Pricing strategy and tactics

[Business](#), [Strategy](#)

Various pricing strategies can be deployed by organizations. These include the penetration pricing strategy, the skimming strategy, economy / low cost pricing strategy, and the premium pricing strategy (Keegan and Green, 2002, p. 364). Of these pricing strategies, Southwest Airlines offers lower than average prices, suggestive of an economy pricing strategy. By definition, the economy / low cost pricing strategy involves offering a price that is kept as low as possible, which is accompanied by the bare minimum of services (Reed, 2006; Keegan and Green, 2002).

Apart from the cost-conscious time-insensitive leisure traveller targeted by Southwest through the economy pricing strategy, the airline also targets the price-insensitive, time-conscious business traveller through the value pricing strategy (Knorr, Lemper, Sell and Wohlmuth, 2004). Typical price tactics used by the airline include offering price discounts. Quoting Gary Keller the airline's CEO, Reed (2006) suggests that the airline pursues a cost plus pricing strategy. Competitive Advantage: Firms may gain a competitive advantage in various ways.

They may gain competitive advantages by differentiating themselves on the basis of some unique selling point such as the ability to offer exceptional customer service, high quality products and so on. Additionally, the firm may gain a sustainable competitive advantage through developing a low cost structure on the basis of which it is able to lower prices than its competitors. For the firm to gain the competitive advantage, the basis on which it competes (either differentiation or low cost as explained) must be aligned with its core competency (Porter, 2008).

In the case of Southwest Airlines, we observe that its core competency lies in its low cost structure (estimated to be at between 30% and 50% lower than for traditional airlines like Lufthansa), which underpins its ability to offer lower than average prices. According to Knorr, Lemper, Sell and Wohlmuth (2004), Southwest Airlines had the sixth highest operating margins among all the airlines in the world (and the highest in the US). It has been consistently profitable for more than thirty years, a feat which no other airline has so far managed to achieve.

Southwest has become the most popular domestic airline and carries the most number of passengers domestically This low cost structure is supported by various fundamentals. The first fundamental is that the airline operates point-to-point services from airports which are largely un-congested, rather than through the hub and spoke system. According to Knorr, Lemper, Sell and Wohlmuth, 2004), the effect of this is lower turnaround times, shorter ground times, and a higher crew and daily aircraft utilization rate.

Secondly, Southwest Airlines like other no-frills airlines operates only short haul and medium haul flights, and uses only one kind of aircraft (the Boeing 737 series), which helps keep down costs unlike traditional airlines which fly many aircraft types an operate long haul routes in addition to the short and medium haul routes. Thirdly, Knorr, Lemper, Sell and Wohlmuth (2004, p. 16) attribute the low cost structure of Southwest Airliners to “ systematic outsourcing, and longer daily, monthly, and annual working hours (close to the legal maximum).

” Fourthly, through bypassing travel reservation agents and CRS (Computerized Reservation Systems) and selling tickets via the internet and call centers (ticketless travelling), the airline is able to cut intermediation costs in its distribution channel. Its fuel hedging strategy has also bolstered its low cost strategy. Additionally, the airline saves huge costs by avoiding expensive frills such as VIP traveller lounges, interlining agreements with other carriers or advance seat reservation (Knorr, Lemper, Sell and Wohlmuth, 2004).

Finally, Southwest Airlines is also able to keep its cost structure low and pass these benefits in the form of lower prices to customers by offering only minimal services - the no-frills product. The aircraft only have a single class cabin, with those who want meals having to either carry their own meals or buy them. The air fare consists thus just of the basic transportation price (Knorr, Lemper, Sell and Wohlmuth, 2004). References: Keegan, WJ and Green, MC. 2002. Global marketing management. Prentice Hall.

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