Strategic Management: Southwest Airlines Case Study

Name

Course

Institution

Southwest Airlines Company is a Dallas-based passenger airline that concentrates its operations in the United States, with only a few destinations in the international markets (six destinations in the international market). The company was founded in 1967. Currently, its customer base has grown to over 20 million customers a year. According to a report from Bureau of Transportation Statistics, the company is currently the second largest domestic carrier in the United States, having transported over 8.569 million customers in 2014 (Smallen, 2014). Southwest Airlines came second to Delta Airlines, which recorded 8.850 million customers in 2014. Other close competitors such as American Airlines and the United Airlines recorded 7.104 million and 6.755 million passengers respectively in the same year. These figures reveal the high level of competition in the domestic market.

Southwest Airlines' dominance in the domestic market is driven by customer-focused strategic management practices. The company differentiates itself from competitors by offering top notch customer service. This has seen the company introduce a raft of promotions that are aimed at enticing more customers. For instance, the company has become the first in the U.S to offer free bags carriage. The airline also provides passengers with connectivity through satellite Wi-Fi, a mobile application that enables customers to book flights using their mobile phones and a reward program dubbed Rapid Rewards that enables customers to accumulate and later redeem points based on tickets purchased. This is in line with the company's mission which is to provide "highest quality of customer service…..". (Southwest, n.d). Through its vision statement, the company seeks to "become the world's most loved, most flown and most profitable airline." (Southwest, n.d). One of the strategies the company has applied to achieve its vision is reduction of flight charges, hence attracting more passengers.

External assessment

External Factor Evaluation matrix for Southwest Airlines

Key External Factors	Weight	Rating	Weighted Score
Opportunities			
1. More demand for national and international travel	0.07	4	0.28
2. Growth of cities due to population increase in the U.S. (3 million people per year) leads to high air travel demand.	0.05	2	0.10
3. Development of new models of airplanes which are more comfortable.	0.02	3	0.06
4. Majority of passengers prefer direct flights which the company is able to offer.	0.10	2	0.20
5. Increased business travel in the U.S.	0.06	4	0.18
6. New forms of advertising such as internet advertising may boost growth	0.03	2	0.14
7. Majority of passengers prefer easy travel procedures such as mobile booking	0.04	3	0.12
Threats			
1. Threat of terrorism which may impact international flights	0.14	3	0.45
2. Fluctuations in fuel prices which often leads to high operational costs	0.15	3	0.42
3. Introduction of new air regulations by the government which increase operational costs	0.10	4	0.40
4. Development of alternative means of transportation e.g. bullet trains reduces air travel demand.	0.08	3	0.24
5. Advances in technology may make air travel unnecessary.	0.06	2	0.12
6. Economic recession which may reduce demand for air travel	0.04	3	0.12
7. Rising security costs due to the need to acquire new security equipments.	0.06	2	0.12
Total	1.00		2.83

The EFE matrix indicates that increased demand for domestic and international travel will provide the next big opportunity for growth to Southwest Airlines. According to a report from the International Air Transport Association (2015), there has been a tremendous growth in demand for air travel over the years. In 2012, demand for air travel improved by 5.2%, and 5.6% for 2013. In 2014, a 5.9% growth rate was achieved. This trend is expected to continue over the next 20 years. The biggest threat faced by Southwest Airlines is fluctuation in oil prices which leads to high operational costs. According to (Nicas and Carey, 2014), this has forced the airline to discontinue shorter flights and to consider longer flights which are more fuel efficient. Terrorism will likely drive operational costs high for the carrier. This is because there is need for more airport security than any other time.

Competitive Profile Matrix

		Southwest		United		American	
Critical success factors	Weight	Rating	Weighted score	Rating	Weighted Score	Rating	Weighted Score
Management	0.09	4	0.36	3	0.27	3	0.27
Advertising	0.14	3	0.42	2	0.28	3	0.42
Market share	0.12	2	0.24	3	0.36	4	0.48
Customer service	0.14	4	0.56	1	0.14	2	0.28
Global expansion	0.07	1	0.07	3	0.21	3	0.21
Organizational structure	0.06	3	0.18	2	0.12	3	0.18
Security risks	0.09	3	0.27	2	0.18	3	0.27
Price competitiveness	0.09	4	0.36	3	0.27	3	0.27
Financial position	0.11	3	0.33	1	0.11	1	0.11
Customer loyalty	0.09	4	0.36	2	0.18	2	0.18
Total	1.00		3.07		2.12		2.67

The CPM results show that American Airlines is the closest competitor with a rating of 2.67. United Airlines also came close with a rating of 2.12. Southwest Airlines operates as a low cost model, and also maintains a no-frills policy which has enabled it to remain profitable as indicated by the high score of 3.07 in the CPM. The airline controls a large market share, owing to its low prices and loyalty from customers. In addition, the free-bag carriage policy has attracted many passengers to the airline (Nicas and Carey, 2014).

Internal assessment

IFE Matrix

Key Internal Factors	Weights	Rating	Weighted score
1. The airline has profitably operated for over 43 years (1972-2015).	0.10	4	0.40
2. Effective cost leadership strategy	0.09	4	0.36
3. High level of employee loyalty, with low employee turnover rates.	0.11	3	0.33
4. The company has a strong brand presence. The company appears in FORTUNE'S list of top admired companies.	0.11	4	0.44
5. Strong cash flow and financial position, with about $ 3.1 B in liquidities and $ 800 M	0.08	3	0.24

accessible as lines of credit.			
6. Attractive customer incentives such as the free bag flying.	0.10	3	0.30
Internal Weaknesses			
1. The company concentrates its operations to domestic flights	0.09	2	0.27
2. Southwest relies on only one producer of aircraft, currently using Boeing 737 and 717 series.	0.06	3	0.18
3. High number of permanent employees hence high operational costs	0.08	2	0.16
4. The carrier does not offer first class in its travel arrangements.	0.09	3	0.27
5. High indirect costs such as health care and workers' compensation	0.09	2	0.18
Total	1		3.13

Southwest's internal strength is hedged on a strong brand presence in the United States. The company has managed to create a strong positive image among many individuals in the U.S. The company is known as a low cost carrier, with quality services. In addition, the company has profitably operated for over 40 years. The financial stability has persisted even when other major airlines were making losses.

Financial ratio analysis

	Southwest	United Airlines	American
Liquidity ratios			
Current ratio Quick ratio	0.78 0.40	0.85 0.80	0.61 0.58
Profitability ratios			
Gross profit margin Operating profit Net profit margin	58.86% 4.43% 1.14%	61% 4.19% 1.33%	67.40% 5.62% 2.44%
Growth ratios			
Sales Net income	29.63% -61.22%	6.96% -29.56%	10.58% 44.01

The above financial analysis highlights the strong financial performance of Southwest Airlines compared to its biggest competitors, American and United Airlines. The operating profit of 4.43% indicates that Southwest is still making profits even after all expenses are deducted. Sales ratio of 29.63% indicates that the company is the most preferred among the three, with United having a sales ratio of 6.53% and American having 10.58%. In order to improve its competitiveness, Southwest Airlines should introduce business class and more flights to international destinations. This will ensure that it gains more customers.

References

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