

Southwest Airlines Company (SWA) Background Information

SWA began in 1967 under the leadership of Herb Kelleher. He created a transportation company founded on the principles of low fares, no frills, and limited cities to fly to within Texas. Scribbled on a napkin, these three cities were: Houston, Dallas, and San Antonio. Originally SWA was called Air Southwest Company. Mr. Kelleher literally was “off” and flying. Three existing airlines, unfortunately, filed a temporary restraining order to stop the creation of SWA: Braniff, Texas International, and Continental. It took three years for SWA to fight this legal roadblock. SWA won the right to fly in 1971 finally. Unfortunately, SWA was broke after fighting these legal battles. It lost $3.7 million in 1972. However, by 1978 it was one of the most profitable airlines in the country. A new airport in Dallas forced SWA to transport interstate. Government regulation through the “Wright” amendment allowed SWA to continue flying into Love Field in Dallas but at the cost of also flying into cities in four of the states bordering Texas. SWA did not stop there and by 1993, it was serving 34 cities in 15 states with low fares and frequent departures. Competitors refer to SWA as the “500-pound cockroach, too big to stamp out.”

Southwest is the largest domestic carrier by total passengers, carrying over 101.3 million passengers in 2009 and over 3,300 flights a day coast to coast. In 2009, the company ranked second in North America in terms of number of passenger carried, first being [Delta Air Lines](http://www.google.com/finance?q=NYSE:DAL) (American Airlines its other major competitor). Dominant market position provides a competitive advantage to the company over its peers in North America. As of 2009, it serves 68 cities in 35 states with its fleet of 537 Boeing 737 aircraft, of which 88 and 9 were under operating and capital leases, respectively. The remaining 440 aircraft were owned by Southwest. It has a remarkable 37 years in a row profitable operations, with total revenues in 1999 being $4.7 billion—an increase of 13 percent over 1998.

*Scary times are ahead unfortunately.*

Southwest has significant contractual obligations and commitments mainly with future purchases of aircraft, payment of debt, and lease arrangements. Southwest experienced a lowering of its credit rating from a “BBB+” to “BBB” based on lower demand in 2009. Both of these contributed issues had an impact on its ability to gain new financing as well as plans for expansion. As with all the airlines, Southwest experienced declining profits and margins due to the lowering of demands in travel beginning with 2007 – 2009. This had a direct effect on their net profit margins during this time. In 2009, the company derived only 1.1% of its revenues from freight operations, compared to 95.6% and 3.3% from passenger transport and other operations, respectively. Southwest continues to depend heavily on its passenger revenue and has no intention on increasing its cargo revenues. This makes its profit margins open to high risk in an environment with volatile fuel costs (although SWA has traditionally had success leveraging instability in fuel costs by buying oil and gas futures) and customers who are not ready or able to fly.

Southwest Airlines is currently the largest single purchaser of Boeing 737s. Southwest Airlines’ single aircraft strategy may make it dependent on Boeing. Southwest Airlines has always believed in conservative growth tactics which have helped them in the past but in today’s economy it needs to figure out a more aggressive approach to growth to keep in line with its competitors. They handle all the airline booking internally, but this does not lend itself to all people who use a search engine line Orbitz, Priceline, etc. SWA carries a small amount of freight and cargo because of government regulation of how much their planes are allowed to carry. There are no formal union-management structures or processes for consultation and representation beyond negotiations and grievance procedures although management informs union representatives of all company-wide developments.

*SWA Vision Statement*

*SWA does not have a vision statement.*

*SWA Mission Statement*

"*The mission of Southwest Airlines is dedication to the highest quality of customer service delivered with a sense of warmth, friendliness, individual pride, and company spirit.*"

*SWA Objectives*

1. *Use non-conventional models for lower costs.*
2. *Have fun together.*
3. *Treat employees as family.*
4. *Hire people who form the “fit.”*
5. *Involve employees.*
6. *Controlled, solid growth for the airline.*

*SWA “Higher-Order Strategic Themes” (Porter—Harvard Business Review)*

1. *Limited passenger amenities.*
2. *Short-haul, point-to-point routes between midsize cities and secondary airports.*
3. *Very low-ticket prices.*
4. *High aircraft utilization.*
5. *Lean, highly productive ground and gate crews.*
6. *Frequent, reliable departures.*

*Key Questions*

1. How does a situation analysis look like--develop a quick external SWA

marketing audit.

1. How does SWA promote their product/service in accomplishing their

organizational goals?

1. SWA is a customer of Boeing, especially the 737 models. What consumer

behaviors would you expect from SWA as an A&D stakeholder?