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Southwest Case Study

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## Opportunities

- 2.7% compound annual growth rate (CAGR) from 2016 to 2021 of U.S. per capita disposable income would likely increase air travel. IBISWorld predicts this will cause an 8.4% CAGR in annual growth from 2021 to 2026 (an increase of \$8.9 billion to \$115.2 billion in domestic airline industry revenue in 2022) (Kennedy, 2021).
- As the global economy recovers from the COVID-19 pandemic, the income of consumers is expected to rebound to previous levels and keep growing. As a result, “the number of global tourist arrivals is projected to increase an annualized 19.7% over the five years to 2026” (McGrath, 2021).
- The increased fuel efficiency of newer aircraft purchased by the industry will result in lower operating expenses, more satisfied stakeholders interested in ESG, and ultimately increase profitability for the industry.

## Threats

- The industry is projected to hire more workers to keep up with increasing passenger demand, which may result in higher profits. However, IBISWorld predicts that wages will increase at an annualized 8% for the next 5 years until 2026 (McGrath, 2021). Industry revenues need to consistently increase by at least that percentage to keep up with rising operating costs to deliver the same profitability.
- Despite modest consolidation in the domestic airline industry (-0.5% annualized growth from 2016 to 2021), significantly more businesses are expected to enter the industry to challenge incumbents, likely enticed by strong predictions of recovering and growing customer demand (Kennedy, 2021). An annualized growth of 5.2% from 2021 to 2026 is expected for new entrants in the domestic airline industry. This could threaten the profitability of incumbents and put downwards pressure on ticket prices across the industry.
- Continued oil price volatility due to secular trends of government regulation and ESG-focused investing by stakeholders will continue to threaten the airline industry. Companies should continue transitioning to fuel-efficient and eventually carbon-free jets so that their dependency on fuel (and thereby a large portion of their operating expenses) continues to fall.

## Measuring Key Success Factors

The following are key success factors for the airline industry:

- Competitive pricing for level of service offered*
- Optimum capacity utilization*
- Prompt delivery to market*
- Well-developed internal processes*
- Effective cost controls*

*f. Access to the latest available and most efficient technology and techniques*

These key success factors can be measured as follows.

### Competitive pricing for level of service offered

**Measure**—the dollar amount charged by airlines for a ticket for each type of service class (ex: economy, premium economy, business, first) for a given route (ex: JFK to LAX)

- If the pricing for a given route and service class is tightly centered around the industry average, then customers will have little choice to fare-shop
- If the pricing for a given route and service class is widely distributed from the industry average, then customers will have many choices to fare-shop

### Optimum capacity utilization

**Measure**—the load factor for a given time period (ex: 1 week) will show how much of the available seat-miles passengers use across all flights and routes within that time period. The load factor is calculated by finding the product of the following numbers—the number of flights in a given time period, the number of miles traveled for each flight, and the number of passengers flying in that time period for each flight—and then dividing that by the following product—the number of flights in a given time period, the number of miles traveled for each flight, and the number of total seats available for each flight.

- If the load factor is high, then airlines are efficiently utilizing their fleet for the given time period to satisfy customer demand and generate revenue. However, airlines should carefully monitor increasing load factors because if passenger demand increases available capacity, then airlines should scale their operations to slightly reduce load factors and satisfy passenger demand.
- If the load factor is low, then airlines are not efficiently utilizing their fleet for the given time period to satisfy customer demand and generate revenue. Airlines may need to downsize their operations to increase load factor and satisfy low passenger demand while remaining profitable.

### Prompt delivery to market

**Measure**—the number of delays (defined as any incident where the flight departed or arrived later than scheduled) differentiated by type (ex: maintenance issue, labor issue, etc.) for each route for a given time period (ex: 1 week) as a percentage of total flights for that route

- If the percentage is high, then airlines must carefully investigate the cause of delays and address them quickly
- If the percentage is low, then airlines must work to maintain that low percentage or reduce it further

### Effective cost controls

**Measure**—total operating expenses (including salaries & benefits, fuel, maintenance, airport-specific fees like landing fees, depreciation & amortization) per available seat mile (all for a given time period like 1 week). Available seat miles are calculated by multiplying the number of miles that all the airplanes in a given time period will be flying by the number of seats available for all those flights.

- If the proportion is high, then airlines must carefully investigate the source of high operating expenses and then decide if maintaining the status quo is adding enough value to justify the high percentage
- If the proportion is low, then airlines must work to maintain that low proportion or reduce it further

### Well-developed internal processes

**Measure**—the dollar amount of all ticket sales occurring through airlines' own websites as a percentage of all ticket sales (including channels such as travel agencies)

- If the percentage is high, then airlines are likely doing a good job of driving traffic to their website and customers are satisfied with using their website to purchase tickets, indicating well-developed internal processes
- If the percentage is low, then airlines are doing a poor job of driving traffic to their website and customers are not satisfied with using their website to purchase tickets, indicating poorly-developed internal processes

**Measure**—the number of available seat miles produced per employee, indicating how productive internal resources (employees) are at generating ASMs

- If the number is high, then airline employees are likely very productive, indicating well-developed internal processes
- If the number is low, then airline employees are likely not very productive, indicating poorly-developed internal processes

### Access to the latest available and most efficient technology and techniques

**Measure**—the amount of fuel used per available seat mile for a given time period like 1 week

- If the proportion is high, then airlines should analyze potential fuel savings by using more efficient engines and routes
- If the proportion is low, then airlines must work to maintain that low proportion or reduce it further

**Measure**—turnaround time for a given time period, which is the amount of time required to unload a waiting plane (ex: deplane passengers, their luggage, clean the plane, etc.) and load it for the next flight (ex: board new passengers, their luggage, a new flight crew, etc.)

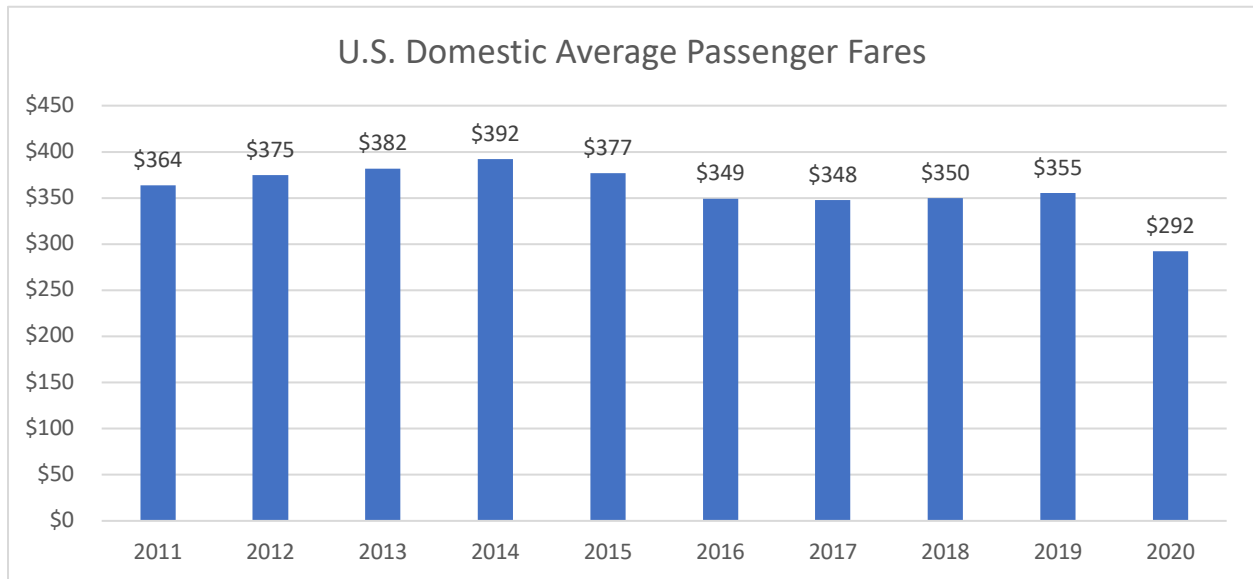
the amount of fuel used per available seat mile for a given time period like 1 week

- If the turnaround time is high, then airlines should investigate the cause for slow turnaround times, and address them quickly
- If the turnaround time is low, then airlines must work to maintain that low time or reduce it further

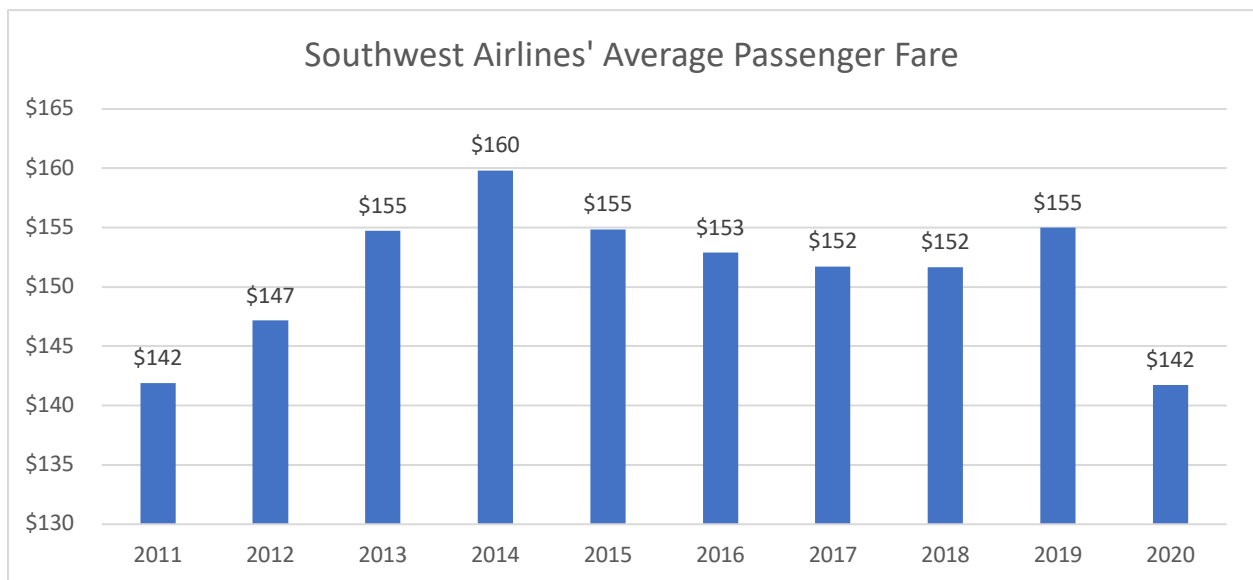
## Industry Averages for Key Success Factors & Southwest’s Performance

### Competitive pricing for level of service offered

- *Industry average* (Burgueño Salas, 2022)



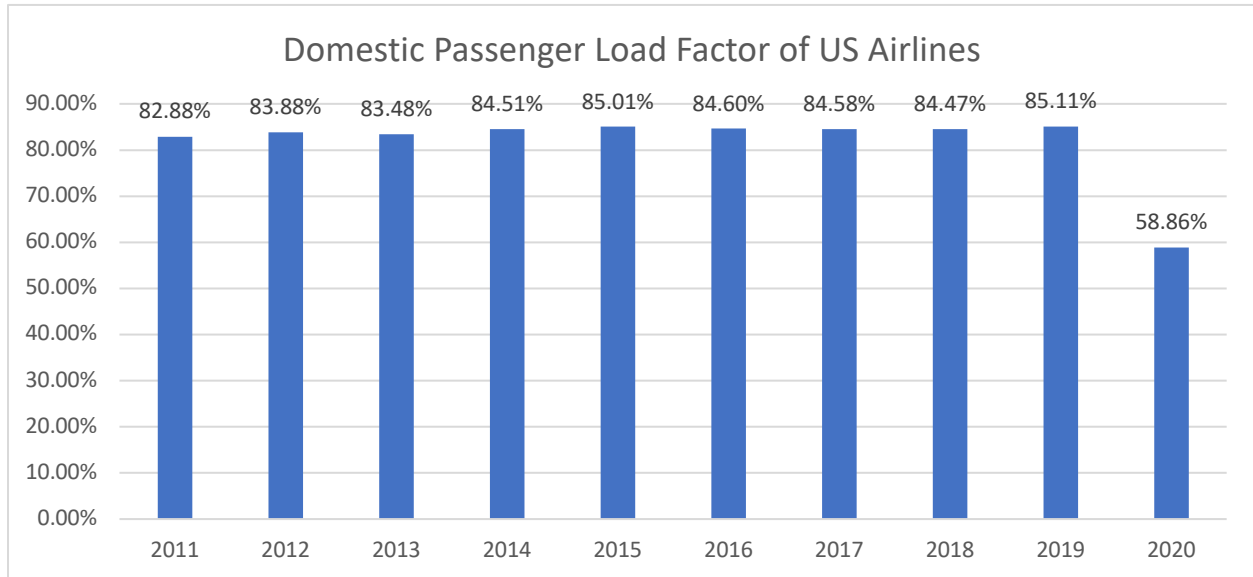
- *Southwest average* (Burgueño Salas, 2021a)



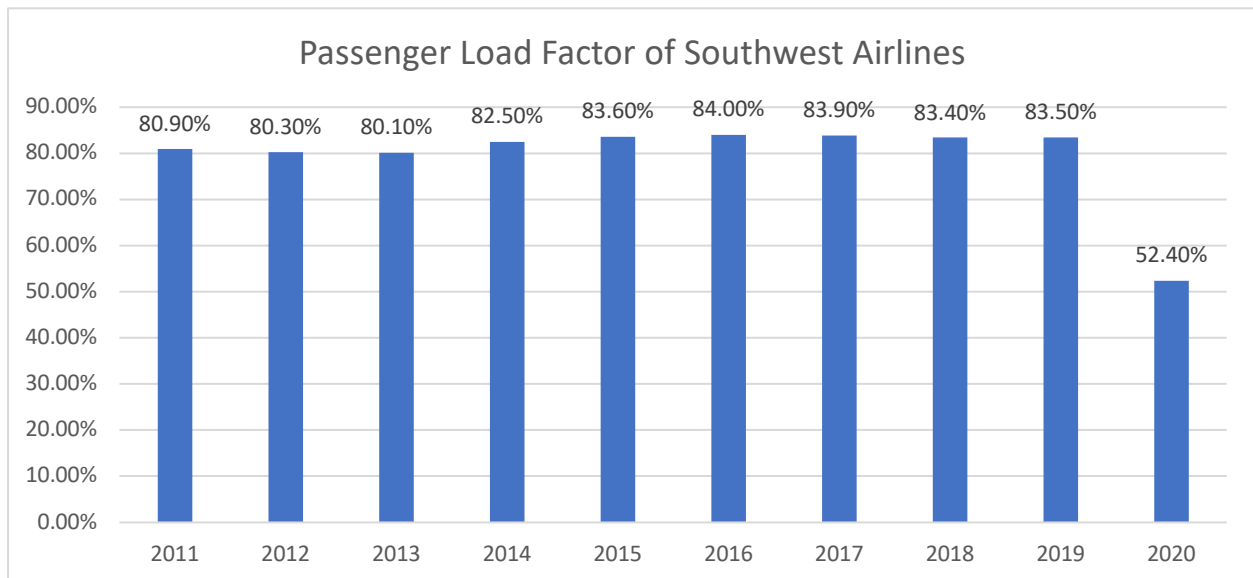
Southwest has consistently offered more competitive pricing than the industry when analyzing average passenger fares from 2011 to 2020. This indicates that competitive pricing is a strength of Southwest.

### Optimum capacity utilization

- *Industry average* (Burgueño Salas, 2021b)



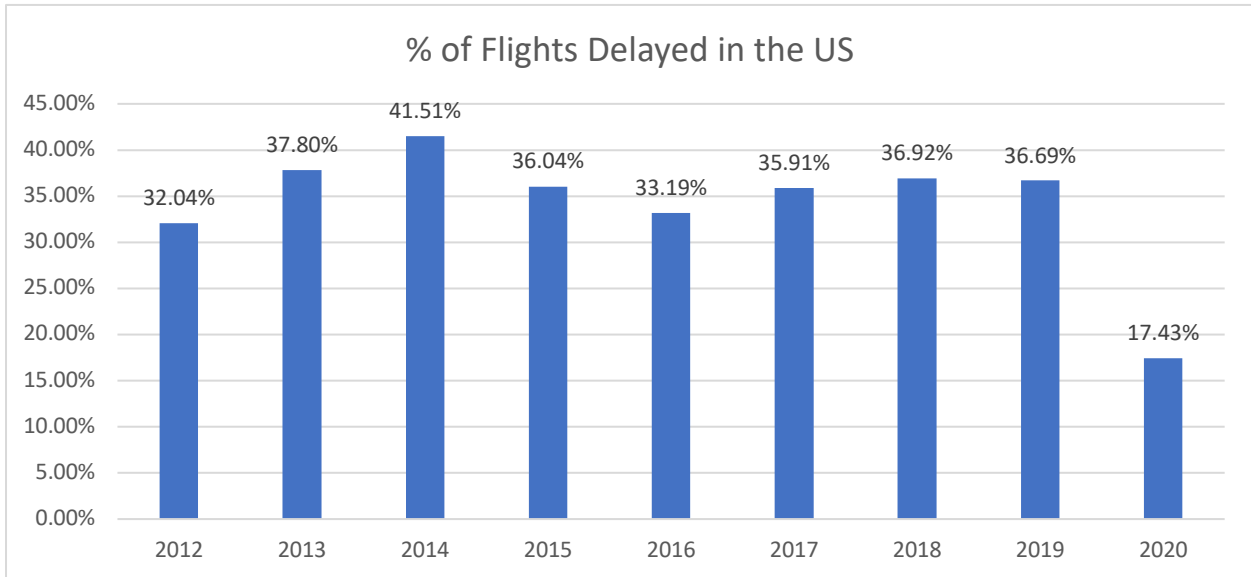
- *Southwest average* (Burgueño Salas, 2021c)



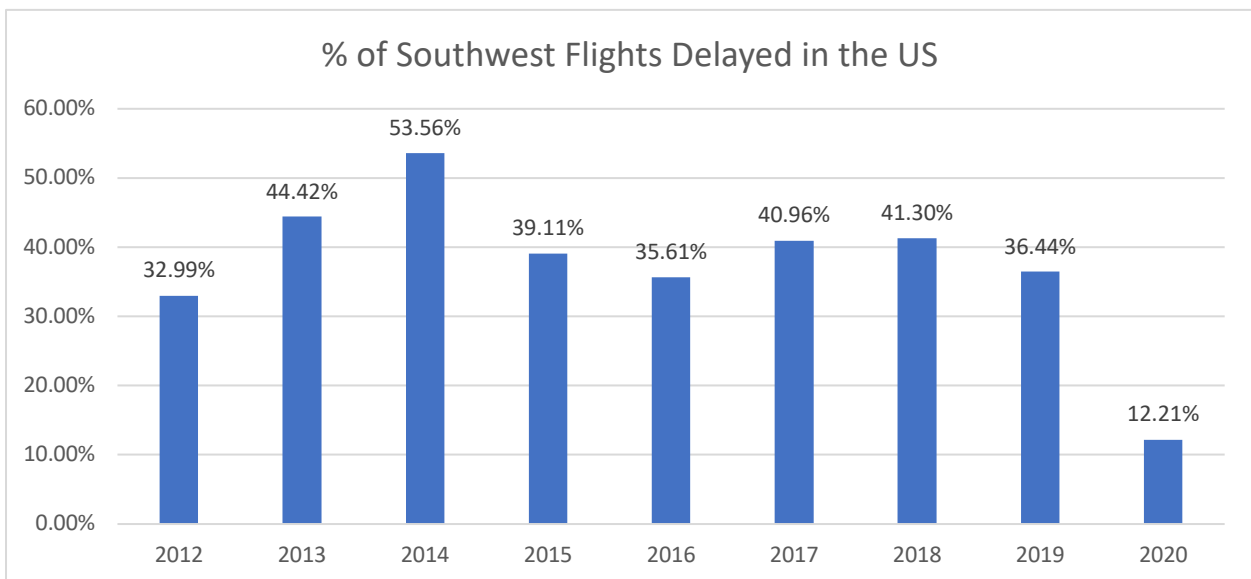
Southwest has consistently lagged behind its industry in having lower load factors from 2011 to 2020. This indicates that optimum capacity utilization is a weakness for Southwest.

**Prompt delivery to market**

- *Industry average (On-time performance - reporting operating carrier flight delays at a glance.2022)*



- *Southwest average (On-time performance - reporting operating carrier flight delays at a glance.2022)*

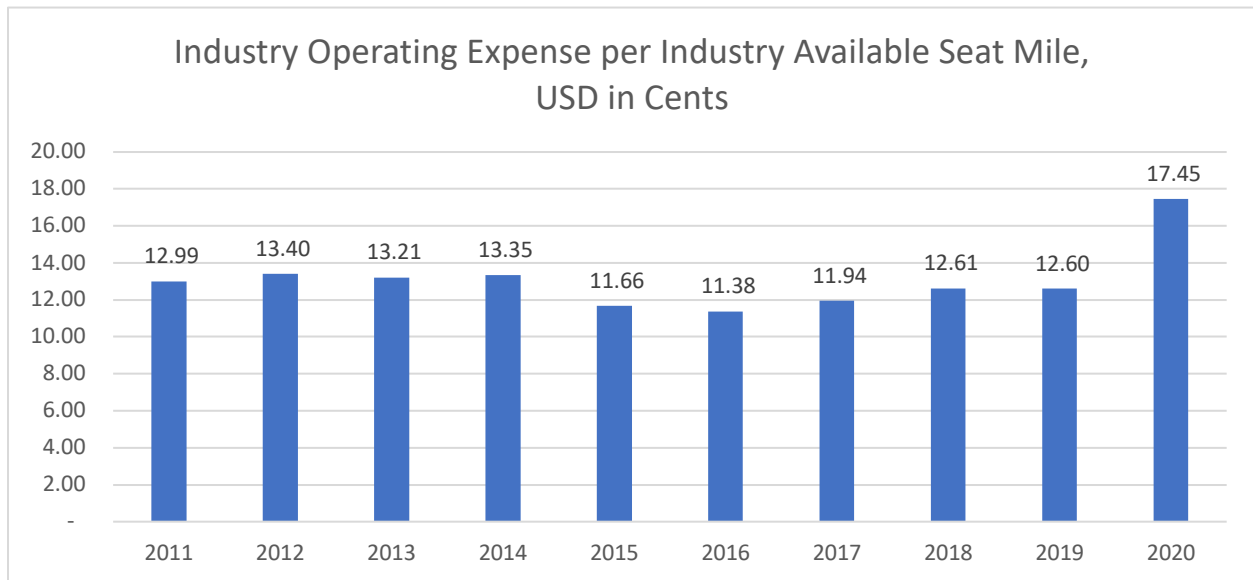




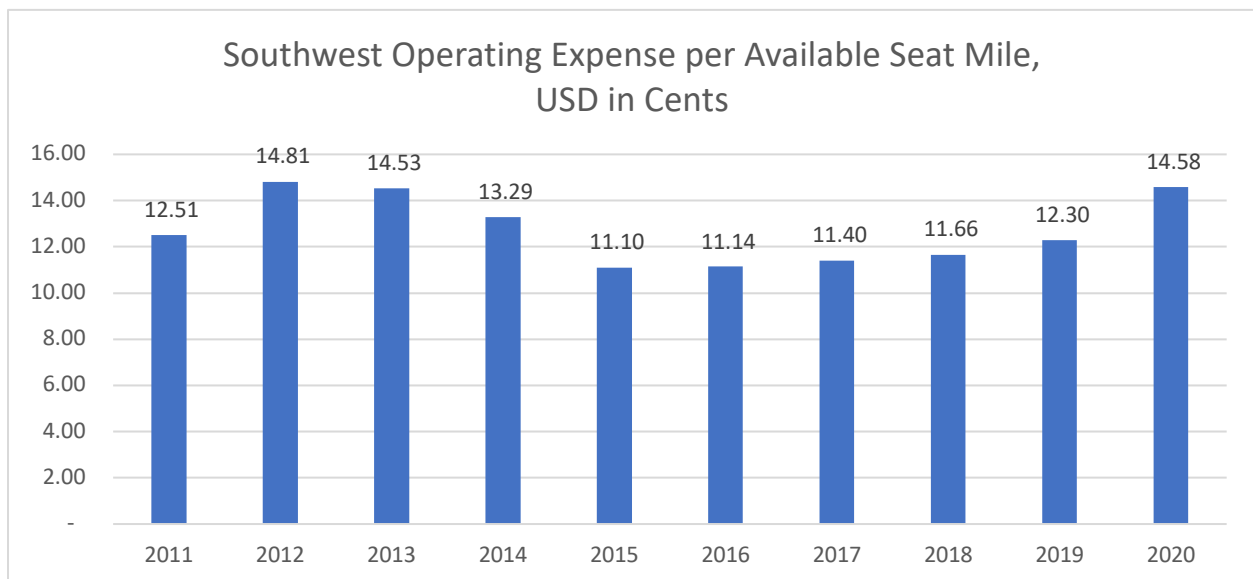
Southwest has consistently had more delayed flights than the industry average from 2012 to 2018. However, in 2019 and 2020, Southwest had slightly less delayed flights (as a percentage of their total flights in those years). This indicates that prompt delivery to market is not a strength of Southwest but may turn into one if it can continue to improve its flight punctuality.

**Effective cost controls**

- *Industry average* (Expenses and related.2021)



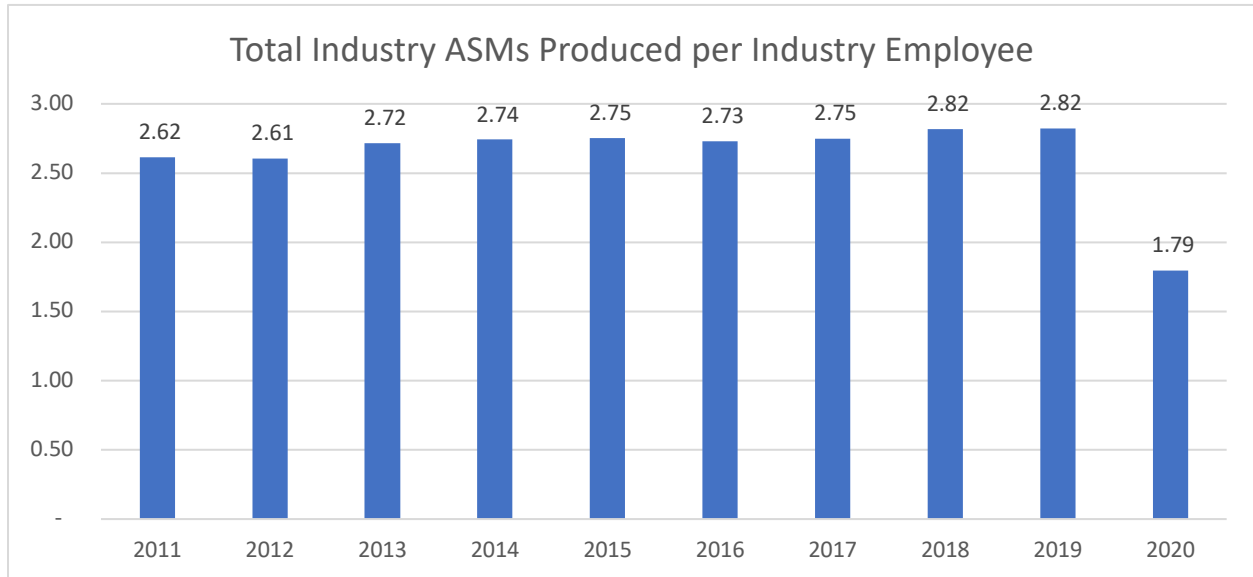
- *Southwest average* (Expenses and related.2021)



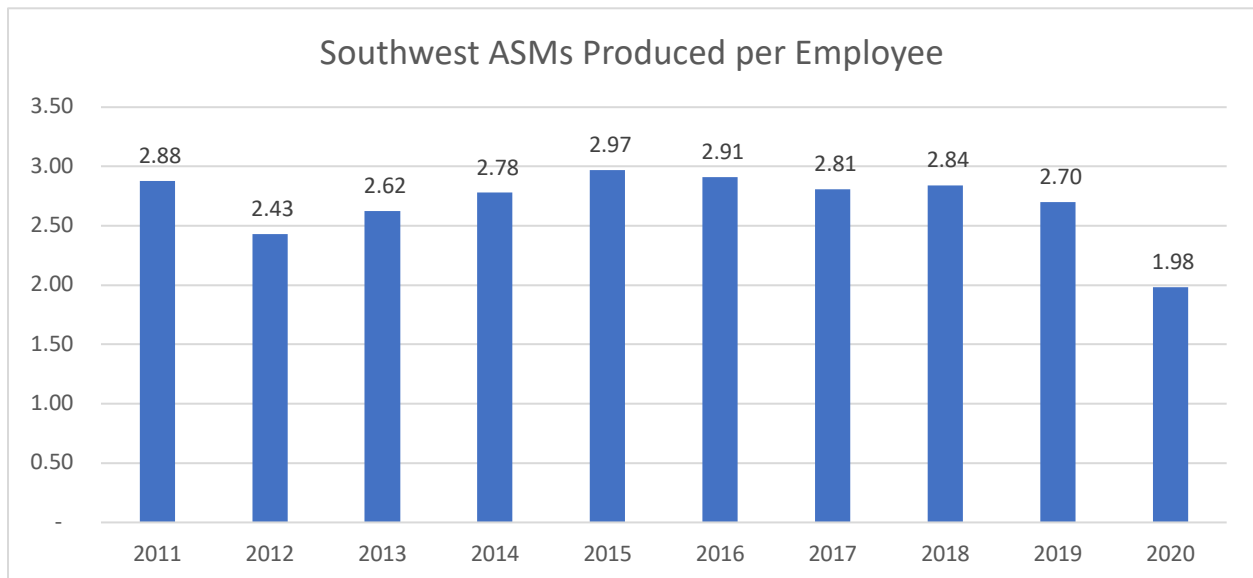
Despite having a higher operating expense per ASM in a couple of years, Southwest has consistently achieved a lower operating expense per ASM than the industry average. This indicates that effective cost controls are a strength of Southwest.

**Well-developed internal processes**

- *Industry average* (Employees productivity.2021)



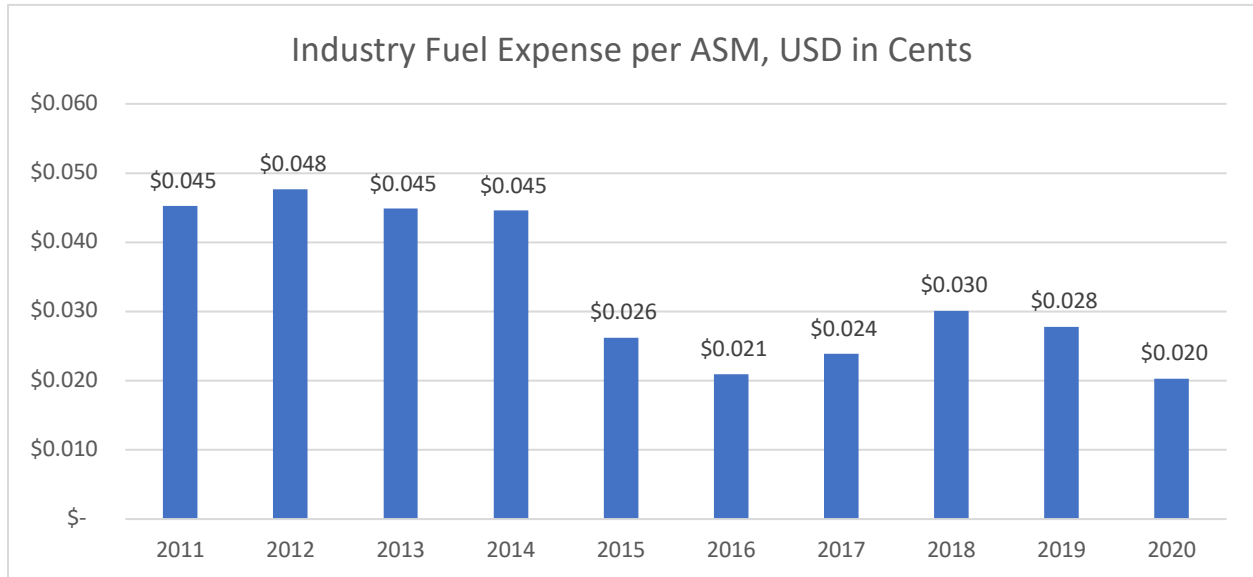
- *Southwest average* (Employees productivity.2021)



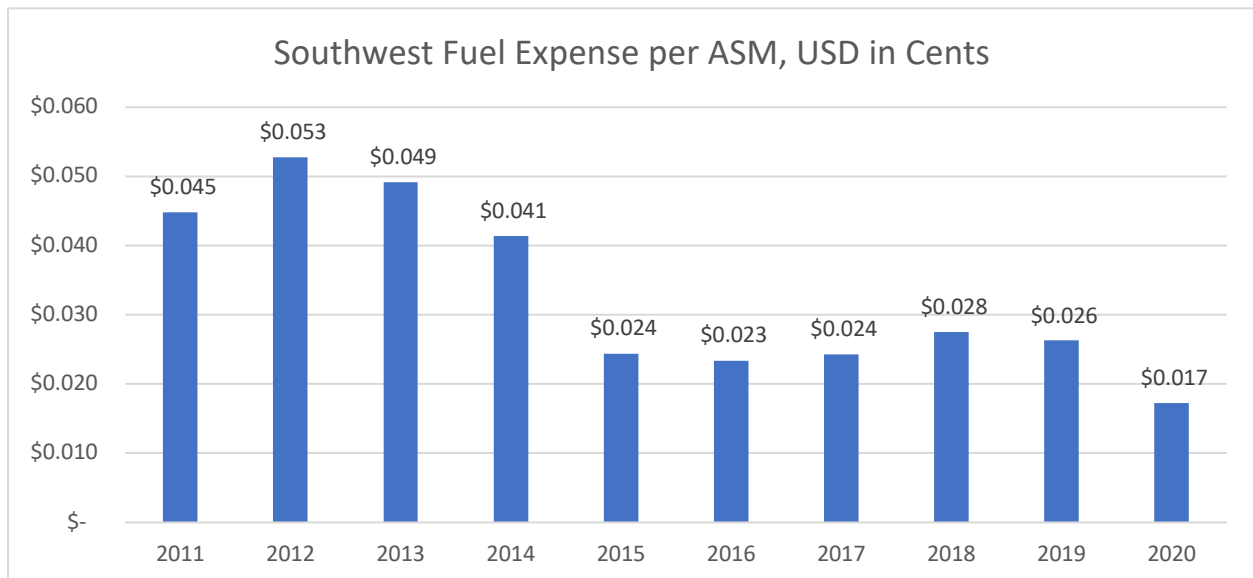
Southwest has largely maintained a higher ASM produced per employee from 2011 to 2020, but this behavior is not consistent. Therefore, Southwest likely needs improvement for their internal processes.

Access to the latest available and most efficient technology and techniques

- *Industry average* (Expenses and related.2021)



- *Southwest average* (Expenses and related.2021)



Though Southwest has not consistently achieved a lower fuel expense per ASM in the years prior to 2017, since 2017, Southwest has consistently achieved a lower fuel expense per ASM. This indicates that Southwest may now be accessing the latest and most efficient technology and techniques, which is a strength.

## Southwest's Vision, Mission, Values, and Purpose

Section citation: (Purpose, vision, and the southwest way.2022; Proven business strategy.2022)

### Vision

To be the world's most loved, most efficient, and most profitable airline

### Mission

Southwest will provide a stable work environment with equal opportunity for learning and personal growth. Employees will be provided the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Southwest Customer.

### Values

#### Me

*How I Show Up*

#### **Pride**

- Have a strong work ethic
- Take initiative
- Be accountable

#### **Integrity**

- Act like an owner
- Choose to do right
- Be courageous

#### **Humility**

- Don't take yourself too seriously
- Keep perspective
- Don't be a jerk

#### We

*How We Treat Each Other*

#### **Teamwork**

- Practice civility
- Embrace Team over self
- Be inclusive

#### **Honesty**

- Speak up
- Be transparent
- Tell the truth

#### **Service with LUV**

- Practice Hospitality
- Live by The Golden Rule
- Don't be rude

**Southwest***How Southwest Succeeds***Efficiency**

- Don't make the easy hard
- Keep costs low
- Stay agile

**Discipline**

- Be safe
- Be focused
- Be reliable

**Excellence**

- Get results
- Win the right way
- Kick tail

**Purpose**

Connect People to what's important in their lives through friendly, reliable, and low-cost air travel.

**VRIN Analysis****Employees & Company Culture**

- **Valuable**
  - Southwest strives to be an excellent company to work for, for its employees. Its promise as a company is: "Southwest will provide a stable work environment with equal opportunity for learning and personal growth. Employees will be provided the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Southwest Customer" (Purpose, vision, and the southwest way.2022).
  - This promise is especially valuable in tough times (ex: recessions and pandemics) where there is much uncertainty in the industry. Employees feel valued at Southwest. They feel that the company is loyal to them, so they, in turn, are loyal to the company. This loyalty enables the company to provide excellent customer service, which is valuable in generating and maintaining recurring revenue from loyal customers.
- **Rare**
  - A company's culture and employee relations are unique to each company. It is rare for other companies to possess these resources or at least to use them in the same way to generate the same great results.
- **Costly to imitate**
  - Other companies would have to spend a lot of time, money, and effort researching the exact dynamic of employer-employee relations, management styles, and other parts of Southwest's employee and culture resources before competitors could utilize the resources in the same way.
  - Southwest's culture largely developed due to the personal leadership style of its founder, Herb Kelleher, and without his personal advice and guidance, other

companies would likely fail to imitate Southwest's style in any meaningful and cost-effective way.

- **Nonsubstitutable**
  - There is no substitute for Southwest's superb employee relations and culture, as it has developed over decades. It is firm-specific knowledge, i.e., unique to Southwest.
- **Competitive Advantage?**
  - Southwest's employee relations and its unique culture are definitely a competitive advantage for the company due to it being valuable, rare, costly to imitate, and nonsubstitutable.

### Aircraft Fleet & Acquiring New Aircraft

- **Valuable**
  - Southwest maintains a fleet of Boeing 737 aircraft, of which the company had 718 planes as of December 31, 2020 (*Southwest airlines annual report for 2020.2021*). This homogenous fleet is valuable for Southwest in ensuring consistency for pilots, flight crew, maintenance staff, and other employees. The employees will know what to expect from the entire fleet, and as a result, there will be a much shorter learning curve for onboarding, as well as more efficient and timely maintenance.
- **Rare**
  - Obtaining Boeing 737 aircraft is not rare, as many of its competitors in the industry also maintain aircraft of that type in their respective fleets. Given the existing low-interest-rate environment, leasing and financing costs have hardly ever been lower, enabling more companies to be able to access these aircraft.
- **Costly to imitate**
  - Aircraft like Boeing 737's are fairly standardized regardless of the purchaser, i.e. even though some customizations may be made to the plane by each individual airline that is purchasing or leasing the plane, the plane itself is mostly the same. Therefore, having a fleet of these aircraft or acquiring new ones does not present a cost barrier in terms of onboarding them to suit individual airline needs.
  - Furthermore, as explained above, the current low-interest-rate environment also ensures that the cost of obtaining the planes themselves in terms of leasing or financing are fairly low.
- **Nonsubstitutable**
  - There are substitutes to Boeing 737's, mostly from Boeing's chief rival, Airbus. However, suppliers like Boeing aim to negotiate long-term orders with their customers and offer some customization abilities to limit the substitutability of products.
  - Given Southwest's long-standing commitment to its Boeing 737 fleet, it would be difficult for Southwest to diversify its aircraft suppliers without adding a significant

learning curve for its pilots, flight crew, maintenance employees, and others to get used to the new planes.

- **Competitive Advantage?**
  - Southwest's aircraft fleet and process of acquiring new aircraft are not a competitive advantage for the company due to it being valuable, but not rare, costly to imitate, nor nonsubstitutable. This resource would help Southwest achieve competitive parity.

## Customer Loyalty

- **Valuable**
  - Southwest's exceptional customer service and affordable ticket prices cause customers to come back to the company for future air travel needs over and over again. This adds value by ensuring a steady revenue stream for Southwest.
  - In 2020, Southwest customers redeemed loyalty points to book award flights, which comprised 15.8% of all revenue passenger miles flown. In 2019, the metric was 14.1% and in 2018 it was 13.8%, indicating strong growth with each year (*Southwest airlines annual report for 2020.2021*).
- **Rare**
  - Though other airlines also have customer loyalty programs, they do not all generate the same level of enthusiasm in their customers as Southwest does. In other words, Southwest's customer loyalty program promotes more loyalty than its competitors' programs.
  - For example, United Airlines' customer loyalty program generated redemptions equal to 6.2% of its revenue passenger miles in 2020, and 7.2% in 2019 (*United airlines annual report for 2019.2020; United airlines annual report for 2020.2021*).
- **Costly to imitate**
  - Customer sentiment is hard to positively impact, as it is built over time and at each touchpoint a customer has with the company. Southwest's level of service is hard to imitate if its competitors have a very different culture and employee relations (as mentioned above).
- **Nonsubstitutable**
  - There is no substitute for Southwest's customer loyalty because it is developed over time and shaped by unique experiences individual customers have with employees and agents of Southwest.
- **Competitive Advantage?**
  - Southwest's customer loyalty is definitely a competitive advantage for the company due to it being valuable, rare, costly to imitate, and nonsubstitutable.

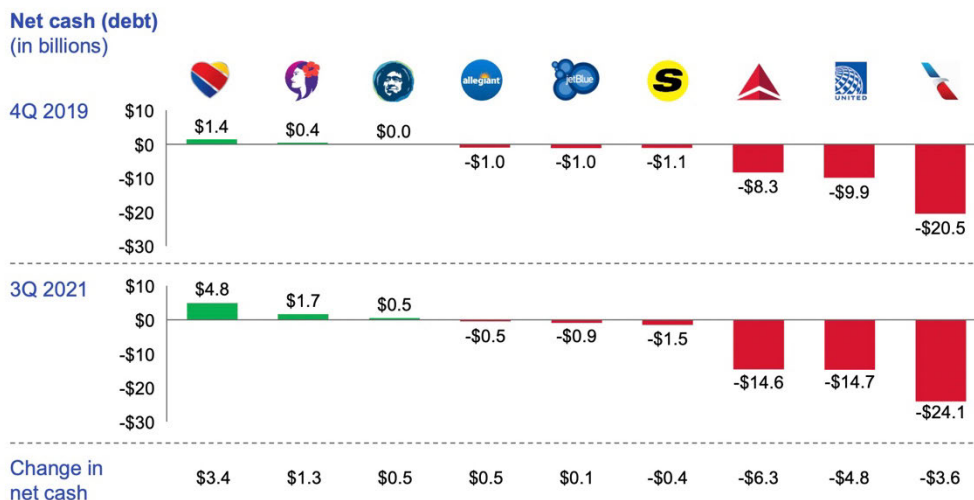
## Financial Position / Balance Sheet Composition

- **Valuable**

- Southwest’s prudent financial management enabled it to have a strong balance sheet, rendering it more capable to withstand any shocks like the pandemic. It was the only company in the industry to have a huge net cash position after the pandemic. In fact, the company’s position increased by \$3.4 billion to \$4.8 billion as of Q3 2021 (*Southwest 2021 investor day presentation.2021*).
- This strong financial position is valuable to Southwest because it enables them to not only withstand negative shocks but also capitalize on expansion opportunities in terms of routes and new, efficient aircraft.
- **Rare**
  - This resource is very rare in the industry. According to Southwest’s December 2021 investor presentation, it is the industry leader in terms of net cash holdings, ensuring a competitive advantage:

### Strong net cash position

Our net cash position increased \$3.4 billion during the pandemic, widening the gap to other U.S. carriers



Page 20 Note: Net cash position is calculated as the sum of cash and cash equivalents and short-term investments, less the sum of short-term and long-term debt. Source: Company filings



- **Costly to imitate**
  - Other companies have to either generate large cash flows to pay off debt or negotiate debt forgiveness to achieve a positive net cash position like Southwest. Either scenario is likely to cost competitors even more time, money, and effort given the large negative net cash positions they currently have.
- **Nonsubstitutable**
  - The dynamics of Southwest’s prudent financial management are unique to the company, and this success has allowed Southwest to be the only company to consistently return a profit for the last 47 years.



- **Competitive Advantage?**
  - Southwest's prudent financial management techniques and its resulting strong financial position are definitely a competitive advantage for the company due to it being valuable, rare, costly to imitate, and nonsubstitutable.

## Value Chain Analysis

### Support Functions

#### Finance

Southwest adds value through its finance activities by acquiring and preserving large amounts of capital to invest in expanding its business, which attracts new customers, generates new revenue, and can also reduce costs through more efficient resource usage. Its prudent financial management, as mentioned in the VRIN and SWOT analyses, enables the company to have a strong balance sheet capable of sustaining responsible growth.

#### Human Resources

Southwest adds value through its human resources activities by attracting and retaining talent that becomes an important part of Southwest's culture, generating excellent levels of customer service, translating to revenue growth. The popularity of Southwest among potential job candidates is a testament to the company's strong initiatives in this space.

#### Management Information Systems

Southwest adds value through its management information systems activities by undertaking new digital initiatives to analyze and act on customer-, supplier-, and competitor-provided big data. The management team of Southwest realizes the importance of data-driven decision-making and has committed to revitalizing its revenue management system and direct-to-consumer digital platforms (*Southwest 2021 investor day presentation.2021*).

## Value Chain Activities

### Supply-Chain Management

Southwest adds value through its supply-chain management activities by acquiring and maintaining its fleet of Boeing 737 in a focused manner so as not to expand too quickly while still satisfying growing customer demand. The company's commitment to reducing fuel consumption by operating more fuel-efficient Boeing 737's will lead to less reliance on the fuel markets (and fuel prices), offering steadier ticket prices for customers. This stability as well as this commitment to be a more sustainable company may attract even more customers.

### Operations

Southwest adds value through its operations activities by minimizing the time spent on maintenance, improving turnaround times, and quickly reutilizing planes to fly another route. By decreasing turnaround times, the company adds value to customers by increasing the frequency of flights, a service that customers desire.

### Distribution

Southwest adds value through its distribution activities by maintaining and adding to its existing e-commerce site for direct-to-consumer ticket sales. This strategy simplifies the ticket-buying process for consumers, granting them better ease of use and reducing frictions in the buying process. This leads to more satisfied consumers.

### Marketing & Sales

In addition to the e-commerce activities mentioned above, Southwest's push for increasing corporate travel customers adds value by enabling business travelers access to Southwest's nonstop service model rather than the hub-and-spoke model used by many of its competitors, saving business travelers valuable time in transit.

Southwest's customer loyalty program, as mentioned before, is a phenomenal value add, as evidenced by a significantly higher percentage of revenue passenger miles coming from the loyalty program compared to its competitors.

### Follow-Up Service

Southwest adds value through its follow-up service activities by inviting all customers to join its loyalty program for free, keeping them updated with news and offers. In addition, the company solicits feedback from customers and contacts them to ensure their experience was as great as it could be. Southwest's hospitality encourages customer loyalty and ensures many repeat customers use the company for their air travel needs.

Southwest can increase customers' willingness to pay by continuing to reduce delays, ensure faster service, and offer more routes to satisfy customer demand. Business customers especially care about reaching the destination as fast as possible, so the company can expand into this submarket by further reducing travel times.

## SWOT Analysis

### Threats

- Delayed delivery of new aircraft, specifically the large order of 234 Boeing 737 Max 7 planes and / or the order of 149 Max 8 planes, could hurt Southwest by limiting route expansion and Southwest's goals of scaling its reach, which would limit the number of passengers flown, directly impacting profitability by preventing top-line revenue growth (Josephs, 2021).
- Southwest depends on the availability of jet fuel at reasonable prices to continue to fly their planes. Spikes in fuel prices can severely hurt profitability by raising operating expenses of the company. Given the fast-moving nature of commodities and futures markets, Southwest may not have enough time to react to a spike in fuel prices by raising ticket prices if lots of passengers have already bought the tickets for the remaining ASMs for a given period. "According to the International Air Transport Association, jet fuel price was US\$182.85 per barrel as of April 9, 2020, as compared to US\$182.9 as of April 01, 2020,

which increased 0.5% one week ago. Such an increase in jet fuel price could affect the company's overall profitability" (Southwest airlines co SWOT analysis.2022).

## Opportunities

- Given Southwest's existing presence in the international airline industry through its flights to the Caribbean and Mexico, the company already has experience in dealing with the unique challenges of operating in this international space. As mentioned in the opportunities for the industry as a whole, the growing international middle class presents new opportunities for a lower-cost airline like Southwest to gain market share with these types of passengers by expanding its international routes.
- Southwest is expanding its strategy of catering to more business travelers, which can increase the revenue per ASM earned by the company due to the more price inelastic nature of business travel purchases. "In October 2020, the company and Amadeus announced to expand their partnership to offer for business travel through the Amadeus Travel Platform," indicating Southwest's commitment to this strategic expansion in types of customers served (Southwest airlines co SWOT analysis.2022).

## Weaknesses

- Given Southwest's already lower-than-industry-average passenger load factor (as shown in the key success measures section), it needs to maintain a tight grip on its operating expenses. In fiscal year 2020, while the pandemic raged on, the company experienced declines in passenger revenue mostly due to government-enforced capacity restrictions. These resulted in Southwest experiencing "revenues of US\$9,048 million, with an annual decline of 63.1%, representative of a negative CAGR of 18.3% during 2016-2020. In FY2020, the company reported an operating loss of US\$3,816 million, as compared to operating income of US\$2,957 million in FY2019" (Southwest airlines co SWOT analysis.2022).
- Southwest's concentration in having only Boeing 737 aircraft, which are limited to mid-range routes, may hinder the company's route expansion plans. Given the aforementioned global growth in customers to be experienced by the industry, Southwest may miss out on capturing market share by not being able to operate longer routes due to its mid-range fleet.

## Strengths

- Southwest's prudent financial management enabled it to have a strong balance sheet, rendering it more capable to withstand any shocks like the pandemic. It was the only company in the industry to have a huge net cash position after the pandemic. In fact, the company's position increased by \$3.4 billion to \$4.8 billion as of Q3 2021 (*Southwest 2021 investor day presentation.2021*).
- Southwest took advantage of deferred travel plans by people in the pandemic by opening 70 new routes since June 2020, increasing leisure market breadth by 32%, and continuing

to operate more nonstop markets than any other airline (*Southwest 2021 investor day presentation*.2021). This expansion will allow Southwest to use the existing strength of its network to serve these new routes while generating more revenue.

One of Southwest's weaknesses is having their fleet be completely concentrated in Boeing 737 jets. Given ongoing challenges with Boeing's manufacturing and safety check processes, and Southwest's large outstanding orders with Boeing, Southwest is poorly positioned to handle an external shock such as Boeing failing another safety check issued by the government. Southwest should consider diversifying its fleet to a small extent so that any potential delays or other issues with Boeing's manufacturing and safety elements are minimized.

One of Southwest's greatest strengths is its best-in-industry balance sheet, especially in terms of cash-on-hand. The company can leverage this position to borrow money to expand its routes internationally, taking advantage of a growing middle class that would be interested in utilizing a low-cost carrier like Southwest. The company's large cash position and investment-grade credit rating may enable it to borrow money at a cheaper rate than its competitors, giving it a financial advantage.

## Primary Strategic Issue of Southwest

Southwest is a strong company, with many metrics indicating that it is leading the industry. However, it consistently lags its industry in passenger load factor, a symptom of poor capacity utilization. Solving Southwest's poor capacity utilization can further propel the company ahead of its competitors in terms of profitability.

## Potential Recommendations

- **Increase the top-level variable of passenger load factor, i.e. increase the number of passenger seat miles flown in a given time period**

- Expanding on Southwest's new initiative to attract more business travelers will help consistently increase the number of passenger seat miles flow throughout a year because business travel is not as seasonal as regular passenger travel.
- Offer sales promotions to encourage more travel throughout the year so flights are more full, increasing the number of passenger seat miles flown especially during seasons where less people travel for vacation
- **Decrease the bottom-level variable of passenger load factor, i.e. decrease the total number of available seat miles in a given time period**
  - Slow the expansion of Southwest's fleet to allow demand to catch up more to expanding supply by spreading out plane orders over a larger time horizon
  - Consider repurposing less popular flights during off-peak seasons to serve more popular routes
- **Acquire smaller, regional airlines with existing strong customer bases to increase passenger load factor**
  - Southwest has the best balance sheet in terms of net cash position in the industry and could afford to undertake certain strategic acquisitions to quickly expand market share in growing regional markets
  - Southwest should be careful to effectively integrate the employees and existing systems of the target company into its culture so that customers have a seamless transition and the reputational integrity of Southwest is maintained in terms of excellent service

In retrospect, Southwest Airlines is in a strong position compared to its industry peers but can benefit even further from increasing its passenger load factor, ensuring optimal capacity utilization. The best way to achieve this is to increase the passenger seat miles flown in a given year by diversifying its customer base to include business travelers. So far, business travel has been a small part of Southwest's revenue but focusing on the nonstop service aspect of its business model can attract time-conscious but perhaps price-inelastic business travelers. This combination of characteristics can ensure that Southwest's passenger seat miles flown remains consistent throughout the year, without drop-offs influenced by seasonal demand, thereby helping increase Southwest's overall passenger load factor on an annual basis. The company has the culture and financial resources in place to support this strategic expansion. By implementing this recommendation, Southwest will keep growing and continue to outperform its industry peers.

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