

Analysis the southwest airlines environment and the industry management essay

[Business](#), [Management](#)



Q1 Analysis the Southwest Airlines environment and the industry-specific factors and firm-specific factors

Southwest Airlines is an airline carrier that operates within the American domestic market. This firm has been experiencing challenges in maintaining competitiveness with the market. External and internal environment has a great impact on the competitiveness of the firm.

Strengths and Weaknesses are internal factors (things that can be controlled) that exist within any organization, such as Southwest Airlines. Examples of internal factors would be finances, manufacturing capabilities, and management abilities. The strengths in Southwest Airlines More departures than any other US airline, Diverse, upper management; very well run business, Considered the best low cost carrier in recent years, high capacity usage (few unfilled seats). Dominates the short haul segment of the airline industry, Is one of the most profitable airlines, while many other airlines are unprofitable, maintains very good relationships with its unions management has a history of making successful acquisitions. The Weaknesses are few morning flights offered, no flights to international destination, dependent on a single type of aircraft - the Boeing 737, most employees belong to a union, Only one class of seating is offered - coach, Booking flights is not available except directly through Southwest Airlines, It does not offer frills such as airport lounges, videos on board, etc. Can only carry a small amount of cargo and freight. Opportunities and Threats are external environmental factors (that cannot be controlled) that have an effect on any organization. Examples are fuel costs, new legislation,

technological changes, and changes in the marketplace that affect your organization. Opportunities are Growth of Hispanic population and the elderly generation - potential markets. Overall air travel is predicted to increase pretty rapidly this decade. International markets are not yet served by Southwest . New technology - opportunities for new services and products. Better use of the Internet for marketing, ticketing, etc. Longer flights are a growing market. New plane technology. Threat are Fuel price increases could reduce air travel. Decline of leisure travel due to terrorism and/or a depressed economy. New government regulations could make air travel more costly. Cost will likely rise since there is not many more areas for cost-cutting, high-speed rail could someday hurt short and medium length air travel.

The microenvironment refers to factors that affect firms within a specific industry. These factors include; rivalry; threat of substitute; threat of new entrants; consumer power and buyer power. An analysis of these environment factors has illuminated various opportunities and threats to the organization. Southwest Airlines can enhance competitiveness by making use of the opportunities and countering the threats. There are several elements of the political/ legal environment that have an impact on Southwest Airlines. One of this element concerns safety regulation., the government has developed tough security policies which affect the airline industry.

The technological environment has also had both positive and negative impact on the airline industry. Ticketing is one of the areas in which technology has resulted in a positive impact for the company . The power of consumers also has an impact on prices with the industry. Buyers are more powerful if they are few and/ or organized However, air travellers in the United States are many and fragmented. This has significantly reduced their power to influence the industry prices. However, buyers are becoming more informed and this is likely to give them power over the airlines. When buyers are informed, they are in a position to know about differences in prices among competitors and availability of substitutes.

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Vivian Lee, " Impacts of Deregulation and Recent Trends on Aviation Industry Management," Bankers Trust Research (August 30, 1996): 16. R. Myerson, "

Air Herb," New York Times Magazine, (November 9, 1997): 36. J. Freiberg and K. Freiberg, NUTS! Southwest Airlines' Crazy Recipe for Business and Personal Success. (Bard Books, 1996). Q2The current strategy of Southwest AirlinesStrategy is the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations". Southwest Airlines is recognized as the industry leader in focused low-cost airfare by introducing new strategic competencies such as ticketless travel and selling seats through Internet sites. To reach its highly competitive position, Southwest Airlines has focused on four main strategies: being low-cost, employee-driven, future-minded, and differentiate Southwest is a low-cost airline that focuses on fast, no-frills service. It has never served meals, does not have advanced seat reservations, and flies only Boeing airplanes. These decisions have helped Southwest be flexible in the face of the recent . The company did not have to make the drastic changes seen in its competitors' services because it was already operating as a low-cost carrier. While other airlines cut back costs by reducing their services and firing large portions of their employees, Southwest was able to get by with nothing more than pay-cuts - no employee was fired because of economic issues. Although a company-wide pay-cut is nothing to sneeze at, Southwest employees agreed they would rather have their jobs for less pay than try to find work elsewhere. Through this loyalty, Southwest was able to recover much faster than its competitors and maintain its strong customer base. Southwest's employees are incredibly loyal, and they are a key part of the company's

overall strategy. Having happy employees means a company is more likely to have happy customers. Southwest knows this and uses it to its advantage. The company knows how to use motivation tactics that work for their employees. In line with Douglas Theory employees, workers at Southwest enjoy their jobs and see them as a natural part of their lives. They don't need to be coerced with threats or promises. Southwest's employees genuinely enjoy their jobs and want to pass that enjoyment on to their customers. And an employee who loves their company will make customers love that company, too. Customers can easily see Southwest's low-cost, employee-driven strategies, but what they can't always see is Southwest's internal strategy. One of the company's main focuses is on differentiation. This is an interesting strategy choice because differentiation is usually seen in high-price and/or unique product companies. Still, this is one of Southwest's key choices, and they are making it work. One of their key differentiation strategies is their Rapid Rewards frequent flyer program. According to their financial statements, Southwest has revamped their system so members are able to redeem their points for every available seat, every day, on every flight, with no blackout dates and. points do not expire so long as the Rapid Rewards Member has points-earning activity during a 24-month time period. Many airlines have similar, but much more complicated rewards systems, so Southwest's emphasis on flexibility separates them from the rest of the pack. They also make use of their Chase Visa credit card to help their customers earn and redeem points. This system brings in new customers, increases business from existing customers, and strengthens Rapid Rewards partnerships within its various divisions. Southwest has already seen this

new rewards plan pay off by meeting and passing all of their expected growth goals. They've increased their overall business and given customers what they want. This company excels at being attuned to customer needs - they know that if you give people what they want, they will give you what you want. Southwest has long been regarded as a benchmark in its industry for operational excellence. Southwest Airlines is a fine example of a company that is committed to its core competencies - efficient operations to drive its low cost structure, outstanding delivery of customer service and innovative HR management practices. We hope this paper provided a good insight into Southwest operations, as part of its overall strategy, to achieve success and gain competitive advantage. Organizations must become more strategic if they are to survive and succeed in the current business environment.

Functional and unit strategies must be aligned with overall firm strategy to enhance organizational effectiveness. In this respect, strategic compensation systems are vital to ensuring desired employee behaviors and enhanced firm performance. Reference: Brelis, M. (2000, November 5). Herb's Way. Boston Globe Online. Retrieved May 22, 2006, from http://people.bu.edu/rgleason/herb_s_wayp.html

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Wikipedia: Southwest Airlines. (2006). Wikimedia Foundation, Inc. Retrieved May 22, 2006, from http://en.wikipedia.org/wiki/Southwest_Airlines Wiseth, K. (2004, September/October). Southwest's Strategy for Success: Consolidate! Oracle Technology Network.

Retrieved May 22, 2006, from Q3. analyze Southwest's approach to sustain its competitive advantage

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Many firms strive for a competitive advantage, but few truly understand what it is or how to achieve and keep it. A competitive advantage can be gained by offering the consumer a greater value than the competitors, such as by offering lower prices or providing quality services or other benefits that justify a higher price. The strongest competitive advantage is a strategy that that cannot be imitated by other companies.

To support a sustainable competitive advantage Southwest Airline's perform its value activities in a way difficult to replicate or imitate by the competitors. A competitive advantage is upheld if the cumulative cost of performing the value activities is lower than competitors. A level of value must back up the competitive advantage to the customer that is at least compatible to the competitors. Otherwise, a lower price will have to be charged and the net effect will be zero. A firm's relative competitive advantage will be made up by what composition of the value chain the firm has versus the competitors and secondly what position the cost drivers has in each activity.

There are a number of ways to check the sustainability of a firm's competitive advantage , Southwest Airline's Competitive Advantages can be best viewed by analyzing six major factors, their Procedures, Infrastructure, Edge, Communication, Atmosphere and People.

Southwest Airline's procedures heavily rely on the strategy of keeping the airplanes in the air as much as possible. This has required an integration of operations and procedures to gain full control and to get a tighter organization. Means that they have used to accomplish this is quick turnarounds and one type of aircraft the Boeing 737 Additional means are the use of under-utilized airports that cost less to operate. The lesser known airports are usually lesser congested and that makes it easier to achieve fast turnarounds. However, Southwest Airline's has started to extend their markets to larger airports, which makes their strategy to keep the planes in the air hard to achieve.

The less congested airports are vital to Southwest Airline's and are part of what has made them less exposed to cyclical changes in the economy. Capacity utilization is an important factor for industries that are heavily associated with high fixed costs, such as the airline industry. Every factor that can keep costs down is therefore vital to make the company " recession-proof", which makes the small airports very important to Southwest Airline's since they constitute one of the foundations of their low-cost strategy.

However, the policy choices made to be low-cost relies on more than operating cheap airports. Southwest Airline's was first out on the market with their innovation and that has given them a head start of the competition. Timing has been a major part of several of Southwest Airline's procedures since they have several innovations that have been first out on the market. This goes for all activities in their procedures. The business cycle has started to catch up with Southwest Airline's in the last couple of years with new underdogs surfacing and threatening Southwest Airline's position as the only innovative airline. The competition is likely to thicken further as the business life cycle matures within the low-cost segment.

Southwest Airline's infrastructure focus is on the communication process. This is why they only have four layers between top management and ground personnel. This is a major factor to achieve a smoother running operation and to cut costs. The importance of interrelationships between value activities will decrease the cost per units and potentially increase scale.

Southwest Airline's has very " thin contracts" which means that everyone helps out no matter what level they are on. Also, the quick turnarounds use linkages and interrelations heavily to achieve their goal. By integrating its operations Southwest Airline's has a tighter organization that has full control over daily routines. This projects that advantages of vertical integration are high when control over a value activity is demanded, which is the case in Southwest Airline's and their quick turnarounds.

The company also plans for the future and is not afraid to take the risks necessary to stay ahead of the competition. Southwest is focused on expanding its services and increasing its market share. They plan far ahead and make sure their plans are sustainable for current and future competitive advantages.

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Theory of Southwest Airlines' company strategies

There are four main meaning of approaches to strategy recognized. These are Classic theory, Environmental theory , Processual theory, and systemic theory and the four approaches differ widely. The Classic theory suggests that the main goal of business is ability to profit, and to achieve it requires rational planning. The key main features of the Classical approach are; attachment to rational analysis, conception is separated from execution, objective is unambiguous profit maximization. In Classic approach the fundamental strategic problems is meaning as positioning of the firm in the markets with the maximum profit earning (Sloan, 1963).). Evolutionary approaches to strategy also consider that high ability to profit is essential for survival, however, they consider markets to be the main force to secure profit maximization, and not the ability of the top management to plan and

act rationally. According to Williamson (Williamson, 1991) the only real comparative advantage is relative efficiency.. Processual approaches consider that neither the can of top management to strategize rationally, nor markets, is ensuring profit maximizing outcomes. Processual approach inclines towards incremental adjustment (Quinn, 1980) and cultivation of core competences.. In Systemic approach, the styles of strategy are embedded in particular social system, and while to the outsider the strategy might see irregular, their processes and goals are considered rational according to the local criteria. To Systemic theory, the differences between countries' social systems and changes within countries political systems are important. For the South-East Asia, prevailing forms of business vary according to the local interplay of state, familial and market structures (Whitley, 1999)). In my opinion, the Southwest Airlines' company strategies are based on the Processual approaches the factors supporting this point of view are as Southwest Airlines' company strategy consists of competitive moves and business approaches management has developed to attract and please customers, conduct operations, grow the business, and achieve performanceSouthwest's ability to control costs coupled with an uncanny and exciting marketing strategy have helped drive its bottom line profitability and popularityMost would consider Southwest's cost cutting strategy to lie chiefly within its airline operations and ticket pricing, but the company has also made great strides in consolidating its database system, resulting in greater efficiency and profitability for the airline. This strategy represents Southwest's ability to identify an opportunity for cost savings and greater system reliability and act on it to realize these benefits. The

company's willingness to enlist the expertise of industry experts alongside system users demonstrates the company's ability to articulate a vision and make it function seamlessly.. Southwest demonstrated a knowledgeable approach throughout the entire transformation process by getting input from employees throughout the company, utilizing knowledgeable experts, and planning ahead for the transformation to the unified Oracle platform; a clear indication that the company performed the necessary research before the changeover. Southwest's airline operations have varied dramatically from other airlines and helped contribute to the company's success. Southwest's primary aim has never been to capture market share like the other major airlines, but instead the continued pursuit of maintaining low operating costs which in turn provides passengers with cheaper ticket prices . Southwest's history of profitability and general success has recently been termed as the " Southwest effect," based on the airline's ability to enter markets with rates that maintain profitability yet centered around cost conscious operations and high aircraft use The underlying notion of the Southwest effect is that markets will vastly change when a low fare carrier enters them, resulting in historically large surges of market activity. In this instance, Southwest's strategy revolving around simplicity created a name for the company that has acted as a business concept in the airline industry which many other airlines would love to emulate. Although all companies are in business to make a profit, Southwest claims that their primary goal is not profit maximization. However, they have been consistently profitable by making air travel affordable to those who previously could not afford it.. Southwest often says the customer comes second, showing their devotion to employees.

By taking care of their own, the company encourages employees to take care of the customers..

- , The company also created an industry trend with the " Southwest effect," illustrating how the entrance of a low-cost airline into a new market will infuse it with new activity. The company should continue to pursue cost-savings opportunities and do things differently than the competition. These are key attributes that have allowed Southwest to stand out from its competition in the past and continual pursuit of new opportunities that are closely scrutinized and researched will allow Southwest to continue on its steadfast path of profitability.