Strategic management: Southwest airlines case study

Current strategy (Including current use of technology)

Southwest Airlines' dominance in the airline industry is largely attributed to its competitive fair prices, which are the lowest in the industry. Southwest Airlines operates as a Low Cost Carrier (LCC). The airline charges fares which are 30% as low compared to majority of its competitors. The company employs a number of strategies in order to achieve the low cost leadership. To start with, the airline does not offer meals but only some snacks and an assortment of drinks such as coffee, cold drinks and juices on all flights. However, customers are allowed to carry meals onboard. The airline provides passengers with only one class of ticket; hence there are no first class seats, thus passengers pick any available seats. However, the airline has introduced 'A-List' seating for select members (Hill, Jones, and Schilling, 2014). Southwest Airlines provides point-to-point flights thereby eliminating the need for connection flights. This saves time, eliminates delays and requires fewer employees compared to airlines that rely on hub connections. The airline has predominantly operated one type of airplane, the Boeing 737. This reduces maintenance costs, inventory costs as well as costs of training employees. Lastly, the airline has ensured high employee productivity with an employee/passenger ratio of 1:1,999 in 2012, the best employee/passenger ratio in the industry (Hill, Jones, and Schilling, 2014).

Southwest Airlines has also embraced the use of modern technology in a bid to cut down operational costs. The airline was the first to introduce online booking by establishing a web site that could facilitate online selling of tickets in 1996. This significantly reduced booking costs from an average of 10 dollars per passenger to one dollar per passenger (Kumar, 2004). In 2013, the company started working on a project that would enable it enhance its customer service through use of data analysis. The project entails use of cloud services and employee optimization solutions that will enable analysis of actual recorded conversations between passengers and personnel. This will enable the airline to quickly identify problems and to improve the quality of services.

Possible strategic alternatives

Southwest Airlines can develop new and effective strategies to further increase its competitiveness in the airline industry. The airline should consider offering first class tickets or seats to customers so as to get a share of the upper class passengers. Since the airline does not offer first class tickets, majority of the high end customers who prefer travelling on first class tickets end up using rival airlines that offer first class tickets. The company should aim at attracting more business travelers so as to bolster its revenue base. Majority of the airline's flights take less than an hour, which prompted the management to come up with the no-meals policy (Mouawas, 2010). This has also contributed to loss of customers to rival airlines which offer in-flight meals. Southwest Airlines should introduce light meals in addition to the drinks it offers in order to attract more customers.

Southwest Airlines should also consider differentiation as an alternative strategy that can help in staying ahead of the competition. The company is currently facing fierce competition from other low cost models that have adopted its low cost strategy. As a low cost carrier, Southwest Airlines cannot afford to lower prices further. In addition, price undercutting is illegal in the United States. Differentiation can enable Southwest Airlines remain ahead of competition. For instance, the airline can come up with new and exciting packages, offer a unique product mix or sell experiences.

Southwest Airlines should also strive to maintain an upscale image among consumers. This will enable the company remain relevant in the highly competitive airline industry. Thus, the company should aim at ensuring adequate advertising campaigns are carried out through the mass media. In addition, in-flight magazines, business cards and other campaigns can be used to maintain a positive image in the public.

SWOT matrix – strengths

1. Southwest Airlines is recognized as one of the best low cost carriers in the industry.
2. It is among the largest airlines in the U.S. based on the number of passengers it carries in a year.
3. The airline has a strong brand presence.
4. The airline has maintained high capacity usage owing to its point-to-point operations which lead to low turnaround time.
5. High productivity among employees with the lowest turnover rate in the U.S airline industry.
6. The airline has profitably operated for over 42 years.
7. Strong financial position due to years of profitability.

Weaknesses

1. The airline largely concentrates its operations in the domestic market (North America).
2. Overdependence on one model of aircraft – the Boeing 737.

3. The airline does not provide meals.
4. The airline does not offer first class seats hence the high profile passengers prefer rival airlines.
5. The airline records the highest number of full-time employees which directly results to high overheads.
6. Majority if the employees are unionized.
7. The airline records the lowest number of morning flights.

Opportunities

1. The airline can expand into the international market with ease.
2. The airline has the potential to partner with other international airlines and hence expand.
3. Acquisition of AirTran holdings will enable it expand operations to Canada and Mexico.
4. There is an increase in demand in domestic travel within the U.S.
5. The company can employ mobile technology that enables customers to book flights through their mobile devices.

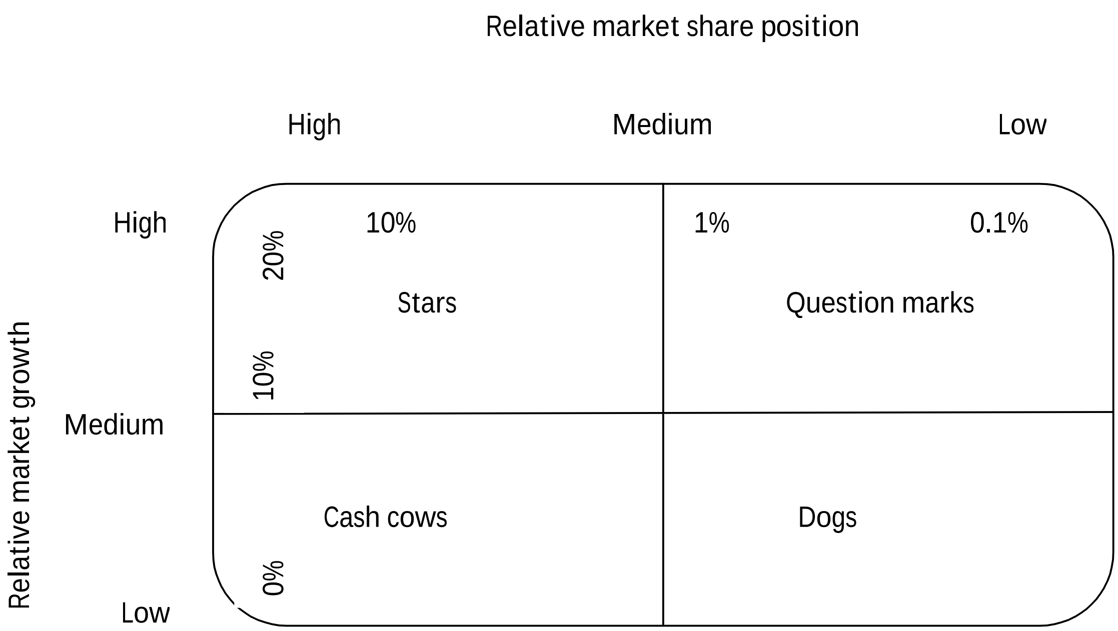
Threats

1. The low cost market which was once a preserve for Southwest Airlines has attracted stiff competition from Allegiant Travel, JetBlue, Public Airways, among others.
2. Fluctuations in fuel prices leading to losses.

3. Increased government regulations leading to additional costs.

4. High security costs due to terrorism.

BCG Matrix



The BCG matrix assumes that cash generation is hedged on the relative market share the business controls (Lewis, 2007). Thus, if the relative market share is large, cash generation will also be high. Increase in the market share of any organization indicates that it is well at par compared to its rivals, and hence a cost advantage over its rivals. The BCG matrix also assumes that high growth markets consume more cash in form of asset investments so that the firms can sustain adequate levels of production capacity (Lewis, 2007).

According to the matrix, the products of a firm in the ‘stars’ situation experience high growth in a quickly growing market (Shaw, 2007). Thus, products in this category are highly profitable.

Nonetheless, high management costs are incurred in this category. This is because the high market growth attracts more rivals into the industry, thus existing firms must spend huge amount of money to maintain their share of the market. The ‘cash cow’ segment represent products whose market is experiencing slow growth but control a sizeable share of the total market (Shaw, 2007). These types of products generate surplus revenues for the business to reinvest. Nonetheless, they are not attractive for growth. The ‘dogs’ category represent those products whose market share and growth are both low (Shay, 2009). These products give low profits and the management often spends more time on them. ‘Question marks’ are those products that have a low market share but in a quickly growing market (Shaw, 2007).

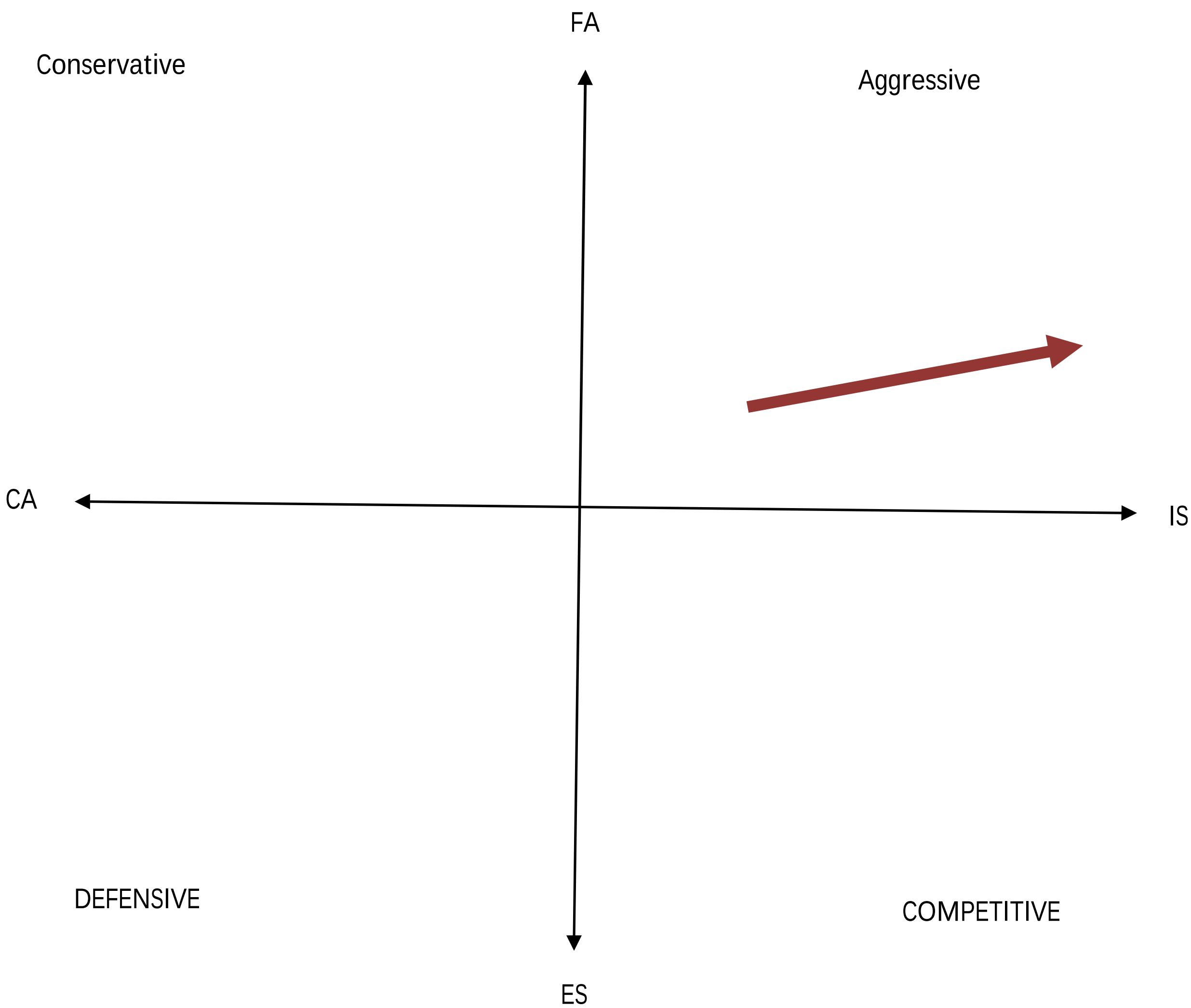
Southwest Airlines is currently offering two types of services; domestic flights and the recently introduced international flights. In 2014, Southwest Airlines controlled 15.8% of the total domestic market share, coming second to Delta Airline with 16.3% (‘Centre for Aviation,’ 2014). Southwest Airlines have profitably operated over the last 42 years, overcoming the threat of bankruptcy even during the economic recession in 2008. Analysts have placed great optimism on the overall industry’s growth, projecting an average of 5.7% growth rate over the coming years. In terms of growth, the airline projects a 6% growth in 2015, with 1 percent of this growth coming from international flights This places Southwest Airline’s domestic segment in the ‘cash cows’ segment of the BCG matrix. The slow growth is brought about by the company have reached the maturation stage in the domestic market. The international flight segment is expected to achieve a 1% growth rate in the year 2015. Southwest Airlines control less than 1% of the international market (‘Centre for Aviation,’ 2014). This places its international business segment in the ‘question mark’ segment of the BCG matrix. The major reason for that is because the airline introduced international flights in 2014, hence relatively new in the international market.

Space Matrix

Financial advantage	Score	Competitive advantage	Score
Stock turn over	6	Quality of product	-1
Working capital	5	Market share	-1
Flow of funds	4	New technology	-1
Liquidity	3	Customer loyalty	-2
Earnings per share	3	Product life cycle	-2
Leverage	3	Capacity utilization	-2
Average	4	Average	-1.5
Environmental stability	Score	Industry strength	Score
Change of technology	-2	Resource utilization	5
Changes in demand	-4	Entry into the industry	3
Entry barriers	-3	Financial stability	4
Competitive pressure	-3	Profitability	6
Inflation	-3	Potential for growth	5
Price elasticity of demand	-3	Extent leverage	4

Average	-3	Average	4.5

x-axis: -1.5 + 4.5 = 3   y-axis: 4 + -3 = 1



The SPACE matrix indicates that Southwest Airlines should employ an aggressive market strategy in order to attract more customers. Southwest Airlines holds a competitive position in the airline industry. The airline should aim at developing robust market development and market penetration strategies. These strategies may include acquisition of rivals, development of new products and expansion into new markets such as the international front. Acquisition of rivals will enable the airline to easily commence operations in new markets that were formerly dominated by the firms acquired. The airline should also aim at developing new products or services that will entice more customers. For instance, offering first class seats can increase customers who often use rival airlines.

Evaluation of current organizational structure

The organizational structure is important in the day-to-day running of the business. It helps organizations in allocation of tasks, supervision, coordination of various activities and directing employees towards achievement of set goals (Möbius& Miller, 2002). The organizational structure also helps to draw lines of authority and in establishing lines of communication. In other words, it outlines the organization’s hierarchies. The organizational structure directly influences the success of any organization (Möbius& Miller, 2002).

Southwest Airlines operates under a functional organization structure model. In a functional organizational structure, the organization is structured depending on the type of job or specific roles of individuals within the organization (Ma, 2001). The most outstanding feature of functional organizations is the presence of departments or units that are charged with delivering specific tasks or accomplishing a particular goal. For example, an organization may have a marketing department, sales department, human resource department, research department and so forth, all of which are charged with accomplishing specified goals. The functional organization structure enables employees and the various departments identify clear objectives or purpose for their existence (Ma, 2001). Functional structure enables employees to gain thorough knowledge in their respective fields or departments. Functional structure enables an organization to produce standardized services and to increases efficiency in operations especially in case where there are limited products. On the flip side, the efficiency of a functional structure may be hindered by communication problems.

At the helm of the functional structure in Southwest Airlines seats chairman of the board, who is also the president and the chief executive officer. Immediately below, there are four departments each under a vice president. These departments include administration, operations department, legal department and a commercial department. Individuals heading these departments oversee the operations of other departments below them such as marketing department, customer services department, planning department and procurement department among others. In such a structure, poor communication resulting from any of the departments may lead to conflicts and eventually customer frustration. In order to enhance satisfaction among employees under functional structure, Southwest Airlines ensures that employees observe high standardization of their operations. In addition, employees are encouraged to try out different things. This type of organization structure also ensures that employees are directly involved in decision making in their respective departments.

Recommendation changes

Structure

A matrix structure would be best alternative for Southwest Airlines compared to the current functional structure which has certain inherent limitations. The matrix structure is a combination of functional structure and divisional structure. In a matrix structure, the organization frequently appoints teams to carry out specific tasks (Hall, 2012). The teams are appointed from employees based on their qualifications and irrespective of the department they work. Matrix structure would be more appropriate since it enhances sharing of information between team members when working on specific tasks. Thus, a matrix structure overcomes the limitations which surround a functional organization, such as divisions which may arise between various departments due to conflicts or disagreements in a functional organization (Hall, 2012). A matrix structure is most appropriate to organizations covering a wide geographical area such as Southwest Airlines. A matrix structure eliminates vertical communication and instead encourages horizontal communication within an organization. This facilitates a quicker flow of information in the organization since horizontal communication is quicker to vertical communication.

Process

Southwest Airlines has predominantly operated domestic flights in North America. Analysts have flawed this move terming the airline as slow in adapting new trends and processes. The airline does not offer flights to some of most attractive destinations that Americans prefer. For example, the airline does not have scheduled flights to the Caribbean Islands, Mexico, Cancun and Baltimore. As such, the airline has lost business to rival airlines that schedule flights to these attractive leisure destinations.

Technology

In terms of technology, Southwest Airlines has lagged behind over the recent years especially in updating its reservation software. The reservation system which the company have relied on for long could not support international reservations or code sharing. Code sharing enables exchange of reservations with other carriers in international flights. This emerged as a major problem when the company started operating international flights in 2012. For the company to expand into the international market, it must conduct huge investments in new reservation software that will enable code sharing and international reservations.

Alternative strategies for Southwest Airlines

1. Introduction of ancillary sources of revenue – ancillary sources of revenue can act as an additional source of revenue for Southwest Airlines. Currently, the airline depends on ticket sales as the only major source of revenue. Ancillary revenue or what is also known as merchandising can enable Southwest Airlines to not only earn extra revenue but also to diversify its revenue sources. For example, the airline can introduce a variety of items that passengers can purchase at will, such as meals. Other possible products may be accommodation services, car hire services, and special seat allocation, among others. The major benefit in introducing ancillary services is that majority of these services can be offered by third parties, giving the airline management time to concentrate on other issues. The major weakness is that introduction of these services may be relatively expensive to the airline.

2. Provision of quality services – Southwest Airlines have over the recent past reduced the seat pitch of most its airlines, contrary to new trends in the airline industry. Majority of airlines currently offer an extended legroom that allows passengers to seat even more comfortably. The main advantage is that this can attract more customers in the long run. On the flip side, each airline with more legroom can only carry few passengers. This may reduce the marginal profits enjoyed.

3. International operations – Southwest Airlines has predominantly operated in the domestic market. However, the airline cannot achieve further growth in the market as it is already in the maturity stage. This leaves the airline with investment in international market as the only viable alternative for further growth. Investment in international market will expose the airline to international competition, and require a huge capital outlay. On the other hand, it will offer great opportunities for growth.

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