# Southwest Airlines

Name

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Course

Date

Southwest Airlines is a Dallas based company that was established in 1967. Much of the company's operations are concentrated in the domestic market, with only a few flights to international destinations. The airline has maintained a remarkable profitability and safety record in over 40 years of operations. In 2014, the airline marked its 42nd year of profitability, surpassing with over 15 percent return on invested capital ("Southwest," 2014). This has mainly been achieved through effective management practices. Over the years, the airline brands itself as a low cost carrier while still delivering high quality services.

Southwest Airlines' mission is "dedication to the highest quality of customer service delivered with a sense of warmth, friendliness, individual pride, and company spirit." ("Southwest," 2015). The airline's mission statement is in line with its customer-focused strategic management practices. The company provides the highest quality of service to its customers through employees who understand and respond to customer needs. According to a recent survey published in FORTUNE magazine, Southwest Airlines was voted second position in terms of quality of service, gaining 781 score out of a possible 1000. The airline came second to JetBlue which had a score of 800 (Elliot, 2015). Through its vision statement, the company aims to "become the world's most loved, most flown and most profitable airline." ("Southwest," 2015). The airline's primary stakeholders are the employees, who are expected to contribute towards brand growth. Employees come first, and are expected to deliver the highest standards of services to customers.

Five forces of competition

(i) Threat of new entrants

In highly profitable industries, the threat of new entrants is likely. High entry into the industry leads to a decline in profitability. In the airline industry, there are high barriers to entry. Some of these barriers include high capital requirements, customer loyalty to existing brands, and expected retaliation among others. Nonetheless, Southwest Airlines face moderate threat in its low-cost business model that it operates. There is a high likelihood that other rivals such as Delta Airlines could change their mode of operation to that of low cost airlines, increasing competition.

(ii) Threat of substitute products

Substitute products are those that can be used as alternatives. In the airline industry, threat of substitutes is low. Common form of substitutes in the industry includes high speed trains and vehicles. Even though the switching costs from air transport to land transport would be low for consumers, there are many reasons why consumers still prefer air transport, for example distance, convenience and speed. Thus the alternatives are not significant in competing with airplanes. In addition, transport by trains is hampered by physical barriers such as large water masses.

(iii)Buyer power

The bargaining power of buyers is considered to be high when there are many alternatives for consumers to choose from. The U.S. airline industry has many low cost carriers, most of which have copied Southwest Airline’s low cost model. In addition, there is little differentiation in terms of the services offered. Thus, buyer power in the industry is high.

(iv)Supplier power

Suppler power is mainly determined by the number of suppliers and the switching costs from one supplier to another. Southwest Airlines operates one model of aircraft – the Boeing 737. This has enabled the airline to reduce operational costs that arise from training employees to operate different types of aircraft. The supplier power is high since the airline depends on one supplier, the Boeing. In addition, there are only a few airplane manufactures in the world, Airbus and Boeing.

(v) Competitive rivalry

The competitive rivalry in the industry is high. Southwest Airlines faces competition from over five other low cost carriers such as JetBlue, Spirit Airlines, Frontier Airlines, and Allegiant Air among others.

SWOT Analysis

| | **Strengths** | **Weaknesses** |
|---|---|---|
| **SOUTHWEST AIRLINES** | 1. Southwest Airlines is recognized as one of the best low cost carriers in the industry.<br>2. It is among the largest airlines in the U.S. based on the number of passengers it carries in a year.<br>3. Southwest has a strong brand presence.<br>4. The airline has maintained | 1. The airline largely concentrates its operations in the domestic market (North America).<br>2. Overdependence on one model of aircraft – the Boeing 737.<br>3. The airline does not provide meals (Mouawad, 2010). |

<table>
<tr><td></td><td>high capacity usage owing to its point-to-point operations which lead to low turnaround time.<br>5. High productivity among employees with the lowest turnover rate in the U.S airline industry.<br>6. The airline has profitably operated for over 42 years.<br>7. Strong financial position due to years of profitability.</td><td>4. The airline does not offer first class seats hence the high profile passengers prefer rival airlines (Mouawad, 2010)<br>5. The airline records the highest number of full-time employees which directly results to high overheads.<br>6. Majority of the employees are unionized.<br>7. The airline records the lowest number of morning flights.</td></tr>
<tr><td>Opportunities<br>1. The airline can expand into the international market with ease.<br>2. The airline has the potential to partner with other international airlines and hence expand.<br>3. Acquisition of AirTran</td><td colspan="2">Threats<br>1. The low cost market which was once a preserve for Southwest has attracted stiff competition from new entrants.<br>2. Fluctuations in fuel prices leading to losses.<br>3. Increased government regulations leading to additional costs.<br>4. High security costs due to terrorism</td></tr>
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|---|---|
| holdings will enable it expand operations to Canada and Mexico.<br>4. There is an increase in demand in domestic travel within the U.S.<br>5. The company can employ mobile technology that enables customers to book flights through their mobile devices. | |
| | |

Strategy to capitalize on strengths and opportunities and minimize weaknesses and threats

Strength: Strong brand presence

Southwest Airlines has a relatively strong brand presence in the U.S. market. To maintain the strong brand presence, the airline should consider carrying out promotions and advertising. Advertising and promotions is a good way of ensuring brand awareness. According to Kumar (2008), brand awareness is positively correlated with purchase decision. For example, building an online presence can be a cost effective way of ensuring stronger relationships with customers. This can be achieved through the use of the social media sites.

Weakness: Overreliance on domestic market

Southwest Airlines is majorly a domestic carrier. By expanding overseas, the airline will unlock new opportunities for growth.

Opportunity: Expanding into the international market

With the airline in operation for over 40 years, the domestic market has already reached maturity stage. Thus, growth opportunities in the domestic market are limited leaving no other options but overseas expansion. The best strategy to achieve this is through mergers and acquisitions. For example in 2012, the airline acquired AirTran giving it an opportunity to expand into the markets formerly controlled by AirTran such as Ronal Reagan, Hartsfield Jackson Atalanta Airport and LaGuardia Airports (Diaz, 2012).

Threat: Increased competition from other low cost carriers

Other low cost carriers such as Allegiant Air, Frontier Airlines, JetBlue and others have intensified competition, offering similar service at low or cheaper prices. In order to avoid losing customers to rivals, Southwest Airlines should differentiate its products and services from the rest of the competition.

Levels and type of strategies Southwest may use to maximize competitiveness and profitability

Corporate level strategy

According to Campbell, Stonehouse, & Houston, (2002), corporate level strategy is the highest in the strategic decision-making hierarchy. Corporate level outlines the objectives of the organization, resource planning and develops strategies for small business units (SBUs) to ensure effective performance. The top management is responsible for making decisions at this level. For example at Southwest, the top management should be responsible for making critical decisions such as acquisitions and mergers.

Functional level strategy

The functional level is the lowest in the strategic decision-making hierarchy. At the functional level, business units are coordinated through proper coordination and allocation of resources (Campbell, Stonehouse, & Houston, 2002). The functional level of the organization deals more with meeting specific objectives from specific actions. For instance, the functional level may be responsible for meeting outlined budgets, sales figures and others.

Types of strategies

Product differentiation strategy

A product differentiation strategy would be the best for Southwest Airlines. Over the years, the airline has remained competitive owing to its differentiated service delivery; focusing on point-to-point connections instead of the usual hub-and-spoke strategy common with other strategies (Carey, 2014). The airline must continually differentiate its products as more rivals increasingly copy its business strategy. This will enable it remain ahead of competition and increase profitability.

Growth strategy

A growth strategy would be best for Southwest Airlines. Growth strategy entails addition of new features or development of new products (Campbell, Stonehouse, & Houston, 2002). In the case of Southwest Airlines, addition of new routes to overseas destinations can enable the airline to easily expand and increase the sources of revenue.

## Communications plan

The best communications plan to present the strategies to the stakeholders would be through a formal meeting. Meetings provide the best opportunity for individuals to share ideas and exchange information. An informative meeting can be effective way to introduce new products or services. Since the some of the strategies such as the growth strategy may be complex, meetings provide the appropriate avenue to offer room for presenting and explaining such complex ideas. In addition, presenting the strategies through a meeting will give everyone the chance to give instant feedback which saves on time.

## Corporate governance mechanism

Corporate governance represents all the set controls, policies, procedures and guidelines that direct the organization towards meeting its objectives and fulfilling all the stakeholders' expectations or needs. Corporate governance mechanisms may either be internal or external. One of the corporate governance mechanism employed by Southwest Airlines is through conducting independent audits. An independent audit involves an examination of the company's financial statements to determine whether they represent a true and accurate state of the financial position of the company. Independent audits in Southwest Airlines are effective in controlling managerial actions. Independent audit procedures ensure that management's actions are keenly monitored by an independent body, hence discouraging fraud and financial misreporting. Independent audits often review systems for material weaknesses and suggest ways of improving system control to the management. Independent audits also assist the management in conforming to the legal and the regulatory framework.

## Effectiveness of leadership within Southwest Airlines

Southwest Airlines’ management operates in accordance to the democratic leadership style. In this leadership style, leaders must take into consideration the opinions of the employees before making decisions. In Southwest, employees are responsible for making crucial decisions such as budgeting and business planning (“Southwest,” 2014). Employees are encouraged to be innovating in making decisions and also in their work. The top management provides support and motivation to all the employees. The management should improve its involvement in the decision making process by employees rather than leaving them to make decisions on their own. In some situations, employees need to feel the support and input of the top leadership.

## Corporate social responsibility (CSR)

According to the Corporate Social Responsibility Index (CSRI), Southwest Airlines ranked among the top 50 ethical organizations keen on establishing responsible corporate citizenship (Agnew, 2015). The airline’s CSR efforts are geared towards environmental stewardship. The airline has developed various programs aimed at increasing efficiency and thus reducing emission of green house gases. This will be achieved through technological innovations such as the green plane, which will produce less waste. The impacts of these efforts are high operational costs. For example the company has set aside $ 175 million aimed at improving flight efficiencies (‘Southwest’, 2013). On a positive note, the efforts have improved the airline’s public image.

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