Case #20 – Southwest Airlines
Marisa Melchiorre
Amber Harrison
Emeka Onyia

Company History
- 1966 Rollin King approached Herb Kelleher’s law office with plan to start low-cost/low-fare airline
- Ran into legal problems, rival airlines in Texas did everything they could to block new airline
- Herb Kelleher was determined to start up airline
- 1971 – Lamar Muse Southwest CEO, background in industry to get it up and starting
- Raised $7 million in capital and private investors to purchase planes and equipment
- Flights started between Dallas, San Antonio, and Houston known as the “Golden Triangle”
- First ever annual profit in 1973
- 2010 – market share leader in domestic air travel in US, consistently profitable even during down turning economy, profit every year since 1973
- Number of passengers increased by more than 28 million

1. Is there anything that you find particularly impressive about Southwest Airlines?

One of the most impressive characteristics about Southwest Airlines is their fun, loving, determined company culture that believes first in making employees happy which then results in happy customers. Herb Kelleher was adamant about listening and allowing employees to think and to most importantly be heard. The strong value of the happiness of their spunky employees is their competitive advantage against other rival airlines in the industry. Southwest is able to create a competitive advantage not only with their low prices but also offering a fun and humorous experience when flying. Another characteristic of Southwest that is impressive is Herb Kelleher’s role in the company even after stepping down and retiring from the CEO position and that he will remain a Southwest employee till July 2014. His decision to stay active in the company reflects his dedication and passion for the future success of Southwest Airlines.

2. What grade would you give Southwest management for the job it has done in crafting the company’s strategy? What is it that you like or dislike about the strategy? Does Southwest have a winning strategy?

Southwest deserves an A for their unique crafting of their strategy to keep their fairs at a low cost and differentiating themselves in other ways (better customer service) than rivals to become the most profitable airline in the US. Their ability to succeed by their winning strategy is proven in their capability of creating a profit year after year despite a downturn in the economy where as their rivals and the industry as a whole suffered drastically. The US airline industry lost billions of dollars in profit from 1980-2009 yet Southwest reported a profit every year since 1973 due to their strategy of low operating costs, low fares, and customer pleasing service. What is appealing about their strategy is their determination and keeping their promise of keeping their costs the lowest across the industry and finding other ways to make up for the lost cost in low prices
which has been crafted since the start of Southwest. Herb Kelleher’s determined and outgoing personality is how the strategy was crafted and still how it remains today. Their strong values in their corporate culture are reflected through their customer service and their prices.

3. What are the key policies, procedures, operating practices, and core values underlying Southwest’s efforts to implement and execute its low-cost/no frills strategy?

The low-cost/no frills strategy is their ability to make travel affordable at a low cost. The fare structure is simple and easily displayed and accessible on their website. The lowest fares were usually nonrefundable but could be applied to future travel on Southwest Airlines with a change fee which many other competitors such as US Airlines charges customers between $100-175 dollars for flight changes. One of the biggest advantages that Southwest offers is the “Bags Fly Free” which allowed for bags to fly free and no additional costs such as fuel surcharge, fees for travels awards, or fees for buying a ticket in person like many of their other competitors implemented to make up for the increasing costs of jet fuel. Southwest also initiated special fare promotions when advance reservations were weak for particular weeks or times of the day to fill up planes and avoid losing revenues and covering costs. This strategy combined with the “Bags Fly Free” resulted in Southwest having record load factoring of filling up all seats on the aircrafts. By filling up available space and the volume of passenger traffic helped to compensate for the low fares they were able to offer to customers. Southwest also concentrated on their route system on flights between pairs of cities 150 to 700 miles apart that handled enough passenger traffic to offer a sizable number of daily flights. They also implemented a quick turnover of flights with boarding times ranging from 15-30 minutes to create more daily flights. Other ways of execution of their low-cost/no frills strategy include:

- The company operates on only one type of aircraft (Boeing 737) to minimize the size of spare parts inventories, simplify training of maintenance and repair, and improve proficiency and speed of routines.
- Southwest was the first major airline to introduce ticketless travel and allowed customers to make reservations and buy tickets online.
- They used medium sized, less congested airports instead of major cities which allowed them to produce better than average on time performance and reduce fuel costs with planes sitting in line on crowded runways.
- Southwest’s point to point scheduling of flights was more cost efficient than the hub and spoke system used by rivals in the industry.
- Most importantly, Southwest continued to stick to their value of being able to offer customers the lowest prices available and while still offering the best service among competitors.

6. What weaknesses or problems do you see at Southwest Airlines as of mid-2010?

- Looking at the South West case study you can see an increase of involuntary denied boardings per 10,000 passengers.
- The percentage jumps from 1.42% to 2.59% the 3rd highest in the flight industry. Also, complaints per 100,000 passengers boarded has increased from 2009 .13% to .26%. I
know that SouthWest wants to value their customers and treat them like family but if they do not increase their customer satisfaction they are only hurting the company. But they still are the lowest in customer dissatisfaction compared to other airline industry’s.

- I believe the last thing that could be a weakness for SouthWest would include the compensation they give to their employees and with increase labor costs it is only costing the company more money to keep giving 401 K plans and matching company contribution to profit sharing plans. In 2006-2009 the company contribution plan estimated 1.3 billion and since SouthWest keeps increasing it profit they will only increase in compensation towards their employees.
- Aircraft inspections tarnish SouthWest reputation, In 2008 FAA fined SouthWest 10.2 million for failure to meet inspection deadlines and checking for early detection of fuselage fatigue. Some planes flew for over 30 months without inspections and the public found out about it.

7. Does the AirTran acquisition make good strategic sense for Southwest?

I believe that the AirTran acquisition is a good strategic decision for Southwest:

- AirTran had revenues of 2.5 billion and operating income of 128 million
- Is a low-fare, low-cost airline like SouthWest
- Serves 70 airports in the US, Mexico and Caribbean; 19 that already coincide with airports served by Southwest
- Their largest airport is in Atlanta and if Southwest buys them they can translate 2 million additional passengers annually in the Atlanta market share alone

8. What strategic issues and problems do Gary Kelly and Southwest executives need to address as they proceed to close the deal with the AirTran acquisition and contemplate how best to integrate AirTran’s operations and AirTran’s employees into Southwest?

I can see Gary Kelly running into issues because their strategic plan is to operate domestically and having an acquisition include: operating internationally. They are going to have to go through international regulations and learn their practices. Also, it is high risk buying another company and trying to obtain their competitive advantage. It will also take up to two years to retrain AirTran employees to grow accustom to Southwest employee standards. *What is best way to integrate employees?*

- Southwest’s training for new employees
- Giving new employees from AirTran flights to see firsthand culture of Southwest
- Training Under Southwest University for the People
  - To meet training and safety requirements for FDA and OSHA
  - Courses in written communication, stress management, performance appraisal, decision making, customer service and leadership
- Courses for employees wanting to pursue leadership
  - Leadership 101 and 102
- Use OnBoarding Program for Newly Hired Employees
  - Provides information from first day until end of the year
  - Give one day orientation and video on Southwest culture
Assigning a new employee to an existing Southwest employee who can be of assistance in acclimating the new employee to their new job

- Strong corporate culture to learn

9. What recommendations would you make to Gary Kelly and Southwest executives as the company heads into 2011?

- Focus on keeping the “bag free” policy intact because that is a source of their competitive advantage.
- Focus on customer complaints so that it doesn’t keep increasing
- Since fuel is going up keep their strategic plan strong to keep low cost but increase base to cover cost and create profit revenue
- Stick closely to Kelly’s four key success factors
  - Hire great people
  - Care for customers like guests
  - Stay prepared for bad times
  - Keep fares and operating cost lower
- Prepare for the high risk of attaining AirTran as an acquisition
  - Look at international regulations and study them (Mexico & Caribbean)
  - Devise a plan to retrain new employees
  - Integrate AirTran into Southwest in a positive way
  - Do not forget Southwest main objective to have continuous flights