Example of case study on southwest airlines

[Business](), [Company]()

Herb Kelleher, the former CEO of Southwest Airlines, provided growth of the company using his flamboyant leadership style and extraordinary approach to team making. Southwest Airlines pioneered in the low-cost segment of the market. From 1996 to 2012 the company almost doubled the number of cities served. The operating income of the company had grown by 1. 55 times in 2012 if compared to 2008 while its net income made up 2. 37 times greater in 2012 in comparison to 2008. Thus, the company had grown significantly, but the growth outstripped to the maturity stage. The previous growth resources were exhausted and the company was forced to seek the new ways of further growth (Dess, Lumpkin and Eisner, 2013).

In 2001, the leadership at Southwest Airlines had changed and the new CEO adopted a renewed growth strategy by setting higher prices for the airline tickets. She supported several elements of organizational culture, but, in general, it was difficult to proceed with the family-like approach to human resource management adopted by Kelleher. Southwest Airlines had to choose a direction of further growth, but appeared to be slow to adopt changes in comparison to more vivid competitors. The situation worsened by the employees who refused to work extra hours while receiving low wages. The company acquired AirTran Company aiming to widen its market share and offer more destinations to the customers. Also, the competitors started to carve the niche of the company in the hybrid aviation thus attracting both leisure and business travelers while Southwest Airlines was slow to adopt changes (Dess, Lumpkin and Eisner, 2013).

The main problem is that Southwest Airlines presented itself as a low-cost company in the past. Recently, the company had been exercised the profitboosting strategy. However, this strategy does not comply with the idea of low-cost airline transportation. The management of the company needs to develop an alternative source of growth taking into account changing external environment (Dess, Lumpkin and Eisner, 2013).

Current Strategies

Southwest Airlines took advantage from overall cost leadership strategy. Southwest Airlines was the pioneer in the low-cost airline transportation. After some time, changing factors of external environment forced the company to change profit-making policy thus changing the concept of Southwest Airlines, the first low-cost company. Low-cost strategy offered excellent flight opportunities for the customers: they could save time and money at a time. However, Southwest Airlines was forced to save on expenses to be able to provide low-cost flights. The company cut wages and adopted the policy of cost control. Kelleher understood that the low wages contribute to the growth of the company and made the employees proud of their jobs. He honored the employees and used other methods of making them feel needed by appreciating their contribution. Kelleher fostered the culture of cost saving and offered intangibles instead of high wages (Dess, Lumpkin and Eisner, 2013).

Also, serious changes in leadership strategy occurred as well. The previous leader exercised laissez-fair leadership style and succeeded to make an excellent team. Herb Kelleher encourage informal communication, parties, humor, and extraordinary behavior. The employees were carefully selected based on the requirements of the CEO. After changes in leadership, the attitude towards employees changed as well. The new CEO did not pay enough attention to intangibles (Dess, Lumpkin and Eisner, 2013).

Analysis of Competitive Advantage

The company was forced to compete in the new environment. On the growth stage the company used the cost leadership strategy to offer better flight conditions if compared to the competitors. On the stage of maturity this strategy had become inconsistent with the current goals of profit maximizing. As the result, the company increased the prices for flights thus questioning its reputation of low-cost airline operator. Also, Southwest Airlines increased working hours for flight attendants while the share of wages per seat had decreased (Appendix 1). Previously, the company succeeded family-like corporate environment that became impossible to handle within the growing size of the company. Fostering family-like culture helped the employees feel more comfortable at the working place and be encouraged them to be more dedicated to the company. Thus, the company started to lose its competitive advantage in the new operating environment. As a result, the new companies entering the market started to carve market niches while Southwest Airlines was not able to adopt changes quickly (Dess, Lumpkin and Eisner, 2013).

Obviously, the airline transportation industry has entered the stage of maturity because the competitors were forced to compete on price basis. Southwest Airline benefited from the cost leadership strategy used on the stage of growth. However, several new competitors entered the market thus lowering profit margins obtained from airline transportation. Airline fares had become more standardized thus making competition harsher. Lowering profit margins made pressure on profits and the decision of changing strategy was made by the management of the company. Southwest Airlines increased fares and reduced wages aiming to increase revenues. The company succeeded in it, but this strategy resulted in protests among employees who required reduction of working hours. Southwest Airlines should reinvest in the new opportunities when it received revenues from adopting the strategy of low-cost to provide further growth of the company and to developed new core competitive advantage to be able to compete in the new environment.

Sustainability Analysis

Analysis of External Environment

The Demographic Segment

The role of demographic segment in the case study is insignificant.

The Sociocultural Segment

The role of sociocultural segment was not discussed in the case study. Therefore, this factor cannot be taken into account.

The Political/Legal Segment

The company took advantage from the changes in the legislation related the activity of Southwest Airlines. These changes gave the company an opportunity to add more destinations thus offering more services to its customers. The loose of restrictions imposed by Wright amendment allowed the company to control 90% of Love Field in 2006. However, it also led to increase in price competition between Southwest Airlines and American (Hussey, 2001).

The Technological Segment

The competitors of Southwest Airlines started to use hybrid model of aviation serving both leisure and business travelers. However, Southwest Airlines had chosen to follow expansion strategy aiming to attain further growth. Another opportunity for further growth was using new technologies to offer more amenities within the framework of profit-maximizing strategy (Pagano and Verdin, 1997).

The Global Segment

The beginning of 200’s as the period of increasing the tempo of globalization. Many US companies benefited from this process. The company had an opportunity to go global if it had had a technological advanced fleet. However, it was not mentioned in the case study that the company reinvested finances into fleet development in the period of intensive growth (Pagano and Verdin, 1997).

Analysis of Competitive Environment

Existing Rivalry

The existing rivalry in the airline industry is high. The number of competitors does not change much with time. The fixed costs in the industry are high. The products offered by the airline industry are complex thus increasing the competition. The competition is reduced by brand identity. Thus, Southwest was known as the low-cost airline operator while Jetblue was known for its amenities. The market shares were equally distributed because of low switching costs. There was no any obvious market leader. This factor of operating environment is the strongest in the airline industry. The existing rival may duplicate the strategy of the company thus lowering its profits (Porter, 1998).

Power of Buyers

Bargaining power of buyers is low because there is a great number of buyers and the price of the tickets is low. However, the switching costs are low because the customers chose the flights based on the destination and price. It was easy for Southwest Airlines to develop customers loyalty based on the price of the tickets, but the loyal customers can easily switch to another company because of low switching costs. It happened when the existing rivals started to change their strategy for low-cost. The service provided by Southwest Airlines was unique due to the unique concept of the former CEO of the company. The Southwest Airlines won a low-cost niche, but it failed to develop the next competitive advantage when the strategy exhausted its potential. When the company started to increase fares, it should focus on the best amenities or find another advantage to retain loyal customers (Porter, 1998).

Power of Suppliers

Bargaining power of suppliers is low because their inputs are standardized. At the present time, the manufacturers of airplanes are working on making their planes eco-friendly. The airplanes differentiate with amenities. The switching costs are high both for the manufacturers and for the airline companies because of long-term loan agreements. The costs of airplanes are high and the amenities offered by the manufacturers are very similar. Thus, it is not likely that either buyers or manufacturers of airplanes switch to another company (Porter, 1998).

Threat of New Entrants

Threat of new entrants in the airline industry is low because of low switching costs. Also, there are no proprietary services involved. Existing rivals have a large cost advantage over the new entrants. Starting a new company in the airline industry would require a large amount of capital. Besides, the potential new entrants do not have a strong customer base to compete with existing firms in the industry. Thus, once entering the market, they would be forced to lower costs and to incur losses. Also, consumers usually chose to fly with well-known brands. The price for the airline tickets is high and the customers trust the firms they used to fly before. Also, the airline industry is subject to licensing that takes time. The activity of the airline companies is regulated by several organizations making demands regarding safety thus preventing the potential new entrants from entering the market (Porter, 1998).

Threat of Substitutes

The industry is characterized by the medium risk of substitutes. The potential customers may choose other types of transportation including a train, a bus, a car, or a boat. The costs of transportation may change depending on the destination and the type of the transportation. The cost of time is the most important. High price for the airline tickets is conditioned by the time saved. Airline industry surpasses other types of transportation in terms of convenience, cost, and service. Traveling far using other types of transportation may increase safety risk (Porter, 1998).

Analysis of Human Capital

The company faced challenges connected with dissatisfaction of the flight attendants who protested against increased working hours without any compensation. As it can be seen from Appendix 1, the share of wages and salaries decreased in 2012 if compared with 2010 while all other expenses per seat had increased. At the same time, the revenues of the company, average passengers' fare, and load factor had increased (Appendix 2). Previously, Southwest Airlines' management paid attention to attracting right people to work for the company. The CEO recommended to select people by attitude and then to train them for skills. The former CEO of the company encouraged natural behavior and having fun at work. Herb Kelleher used non-traditional approach to selecting employees: those who behaved naturally and had good sense of humor were chosen to work for Southwest Airlines. Kelleher let the employees of Southwest Airline know that they are more important for the company than the vice-president. The culture fostered by Kelleher was reflected in the programs that helped honor the employees. As the low-cost strategy did not allow set high wages, Kelleher introduced several programs making the employees feel that their efforts are appreciated. For example, he established " Hokey Days" when committee members cleaned the planes after flights instead of the flight attendants. Also, the employees were personally greeted with birthday cards. These policies helped retain employees at the lower-paid positions if compared to the wages of the competitors. When the company grew, personal greetings were not sent anymore that contributed to the indignation among the employees: the working hours were increased as well as fares, the management paid less attention to intangibles, but the wages remained at the same low level (Dess, Lumpkin and Eisner, 2013). Therefore, another challenge was to adhere to the new strategy of profit maximization while developing an appropriate human resource strategy. It appeared to be difficult since there was no a Human Resource Department at Southwest Airlines – there was a People Department (Dess, Lumpkin and Eisner, 2013).

Diagnosis

In the growth period, Southwest Airlines was the first company that adopted the cost leadership strategy deriving benefits from it in the past. The changing external environment forced the Southwest Airlines to change the concept of the company, but it failed to adopt a new growth strategy faster than its competitors. The competitors switched to the low-cost strategy previously exercised by Southwest Airlines forcing the company to compete based on the price of the tickets. The company was not able to cut the costs anymore. The company started to cut labor expenses since it was the only opportunity to grow in changing conditions. Southwest Airlines cannot save on the price of materials, but it successfully adopted the strategy of cost control. However, the employees of the company were extremely dissatisfied with their working conditions and management attitude. The previous CEO compensated relatively low salaries by intangible incentives during the stage of growth, but this strategy was not feasible anymore because of the huge size of the company. If Kelleher succeeded to emphasize the importance of each employee in a small growing company by sending personal greetings, Barrett, the new CEO, found it difficult since the number of employees had reached 35, 000 by 2002. As the company exercised the new profit-making strategy, the management of the company could offer an increase in wages for its employees because they were working extra hours, but their labor was not appreciated as much as it was when Kelleher managed Southwest Airlines. Besides, the company did not have an opportunity to increase labor costs since it was forced to compete for the price. In addition, Southwest Airlines changed its strategy and increased prices while other companies reduced it. As a result, it lost loyal customers (Dess, Lumpkin and Eisner, 2013).

Conclusions and Recommendations

The company should pay more attention to developing a new competitive advantage based on the new conditions of external environment. If the company’s management decided to change the low-cost strategy of the company, it should change the concept of the Southwest Airlines to be able to compete in the market and explain the price increase to the loyal customers. However, changing the concept of the company resulted in loss of the loyal customers. In order to retain loyal customers the company should develop the new competitive advantage based on the new concept of the company (Dess, Lumpkin and Eisner, 2013). For example, offer new amenities, services, use new technologies to differentiate in the national market or to enter the global market to acquire more customers. As the case study analysis showed, Southwest Airlines started to lose loyal customers who used to pay less because it failed to adopt necessary changes.

One of the opportunities that could be utilized by the company is ecologically-friendly materials use in the passenger compartments. Using ecologically-friendly materials is a global trend and the company may attract more ecologically conscious passenger using this approach.

Another opportunity is to expand globally. It was not mentioned in the case study that the company invested heavily in fixed assets. However, investing in advanced technologies is logical because airlines industry is the technologically advanced area. For example, the company could invest in energy-saving engines for its jets to be able to pay extra money to the employees. Airlines industry heavily depends on fuel price. Therefore, investing in a technology helping save on fuel price could collect the resources for further growth (Hussey, 2001).

Also, the current CEO pays little attention to human resource management while the former CEO heavily relied on this core resource. Southwest Airlines may revive the culture fostered by Kelleher. For example, Barrett could delegate her obligations of greeting the employees to other top-managers. It could help emphasize the importance of plain employees making profits for the company. It seems that the management style used by Kelleher was feasible and helped form the team.

Besides, the company could offer free training and seminars to make the team stronger. This approach could also help foster the culture of intangible incentives and save on wages. Also, free training and seminars contribute to the professional and intellectual development of the employees thus increasing the quality of human resources.

Appendix 1 Operating Expenses per Average Seat, 2004-2012 (in cents)

Appendix 2 Financial and Operating Data, 2008-2012

References

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