

Southwest's competitive advantage



**ASSIGN
BUSTER**

STRATEGY IMPLEMENTATION AND MEASUREMENT METRICS ASSIGNMENT-1

SOUTHWEST AIRLINES CASE STUDY QUESTIONS 1. How does Southwest Airlines get its competitive advantage? 2. How does Southwest Airlines execute its strategy? 1. How does Southwest Airlines get its competitive advantage? Southwest Airlines uses a Cost Leadership Strategy, however most pricing strategists would agree that having a low price does not, in itself, constitute a competitive advantage. In fact, thinking that low prices are always a good strategy for competition is deeply misguided.

However, at times, targeting low prices can lead to a strategic focus which delivers tremendous results. Modern competitive strategy will often examine firms from a resource-based view. According to this lens, competitive advantage derives from leveraging an inimitable resource to deliver value at a lower cost than the competitors. Price is a completely imitable resource. Any company can match the prices of its competitor if it so chooses. Hence, arguing that a low price is a strategic resource, or that it leads to a competitive advantage in and of itself, is illogical.

Southwest Airlines has used the target pricing and utilized a marketing orientation since its infancy in 1971, even though these concepts were not fully defined back then. First, starting with the customers and the value they sought, Southwest Airlines initial target was customers traveling between cities in Texas, specifically between Dallas and Houston, Dallas and San Antonio, San Antonio and Houston. While Texas is larger than many countries, it isn't so large that people can't drive from city to city.

Hence initially, the most comparable alternative to Southwest, and therefore its prime competition, wasn't other airlines. Instead, it was the car. In

<https://assignbuster.com/southwests-competitive-advantage/>

uncovering the car as the competing alternative, Southwest was able to also identify the target price of its offering. Second, to compete with the car, Southwest Airlines had to price their service relatively similar to the cost of car travel. With this target in mind, they chose \$20. While \$20 is lower than the government allowable tax deduction for travel, it is also significantly higher than the price of gas alone to drive between these cities.

Thus, at this \$20 price, Southwest Airlines could be confident that it would capture many of the travelers that would have driven and convert them into short-hop air travelers. Third, the product was redefined to serve customers at this low price profitably. Consider what was removed from air travel and what was included instead. The table below enumerates the key points

Points 1 Removed Reduced reservations flexibility: Reservations primarily made directly Southwest Airlines as they eschewed working with travel agents.

No connections between airlines: Southwest Airlines would not transfer baggage between flights. Included or Added Simplicity in Pricing: Flat rate of \$20 per leg of the journey. Also reduced the cost of price management, as no yield management system was needed initially. Higher convenience in terms of on-time arrivals: With a simplified flight route between lesser used airports, Southwest was able to operate more reliably. Higher convenience in flight frequency: With point to point flights, Southwest could offer service between Houston and Dallas with the same plane roughly every 2. hours. 2 3 No long-haul flights: Southwest Airlines customers could only take Southwest between a city-pair, not across the country or even across state lines initially. This greatly reduced cost of compliance with CAB rulings, as

Southwest's operations were not subject to interstate commerce rulings. 4
No in-flight meals: Southwest Airlines only offered peanuts and beverages.
Fun: Friendly flight attendants provided jokes, costumes, and made flying comfortable with warm and caring service. Faster boarding times leading to faster flight turnarounds.

More seats: With one class of service, Southwest Airlines could put 137 seats in a 737 versus 128 in a United Airlines 737. 5 6 No seat assignments: First come, first seated. No first class: One-class service. 7 Does not fly into major airports: or uses Use of underutilized airports that are less major airports concentrates on point close to metropolitan cities: reduced to point connections costs, punctuality Use of multiple aircraft types Frequent flyer program does not use miles earned Uses fuel efficient 737s: reduces maintenance and training costs Based on number of trips flown: reduced operating costs 9 From this list, we see a number of items which an airline would usually use to define superior value removed from Southwest Airlines offer. A Southwest customer couldn't be treated to first class, couldn't get food, couldn't book them as part of a larger trip, couldn't book with them through an agent, and couldn't even preselect their seat. All of these features were exactly what defined a competitive airline at the time. And, all of these features added cost.

Instead, Southwest Airlines selected a specific target customer — a Texan traveling between cities in Texas — and then determined what it would take to satisfy that customer. ? ? ? That customer was far more interested in travel efficiency than travel class. That customer would be glad to forgo a meal, especially in exchange for a friendly flight attendant and a Dr. Pepper.

That customer was trading off driving for flying, and needed flexibility in booking rather than navigating through the decisions and planning related to yield management.

This service described does not meet the wants of every customer that could have flown Southwest Airlines, but it does describe those of the target customer. And, given the choice of mediocly satisfying everyone at a high cost or highly satisfying a select few at a low but profitable price, Southwest Airlines rightly chose the latter. As a result of tightly defining the value sought by customers (efficient and flexible travel), and the price (\$20), Southwest was able to meet the needs and surpass the expectations of their target customer.

Moreover, it was able to do this at a significantly lower cost than a standard airline. So can low prices deliver a competitive advantage? NO, not alone. But target pricing, where the price and benefits demanded by customer leads to a strategic focus that drives a redefinition of the product and service, can deliver a winning competitive advantage. One where a customer need is met at a cost below the price the target market is willing to pay.

BALANCED SCORECARD FOR SWA 2. How does Southwest Airlines execute its strategy?

Southwest Airlines is probably one of the most striking examples of a company that (a) Defined a very clear and simple key business purpose, (b) Chose the right business model to support the business purpose, and (c) Consistently demonstrates the core values and behaviors derived from that key business purpose. The brand promise of Southwest Airlines is:

'Dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit'.

Every single employee of the company is aligned with this brand promise and in spite of the current economic turmoil in the airline industry Southwest's performance is among the best in the industry. Staff morale is exceptionally high. In 1971, Rollin King and Herb Kelleher started an airline service with one simple notion: " If you get your passengers to their destinations when they want to get there, on time, at the lowest possible fares, and make darn sure they have a good time doing it, people will fly your airline".

Southwest currently has the lowest operating-cost structure in the US domestic airline industry and consistently offers the lowest and most of all simplest fares. Southwest holds the best cumulative customer satisfaction record for the past 18 years. In December 2008, the airline had 35, 499 employees and generated total operating revenues of \$11 billion (2007 = \$ 9. 8 billion, 2001 = \$ 5. 3 billion) from a passenger load factor of 71. 2% with a fleet of 537 Boeing 737's.

Its stock exchange symbol is ' LUV', representing Southwest's home at Dallas Love Field, as well as the theme of its employee and customer relationships. The major success to their continued success seems due to their low-cost model and competitors being aware that they cannot match Southwest Airlines' low prices. Southwest Airlines has the reputation of being able to force a competitor into bankruptcy. It is believed, however, that it was not just the choice of its business model that made Southwest Airlines

such a successful company; it is the way they execute their business model through perfect strategic alignment.

Southwest Airlines succeeded in defining a very simple yet clear key business purpose; the fact that they aim for being “ the only short haul, low fare, high frequency, point-to-point carrier in America” leaves very little room for interpretation. What makes Southwest Airlines’ key business purpose such a powerful one however, is not just the very clear definition of their ‘ raison d’ etre’, but certainly also what the company and its leaders do with it.

Their simple but effective key business purpose is the main guiding principle for Southwest Airlines’ strategic goals, business strategy, organizational infrastructure, and last - but certainly not least - their company culture. The organization of Southwest Airlines is best described as an upside-down pyramid - an organization very much in line with the way they want to do business. The upper management is at the bottom and supports the front line employees, who are the experts.

Front line employees play a major role in the yearly business planning and operational budget which for a great part is done bottom-up rather than top-down. This is the fruit of co-founder Herb Kelleher's unorthodox leadership style, in which management decisions are made by everyone in the organization, not just the head executives. The company does not put much emphasis on structure; instead, employees are encouraged to think freely without constraints such as titles or official mandates. The reason for Southwest Airline's success is due to their clear key business purpose and core values, and due to the way in which they consistently execute their

business model (a combination of 'disruptive innovation' and 'customer intimacy') in line with their key business purpose and core values. ? ? ? The Southwest Airlines fleet consists solely of Boeing 737s. It offers only economy seats (there is no business or first class). Southwest Airlines also do not offer in-flight meals, only peanuts and other snacks. Southwest is simple and direct at the goal of their service; "A primarily short-haul airline that flies directly from city to city, with just one type of plane - the Boeing 737 - and the lowest costs".

With a simple goal, Southwest has excised many of the 'luxuries' that competitors offer, such as luxury seats; this is made evident by their decision to enforce a rule for passengers who cannot fit into the seats to purchase an additional seat. This rather unpopular move - whereas other airlines would have suggested a more luxury class seat - is simple in its purpose - get passengers from point A to point B with a minimum of frills, but with a friendly smile and great personal service.

While Southwest Airlines offer no frills, they do meet and exceed customer expectations when it comes to personal service. They base their model on the motto "If employees are happy, satisfied, dedicated, and energetic, they'll take real good care of the customers. When the customers are happy, they come back. And that makes the shareholders happy". Southwest invests in very good relations with all their employees. Employees are either of independent labor unions or have flexible contracts which allow employees to work longer hours (adapting the business model to the key business purpose)