

Southwest airlines

[Environment](#), [Air](#)



Southwest Airlines is current leader among many airline carriers in today's highly competitive transportation industry. In order to maintain such a strong hold on the airline industry, Southwest Airlines utilizes an intense and highly systematic set of marketing strategies. Most of their strategies are centered on offering its consumers low-cost tickets and free baggage checks to fly most anywhere in the United States. Customers can be rest assured that Southwest Airlines will continue to do whatever it can to provide low-cost services. Some of the key issues that will be discussed will include Southwest's free baggage policy, its marketing mix strategies, its segmentation principles, as well as a SWOT analysis.

Marketing is a vital part of any business and is an integral component of selling any product or service. Whether the business is a small mom and pop operation or a world industry leader, marketing is a part of the business. Southwest Airlines makes total use out of its best resources and abilities to build on its key marketing practices. According to research by Chan, one of Southwest's main strategies is that it strives to treat its employees fairly and engages in profit sharing so that their employees collectively own about 10% of the company. Southwest Airlines has a high employee retention rate of at least 92.3% and maintains an enthusiastic work force. Southwest's operational strategy is based on six pillars, namely limited passenger service, frequent, reliable departures, short-haul, point-to-point routes between mid-sized cities and secondary airports, very low ticket prices, lean, heavily productive ground and gate crews, and high aircraft utilization. Some of these key factors, as well as attention to excellence in management competence have launched this company to great success.

Because there are many ways to fulfill the needs of the customer, a straight-forward approach is to consider the four “ Ps” of the marketing mix. This paper will examine the marketing mix and give examples of the marketing mix as it pertains to Southwest Airlines. The four elements of the marketing mix are product, place, promotion and price.

As in the Product category, segmentation has defined some of the price points. Price (the amount a customer pays) is determined by market share, competition, operational costs, brand or product identity and the customer’s perceived value of the product. Pricing may increase or decrease with frequency and pricing strategies must be planned and worked daily. The global recession of the last two years has clouded some of the traditional differences, as some resort and upscale brands have discounted heavily to the point where the lower priced properties cannot effectively compete. Hotels should have learned the lessons of the airlines and not just compete based on being the lowest cost. The anger of flyers today for being charged extra for almost everything has opened the way for certain carriers to expand and others to enter what were previously lucrative and exclusive markets.

The associates of each of those airlines have major differences as well in how and what to communicate to their travelers. Cash flow is an obvious critical factor and reasonable discounts on a logical basis are often good business practices. Southwest Airlines in the US has been consistently one of the most profitable carriers in the past 20 years and, at times, is the lowest fare provider. A non-technical look at their pricing strategies from only a

consumers' view will show how they track, demand, and adjust prices accordingly, even in the economic downturn. They are not always the lowest fare in a given market on a given day, but their overall satisfaction ratings demonstrate their ongoing and continued success. Consumers will always remain sensitive for fair prices, discount options and special offers, but competing on price as the major component for success is not viable or logical for long-term .

As a Promotion category, southwest is one of many airlines that are increasingly interested in finding more contemporary avenues for advertising. Although, they are still lagging behind other airlines, they are discovering the importance of social media in promotion. Social media sites like twitter, Facebook, YouTube, Flickr and even blogging allows Southwest the ability to get the online community to learn more about its low-costs prices and services.

As a place category, Southwest Airlines is the fourth largest airline in the US. It flies 64 million passengers per year to 64 cities in 34 states. Southwest Airlines operates a fleet of 388 aircraft of the Boeing 737 type, ranging from the 737-200 to the Next Generation 737-700. Although Southwest Airlines is mainly a point-to-point carrier, there is an increasing amount of transfer traffic on their routes. Major hubs in SWA's network include Las Vegas (185 daily departures), Phoenix (183), and Baltimore/Washington (161). In 2009, Southwest partnered with Coastal Vision 3000, a Northwest Florida business group, in an attempt to position Northwest Florida as one of America's premier beach destinations. This partnership is working hard to stimulate job

growth, economic progress, and provide travelers more options for flying into areas with popular beach destinations.

Southwest Airlines, along with Jet Blue, Frontier, and Airtran, are currently leading in low-cost air fare pricing and are continuing to profit while other airlines such as United, US Airways and Delta are suffering economic setbacks (Chan, 2007). Based on this research, Southwest Airlines has not been forced to decrease their flights or lay off many employees even with the ramifications of the events of September 11th on many airline industries. The airline successfully maintained a \$2 billion cash reserve prior to September 11th and continues to strive and survive during difficult economic times. Part of its enduring success is associated with effective marketing strategies as well as long-term overall strategies. According to further research by Chan, Southwest's primary focus is the creation of a tailored set of best-fit activities. It still carries on much of its philosophies from 30 years ago by offering low cost without the fancy gimmicks offered by other airlines. Southwest has never participated in an in flight meal service or assigned seats and still maintains those same practices in order to keep costs low. Also, according to Chan, Southwest has something known as a linear route structure. The airline uses this method to fly only one specific kind of airplane so that it can stay in high-density markets only. This strategy benefits the airline by allowing it to maintain a strong competitive advantage and high profits.

Controversy Over Carry-on Baggage

Within the last several years, the discussion of legislation regarding industry-wide standardization on limitations for carry-on baggage has been widely

debated throughout the US airline industry. While a number of airline industry-based groups have advocated standardization on the number, size, and weight of bags that would be allowed onto an aircraft, the Federal Aviation Administration (FAA) has yet to take any serious action to this point. As a result, the debate over carry-on baggage restrictions still exists and causes unnecessary confusion and difficulty for both the airlines themselves as well as their passengers.

As the number of airline passengers has increased in recent years, the number of passengers electing to bring their luggage on board a plane instead of checking their bags has also increased. Some passengers feel that checking their bags will lead to loss, damage, or theft. Others find waiting in check-in lines too time-consuming and opt to check-in at their gate. As a result overhead bins and storage compartments on flights are often overcrowded. These overcrowded bins lead to approximately 4, 500 injuries annually in the United States according to Air Safety Week, an industry newsletter. These injuries result from baggage that falls on passengers when bins are opened after arrival or when bins accidentally opening during rough transit.

Southwest holds the notable status of being the only country-wide carrier to not charge passengers for second checked bags. Over the past few months, all the Legacy Airlines and most of the low-cost carriers have added a charge for second bags, and American Airlines made an announcement on May 21, 2008 concerning a \$15 fee for a first checked baggage, this created a huge uproar. Southwest chief executive Gary Kelly stated that, “ It’s not what

customers want, nobody wants to be nicked and dimed”. Other airlines jumped on similar bandwagons by imposing a \$25-each-way fee for the second bag checked. (Maxon, 2008) Research by Maxon also noted that Southwest is imposing some fees, on January 29, 2008 it began initiating a \$25 fee each way for the second bag checked.

According to this research other airlines are also charging for transporting pets, travel by unaccompanied minors, shipping checked items such as antlers and ski gear or getting better seats. There’s no telling how long Southwest will stick with its passenger-friendly fee policy, but during this tough economy, Southwest managed to be the only profitable airline in the first quarter of 2008 and recently ranked as the top U. S. airline in a major customer satisfaction survey.

What does it take to succeed in a business as troubled as the airline business? It takes a unique strategic point of view, a long-term commitment to that strategy, and a personality in the marketplace that customers find interesting, engaging, and compelling.

That is why Southwest Airlines continues to fly high relative to the competition. In 2009, it was the only major carrier to turn a profit. In 37 years of operation, it has never lost money. Today, it is in the remarkable position of charging some of the lowest fares, paying relatively high wages (unlike its rivals, it has never used bankruptcy court to redo union contracts), and generating the best returns. Unusual, to be sure, but that’s what happens when you combine a unique strategy with an engaged and upbeat workforce—and you always look for customer-oriented ways to differentiate

yourself. Last year, as the other big carriers generated \$2 billion in checked-baggage fees, Southwest not only refused to charge for checked bags, but unveiled a hilarious ad campaign to tweak its rivals for doing so.

SWOT Analysis

Strengths: Most of Southwest's strengths are the same reasons why the airline has captured a comparative advantage in the airline industry.

Southwest has been able to maintain a low cost approach to flights that has appealed to the budget minded consumer. It is the first airline to “ offer reasonably priced travel packages with low frills and excellent customer service.” (Broughton, 2010) One strategy that Southwest uses to keep their costs low is to purchase only Boeing airplanes. This approach reduces repair costs and provides bulk discounts on purchases. Southwest has made itself very attractive to consumers by offering many customer oriented programs. It is the first airline that offered discounts on flights to senior citizens. In addition, it made the check-in process more efficient by initiating ticketless travel. With the “ no seat assignment” policy, the process of boarding flights is not only time effective but also more cost effective than their competitors. Southwest Airlines is also the only airline that offers credit on frequent flyer miles based on the number of trips taken with the airline instead of miles traveled. Another customer oriented program that Southwest has adopted is the “ Bags Fly Free Campaign” and a new early bird check-in program that they are hopeful will have a revenue potential generating approximately \$18 million dollars. “ The carrier also generated approximately \$10 million in revenues from its new pet fare, unaccompanied minor service charges, and

excess/heavy baggage fees.” (Gittel, 2009) With more than 3, 200 daily flights and 35, 000 employees nationwide, Southwest???????

Weaknesses: Although Southwest Airlines has consistently turned a profit that does not mean that they are exempt from weaknesses. Weaknesses refer to the organizational impediments that Southwest must consider when making operational decisions. Southwest does not offer international flights. This decision limits Southwest flight locations to within the continental United States. This weakness over time may become a barrier to increasing sales, as it is shutting out consumers that need to fly internationally. Southwest’s inability to utilize online booking agents is another weakness that the airline should reconsider. Companies such as Priceline. com and Expedia. com would be able to increase the airline’s ticket sales and thus be better able to meet their load capacity. Load capacity is a serious concern to Southwest Airlines, as it represents the total number of passengers required to meet their breakeven point. Southwest Airlines does not use chat communications such as email in its operations. Electronic forms of communication would provide the airline with a more direct and quicker way to interact with employees and customers.

Opportunities: Southwest Airlines has many opportunities which will help them to grow and stay productive. In the past, new technology developments have been one of the many driving forces which enabled growth for Southwest. Applying new technology to make the travel experience more enticing is an opportunity that Southwest continues to pursue. Research and development to advance procedures and services

within the industry would help the airline maintain its competitive edge by allowing the airline to introduce new products or services. Southwest should also focus on increasing their ability to advertise on the internet in order to reach a broader range of consumers. Currently, Southwest is planning on extending flights to further destinations. A long term consideration for Southwest Airlines is to expand their flights internationally and to other national markets. The airline is also planning to increase the frequency of 65 flights while decreasing the frequency of 10 flights for a total net gain of 52. In addition, they are considering expanding services to include leisure or business classes.

Finally, Southwest has initiated a labor reduction by “ launching a voluntary early-out program to better align staffing with the carrier’s capacity levels. The company expects annual savings in subsequent years from the program to exceed the cost of the program” (Unknown, 2010) and with these savings Southwest can invest in other opportunities to maintain its success.

Threats: The threats that Southwest Airlines are faced with are situations, events or conditions that are faced by all airlines within the entire airline industry. One of the biggest threats that Southwest has had to face since 9/11 is the decline in the number of travelers for leisure. Many travelers since the terrorist attacks of 9/11 have opted to travel by car instead of flying out of fear. Since 9/11 there have been numerous terrorist attempts on airplanes. The most recent one was Christmas day 2009. In order for Southwest to continue to grow and survive in the airline market they must continue to communicate to their customers their dedication to the security

of their passengers. In addition, Southwest must stand by their commitment by increasing airport security, which has and will continue to increase their costs on an annual basis.

Another threat that the airline industry must contend with is the government's ability to create and execute new regulations that will affect airlines such as Southwest. Many of these regulations can increase operating costs. One such regulation includes restrictions on the types of aircraft used and limits on the number of operations. The biggest threat to the airline industry is the fluctuation in gas and oil prices. Southwest has managed to establish fuel hedging contracts in the past which has given them the advantage over their competitors. However, these contracts are expiring and if Southwest cannot successfully renegotiate these contracts, they run the risk of subjecting themselves to higher fuel costs. This could have a negative impact on not only their future customer fares but also their profits as well. To date, they have revised their fuel hedge portfolio to include derivative contracts in place for approximately 50% of their estimated 2010 fuel consumption. This revision has lowered their first quarter 2010 expected hedging premium costs by \$30 million, which is \$15 million lower than the fourth quarter 2009 costs.

Market Segmentation

Market segmentation is among the most powerful weapons in the marketing arsenal. Joyce Rogge the vice president of marketing for Southwest states that, " Our goal is to become the preferred airline in each city that we serve.". Southwest is consciously focusing on targeting various customer bases. The company's campaign has concentrated on attracting the African

American demographic that remains prevalent in as many as 24 of 59 regions that Southwest Airlines serves. (Churchill, 2001)

Southwest decided to partner with BET's (Black Entertainment Television) Black College Football Classic Coverage, ESPN, and National Football League games to target the male 25-54 demographic. The airline has used these avenues as well as partnerships with Pizza Hut and Disney as part of their increasing advertising budget to target key demographic markets.

With respect to the psychographic category, Southwest is meeting the cost conscious needs of flyers. Airline carriers like Delta, United, and American have battled for higher margins by indulging the price-insensitive business traveler, thereby effectively leaving behind a large number of consumers who hunt for bargains. As competing airlines have continued to increase costs to cater to customers who require plush seats, better wines, and airport lounges, Southwest found the need to appeal to the comparatively undemanding flyer who absolutely had to travel but was not willing to pay the high fees charged by other carriers.

Southwest has entered into a variety of intended geographic markets to include openings in Florida, Baltimore, and even Long Island where there is a shuttle service to Boston. In other words, Southwest “ arrives where customers are, rather than spending time and effort to build traffic”. This and other tactics have attributed to 23 years of profits for Southwest. (Haas, 2010) Although, segmentation is a great way to uncover growth markets, current segmentation practices often blind companies to market disruption- the most valuable kind of innovation.

CONCLUSION

Southwest has long been regarded as a benchmark in its industry for operational excellence. Southwest Airlines is a fine example of a company that is committed to its core competencies and efficient operations to drive its low cost structure, outstanding delivery of customer service, and innovative HR management practices. It has the lowest costs and strongest balance sheet in its industry. This airline might face many challenges in the future such as an increase in labor costs, fuel costs and competition from other low cost carriers. However, it still has the comparative advantage within the airline industry. Southwest's competitors will not be able to grow as quickly as Southwest. In order for the competition to grow at a faster rate they would have to operate at a cost equal or lower than Southwest. Southwest Airlines has taken all of the above factors into consideration in an effort to maintain itself as one of the top contenders in an ever changing industry.

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