

South west airlines a review

[Business](#), [Industries](#)



SOUTHWEST AIRLINE ANALYSIS Contents SOUTHWEST AIRLINE CASE STUDY4
INTRODUCTION4 PART 1: EXTERNAL ANALYSIS5 OVERVIEW5 MACRO-
ENVIRONMENTAL ANALYSIS6 PESTEL Analysis6 Industry Analysis9 Five
Forces Model Pictorial Representation9 Five Forces Analysis10 PART 2:
INTERNAL ANALYSIS13 OVERVIEW13 SWOT ANALYSIS14 Strengths14
Weaknesses15 Opportunities15 Threats16 The VRIO Framework16
FINANCIAL ANALYSIS17 PART 3: CURRENT ISSUES AND CHALLENGES FACING
THE COMPANY18 Mergers and Acquisitions18 Financial Outlay18
Legislation19 PART 4: STRATEGIC OPTIONS19 Ansoff Matrix19
The TOWS Matrix20 PART FIVE - EVALUATION OF STRATEGIC OPTIONS21
OVERVIEW21 PART 5: DESCRIPTION OF THE TOWS STRATEGY22 PART SIX -
DESCRIPTION OF SELECTED STRATEGY23 PART 7: CONCLUSION24
REFERENCES26 SOUTHWEST AIRLINECASE STUDYINTRODUCTION

Southwest airline is based in the United States with its headquarters in Dallas, Texas, that mainly serves a domestic clientele in northern America. The company has grown from a few aircrafts at induction into the aircraft market, to a fleet of many domestic carriers that serve the larger domestic airline clientele.

Started in 1971, Southwest Airlines started business with three Boeing aircrafts while serving three cities in Texas notably Houston, Dallas and San Antonio. Today the company serves 97 destinations in 41 states within the US, the District of Columbia the Commonwealth of Puerto Rico and six near international countries with a fleet of 694 Boeing jets (Southwest, 2009). The company is now one of the United States biggest airline companies, offering low cost fares to their clients.

The company offers the lowest combination of aircraft fares to its customers making it one of the most attractive airline carriers in the continent. The company boasts of in addition to the low fares a working staff that are reliable as well as a friendly customer service, a rich corporate culture that extends deep within the communities they work with. The company has grown mainly through acquisitions and mergers with other companies and has been described by Fortune Magazine as one of the most profitable companies of 2012 according to (Southwest, 2012).

This report will undertake an intensive look at the internal and external influences that affect the company as well as the current issues and challenges the company is facing. Further the report will generate strategic options for the company as well as an evaluation of them while describing the selected strategy. The main stakeholders associated with the company are the customers proven by the effort with which the company strives to ensure their comfort through consideration of pricing, as well as convenience offering many flights to various domestic locations offering the customers convenience.

Other important stakeholders held in regard by the company are the employees of the company who are dedicated to working for the company, suppliers who continuously accord support to the company as well as the immediate community that the organization interacts with. With relation to the strengths that the company possesses in the domestic airline industry the company can be assumed to be working in a cost leadership generic strategy (Porter 1980). The reasons for this are that as the company is

operating with the low cost policy to its clientele, the company has the advantage of working with a wide and broad base of clients.

The strength therefore for the company comes from working with the numbers of passengers that it ferries between destinations on a low cost policy.

PART 1: EXTERNAL ANALYSIS OVERVIEW An external analysis is often used by organizations in a bid to identify the threats and the opportunities that exist in a company's environment. Opportunities and threats for companies are mainly of an external nature and can have a direct impact on a company's performance. Opportunities for a company such as Southwest Airlines are potentially rewarding conditions only when the company responds to them properly and in the right manner.

Threats on the other hand are the conditions that can potentially weaken a company and provide hindrance for the company potentially preventing it from attaining its organizational goals and objectives.

MACRO-ENVIRONMENTAL ANALYSIS Macro-environmental analysis involves a company analysing the environment that it has no control over. To do so is done with the purpose and intention of deriving the potential opportunities and threats that exist for the company allowing it to make appropriate considerations and decisions in the light of the issues presented.

The PESTEL model is the most popularized model used to analyse the macro environment of a company in addition to other forms of models and structures that are also used in the analysis.

PESTEL Analysis The PESTEL analysis tool looks at the environments of the changes in Political climate, Environmental climate, Socio-cultural, Technological, Economic as well as the Legal atmospheres surrounding the entity (DeWit, 2004). A diagrammatic

<https://assignbuster.com/south-west-airlines-a-review/>

representation of the external environment that surrounds organisations is as described below; [pic]Diagram 1: PESTEL representation

Source: Hunger (2011). Political Analysis The political climate surrounding the Southwest airline is not intensive. The managerial relations with the government of the day are okay. And therefore government interference in the affairs of the company is highly limited. Economic analysis An analysis of the economic environment surrounding Southwest airline is favourable. The domestic market the company addresses is well responsive to the company as they endeavour to fulfil their mission of transporting passengers at reduced rates that favour their consumers.

The company has maintained profitable constant for the last 40 years. Socio-Cultural Analysis Socially the company has interacted well with their clients, suppliers and customers over the years. By giving back and engaging in community social relations with the parties the company boasts of having a good working as well as cultural background with the people it has dealt with. The company owns a training centre from where they are able to give education to the people on aircraft flying as well as other airline related activities.

In addition the company is heavily unionised so as to address the plights and concerns of their employees. Technological Analysis The company in recent years has engaged in technological advancements by keeping up to date with the current systems that are being introduced everyday integrating them into their systems. Systems such as booking, route paths as well as their company itinerary are available online and they have improved efficiency for the companies.

<https://assignbuster.com/south-west-airlines-a-review/>

The company further boasts of being the first aircraft line to own a website in early 1995 as well as the downloadable tool in 2005, that notified customers of offers and promotions that the company was running. Environmental Analysis The company has engaged in sustainable forms of fuel usage as well as sustain ably monitoring their resources. Through projects such as Evolve, which involved the redesign of the cabins on the craft to accommodate efficient waste disposal as well as reduce weight from waste on the craft.

The company in recent times for example contracted Pratt and Whitey to supply the company with Eco-power water pressure washing systems that allowed the company to wash the grime of the engines turbine blades while the aircraft was parked at the gate. This allows the company to engage in environmental friendly ways while still maintaining their goals of quick turnaround (DeWit, 2004). Legal Analysis The company has been engaged in various legal tussles with some of their effects being felt to this day.

A legal issue with the Wright Amendment has over the years been a stumbling block for Southwest Airlines as it acts as a limiter to the number of turn around flights that the company can offer. Having a large customer base is an advantage for the company but with the Wright Amendment whose recommendations are still being eliminated in phases the legislation has prevented the company from delivering more service to their clientele which would help them boost their revenues. Industry Analysis

Conducting an industry analysis is also essential for a company as it helps the company determine the profitability levels of the company within the competitive industry (Hubbel, 2013). The main objective for this analysis is

<https://assignbuster.com/south-west-airlines-a-review/>

often to determine the factors of competition that influence the industry. Conducting this type of analysis is mainly aided by the five forces model that was presented by Porter, (1980). Its purpose is to mainly help create and manage competitive advantages for a company that may allow it to be steps ahead of the immediate competition.

Five Forces Model Pictorial Representation [pic] Source: Sridhar, 2012 Five Forces Analysis The five forces analysis tool mainly undertakes a study of the following areas in the external environment of a company; barriers to entry, substitutes available, supplier power, buyer power and finally competitive rivalry. Researching by concentrating using the above areas of environment for a company helps a company greatly when coming up with specific strategies and the development procedures on which to follow so as to assess the position of the company in relation to their current standing (Choo, 2002)

Barriers to Entry Southwest airline is currently faced with a high amount of entry barriers into the market. In recent times airline companies have been conducting mergers and acquisition arrangements amongst each other mainly due to the high costs that are found within the industry. Among the first challenges to entry the company was faced with was the Wright Amendment which was created in 1979. This federal law governed the traffic at Dallas Love Field which was the predecessor to the airfield now located in Dallas, Texas.

This amendment regulated the amount of non-stop flights between Texas and other states. This law caused the founders of the company to concentrate on the local market dwelling with the demand that existed

<https://assignbuster.com/south-west-airlines-a-review/>

within the state of Texas. In recent times more specifically in 1997, 2005 and 2006 as a result of some repeal some of the restricting factors in the law were abolished leaving others intact. These led to the company increasing the number of direct flights in the state as well as expanding into other states around the country.

In later times merging of companies has also created a problem for Southwest Airline. The reason for this is that these mergers increase the capital revenues for the other companies enabling them to invest more in profitable investments and thus more profits. This consequentially causes the company Southwest airline to lose out on market share and customers. Some examples of companies that have merged recently are Delta that merged with Northwest Airline, American and America West, United Airlines and Continental and the recent rumour that US Airways would be merging with American.

Availability of Substitutes This refers to the alternatives that are available to the local customers. This is in reference to other forms of transport other than air. This challenge is not as significant to the company as since the other available forms do not meet the demands of the market in comparison to the demand for air transport. Transport by railroad is not as popular amongst the people since it is not enough in supply and not readily accessible. Road transport especially by bus too is not suited for the kind of clientele that need the services of the air transport.

The customers who mainly use the service are frequent fliers as well as business people who need to travel across the country on a regular basis to meet their clients and other people they may need to interact with in the

course of their journeys. **Supplier power** The ability of the company to meet the demands of the market is very high. Supplier power refers to the size of the companies that are engaging in the supply of a service or a good. For Southwest airlines the company is very well capable to meet the demands of the market.

The company services a large fleet of aircraft well suited for the job of transporting passengers and in addition has a very low rate of cancelled flights 16. 1% according to the statistics provided by American Skies in 2012.

Buyer power The power of the consumers has been decreased by the capability of the company to manage their flights and fleets. In addition the company has a very high efficient rate of route utilisation meeting the demands of the market in a timely and capable manner. **Competitive Rivalry**

The competition surrounding the company is fierce. With the recent mergers of the afore mentioned airline companies operating in the US alone, the market has become very competitive and volatile for Southwest and thus the need of a good strategy so as to keep up in the market or else risk being phased out. Some of the company's main competitors are companies such as American Airlines, US Airways, United and Delta. These companies are engaged in acquisitions and mergers in efforts to dominate more within the market which poses a threat to Southwest Airlines.

To win customer loyalty for Southwest Airlines in the highly competitive environment it is prudent that the paper also addresses the concerns that customers address before they identify an airline as their choice of carrier. Some of this factors that customers address are: i. Reliability- Is the company able to offer on time departures and how do they handle customer

luggage? For an airline that is constantly getting delays this is not a strong suit or losing luggage in transit and is a turn off for many customers. ii.

Number of flights- This is another consideration as clients may be interested in travelling back and forth even within a day. The number of flights that a company handles is also a vital factor to win the loyalty of a customer to the company. iii. Pricing- This factor is the most important. In today's economies customers have become price sensitive and will go for the cheapest options available but that provide quality services that a client may feel as they have spent their money in a worthwhile manner. Using the PESTEL and Five Forces Models above a number of opportunities present themselves.

The opportunities available are that once the Wright Amendment restrictions are lifted the company could increase the number of turn around flights delivering more services to the customers. The company could engage more in mergers and acquisitions to take advantage of more international flights to more destinations. The threats that pose a danger to the company achieving its goals and objectives include the possibility of losing clients to other companies as a result of the mergers occurring that could in turn induce the lowering of prices by the other companies as they would have more resources.

The threat of economic instability causes a rise in cost in provision of added benefits which would force the company to downsize staff or reduce on other costs or be left with the option of increasing fares so as to continue working efficiently and effectively. PART 2: INTERNAL ANALYSIS OVERVIEW This is an evaluation of a company's current position from an internal point of view with regards to the marketing operations and financial strengths of a <https://assignbuster.com/south-west-airlines-a-review/>

company. Using a value chain for Southwest airlines would benefit the company as they strive to offer valuable services in the industry to their stakeholders.

Using internal analysis would benefit the company in streamlining operations as they would endeavour to use their strengths and turn around their weaknesses so as to create opportunities in the chains of activities in the delivery of operations that they would undertake. SWOT ANALYSIS An internal look at the company using the SWOT analysis reveals the strengths possessed by the company as well as the weaknesses, opportunities and threats facing the company.

An internal analysis of the company's relations and affairs helps in trying to determine on which areas the company could possibly improve upon so as to come up with good strategies that the company can work with (Hunger, 2011). Strengths i) The company has a stable financial outlay that assists when it comes to mergers and acquisitions. The company recently announced an expansion program of their company headquarters where they would then serve clients on a 24hr basis having ensured that their systems would be up to date and efficiently working for the market it seeks to maintain. ii) Low fee airline. For the company this is a strength because consumers and the market get to enjoy quality services as well as at an affordable price making it one of the most profitable companies through opportunistic costs. The company through its numerous routes transports many passengers while conducting their quick turnaround system to meet the heavy demand present in the market. iii) A good working staff. One of the many fun facts about the company is that they have 1, 355 married

couples. This is a sign in addition to the many unions present within the company to address issues and concerns of the staff members. What the above facts present is that the company enjoys a good working environment and highly motivated at the same time. iv) The company has the lowest complaint records according to American Skies 2012. The rate was estimated to be at 0.32 of every 100,000 passengers. This is a strength acknowledging a good appreciative customer base. Weaknesses i) With the maintenance of the low pricing strategy adopted the company has been utilizing the conditions have however been changing especially with the recent economic troubles that were experienced globally.

In the aviation industry, this was affected by the high costs of fuel and other products. ii) Confined market. Over the years the company has been dealing domestically limiting the number of consumers and who in turn developed an attitude towards the company when it came to destinations outside the domestic company. This left room for other companies to set up shop in the international travel market. Opportunities i) The company has an opportunity to deal with the international market through associations created recently with companies such as AirTran Airways.

The merger which is expected to be complete by the year 2015 is an opportunity for the company not only to increase its revenue but to also expand its market. ii) Good pricing on aircraft. Dealing with exclusively Boeing to deliver crafts for the company the company has been the launching pin for many of the Boeing designs and creations. The good relationship that exists with the company presents that the company can get good pricing deals for the aircraft that they incorporate into their fleets.

Threats) The company is faced with the threat of losing out on revenue with the high costs being incurred by the company in the conduct of its operations in comparison to the low pricing that they charge to their customers. ii) The recent merging trend happening in the industry also poses a great threat for the company. This threat poses the challenge for the company by them losing out on the market share which stands at 12.3 according to the American Skies records, 2012. The VRIO Framework [pic] VRIO framework addresses the questions of Value, Rarity, Imitability and Organization.

Using this framework to generate strategic plans for a company is also a worthwhile strategy by asking the questions on the resources available to the company, are they valuable, rare, can they be duplicated and the capability of the organization to exploit this resources. For example using the resources of the company ie. Number of staff, aircraft carriers, capital outlay, loyalty of the customers we get the following results by asking the questions, i) Value: Is Southwest able to exploit this resource or neutralize a threat in regards to the resource? ii) Rarity: Is Southwest in control of the industry on this resource? iii) Imitability: Is the resource difficult to imitate in the industry? iv) Organization: Is the company ready to take advantage of the market? For Southwest the answers to this questions are as found in the table below.

Resources	Value	Rarity	Imitability	Organization
Staff	High	Yes	No	Yes
Aircraft carriers	High	Yes	No	Yes
Customers	High	Yes	Yes	Yes
Capital outlay	High	Yes	Yes	Yes

FINANCIAL ANALYSIS Financial analysis for the company reflects that the company has been doing well with a net income of \$421 million (? 279) in 2012 as

reflected below: • Net income: \$421 million (? 279) • Net income, excluding special items: \$417 million (? 76) • Total revenue passengers carried: 109 million • Total RPMs: 103 billion • Average passenger load factor: 80.3 percent • Total operating revenue: \$17.1 billion (? 11.3) (Southwest, 2012).

In comparison to the achievements the company has made over the years a good strategy needs to be determined and formulated so as to assist the company maintain its lead as well as strengthen it. PART 3: CURRENT ISSUES AND CHALLENGES FACING THE COMPANY The company as identified by the above tools of analysis reveals that the company is faced with a number of challenges as articulated below.

Mergers and Acquisitions This challenge though Southwest company is also engaging in it shows that the company is taking up its position within the international aviation industry in a slow paced nature. With other companies merging so as to take advantage of resources and opportunities means that they are gaining more within the markets. With a project as the merger between the company and AirTran Airways the process should be speeded up so as to create the opportunity for the company to engage in more destinations as well as the international market (Southwest 2012).

Financial Outlay The company has steadily over the last few years been losing out on revenues and reduction in profits. For Southwest, this challenge has been as a result of increased costs of operations as well as diversion of revenue towards other projects such as the expansion of the headquarters for the company. For the company this poses the challenges for the company since they are investing in more acquisitions which are on a low share of the

market bringing in little returns although increasing the number of destinations that the company can reach thereof.

Legislation Amendments to regulation such as the Wright Amendment are required to be amended fast and implemented so as to create an opportunity for the company to increase its number of flights between destinations to serve the large customer base and reduce on the loss of revenue. Federal legislation is what made the company start off at a slow pace that caused the company to lose out on gaining more market share. PART 4: STRATEGIC OPTIONS

With relation to Southwest airlines strategy of delivering services to their clients at the lowest costs confirms that the company wishes to continue with the generic strategy of cost leadership. With the options available for the company such as those of mergers this could entirely support the company in achieving its goals and objectives of expansion and cost effectiveness. Strategic tools such as the Ansoff Matrix and the TOWS matrix reveal strategic options that a company such as Southwest could implement and follow so as to increase their position in their market (Choo, 2002).

Ansoff Matrix As depicted in the image below the Ansoff matrix is a simple model that helps a company identify the opportunities present for it to engage in and come up with a good strategy by looking at the factors of market penetration, product development, market development and diversification by comparing to the products offered and the markets available. For Southwest the company has penetrated the market effectively in the domestic scene whereas internationally the company is taking a slow route with the merging with other companies such as TransAir Airways.

<https://assignbuster.com/south-west-airlines-a-review/>

This tool links organizations marketing strategies together with the strategic directions that the company is pursuing so as to present the organization with alternative growth strategies. The tool identifies the market as well as the organization on the grounds of level of market penetration and market development. These two features of the market are analysed on the grounds of the relation of existing products to the existing as well as the new markets. Product development and diversification are measured and obtained in the view of how new products will relate or will be received in an existing market as well as a new market. pic] The TOWS Matrix This employs the theory of the SWOT analysis but instead identifies the threats and opportunities first and the weaknesses and strengths are last. The reason for this is so that the management identifies the threats and opportunities first and then using the strengths and weaknesses finds the best solutions on how to handle them. The threat of losing out revenue and the emerging trends taking place in the market are the biggest challenges for the company. The opportunities for the company are those of penetrating the international market through mergers and partnerships with other airlines so as to gain ground.

The company also has the opportunity to reduce costs by gaining discounts from suppliers and other available resource demanding duties so as to increase revenue. To increase opportunity and reduce the threats the company should employ the strengths of the strong financial outlay and engage in profitable projects to cover revenue base, and take advantage of the strong customer loyalty base available for the company. With weaknesses the company should re-evaluate their pricing strategy so as to

keep up and maintain a stable working financial base without losing value from their customers.

PART FIVE - EVALUATION OF STRATEGIC OPTIONS OVERVIEW Strategy evaluation is an easy task to perform for management of an organization especially when using procedures such as those described above. However it becomes more complicated when the strategies to use are concerned with emerging issues that are not expected. In the selection of the best criteria to use when selecting the best strategy so as to ensure its success in implementation the criteria that they need to meet range from consistency, consonance, advantage, feasibility, suitability, and acceptability.

Developing a choice strategy, an organization should ensure that the strategy does indeed meet all the above criteria so as to be considered as being worthy of implementation. In the case of Southwest airlines, using the generic strategies of the Ansoff Matrix, TOWS matrix to sort the internal elements that influence the organization and the PESTEL and five forces models for the external environment determining the best strategy would involve analysing the strategies using the criteria above.

For the internal analysis the TOWS matrix lacks in consistency. The elements that present themselves are lacking in consistency due to the constant changes going on in the environment. As the company undergoes restructuring as a result of the merger with other organizations this presents the problem of different variables coming up making the matrix not suitable to rely upon. Unlike the Ansoff matrix that fits all the criteria as stipulated the failure by one strategy to meet this disqualifies it from being used.

In the external analysis the PESTEL analysis is the best strategy to use as it has a broad coverage detailing the issues that are relevant this model out rightly fits into the Southwest Airline external environment. PART 5: DESCRIPTION OF THE TOWS STRATEGY The TOWS analysis is the best method to utilize for development of the strategy. The matrix comprehensively involves an intensive study of the external and the internal environments that affect the company. The possible strategies that come out of the use of the TOWS analysis are: i. Engaging in the International Market

Penetrating into the international market would be a rich opportunity as the company is already popular domestically and so the company could be assured of gaining ground in the market share. Investing in this opportunity would be a gain for the company. With the repeal of the Wright Amendment with the last clause expected to be taken off in 2014 the company could easily take advantage of this opportunity and expand their market. ii. Reduction of costs By reducing on the heavy investments such as the staffing costs the company could save on revenue and profits.

Laying off excess staff and conducting an intensive study on which resources to save up on would create an opportunity of savings for the airline. iii. Taking advantage of more Mergers with other airlines The last strategy that the company could possibly engage in would be that of merging with more companies. This would lead to savings on capital resources for the company. At the same time more ground would have been covered as the companies working in conjunction with each other would help reduce the barriers that a company by itself would be challenged with.

PART SIX - DESCRIPTION OF SELECTED STRATEGY The strategy recommended for Southwest Airlines would be to embark on an international growth pattern. Going on global outreach program would help the company boost its profit as it serves more clients in the international market. The reputation of the company as a result of being an already established airline would help boost its image in the international scene especially as a result of the low pricing strategies that the clients would be expecting as well as the helpful members of staff.

Providing a consistent and adaptive transport system as the company is already known for domestically would ensure that the company would always have an awaiting market ready for them. By expansion through more acquisition programs as well as mergers the company would ensure that the fully meet the demands of the market. The idea of expansion is also feasible by that the company already possesses adequate resources from staff, to carriers and the capital to launch into the new ventures could easily be raised with respect towards the financial reserves that the company possesses.

The expansion strategy is also suitable and acceptable as the market is quickly turning global with individuals travelling further away mainly for the purposes of business or leisure. The world today has been brought together making it very accessible from one area to another. The physical requirements that could possibly be required would be those of carriers, which the company already possesses financially the company possesses the strength and capital. Human resource is not an issue for the company as it

has a good relationship with its staff and in addition the company further possesses a large base of employees.

Finally the company possesses the reputation of a good cost effective and dependable airline. With this the company has one of the biggest strengths that it could actually possess that would ensure its success in the international market. PART 7: CONCLUSION Strategy formation is an important aspect in enhancing organisational, and market growth. Strategy formulation enhances effective creation future growth plans for the organisation through continued research of the most effective strategies relating to organisations objectives and implementing them to ensure effective organisational growth.

Southwest airlines realises this fact and hence inputs a lot of research and commitment into ensuring that proper strategic decisions are met that enhance achievement of organisation's overall objectives. Incorporation of a competent and skilled research and development team ensures that the organisation conducts the necessary research on their products, their performance, customer satisfaction and customer needs experienced in their current product market and anticipated venture markets.

Through proper incorporation of the TOWS model, the organisation is able to understand market demands through incorporation of market penetration and development strategy, product development strategy and diversification strategy depending on current position of organisation products in the market and their anticipated growth strategy. Therefore strategy formation plays a vital role in enhancing organisational development through

incorporation of various strategy development measures that aim at expanding organisation's market share and scope.

REFERENCES Choo, M, Chun, W & Bontis, N 2002, *The Strategic Management of Intellectual Capital and Organisational Knowledge*. New York: Oxford University Press. De Wit, B & Meyer, R 2004, *Strategy, Process, Context and Content: An International Perspective*, 3rd ed. , London, Thomson International Business. Gomez, M, Luis R, Balkin, D, & Cardy, L 2008, *Management: People, Performance, Change*, 3rd edn, New York: McGraw-Hill

Hunger, J & Wheelen, L 2001, *Essentials of Strategic Management*, Prentice Hall. Southwest. om, 2009, *Southwest Airlines –A Brief History*. Retrieved on http://www.southwest.com/swamedia/swa_history.html Porter, M. E. 1980. *Competitive Strategy: Techniques for analyzing industries and competitors*. New York: The Free Press “ Southwest Airlines will become Launch Customer for the New Boeing 737 Max Aircraft” 2011. Southwest Airlines Retrieved on 1st March 2013 <http://www.swamedia.com/releases/7b1c6522-daf8-40be-98d4-ce354aa974d3> Sridhar, A. (2012) *Information Systems Strategy and Management*, Masters in Management Information Systems at UIC.