

Southwest airlines resources and capabilities

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



Introduction

In United States the most common form of transportation system in Airlines systems. This is popular because it saves lots of time. But after September 11, 2001, hijacking of the airplanes gave a fear boost to the people of United States. There are many airlines in United States. They faced a critical situation of loss. At that time, Southwest Airlines operated its operations successfully with profit. Where are the other airlines had to face the losses the Southwest Airlines ran their operations with profit because for a long span they gave their customers finest service with low ticket fares.

Southwest Airlines Co. is still today the profitable airlines throughout the United States. Now-a-days they are serving in 35 states of the United States with huge success by satisfying the customers and the employees who work for them endlessly.

TASK 1

Potential Resources Strengths and Competitive Capabilities of Southwest Airlines

Money-making Airlines

In the time of recession in United States it is very tough to operate a business very successfully. But astonishingly, the Southwest Airlines Co. manages making profit continuously.

On the date of 22 April, 2010 their first quarterly profit was \$11 million[1]. This is remarkable for both the CEO and the employees and now they are trying to do their approaches towards the next quarters of the year do

maximize their profit as much as possible with enormous human resources and technical supports.

Southwest Airlines Co. earnings before interest and tax were \$225 million and their earnings after interest and tax was \$115 million on 31 December, 2009.[2] On 31 March, 2010, Southwest Airlines total assets were \$14.5 billion, total liabilities were \$8.99 billion and total shareholder's equity was \$5.54 billion.[3]

Not High Ticket Price like Other Airlines

The pricing method of Southwest Airlines Co. is excellent. They are one of the low chargers of air tickets. As a result they are able to win the customers in this competitive market.

They developed a perception for themselves where they charge the customers as low as possible and are continuously winning the customers of other airlines.

They believe in freedom of flying and giving the potential customers chamber of having the low fares while flying.

This process became a model and named as "The Southwest Effect". It implies that a company may attract and increase its customers by charging low not only double but sometimes quadruple.

Strong ties among the Employees

"We are committed to provide our Employees a stable work environment with equal opportunity for learning and personal growth. Creativity and

innovation are encouraged for improving the effectiveness of Southwest Airlines. Above all, Employees will be provided the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Southwest Customer.”[4]

In Southwest Airlines about 35, 000 employees are employed. About 87 percent of the employees are highly unionized. More interesting but a major weapon for the success of the Southwest Airlines is that even though their employees are greatly unionized but there is not a single strike of the employees in that organization.

Proficient Website to Web Market

Most American flying loving people today are aware of the website www.southwest.com. The Southwest Airline became the first American airline, which is effectively and efficiently appeared in the web of internet to serve their customers. Now-a-days a major portion of their bookings are booked on the website by the customers. The potential customers are now able to know about the services the Southwest Airlines is giving and choose the best one suited for them. They can also check their flight schedules on the web. So the service speed is gearing up for the Southwest Airlines with the use of web marketing. Southwest Airlines earn massive return by providing web supports to their clients.

Ability to reduce the Operating Cost

We all know a common equation that is “ $\text{Sales} - \text{Cost} = \text{Profit}$ ”. So to earn profit effective and efficient way the Southwest Airlines have succeeded to minimize its operating cost at a level where sufficient profit is provided. They

cut unnecessary employees and tell others to do extra work for which more people are going to be extravagant. For example, their flight attendants use to clean up the junk left by deplaning travellers and thus save the money for hiring people for cleaning the trashes.

Powerful Strategy

Many companies fail for lack of good operating strategies. This is true for all kinds of industries. By using effective and efficient strategies the Southwest Airlines is able to earn profits for last three decades.

Some of their strategies are low charging of prices than the competitors, hedging of oil, cost minimization, treating the employees well, point to point service, efficient web presence, etc.

Good Customer Service and Rapid Reward System

Rendering to mission statement of the Southwest Airlines Company, “ 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.”[5]

According to one Southwest Airlines managers, “ Our fares can be matched; our airplanes and routes can be copied. But we pride ourselves on our customer service.”[6]

Southwest Airlines tries to treat its customers as like as the guests.

Southwest Airlines give the facilities to its customers of various categories. They are namely, checked baggage, Check-In and Boarding, Travelling with

pets, Children Travelling Alone, Traveling with Children, Travelers with Disabilities and Frequent flier programs.[7]

Unlike other major airlines, Southwest Airlines allows passengers to change reservations without additional cost.

Potential Resource Weakness and Competitive Deficiencies

Lack of International Market

With the passage of time, the Southwest Airlines Co. is increasing their market shares throughout the United States, but they failed to access properly in the international regions. Earlier they used codesharing with other airlines like Westjet but now-a-days they are totally out of this process. They are now trying to build a new one with the Mexican Volaris.

Low Variations in type of Aircrafts

Boeing 737 is the only type of crafts used by the Southwest Airlines. So sometimes the touch of modern technology cannot be found by the customers.

Poor Customer Service due to Reduction of Operating Cost

Day by day Southwest Airlines is reducing its operating expenses to match the profit equation with the competitive market. As a result the competent airline sometimes cut compulsory operation cost which lead to the poor class of customer services.

Politicization

Competition is very high in the transportation market. So the starting of High Speed Texas Railroad is going to be a tough challenge for Southwest Airlines Company. So they have fought against that.

Violations of Safety Requirements

The federal inspectors of aircrafts declared that a major portion of the aircrafts of Southwest Airlines is not safe to fly.

“ On March 6, 2008, Federal Aviation Administration (FAA) inspectors submitted documents to the United States Congress, alleging that Southwest allowed 117 of its aircraft to fly carrying passengers despite the fact that the planes were “ not airworthy” according to air safety investigators.”[8]

Cities in Services

There are many cities in 35 states of United States and the Southwest Airlines have access only 68 cities which broadly affected the profit margin of the company.

Potential Market Opportunities

Skill of estimating energy cost

How much energy that is fuel they need, the Southwest Airlines Company has the know-how to estimate that. As a result, they attempt to gain all the best oil contracts of the world and by doing that they minimizes their operating cost.

Adding and Expanding flights to other cities

Since they are providing air services only 68 cities and have got the capacity to expand and add more flights, expansion plans are being made by the management of the Southwest Airlines.

The airline's most recent expansion announcement happened October 21: Northwest Florida Beaches International Airport near Panama City, Florida, with service starting on May 2010. (Wikipedia)

Merger and Procurement of airline companies

Merger and Acquisition is the very two popular methods of increasing market shares. The Southwest Airlines have the chance to do merger and acquire to increase the market share as well as their capacity of giving services to other cities.

In the previous years they successfully acquired the Morris Air, Muse Air and ATA Airlines.

As on August 13, 2009 Loren Steffy reported a title " Frontier Acquisition: Southwest Comes Out Swinging" Due to bankruptcy of Frontier Airlines the Southwest Airlines are bidding to acquire that.[9]

But they failed to Republic Airways Holdings.[10]

International Alliances

The number of international alliances of Southwest Airlines is very few. But they are planning to expand that. In 2010, the codeshare plan is going to be

established with Mexican Volaris. The agreement will allow Southwest Airlines to sell tickets on Volaris flights beginning in 2010.[11]

“ This is an important first step to move our codeshare agreement forward. The ability to offer Customers the option to book Volaris flights on www. southwest. com will introduce Volaris’ brand and breadth of service to the millions of visitors to our web site,” said Southwest’s Senior Vice President of Marketing and Revenue Management Dave Ridley.[12]

Potential Market Threats

In “ 2009 ANNUAL REPORT TO SHAREHOLDERS” the Southwest Airline stated many risk factors that can hinder their business. The threats for Southwest Airlines Co. are described below:

Raise of Energy Expenses

“ The Company’s business has continued to be heavily impacted by fuel prices, which can be extremely volatile; therefore, the Company’s strategic plans and future profitability are likely to be impacted by the Company’s ability to effectively address fuel prices.”[13]

Energy expenses are rising throughout the years and it is really difficult for any company to keep the service charge low or keep the same service with prior charges.

Southwest’s low cost model are being followed by the others

Many regional Airlines are now following the low cost strategy of Southwest Airlines to capture their market as fast as possible. Some are respectably successful. So it may force Southwest Airline to face a severe loss in future.

So, more strategies should be introduced to keep the pace of the market by the airline company.

Labor Concentrated

“ The Company’s business is labor intensive; therefore, the Company would be adversely affected if it were unable to maintain satisfactory relations with its Employees or its Employees’ Representatives.”[14]

Keeping good relationships with about 35, 000 employees is not easy task. In this competitive and unrest market the success of any organization greatly depends on its employees. So it is very necessary to keep good touch with the employees by providing them sufficient financial and non-financial motivation to stay with the competition with other airlines.

Unwilling Effect from Change in Economic Situations

“ The airline industry is particularly sensitive to changes in economic conditions; further unfavorable economic conditions would likely negatively affect the Company’s results of operations.”[15]

Let’s have a brief example of affect to a particular person by the change of economic conditions. One has two jobs and earns sufficient money, suppose \$20, 000. One job has been cut off and his/her income lowered by \$8, 000. The net income of that man would be \$12, 000. In that case, that person will not be able to follow his/her previous habits or expenses schedules. S/he may cut back the leisure expenditure and others issues which are of little importance.

So the above example implies that the economic condition changes have a far going effect on everything. The people who love to fly on air may cut back those schedules due to cut off their income and other economic situations. When in a country like United States, the unemployment rate is going higher and job security is reducing there will be increase of more people who will not have the ability of extra money to fly. Then the sales of the Southwest Airlines will be reduced and the profit will be adversely affected.

Shortage of necessary equipment Supplies

“ The Company is dependent on single aircraft and engine suppliers; therefore, the Company would be materially adversely affected if it were unable to obtain additional equipment or support from either of these suppliers or in the event of a mechanical or regulatory issue associated with their equipment.”[16]

This is one of the major threats for Southwest Airlines. Because of using one type of aircrafts that is Boeing, having some advantages, it also has some major disadvantages. The relationship between Southwest Airlines and Boeing importantly depends on the number of dealing they are having. If the Southwest Airlines fail to acquire more aircrafts from the Boeing, the Boeing may refuse to give them accessories needed. Or, if it seems that the Boeing’s suppliers are failed to supply the needed equipment the aircrafts of the Southwest Airlines will remain unworthy. In other words, that will be a useless aircraft that only increase the burdens of the airlines but not the profit.

Airport size limitations and air traffic control ineffectiveness

“ Airport capacity constraints and air traffic control inefficiencies could limit the Company’s growth; changes in or additional governmental regulation could increase the Company’s operating costs or otherwise limit the Company’s ability to conduct business.”[17]

Since the commercial airports are possessed, functioned and controlled by entities of resident or state government, the airlines have to abide by so many rules and regulations that affect the business. Moreover the airlines are adversely affected by the increase of rates and charges of the airport, limited airport gate capacity, change in the regulations of environmental issues, raise in the tax rates, cost of safety and security, etc.[18]

So as reflect of those, the operating costs are increasing and gradually decrease in the profit margins of the airlines.

TASK 2

a) Company’s overall situation

With the managerial activities from world’s one of the best top level managers and simultaneous participation of the personnel, the Southwest Airlines Co. is growing very rapidly. Although some major challenges they have to face like changes in technologies, economic situations, labor relations, etc. but they are very prosperous till the end. The operating expenses are raising and revenue is decreasing. But to attract more potential customers the airlines cannot afford to increase the ticket price frequently with the market price. They have a good-will being one of the lowest changers in airline business with prominent customer services. But it

is that the profit maximization and maximization of customer satisfaction are two important functions for any business organization, so the Southwest Airlines are using different tactics in the field of their operations.

Southwest Airlines is enlisted in the list of the 50 best U. S. places to work by Glassdoor. com in December 2009.[19]

It was entitled Best Low Cost/No Frills Airline in the OAG Airline Industry Awards in November 2009.[20]

As of December 31, 2009, the number of airplanes belonged to Southwest Airlines is 537. All are in the family of Boeing 737.[21]

Source: www.southwest.com

The human power belonged to Southwest Airlines are highly trained and skillful. So they can excellently serve the organization and its customers. Every personnel in the organization believe that this is his/her organization and for the betterment of that they must work hard. They also believe that prosper of the company is prosper of his/her carrier also.

Using the web marketing strategy, Southwest manages to serve convenient services to its customers most efficiently and effectively than its competitors.

Online bookings extended to 81% in Southwest Airlines websites. The number of subscriptions to Southwest's weekly " Click ' N Save e-mails" are more than eight million which is incredible for the company. Nearly 79% of

Southwest Customers are checking in online or at a kiosk in the fourth quarter of 2009.[22]

According to PhoCusWright Southwest.com is the number one airline website for online revenue. Besides, Nielsen/ Netratings report that Southwest.com is the leading airline site in terms of unique visitors.

Southwest Airlines is very hard attempter in case of reducing the operating cost and thus generating more and more profit.

Although in the Southwest the employees come first and then the customers, the customers are extremely valued by the Southwest Airlines' personnel.

The employees understand the mission statements of the Southwest Airlines and since customers played a vital role in the mission statement, the employees are very active in providing services to the customers. On April 23, 2010, the Southwest Airlines circulated a commitment notice for the customers in their websites. The total process of treating and satisfying customers is clearly described there. So by reading the customer service commitment, any customers can understand that what Southwest can or cannot do for him/her. This is a very upright technique of motivating customers knowing them actually what they can get from Southwest Airlines.

On the other hand, in case of International market share, the Southwest airlines failed. International codesharing is not strong like the others. But other airlines are capturing the markets. But for the solution of this problem they are now reaching an agreement with the Mexican Volaris to codeshare.

In this agreement, it is agreed that, the Southwest can sell the tickets of Mexican Volaris through its web sites.[23]

With the Federal Aviation Administration, Southwest Airlines are not performing with good-will. The FAA charged against Southwest Airlines that they flew unsafe planes in the air and that is a totally violation of the rules of safety. The Southwest Airlines had to compensate about \$8 million.[24]

The Southwest Airlines misses some major cities to serve like, Memphis, Richmond, Honolulu, Colorado, etc. As a result, the expected rate of increasing market share and profit are not in smooth run. Southwest Airlines' competitors are giving service in those areas successfully and making profit. But since they got the power and strategies to attain new market they should look forward to doing that.

Southwest Airlines has got some business chances besides its business threats.

This company has the capability of estimating the fuel it needed for a year. That's why it can take initiatives to adjust that with the current situation.

“ The Company utilizes financial derivative instruments, on both a short-term and a long-term basis, as a form of insurance against the potential for significant increases in fuel prices. The Company believes there is significant risk in not hedging against the possibility of such fuel price increases. The Company expects to consume approximately 1. 4 billion gallons of jet fuel in 2010. Based on this usage, a change in jet fuel prices of just one cent per gallon would impact the Company's “ Fuel and oil expense” by

approximately \$14 million per year, excluding any impact of the Company's derivative instruments.”[25]

In circumstance of merger and acquiring existing airlines the Southwest is very successful this highly demanded to increase its market share and opportunities to do business in some place where they are now out of services. Late quarter in the last year, Southwest Airlines took participation in the auction of Frontier Airlines. They bid for that. Surprisingly they were overtaken by the Republic Airways Holdings. So considering the fail, the company should emphasize on merger and acquisition of other airlines which financial condition is not good and their service are is new to the Southwest Airlines.

Southwest Airlines have to consider many risk factors toward its business.

One of the main threats they are having now is that their low cost and pricing strategy is being followed by many new regional airlines and those are very successful in capturing the market shares which decrease the market share of the Southwest Airlines.

The business of the Southwest Airlines highly depends on its customers' economic situation and personnel satisfaction. Any kind of disturbances may cause seriously loss to the Southwest Airlines. Changes in modern technology, customers' want, rise in the compensation rate, appearance of new airlines on their service area can be major threats towards the Southwest Airlines and those may have the adverse effect on the businesses.

But it seems to us that, in spite of some lacking and threats the Southwest Airlines is very tremendous in running the business they have got and for making profit.

b) Improvement of the company's strategy.

Southwest Airlines for its success are using some valuable strategies which is era worthy. But the main problem in this industry that, the effect of September 11, 2001 are going to be vanished among the customers but the recession in United States are making the hardest challenges for the airline industry. The unemployment rate is going higher and is not decreasing and the economic status and desire of spending is also changing.

So by following the previous used methods and strategies will no longer be the key of success in the airline industry. As a matter of fact, like many other airlines in United States of America, the Southwest Airline should change and improve its existing strategies.

To cut back the operating cost, the company should be more careful, because to cut back the operating cost if they lower the customer service that will turn into customer dissatisfaction and going to have a big hostile effect on the Southwest Airlines financial statements. So like the employees of the organization customers should be highly valued with best service.

To increase the market share by using the acquisition method, the Southwest Airline is not very successful. So they should use the merger method and they should make internal and international alliances with the other renowned airlines of the world. Then the profit margin will speed up.

The web sites' materials should be more modernized and attractable for the customers. By making all the arrangements through the web marketing they can successfully cut back the cost of the intermediaries.

The safety requirement of any aircraft should be filled up properly. Although the Southwest Airlines has no record of accident that is catastrophic, it should take necessary steps to fill up the safety and security issues as early as possible. The rules and regulations of the Federal Aviation Administration should be covered up so that no more fines can be filed that only cause loss.

All the major cities of the United States should be in service of the Southwest Airline in any way. It will accelerate their market shares and expansion plan very effectively.

Southwest Airlines should use other aircrafts than Boeing 737. Because, although this strategies saves lots of dollars by reducing the maintenance cost of the company, but if the Boeing company fails to supply the necessary equipment or unwilling to deal with this airline, then the Southwest Airlines will have to face severe problems.

These are the improvement should be needed by the Southwest Airlines in their strategies.

Task 3

a) Human Resource practices in Southwest Airlines Company

The Southwest Airlines Co. has got a total of 35, 000 employees throughout the system. After a survey based on the employee of different sectors in the

United States, the Southwest Airlines Co. was enlisted as one of the top fifty best places to work in United States.

According to Southwest Airlines, “ Employees come First, Customers the Second.” Since the airline is very much labor intensive so the management is taking care of this matter very carefully for many years. The main reason behind this is they believe if they keep the employees satisfy the employees will give their every bit of effort to satisfy the customers of the Southwest Airlines Co.

To the Southwest Airlines’ leadership the happiness and the safety of the employees are of great importance. The entire company places noteworthy importance on every single job. All employees are highly valued and respected as individuals. In return, this stimulates strong feelings of shared belief, trust, and safe bet to perform.

Recruiting, Screening, & Hiring

The main recruitment means are newspaper advertisements, career fairs and internet job listings. The job description is clear in the ads. In screening step they want to select those candidates who can be able to understand the psychology of the customers in the air.

According to Kelleher, “ We are interested in people who externalize, who focus on other people, who are motivated to help other people. We are not interested in navel gazers.”[26]

They use targeted selection for screening which scrutinizes the job type to determine the specific behaviors, knowledge, and motivations that job

holders needed and then finding out the most eligible candidate for the next step. For example, a trait is teamwork which is common to all job categories. To test unselfishness, potential candidates have to prepare a presentation on them. They use very tactical but careful methods in recruiting, screening and hiring process.

After receiving 90, 043 resumes, Southwest Airlines only hired 831 new Employees in 2009.

Training

This organization has a formal orientation program that is required for all new hired employees. The program includes Diversity Exercises, Tour of facilities, Guest Speakers, Team Building Activities.[27]

Customer care training is given to all the employees even to the pilots. Various courses like skill of communication, use of safety instruments, management of stress, performance appraisal techniques and others are provided to the employees.

“ Southwest’s training is geared toward fostering relational competence, as well as functional expertise. New staff learn about the overall work process and understand where they fit in and how their job relates to and supports jobs of coworkers. Those not able to catch on to Southwest’s perspective are let go. (Gittell, 2003)”[28]

The University of Southwest designed and conducted many training programs for the potential employees of the Southwest Airlines. New and experienced managers are entitled to the course of leadership.

Performance Appraisal Management

The use of cross-functional strategies, the participants are told to measure the performance by focusing on learning but not on blaming each other when some slip-ups are occurred, which is the oldest method of avoiding responsibilities. e. g., “ Team delay” which allowed less precise reporting of the cause of delays, with the goal of diffusing blame and encouraging learning[29].

A key feature of Southwest Airlines performance management is its performance transparency. To begin with, Southwest Airlines obsessively measures three dimension of performance:

- Employee well being
- Customer satisfaction
- Shareholder gain [11]

Hence, in order to reach their clearly articulated goals, the performance of the average worker is critical; therefore, SWA emphasizes a rigorous tracking and rewarding of individual performance, coupled with clear, immediate and straight feedback. [11]

All employees at SWA have a clear image of the background in which they work; they clearly comprehend how performance is measure