Marketing management case: south west airlines

Business, Marketing

The Deregulation in 1978 lead to competitive price war among airlines due to freedom in setting fares, route entry and exits. The operating structure of the airlines includes the hub and spoke system and the point-to-point system. Major Airlines turned their attention to serving non-stop " long-haul" routes in densely populated metropolitan areas or city-pairs which had been profitable in a regulated environment. Hence, existing regional carriers and new airlines filled the void.

Price competition lowered the average fares paid on the formerly profitable long-haul routes serviced by major airlines while their operating costs are maintained high, leading to profit squeeze. Acquisition during mid-1980s leads to a situation in which a disproportionate share of domestic traffic was captured by 8 airlines. Carrier bankruptcy and collapse occurred in the early 1990s due to a recession, and doubling of fuel prices. New airlines were founded; major of them positioned themselves as " low fare, low frill" airlines.

Oakland had " symbolic significance" for both airlines. Until the late 1980s, United was the dominant carrier at the Oakland airport, but in the head-to-head competition with Southwest, it lost this market. For Southwest, Oakland had become the main base of Southwest's Northern California operation and was the fastest growing of California's ten major airports in terms of air traffic. Out of Southwest Airline's expectation, " Shuttle by United" intended to discontinue Oakland-Ontario route and raises fares over the other 8 direct competition routes by 10$.

United had shown their determination to get Oakland back. Their actions were strategic decisions or signified a major modification in United's " We are going to match southwest" strategy? The problems facing Southwest Airlines is to find out the implications from United's actions and how to react to these changes. Should Southwest follow with a 10$ fare increase of its own or continue with its present price and service strategy? What might be the profit impact of United's action and Southwest's reaction, if any, for each airline?

And how was United's pricing action linked to the announced withdrawal from the Oakland-Ontario market? How should Southwest respond to Shuttle by United's initiative? Why did Shuttle by United decide to drop Oakland-Ontario's route though it had showed its determination to get its market and passengers back. Did Shuttle by United change their " We are going to match southwest" strategy when they planned to raise a $10. 00 in fare over all other 8 routes? Should Southwest follow suit and increase its fare by $10. 00 or maintain its current price?