

Southwest airlines case study

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



SouthWest Airlines Case Study

Executive Summary Thousands of people travel by air; Southwest Airlines provides low-fare air transportation service among 58 cities in the United States. Although the industry suffered a major blow from the terrorist attack of September 11th, the company is still holding strong; while other airline companies are in debt. The information was majority gathered and analyzed from the internet; sources such as “ News Week,” and “ Wall Street Journal.” According to the acquired knowledge of Southwest, the company maintains steady sales. The major success to their continued success is due to their low-cost model and competitors are aware that they cannot match Southwest Airlines low prices therefore, by dropping the price even lower; Southwest Airlines can force a company to go bankrupt.

Introduction 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.” They were right about that. Southwest Airline is now a major airline, in fact, the fourth largest airliner in the United States that is trading under the Symbol LUV on NYSE.

The mission of Southwest Airlines is dedication to the highest quality of customer service delivered with a sense of warmth, friendliness, individual pride, and company spirit. It primarily provides short haul, high-frequency, point-to-point, low-fare air transportation service among 58 cities (59 airports) in the United States.

Here are some numbers that will give a brief idea how the company is operating: Net income: \$241 million Total passengers carried: 63 million Total RPMs: 45. 4 billion Passenger load factor: 65. 9 percent Total operating revenue: \$5. 5 billion The airline industry has been hit hard by the terrorist attack of September 11th. There is a 13% insurance raise for the airlines and the government is enforcing fees regarding security problems. The operation cost increases dramatically and there are less people traveling by air. Most of the airliners are losing money expect a few. Southwest is one of those airlines which have remained profitable.

Organization of Southwest Airlines is described as an upside-down pyramid. The upper management is at the bottom and supports the front line employees (~35000), who are the experts. This is Herb Kelleher's unorthodox leadership style, in which management decisions are made by everyone in the organization, not just the head executives. The company is described to not have much emphasis on structure; instead employees are encouraged to think freely without constraints such as titles. Kelleher, for example, is said to know the names of virtually all his employees.

Southwest Airlines is characterized as a C-corporation with duration distinguished as a normal perpetual existence. The shareholders are not normally liable for debts of the corporation and they preserve an operation that is normally more structured, requiring more meetings and (in some states) more reporting requirements. Management is very centralized through the board of directors (elected by the shareholders) and the officers (elected by the directors). The corporation is taxable entity, although the

income which would normally be taxed at the corporate level can normally be paid out in salaries (and in other deductible ways) so that there is in fact no tax at the corporate level. As far as transferability of interest, it is normally fully transferable and raising capital is in the choice of public companies.

Southwest Airlines values employees, initiating the first profit-sharing plan in the U. S. airline industry in 1974 and offered it ever since. “ In 2000, Southwest offered its employees a record-setting \$138M in profit sharing. This tax-deferred compensation represented an additional 14. 1 percent of each employee’s annual salary.

Methodology In order to explore Southwest Airline’s corporate structure, the method in which we obtain our information is a critical component in our mission. Therefore, this analysis describes a methodology that utilizes Southwest Airline’s official website to attain background history, company particulars and financial statistics. In addition, the library’s electronic journals, business research databases (Wall Street Journal, Business Week) and accredited search engines on the Internet such as Yahoo! are also major resources for our investigation in conducting a fundamental SWOT analysis and acquiring information regarding the company’s main competitors and customers.

Our research will not be limited to just Southwest Airline, our research involves Boeing 737 as well as a few of the opposing companies. Research on these additional topics will be specific, material that pertains or assists in elaborating our recommendations for the company of Southwest.

Results According to the attached figure covering the past four years of Southwest Airlines' financial progress, they have maintained steady net sales. In 1999, they had total net sales of \$4, 735 million which had risen to \$5, 585 million. Their slight drop in 2002 to \$5, 521 million was due to the September 11th incident. However, this is nothing compared to other major airline industries where they have lost so much more. Many have even gone bankrupt and been forced to close down. In fact, Southwest Airlines was the only major US air carrier to remain profitable since then; albeit Southwest Airlines were affected by the poor economic conditions. Few of their main competitors are Continental Airlines and American Airlines. Substitute products include the train (Amtrak) and bus (Greyhound) which cover long distances. While these alternates cannot offer the speed of travel, most of Southwest Airlines' customers are attracted to the low price.

Suppliers include those who provide service/products necessary for Southwest Airlines to their business function. For Southwest Airlines, suppliers include mechanics(and other maintenance people), providers of fuel, food(the snacks that are offered). The suppliers do not have much bargaining power.

Customers include both residential and commercial sectors. There is no bargaining power for customers, as there is no threat of backward integration; it is unlikely that customers of Southwest Airlines are going to build their own airplanes and fly themselves.

Rivalry among competitors sets the price-Southwest Airlines is a discount airliner. Rivalry is increasing, as the market decreases, and competitors

downsize, the competitors become more or less equal in size and capacity. This means that as economic conditions worsen, competitors downsize and then compete for the same remaining market.

The threat of new entrants is low, the demand is not high. On top of that, there are hurdles, not necessarily the greatest; the FAA. Government regulations and restrictions imposed on those involved in this industry. Such would be government sanctions consequent of international issues.

At a glance, the company's source of competitive advantage is its low price tickets. Most of its customers are people who are willing to forego in-flight meals, direct routes and fancy seats if that would mean for a cheaper ticket. Not to imply that Southwest doesn't provide direct flights, but that is offered at a higher price. Southwest Airlines was in better shape than its competitors after recent attacks on September 11 for a simple reason: their low-cost model.

Terrorist attacks on the World Trade Center had a devastating effect on the airline industry, particularly because the instrument of destruction of these attacks was hijacked airplanes. The public lost faith in the airline industry immediately following September 11th, and for many airline companies this meant going into severe debt or even declaring bankruptcy. Even after some time, the majority of the airline industry experienced lower profits and massive downsizing. However, for smaller companies like Southwest, they were able to turn a profit and were in a more enviable position than the larger counterparts.

The reason for Southwest Airline's success is due to their low-cost model. The Southwest Airlines consists solely of Boeing 737s and offers only coach 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 have offered, such as luxury seats; this is made evident by their decision to enforce a rule for passengers who could not 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. Services, such as in-flight meals and luxury seats, which have become standard to competitors, have been seen as unnecessary for an airline that provides a short-haul trip from city to city at the lowest cost. To have opted for a first class, business class, or any form of luxury class seat would have been excess baggage; most people would prefer to do without it if it meant for cheaper ticket price.

While Southwest Airlines offers no frills, Southwest Airlines do meet customer expectations when it comes to service. They base their model on the motto, which states that " if they're 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 has very good relations with all their employees. Employees are either of

independent unions or have flexible contracts which allow employees to work longer hours.

Southwest Airlines, however, is not without weaknesses. No matter how successful, Southwest Airlines serves only 29 states and cannot compete against the bigger companies that serve nationally or even internationally. Furthermore, Southwest Airlines does not utilize a hub system that allows for bigger competitors to reach further out.

Such competitors are aware that they cannot match Southwest Airline's prices; their market is larger and is not feasible to offer cheaper tickets at the cost of no in-flight meals. Instead, competitors narrow the price difference between Southwest Airlines and themselves and stress on the quality of these frills (such as roomier seats). Others, through use of flight hubs, are the only ones who can economically serve remote customers.

Another weakness of Southwest Airlines is their preference of Boeing 737s. Being limited to one type of airplane leaves them with little flexibility when the model receives a bad reputation or a critical flaw is discovered. Such would be a costly venture for this company, who've used only one type of airplane and in the face of a dire situation would face a costly venture of finding replacements or counteracting bad publicity.

Southwest Airlines' success is primarily because they have focused sharply on their goals. This is evident by their no-frills, low-cost model: their goal is to provide the cheapest form of short air travel between two cities; providing the bare necessities. Driven by the idea that customers can be satisfied

without having expensive options available for them, Southwest Airlines have stepped on the toes of many of its bigger competitors.

Southwest Airlines was able to differentiate themselves from their competitors by offering the lowest prices. This appealed to many people who were not impressed with the additional services such as in-flight meals or wanted to avoid busy airports. Coupled with the utilization of the internet, Southwest Airlines almost became a trend, a sort of an underground hit, bypassing travel agents and their fees. Southwest Airlines provided a medium in which city-to-city transportation was possible with the lowest costs.

Part of their success is due to their focused group; Southwest Airlines serves only 29 states – a substantially smaller portion of geography, when compared to those who serve customers coast-to-coast. While the company was able to enjoy their success in the earlier years, recent events and poor economic conditions have made competition fierce. Now, the bigger companies are trying to emulate Southwest Airline's style. By narrowing the price gap, the luxurious services previously deemed too expensive has become more affordable.

A possible drawback is that because Southwest Airlines' strategy has proven so effective, it will be duplicated and emulated by its competitors to a point where it would lose the originality. This could result in competitors offering low rates to the areas covered by Southwest and beyond, making Southwest Airlines' range and limitations more obvious. It would be very possible in the near future where a big company, with its hubs(something Southwest does

NOT have), basically introducing Southwest Airlines' low-cost model to a wider market, encroaching and outdoing Southwest Airlines.

When a comparatively small, new company is able to take on major players in an extremely competitive industry, gain market share, please customers and employees alike, it is time for others to take notice. We will initially evaluate Southwest Airline's competitive business strategy of their maintenance of a low cost and exceedingly reliable service approach (forgoing perks such as meal service, first-class preference and assigned seating), as a major transportation corporation. We will ultimately make supplementary recommendations and improvements based on the stratagem of their already flourishing company. As a company that still faces continuous growing challenges before them, it is essential for Southwest Airlines to expand on their existing achievements. Our analysis and promising suggestions will be developed with intent to better serve customers by improving their routing system, offering enhanced accessibility and minimizing delays. As business consultants, we anticipate to pave the way of one of the leading travel industries into becoming the best of the best.

Recommendations: Southwest Airlines were able to operate their business relatively undisturbed. It was only in the poor economic conditions that suddenly Southwest Airlines' method of operation became the ideal model for its competitors. While the publicity is beneficial in raising employee morale, and raising stock prices; Southwest Airlines is now target of competitors' focus.

A tactic that Southwest Airlines can do to inflict damage to competitors is to slash prices. This type of tactic is typical of a big company that has a monopolistic rule in an industry squeezing other competitors. This tactic is advisable when competitors are near bankruptcy or are in dire situations. Because competitors cannot match Southwest Airlines' prices, the most they can do is narrow the gap of the price difference. Southwest Airlines, which has consistently made a positive profit, can increase the price gap by lowering their prices. Southwest Airlines will incur losses from this move, but the goal of this move is to drag the competitors further into debt. Because this move affects both companies, this move is very risky and should not be done unless Southwest Airlines is sure that their competitor is near bankruptcy. Possible reasons for this move would be to eliminate the weakest competitor in the industry, which would free up the market held by that company.

The reason for the creation of Southwest Airlines started when its founders saw an opportunity. Frequent trips between cities were exploited by providing a quicker form of transportation. Southwest Airlines has weathered through several crisis and has proven itself to have potential for to be a leader of its industry. The poor economic conditions has placed many airline companies in debt, while Southwest Airlines was able to make a profit. With its competitors weakened, Southwest can take the initiative and expand-not foolishly, but with the same drive and precise execution the company was founded under. The genius behind Southwest Airlines' success is location; and if researched properly, this can be applied to other areas. The appeal of

Southwest Airline is the cheap tickets, as they offer none of the luxuries (such as in-flight meals).

Southwest Airlines' no frills approach may not be pleasing to all, it would be good for Southwest to make a few changes in which the aesthetics would be more accommodating. Upgrading seats may be a costly venture, but it would open Southwest Airlines to a larger market.

The medium of choice for customer referral is the internet. Internet referrals have been the main source of customers (it further cut costs by charging a lesser fee to book seats through the internet than through a travel sales agent). With the saturation of discount websites, however, Southwest Airlines is losing the grip it held advertising on the internet. More websites offer competitive rates and special discounts-which if Southwest Airlines does not take immediate action can end up losing customers. Since advertising through the internet is risky, as people hate pop-ups or spam e-mails, it is our general consensus that Southwest should find ways to be listed on these price comparison websites. Before, there weren't many sites that offered price comparison and finding deals was difficult. With these sites, information is available at the fingertips of the web surfers who can make better informed choices. Southwest Airlines should ensure that their voice is heard through this medium, as it is sure to attract people in search of deals.

Conclusion First and foremost, Southwest Airline has developed a great low cost model for the past thirty year that fits today's economy the best. It has expanded from a tiny company with merely three aircrafts to one of today's

major airlines that flies between 58 cities carrying over 60 million customers each year. As everyone can see, Southwest Airline has been a big success. Now, it is given an opportunity to grow even bigger at this extremely hard and critical time for the airline industry. After the incident of September 11, Southwest Airline is one of the few airlines that remained profitable; other airline companies are losing millions of dollars due to the insurance raise, the security cost and lack of customers.

We recommend Southwest airline to take this opportunity to expand to greater regions. It is the time for Southwest airline to use its low price tickets to drive its competitors out of business and take over their market. We believe, giving up some of the profit to cut the ticket price even lower and upgrade hardware can open Southwest Airline to a much larger market that will bring more profit in future. Implementations of cost saving technology such as internet is needed to lower the operation cost to give customers better deals.