begin service to Honolulu from San Francisco and perhaps other cities down the line, they never materialized. Eventually the fight got too tough for the upstart carrier to handle. In December 1983, The Hawaii Express filed for bankruptcy and stopped flying.

"All of a sudden, the airline went out of business—and basically put us out of business," Neeleman says. "When the hotels we had paid in advance wouldn't give the money back, we were done." Neeleman lost not only his own money, but also the money from customers who had paid for their trips in advance.

If he'd had more cash, Neeleman's business could have been salvaged, he later surmised. Other seats to Hawaii could have been found. Inconvenienced vacationers could have been compensated. But he had little reserves, and without financial backing, there was no way to stave off his own company's bankruptcy. Neeleman's business and the dreams that went with it were lost.

Hartley ultimately landed on his feet. Three years after the demise of The Hawaii Express, he started a travel agency called Cheap Tickets. The company contracted with major carriers to sell excess seats to destinations around the world at discount prices. One of the hot companies of the Internet boom, Hartley sold it in 1999, pocketing \$50 million for his share of the business.

David Neeleman, too, would rebound from the failure of his company. And his recovery was only weeks away.

