

The Airline Industry: A Strategic Overview of Southwest Airlines



**SOUTHWEST
AIRLINES**

**Terra Thompson
Ohio Dominican University**

The Airline Industry: A Strategic Overview of Southwest Airlines

Terra Thompson

Ohio Dominican University

The Airline Industry: A Strategic Overview of Southwest Airlines

Table of Contents

The History of Southwest Airlines	3
Target Market and Business Model	3
Current Product	4
Southwest's Culture	5
Mission Statement	5
Mission and Corporate Culture	6
Employees and the Mission	7
The Importance of the Mission Statement and Corporate Vision.....	7
Strategic Analysis	8
External Environmental Analysis (EFE) for Southwest	8
EFE Opportunity Results	8
EFE Threat Results	9
EFE Total Weighted Score	10
Income Statement.....	11
Internal Environment	12
IFE Strength Results	12
IFE Weakness Results	13
Total IFE Score	14
SWOT Analysis	15
New Strategies for Southwest.....	16
Conclusion and Future Recommendations	18

References	19
------------------	----

Appendix I

Table 1.1	23
-----------------	----

Table 1.2	24
-----------------	----

Appendix II

Table 2.1	25
-----------------	----

Table 2.1	27
-----------------	----

Appendix III

Table 3.1	29
-----------------	----

Table 3.2	30
-----------------	----

The Airline Industry: A Strategic Overview of Southwest Airlines

The History of Southwest Airlines

This section outlines a brief history of Southwest Airlines. Southwest Airlines has been a competitive leader in the airline industry since the company's inception. The firm was originally incorporated as Air Southwest Co. on March 15, 1967 by businessmen Herb Kelleher and Rollin King (Southwest Airlines, 2011). In March 1971, Air Southwest President Lamar Muse sold promissory notes raising an excess of \$1.25 million to cover aircraft and start up cost (Southwest Airlines, 2011). Shortly thereafter the company changed its name to Southwest Airlines Co. (Southwest). The primary aspect of the firm's business model is to eliminate the unnecessary frills offered by competitors, thus reducing the cost to customers. Southwest also reduced cost by focusing on a smaller number of routes and only flying one type of aircraft, the Boeing 737. Choosing only to employ one type of aircraft was a very strategic choice by Southwest. "A standardized fleet of 737 aircraft boosts the efficiency and maintenance" (Porter, 1996, pg. 64). Although the airline scaled back some areas of operations, the firm upgraded other service areas, in particular customer service. Southwest has created a niche market in the aviation industry where the firm currently dominates.

Target Market and Business Model

The following section describes Southwest Airlines' target market and the business model the firm created to serve its market. In the article *What Is Strategy*, Michael Porter states, "Southwest has staked out a unique and valuable strategic position based on a tailored set of activities" (1996, pg. 64). Kelleher and King wanted to create a low-cost aviation solution that would still provide quality service. The business model was created to provide competitive pricing without cutting back the quality of the overall experience for both customers and

employees. Southwest's aspiration to excel is reflected in the company's mission statement. The statement proclaims, "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" (Smith, 2004, pg. 26). For over 40 years, Southwest has been able to remain true to the firm's mission and succeed. According to an October 2009 company overview, Southwest "provides point-to-point, low-fare services in the 64 cities in 32 states throughout the US. It is headquartered in Dallas, Texas and employs 35,499 people" (*Datamonitor*, 2009, pg.4).

Current Product

The following section covers the current product and delivery methods of Southwest Airlines. Excellent customer service is just one way Southwest continues its stronghold on the niche market of low-cost commercial aviation. Another way the airline has remained on top is by absorbing the most threatening competition. On September 27, 2010, Southwest acquired AirTran Airlines (Southwest Airlines, 2011). AirTran Airlines was a low-cost airline from the Orlando-based firm AirTran Holdings. The airline can trace its roots back to the foundation of the 1992 company ValuJet Airlines in Georgia. Since then, AirTran has had success offering budget fares to the public. AirTran's achievements in the low-cost aviation niche made acquisition of the airline imperative for Southwest. This merger not only eliminated competition but also broadened Southwest's service base. *BusinessWeek's* article about the deal stated, "The acquisition, only the third in Southwest's history, would give the discounter its first service in Atlanta, a Delta Air Lines fortress for decades, and more flights from New York and Washington D.C." (Bachman, Schlangenhein, & Hughes, 2010, pg. 22). With the AirTran merger completed, Southwest is now looking toward the future and becoming the top service provider of low-cost airfare in the United States.

Southwest's Culture

This section highlights the positive features of Southwest's corporate culture. The firm's success can be largely attributed to Southwest's ability to create value in the service and within the corporate culture. A Southwest Airlines case study claims, "low turnover and high productivity suggest that the airline creates significant value for employees" (Hallowell, 1996, pg.513). The culture encourages communication and team cooperation among employees. Management and top-level executives support and nurture the culture of collaboration. Hallowell's case study asserts that Southwest gains higher production and employee loyalty by making the work environment enjoyable for everyone.

Company-Sponsored parties are frequent. Employees are encouraged to dress in costumes for holidays; the CEO dressed as a bunny once to serve Easter eggs to passengers...FUN and LUV (the companies core value on the way individuals should treat each other) produce commitment that changes employees' perception of their relationship with the airline which in economic terms reduces their opportunity cost (Hallowell, 1996, pg. 521).

Southwest encourages the employees to enjoy the working environment, which leads to better customer service and an overall profit increase for the firm.

Mission Statement

The following section contains Southwest Airlines' Mission Statement as provided in the customer service manual. Some companies adhere to the mission statement and make it a way of life for the business, while others use it as nothing more than a catchy tagline. Southwest Airlines is one of the companies that put stock in the mission statement and make it a part of the company culture. "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” (Ruppel, 2009). The mission statement governs everything from how Southwest operates the financial aspects of the business to how employees are treated. Southwest strives to personalize the service customers receive. Because many of the amenities that full service airlines offer have been scaled back with Southwest, the firm strives to implement the best possible service and environment for customers and employees.

Mission and Corporate Culture

This section outlines how the mission statement is a part of Southwest Airlines’ culture. Southwest customer service is deeply rooted in the firm’s mission statement. In a research article titled *Mission Statements- A Study Of Intent And Influence*, the author states, “Missions are worded by because these communicate organizational aspirations and influence behaviors and resource allocation” (Verma, 2009, pg. 160). The wording of the Southwest mission statement was chosen to particularly exemplify the way customer service should be conducted. The customer service at Southwest is “delivered with a sense of warmth, friendliness” (Ruppel, 2009). One particular incident that epitomizes this type of customer service is the recent story of a Southwest Pilot that held a plane so one particular customer could make the flight.

According to a CNN news story, Mark Dickinson was trying to make a connecting flight in order to see his 2-year old grandson, a murder victim, before he was taken off of life support (Avon, 2011). Dickinson’s wife had called Southwest Airlines and asked if the plane could be held so that her husband did not miss the flight. When Mark finally reached the gate, he realized “a pilot from Southwest Airlines stepped up and held the flight at the gate until (he) arrived” (Avon, 2011). Most airlines would punish the pilot for putting the entire flight behind schedule. Southwest took an entirely different approach to the pilot. The airline congratulated the pilot for

outstanding customer service. Avon's article affirms, "a Southwest spokeswoman said the pilot's actions were exemplary" (2011). The action of the pilot and the reaction of the company affirm that Southwest is enacting the mission statement's position on warm, friendly customer service.

Employees and the Mission

The following illustrates how employees make the mission a part of their work ethic. Southwest also enacts the mission statement with the individual employee pride and "Company Spirit" (Ruppel, 2009). The airline has company team building functions where every employee from the CEO down through the ranks participates equally in the activities. Southwest also encourages employees to get involved in the community. Volunteer activity is strongly supported. The firm occasionally matches employee contributions to certain charities. By acting upon the mission statement, Southwest is achieving the vision of "Company Spirit" (Ruppel, 2009). Company Spirit is a way of viewing Southwest Airlines as a collaborative community rather than just a business.

The Importance of the Mission Statement and Corporate Vision

The following section demonstrates the significance of the mission statement and corporate vision. The importance of the type of commitment to mission and vision statement that Southwest has is substantiated in an article from the International Journal of Management. The article states, "it has been argued that mission and vision statements play a vital direction-establishing role in organizations" (Slack, Orife, & Anderson, 2010, pg 421). Southwest Airlines has clearly succeeded in embodying its mission/vision statement. The actuality of the firm's vision has set Southwest apart from competitors. Author James Lucas supports this by writing, "without a clearly defined vision, we flounder, react to our environment, and mimic

competitors” (Lucas, 1998, pg. 23). If Southwest continues to keep its mission/vision a reality, the firm will remain one of the leading airlines for low-cost airfare, quality customer service, and superior work environment in the industry.

Strategic Analysis

The following various sections take a look at the various strategic analysis methods Southwest Airlines employs to position itself competitively in the industry. The following external and internal analyses demonstrate how the previously mentioned strengths of customer service and corporate culture benefit Southwest. This section will also highlight the important strategic positions Southwest has achieved in the airline industry. All of these strategic studies combine to assist Southwest in creating the best strategic plan to its business.

External Environmental Analysis (EFE)

The following section describes Southwest’s External Environmental analysis within the airline industry and how it is beneficial. According to an article by Montgomery and Day, “Many businesses could profit by systematically carrying out external environmental analyzes where information was gathered, evaluated, prioritized and marked for possible action” (Montgomery, & Day, 2005, pg.149). An EFE can assist a firm in pinpointing where there are opportunities and threats and how to capitalize on the opportunities and neutralize the threats. Southwest Airlines’ EFE shows both opportunities and threats that face the entire airline industry as well as those that are unique to Southwest.

EFE Opportunity Results

This portion details the opportunities results of Southwest’s EFE. The top opportunity that Southwest has taken advantage of is mergers and/or alliances. This past September, Southwest acquired AirTran Airlines (Southwest Airlines, 2011). This acquisition has allowed

the firm to expand its area's of service by taking on routes that AirTran once covered. The expanded coverage area and increased number of flights has significantly boosted profits so far this year.

Southwest has also made use of a new alliance with two international airlines, WestJet and Volaris. According to the 2009 Datamonitor SWOT article, "The company (Southwest) announced to enter into co shared relationships with two airlines: Canadian carrier WestJet; and Mexican carrier Volaris" (Datamonitor, 2009, pg.8). These alliances have reduced the impact of floating passenger traffic, airfares, and jet fuel prices.

Two other important opportunities Southwest has profited from are its expansion into the freight air business and the firm's expanding technology. Like many airlines, Southwest has explored the freight air business route. This interest is due the fact that "the US airfreight industry has witnessed significant growth in recent years" (Datamonitor, 2009, pg.8). Southwest plans to capitalize on this increase by expanding its service to include more freight delivery.

The total weighted score for opportunities on Southwest's EFE is 1.23 (Appendix I, Table 1.1). This score is comparable with the EFE's threat score, which will be detailed in the following sections. Overall, Southwest is doing an excellent job of taking advantage of opportunities presented by the airline industry's external environment.

EFE Threat Results

This section covers Southwest's EFE threat results and how the firm has neutralized threats as illustrated in Appendix I, Table 1.1. Threats of new airline security measures, terrorist attacks, and stricter airline industry regulations are affecting all firms throughout the industry and Southwest is no exception. This statement is supported in the *Strategic Assessment: Analysis of the External Environment*, when the authors state, " the changes in the overall business

environment will affect all players in the industry” (Macmillan, & Tampoe, 2001, pg.101).

Southwest has dealt with these threats by following regulations and increasing security to avoid fines and increase customer satisfaction. The firm’s profits have dropped slightly due to these threatening factors, but not significantly enough for the firm to be competitively affected.

The two greatest threats that Southwest faces are the decrease in air travel and the increase in competition. According to the EFE, Southwest faces competition from low fare airlines with similar business models. Because Southwest has been a leader in the industry forging the groundwork for low-cost airlines, many other airlines have emulated its business model. This is causing a significant risk for Southwest because the decrease in commercial air travel has lessened the opportunities for airline service. Southwest is neutralizing these threats by amping up its customer service and building on customer loyalty with rewards programs and ease of use for booking flights.

The EFE total weighted score for Southwest’s threats is 1.27 (Appendix I, Table 1.1). This score is comparable with the opportunities score from the previous section. Overall the EFE shows that Southwest has an average amount of threats for the airline industry and is maintaining an effective strategy to neutralize the risks.

EFE Total Weighted Score

The following section highlights Southwest’s total weighted score from its EFE and how the company is doing with maximizing the opportunities and reducing the risks. The firm’s total weighted score is 2.5 (Appendix I, Table 1.1). The External Assessment chapter states that 2.5 (midpoint) is average (David, 2009, pg.94). According to the EFE, Southwest is doing an acceptable job of remaining competitive in the airline industry. Suggestions for improvement would be to maximize opportunities of technology by expanding on Southwest’s existing

technological advantage. Currently Southwest primarily books flights on-line. The firm could expand on this by offering “apps” for use with new technology, such as iPhone and iPads. This alliance would benefit the airline by allowing customers more access and control to their flight. It would also build customer allegiance with loyal Apple users who find the technology irreplaceable. In general, Southwest is doing a good job at remaining competitive in the airline industry, but there is always room for improvement. There are many opportunities that Southwest can take advantage of that will boost the firm’s profits and allow it to excel in the industry.

Income Statement

This portion highlights Southwest Airlines’ profitability based on the firm’s income statements and balance sheets. The income statements are from years 2008-2010 (Southwest, Income Statement, 2011). The airlines saw a slight drop in total revenue and gross profit from 2008 to 2009 due to the U.S. recession (Appendix II, Table 2.1 & Table 2.2). Then in 2010, Southwest rebounded exponentially with an increase of \$1,754 mill. in total revenue and \$677 mill. in gross profit (Appendix II, Table 2.2). This increase in overall profit can be attributed to the way Southwest manages its strengths and improves on its weaknesses. One strength that Southwest used is the firm’s superior customer service.

The value of customer service is an important part of Southwest’s mission and vision. According to the airline’s customer service manual, ““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” (Ruppel, 2009). Southwest used its value of high quality customer service to regain competitive footing in the airline industry after the recession. By putting the focus back on customers, Southwest was able to lure new customers

and maintain current customers by building customer loyalty. Also, with the increase in profits from 2009, the airline was able to expand on the competitive low-cost airfare that the company already offers.

Internal Environment

This sections outlines the strengths and weaknesses that exist in Southwest Airlines' Internal Environment. Southwest faced many of the same obstacles that other companies in the airline industry are dealing with. The internal strengths and weaknesses of the airline are what have made the difference in dealing with these issues. Based on increased profit information from the firm's balance sheet and income statements, it is evident that Southwest has employed a strategy founded on exploiting internal strengths and reducing internal weaknesses. This was important to accomplish because according to David's article, "a strategic-management audit of a firm's internal operations is vital to organizational health" (David, 2009, pg. 136). The Internal Factor Evaluation (IFE) is one of the best methods used to perform strength-weakness evaluations.

IFE Strength Results

The following section highlights Southwest's strengths found on the IFE located in Appendix I, Table 1.2. This section also details how the firm has capitalized on those strengths. The top strengths for Southwest are the firm's superior customer service, firm operating strategy, and ability to offer the lowest cost fares. Emphasis on these strengths are what aided Southwest in a fast and sound rebound from the 2009 recession. The operating strategy allowed the airline to weather the recession with minimal loss. Southwest does not invest an exuberant amount of the firm's revenue in "extras" that other airlines offer. When the recession occurred, many airlines had to cut services or offer them for a fee. Because Southwest does not operate by

offering customers free extras, such as blankets, baggage check, and snacks, the company did not have to change much the way of service to reduce operating cost. This allowed Southwest to maintain the low-cost airfare that benefited customers also struggling financially in the economic recession.

Southwest's customer service is another strong point the firm focused on to maintain a competitive edge. Southwest has had unparalleled customer service in the low-cost airfare market for years. During the recession when many airlines were cutting back and offering customers less, Southwest strived to maintain a customer focused service model where the customers still received excellent service and benefits from the airline. The firm was successful at maintaining its customer base and increasing loyalty at a time when most airline prices were low due to the economy. Although the airline offered similar airfare as other low-cost airlines, Southwest offered customers a higher level of service and appreciation.

IFE Weakness Results

This portion outlines the airline's weaknesses and how Southwest minimized them so the firm could remain competitive. The top two weaknesses facing Southwest are the firm's heavy reliance on passenger revenue and low employee productivity.

According to Datamonitor's 2009 SWOT analysis, "The company is highly dependent on passenger revenues. The company derived 1.3% and 3.2% of its revenues from freight and other operations and 95.5% from passenger transport during FY2008" (Datamonitor, 2009, pg.6).

This reliance on passenger-generated revenue was the main cause of Southwest's profit decline in 2009 during the recession when people were spending significantly less on travel.

Southwest also faces the issue of low employee productivity. The corporate culture at Southwest is based on fun, loyalty, and employee appreciation. This often leads to less time

focused on business operations and more time spent cultivating the corporate environment. Celebrations for birthdays, graduations, marriages, and holidays often take place during company time to show appreciation and foster bonding among the employees. This loss of company time to non-business related activities decreases profits.

Total IFE Score

The remaining section explains the results of Southwest's IFE analysis and what they mean for the airline's financial future. Southwest's total weighted IFE score is 2.16 (Appendix I, Table 1.2). The score is slightly below average, yet still comparable with scores of other airlines in the industry. The drop in the total weighted IFE score can be attributed to how greatly Southwest's weaknesses have affected the firm during the recession. The heavy reliance on customer revenue during a time when customers were spending less had a significant effect on the firm profits. Although the airline rebounded by building on its strengths, to remain competitive Southwest should look at expanding services in to other areas of the airline industry. Instead of having 95.5% revenue from customer transport, Southwest should expand on the growing airfreight business to garner a more balanced profit generating strategy. In general, Southwest has done a commendable job in recovering from the recession and balancing its internal strengths and weaknesses.

SWOT Basics

This section introduces the SWOT matrix analysis and how it can be beneficial to a company. The information provided by SWOT analysis helps firms determine the best course of action to maximize strengths, eliminate weaknesses, exploit opportunities and neutralize threats. SWOT analysis is beneficial to firms on both corporate and departmental levels. Author Gabe Minton asserts, "not only can the organization as a whole look at a SWOT but departments can

create smaller, more narrowly focused SWOTs that take into consideration what they are specifically looking at” (Minton, 2010, pg. 80). Corporate goals can be established by using a SWOT matrix. A SWOT analysis is also an excellent tool in measuring performance indicators on a departmental level.

SWOT Analysis

The following portion details the SWOT analysis of Southwest Airlines located in Appendix III, Table 3.1 and how the company can benefit from the data. SWOT analyses are a vital part of any companies strategic planning. This is supported in the case study titled *Focused SWOT: Diagnosing Critical Strengths and Weaknesses*. In this study the authors state, “the strengths-weaknesses-opportunities-threats (SWOT) analysis is one of the most popular tools in use for defining an organization’s strategic action” (Coman, & Ronen, 2009, pg. 5677). Southwest Airlines has gained valuable information that can be used for further strategic planning from the firm’s SWOT analysis.

An October 2009 Datamonitor article provides a concise SWOT analysis for Southwest airlines. The main strengths, weaknesses, opportunities and threats for the airline are summarized in the chart listed as Appendix III, Table 3.1. Southwest’s strengths of a firm operating strategy, strong fleet of operations, and recognition in the industry are what facilitated the airline’s recovery from the recent economic recession. The airline was able to exploit opportunities during the recession by using its existing strength’s. This is action is what author Fred David describes as *SO Strategy*. “SO Strategies use a firm’s internal strength’s to take advantage of external opportunities” (David, 2009, pg. 192).

One of the SO strategies that Southwest used was to extend its firm operating strategy further into the airfreight industry. Southwest operations have been successful in the past with

the passenger transport portion of the industry; therefore it was a very logical and low risk move to expand the operation strategy into the airfreight business. Once the expansion was complete, Southwest was able to offer competitive low cost freight transportation that was comparable to other business dominating the airfreight business. The move gave Southwest a boost in revenue that was necessary to remain profitable in turbulent economic times when passenger transport was severely declining.

Southwest also used what Fred David calls *ST Strategies*. “ST Strategies use a firm’s strengths to avoid or reduce the impact of external threats” (David, 2009, pg. 192). Southwest was able to use its recognition as the top low cost airline in the industry to retain customers and gain new customers in the face of intense competition. During the recession, many airlines were slashing prices and offering consumers deals in order to remain afloat in the struggling airline industry. Southwest was already known for its low cost so many consumers either remained customers of the airline or switch over to Southwest in search of the lowest price. This allowed the firm to remain an industry leader in tough times.

New Strategies for Southwest

This segment will detail possible new strategies for Southwest derived from the firm’s SWOT matrix that is illustrated in Appendix II, Table 2.1. One opportunity that the SWOT matrix identified for Southwest was building customer loyalty. Currently, Southwest has a rewards program for customers called Rapid Rewards. In an article from *Kiplinger's Personal Finance*, Southwest’s Rapid Rewards program is defined as simple. “Southwest’s Rapid Rewards program currently offers a simple system: Fly eight round-trips within two years and you get a free round-trip ticket – with just one possible extra fee (\$50) to reactivate expired miles” (*Kiplinger's Personal Finance*, 2010, pg. 82).

Under this version of the program, the consumer earns frequent flyer miles that then can be transferred into a free ticket. This simple model did well for those who more than your average person but left much to be desired for the average man or woman. Although Southwest unveiled Rapid Rewards 2.0 in 2011, not much has changed in the actual rewards department. The airline added more ways for consumers to earn points but the reward of a free ticket are all that is offered still.

In order to make the rewards program more appealing to a larger market of consumers, Southwest should expand the type of rewards offered. One rewards program that Southwest could loosely model its program after is the Speedy Rewards program. Speedway's Speedy Rewards program gives loyal customers a chance to earn points used for a variety of items available at the stores such as food, drinks, and gift cards for other places/products (*Convenience Store News*, 2009, Vol5, Issue 6).

In a effort to cut costs, Southwest has eliminated free services and products that other full service airlines still offer at no cost. This is an area where Southwest has the opportunity to enact an expanded rewards program within the operating guidelines that it currently uses. The airline could offer loyal customers the opportunity to redeem points for certain items and services that they would normally have to pay for under the Southwest operating strategy. An example of this would be a customer could redeem 100 points and get a voucher for free baggage check on two pieces of luggage.

Southwest could also use the points redemption program as an opportunity to build partnerships outside of the airline industry and reach out to new markets. An example of this might be offering a \$25 gift card to Applebee's restaurants for redeeming 50 points. This would give the airline advertising via the restaurant chain and the opportunity to expand its target

market. Southwest could also partner with complementary businesses such as hotel chains. By redeeming 200 points, a loyal Southwest customer could receive a voucher for one free night at any Hilton chain hotel. If Southwest partnered with a hotel chain, such as Hilton, the airline would be a preferred air transportation service to the hotel. The hotel could then recommend the airline to its customers. The hotel concierge service could even choose Southwest as the top provider when assisting guest by booking flights.

Conclusion and Future Recommendations

This sections highlights Southwest's current position in the industry and how the firm can use the previous analyses to gain competitive edge and remain a top competitor in the industry. Overall, the Rapid Rewards program is an excellent way for Southwest to create customer loyalty. Frequent flyers will continue to fly Southwest not just because of the low prices, but also because they are being rewarded for flights they had to take. But if Southwest chooses to expand the rewards and offer a variety of rewards ranging in point levels, then the airline with create an entirely new market of loyal customers. If a consumer who flies infrequently chooses Southwest for one flight and earns 50 points, then they may be more likely to fly Southwest again if they will earn another 50 points or can redeem the current 50 points for free baggage check. The variety in points levels gives any consumer the opportunity to be rewarded whether the person flies 5 times in one year or 2 times in five years. No matter what the level of air travel the consumer has a chance to be rewarded for choosing Southwest as their preferred airline. By mimicking the rewards program format offered by Speedway, Southwest could expand customer loyalty. The expanded rewards program combined with Southwest's strength of customer service will build a solid, sustainable, and devoted customer base. This customer base will greatly increase overall profits and further separate Southwest as a leader in the airline industry.

References

- Avon, N. (2011, January 14). Pilot holds flight for man going to see dying grandson. *CNN*, Retrieved from http://articles.cnn.com/2011-01-14/travel/southwest.pilot.holds.flight_1_pilot-grandson-security-checkpoint?_s=PM:TRAVEL
- Bachman, J., Schlangenstein, M., & Hughes, J. (2010). Why Southwest Air Is Bulking Up. *Bloomberg Businessweek*, (4198), 22-25. Retrieved from EBSCOhost.
- BGF. (2009) Prepaid Cards the Speedway Way. *Convenience Store News*, 01948733, Vol. 45, Issue 6.
- Coman, A., & Ronen, B. (2009). Focused SWOT: diagnosing critical strengths and weaknesses. *International Journal of Production Research*, 47(20), 5677-5689. doi:10.1080/00207540802146130
- David, F (2009). *The external assessment*. Strategic Management (12th edition). Upper Saddle River, NJ: Pearson.
- DATAMONITOR: Southwest Airlines Co. (2009). *Southwest airlines co. swot analysis*, 1-9. Retrieved from EBSCOhost.
- Frequent-Flier Programs. (2010). *Kiplinger's Personal Finance*, 64(2), 82. Retrieved from EBSCOhost.
- Hallowell, R. (1996). Southwest airlines: a case study linking employee needs satisfaction and organizational capabilities to competitive advantage. *Human resource management*, 35(4), 513-534. Retrieved from EBSCOhost.
- Lucas, J. R. (1998). Anatomy of a vision statement. *Management Review*, 87(2), 22. Retrieved from EBSCOhost.
- Montgomery, D., & Day, G. (2005). External environmental analysis. *A to Z of Management*

- Concepts & Models*, 147-150. Retrieved from EBSCOhost.
- Macmillan H., & Tampoe, M. (2001). Strategic Assessment: Analysis of the External Environment. *Strategic Management Process, Content, & Implementation*, 95-113. Retrieved from EBSCOhost.
- Minton, G. (2010). Using a SWOT Analysis. *Mortgage Banking*, 71(3), 80-81. Retrieved from EBSCOhost
- Porter, M. (1996). What is strategy? *Harvard Business Review*, 61-78.
- Ruppel, J. (2009). *Southwest airlines customer service commitment*. Dallas, TX: Southwest Airlines Co.
- Slack, F. J., Orife, J. N., & Anderson, F. P. (2010). Effects of commitment to corporate vision on employee satisfaction with their organization: an empirical study in the united states. *International Journal of Management*, 27(3), 421-436. Retrieved from EBSCOhost.
- Smith, G. (2004). An evaluation of the corporate culture of southwest airlines. *Measuring Business Excellence*, 8(4), 26-33.
- Southwest Airlines. (2011). *Southwest media*. Retrieved from <http://swamedia.com/channels/Our-History/pages/our-history-sort-by>
- Southwest Airlines Co. (NASDAQ: DAL) Balance Sheet. (2011, February 18). *Forbes.com*. Retrieved from <http://finapps.forbes.com/finapps/jsp/finance/compinfo/FinancialIndustrial.jsp?tkr=LUV&period=qtr>
- Southwest Airlines Co. (NASDAQ: DAL) Income Statement. (2011, February 18). *Forbes.com*. Retrieved from <http://finapps.forbes.com/finapps/jsp/finance/compinfo/FinancialIndustrial.jsp?tkr=LUV&period=qtr>

Verma, H. V. (2009). Mission statements- a study of intent and influence. *Journal of Services Research*, 9(2), 153-172. Retrieved from EBSCOhost.

Appendix I

Table 1.1

EFE Matrix for Southwest Airlines Co.

	Key External Factors	Weight	Rating	Weighted Score
	Opportunities			
1	Growing U.S. Airline Industry	0.07	3	0.21
2	Expansion into AirTrans region after Sept 2010 merger	0.12	4	0.48
3	Coshared Relationship with WestJet	0.05	1	0.05
4	Coshared Relationship with Volaris	0.05	1	0.05
5	Expansion into the freight air business	0.07	2	0.14
6	Expand the technology of the website (i.e. iPhone apps, etc.)	0.10	3	0.30
		Opportunities Total	Average Rating	Total Weighted Score Opportunities
		0.46	2	1.23

	Key External Factors	Weight	Rating	Weighted Score
	Threats			
1	Intense Competition (JetBlue)	0.08	4	0.32
2	Terrorist attacks	0.05	1	0.05
3	New security measures	0.08	3	0.24
4	Airline regulations	0.12	3	0.36
5	U.S. economic slowdown	0.08	1	0.08
6	Increased price of oil	0.09	2	0.18
7	Severe decrease in air travel	0.04	1	0.04
		Totl Threats	Average Rating	Total Weighted Score Threats
		0.54	2	1.27

	TOTAL WEIGHT	1.00	Total Weighted Score	2.50
--	---------------------	-------------	-----------------------------	-------------

Appendix I

Table 1.2

IFE Matrix for Southwest Airlines Co.

	Key External Factors	Weight	Rating	Weighted Score
	Strengths			
1	Firm operating strategy	0.08	4	0.32
2	Strong fleet of operations	0.05	2	0.10
3	Brand recognition	0.03	1	0.03
4	Customer loyalty	0.03	3	0.09
5	High employee retention	0.09	2	0.18
6	Strong customer service base	0.12	4	
7	Top ranked low-fare carrier	0.11	3	
		Opportunities Total	Average Rating	Total Weighted Score Opportunities
		0.51	3	0.72

	Key External Factors	Weight	Rating	Weighted Score
	Weaknesses			
1	Heavy reliance on passenger revenue	0.10	4	0.40
2	Declining operating efficiency	0.07	1	0.07
3	Lower load capacity	0.04	3	0.12
4	Relatively low employee productivity	0.10	4	0.40
5	Conservative growth tactics	0.06	2	0.12
6	Provides service to less than 60 cities	0.03	2	0.06
7	Other companies copying Southwest business model	0.09	3	0.27
		Total Threats	Average Rating	Total Weighted Score Threats
		0.49	3	1.44

TOTAL WEIGHT		1.00	Total Weighted Score	2.16
---------------------	--	-------------	-----------------------------	-------------

Appendix II

Table 2.1

Southwest Airlines Balance Sheet for the last 5 Qtrs.

	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4
Period End Date	12/31/2010	09/30/2010	06/30/2010	03/31/2010	12/31/2009
Stmt Source	10-K	10-Q	10-Q	10-Q	10-Q
Stmt Source Date	02/08/2011	10/22/2010	08/02/2010	04/26/2010	08/02/2010
Stmt Update Type	Updated	Updated	Updated	Updated	Reclassified
Assets					
▶ Cash and Short Term Investments	3,538.0	3,379.0	3,124.0	2,773.0	2,593.0
▶ Total Receivables, Net	195.0	289.0	277.0	235.0	169.0
Total Inventory	243.0	231.0	226.0	227.0	221.0
Prepaid Expenses	89.0	80.0	92.0	95.0	84.0
Other Current Assets, Total	214.0	63.0	252.0	291.0	291.0
Total Current Assets	4,279.0	4,042.0	3,971.0	3,621.0	3,358.0
Property/Plant/Equipment, Total - Net	10,578.0	10,566.0	10,627.0	10,621.0	10,634.0
Goodwill, Net	0.0	0.0	0.0	0.0	0.0
Intangibles, Net	0.0	0.0	0.0	0.0	0.0
Long Term Investments	0.0	0.0	0.0	0.0	0.0
Note Receivable - Long Term	0.0	0.0	0.0	0.0	0.0
Other Long Term Assets, Total	606.0	535.0	389.0	288.0	277.0
Other Assets, Total	0.0	0.0	0.0	0.0	0.0
Total Assets	15,463.0	15,143.0	14,987.0	14,530.0	14,269.0

Appendix II

Table 2.1

	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4
Period End Date	12/31/2010	09/30/2010	06/30/2010	03/31/2010	12/31/2009
Stmt Source	10-K	10-Q	10-Q	10-Q	10-Q
Stmt Source Date	02/08/2011	10/22/2010	08/02/2010	04/26/2010	08/02/2010
Stmt Update Type	Updated	Updated	Updated	Updated	Reclassified
Liabilities and Shareholders' Equity					
Accounts Payable	739.0	707.0	787.0	690.0	732.0
Payable/Accrued	0.0	0.0	0.0	0.0	0.0
Accrued Expenses	580.0	683.0	684.0	590.0	619.0
Notes Payable/Short Term Debt	0.0	0.0	0.0	0.0	0.0
Current Port. of LT Debt/Capital Leases	505.0	113.0	123.0	170.0	190.0
Other Current Liabilities, Total	1,481.0	1,684.0	1,744.0	1,467.0	1,154.0
Total Current Liabilities	3,305.0	3,187.0	3,338.0	2,917.0	2,695.0
▶ Total Long Term Debt	2,875.0	3,350.0	3,324.0	3,305.0	3,325.0
Deferred Income Tax	2,493.0	2,140.0	2,192.0	2,250.0	2,200.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Other Liabilities, Total	553.0	516.0	585.0	521.0	595.0
Total Liabilities	9,226.0	9,193.0	9,439.0	8,993.0	8,815.0
Redeemable Preferred Stock	0.0	0.0	0.0	0.0	0.0
Preferred Stock - Non Redeemable, Net	0.0	0.0	0.0	0.0	0.0
Common Stock	808.0	808.0	808.0	808.0	808.0
Additional Paid-In Capital	1,183.0	1,225.0	1,221.0	1,219.0	1,216.0
Retained Earnings (Accumulated Deficit)	5,399.0	5,273.0	5,075.0	4,973.0	4,971.0
Treasury Stock - Common	-891.0	-903.0	-915.0	-945.0	-963.0
Other Equity, Total	-262.0	-453.0	-641.0	-518.0	-578.0
Total Equity	6,237.0	5,950.0	5,548.0	5,537.0	5,454.0
Total Liabilities & Shareholders' Equity	15,463.0	15,143.0	14,987.0	14,530.0	14,269.0

(NASDAQ: DAL, 2011)

Table 2.2

Southwest Airlines Income Statement 2008-2010

	2010	2009	2008
Period End Date	12/31/2010	12/31/2009	12/31/2008
Period Length	12 Months	12 Months	12 Months
Stmt Source	10-K	10-K	10-K
Stmt Source Date	02/08/2011	01/29/2010	02/02/2009
Stmt Update Type	Updated	Updated	Updated
Revenue	11,614.0	10,010.0	10,694.0
Other Revenue, Total	490.0	340.0	329.0
Total Revenue	12,104.0	10,350.0	11,023.0
Cost of Revenue, Total	9,062.0	8,135.0	8,590.0
Gross Profit	2,552.0	1,875.0	2,104.0
Selling/General/Administrative Expenses, Total	0.0	0.0	0.0
Research & Development	0.0	0.0	0.0
Depreciation/Amortization	628.0	616.0	599.0
Interest Expense (Income), Net Operating	0.0	0.0	0.0
Unusual Expense (Income)	0.0	0.0	0.0
Other Operating Expenses, Total	1,426.0	1,337.0	1,385.0
Operating Income	988.0	262.0	449.0

Appendix II

Table 2.2

	2010	2009	2008
Period End Date	12/31/2010	12/31/2009	12/31/2008
Period Length	12 Months	12 Months	12 Months
Stmt Source	10-K	10-K	10-K
Stmt Source Date	02/08/2011	01/29/2010	02/02/2009
Stmt Update Type	Updated	Updated	Updated
Interest Income (Expense), Net Non-Operating	0.0	0.0	0.0
Gain (Loss) on Sale of Assets	0.0	0.0	0.0
Other, Net	-106.0	54.0	-92.0
Income Before Tax	745.0	164.0	278.0
Income Tax - Total	286.0	65.0	100.0
Income After Tax	459.0	99.0	178.0
Minority Interest	0.0	0.0	0.0
Equity In Affiliates	0.0	0.0	0.0
U.S. GAAP Adjustment	0.0	0.0	0.0
Net Income Before Extra. Items	459.0	99.0	178.0
Total Extraordinary Items	0.0	0.0	0.0
Net Income	459.0	99.0	178.0

(NASDAQ: DAL, 2011)

Table 3.1

SWOT ANALYSIS

Southwest Airlines (Southwest) is one of the leading low cost airlines' in the US. The company provides scheduled air transportation in the US. Strong operating strategy enables the company to achieve high asset utilization and reliable on-time performance. Also, it helps the company to increase its revenues and to tap profitable markets. However, a weak economic outlook for the US may put pressure on the company's revenues.

Strengths	Weaknesses
Firm operating strategy Strong fleet operations Recognition in the industry	Heavy dependence on passenger revenues Declining operating efficiency Lower load factor Relatively low employee productivity
Opportunities	Threats
Growing US airlines industry Codesharing relationship with WestJet and Volaris Positive growth in the US airfreight industry	Economic slowdown in the US Intense competition Airline regulations

(Datamonitor, 2009, pg.5)

SWOT Matrix Southwest Airlines

Table 3.2

	Strength	Weaknesses
	<ol style="list-style-type: none"> 1. Firm operating strategy 2. Strong fleet of operations 3. Brand recognition 4. Customer loyalty 5. High employee retention 6. Strong customer service base 7. Top ranked low-fare carrier 	<ol style="list-style-type: none"> 1. Heavy reliance on passenger revenue 2. Declining operating efficiency 3. Lower load capacity 4. Relatively low employee productivity 5. Conservative growth tactics 6. Provides service to less than 60 cities 7. Other companies copying Southwest business model
Opportunities	Strength/Opportunities	Weaknesses/Opportunities
<ol style="list-style-type: none"> 1. Growing U.S. Airline Industry 2. Expansion into AirTrans region after Sept 2010 merger 3. Coshared Relationship with WestJet 4. Coshared Relationship with Volaris 5. Expansion into the freight air business 6. Expand the technology of the website (i.e. iPhone apps, etc.) 	<ol style="list-style-type: none"> 1. Expand current customer rewards program to build customer loyalty. (S6, O6) 2. Expand freight air portion into former AirTran areas. (S2, O2, O5). 	<ol style="list-style-type: none"> 1. Eliminate some reliance on passenger revenue by expanding freight air business. (W1, O5)
Threats	Strength/Threats	Weaknesses/Threats
<ol style="list-style-type: none"> 1. Intense Competition (JetBlue) 2. Terrorist attacks 3. New security measures 4. Airline regulations 5. U.S. economic slowdown 6. Increased price of oil 7. Severe decrease in air travel 	<ol style="list-style-type: none"> 1. Expand brand recognition as top low-cost air carrier to eliminate competition. (S3, T1) 2. Retain low-cost operating strategy to remain competitive during continued recovery from 2009 recession. (S1, T5) 	<ol style="list-style-type: none"> 1. Increase load capacity to get maximum value out of jet fuel. (W3, T6) 2. Initiate employee rewards program for productivity and customer retention. (W4, T7) 3. Create expanded strategy and growth plan to thwart competition. (W7, W5, T1)