Marketing Brief - Southwest Airlines

Company Overview

Southwest Airlines Co. (the "Company") owns and operates Southwest Airlines, which provides commercial transportation at a low cost to customers across the domestic United States, as well as ten near-international destinations. Since its founding in 1971, the Company, headquartered in Dallas, Texas, has grown to become the largest domestic air carrier in the United States. As of 31 December 2017, the Company operates 706 Boeing aircraft and gives its customers access to 100 destinations.

The Company's vision is "to become the world's most loved, most flown, and most profitable airline." It values a "warrior's spirit," "servant's heart," and "fun-LUVing attitude," as well as "safety and reliability," "friendly customer service," and low costs." The Company strives to embody these values in the fulfillment of its mission to provide the "highest quality Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit."

Unlike most major airlines across the United States, Southwest Airlines operates on a linear system that draws influence from a more direct point-to-point air travel approach, rather than relying more heavily on major cities to serve as hubs from which to serve smaller destinations. This allows the Company to provide more direct flights to its customers at greater frequencies and lower costs.

The Company offers one basic service--its flights--in three different forms of fare product. All include two free checked bags within a given size and weight limit, on-board refreshments, and in-flight entertainment. Customers can choose from the least expensive "Wanna Get Away" fare, the "Anytime" fare, and the "Business Select" fare to best suit their needs and budgets. The Rapid Rewards Frequent Flyer Program allows its members to earn points towards future flights at different rates based on the type of fare product selected. Customers can manage their ticket purchases, rewards program status, and check in for flights on the Southwest.com website, as well as on mobile apps developed for both Android and iOS devices. They can stay up-to-date on information from the Company on its social media accounts. Business customers can use Swabiz.com, specially designed for their needs and including features that allow them to manage company credit card information and information for multiple travelers. As of 31 December 2017, as much as 80% of the Company's revenue came from online sales.

Financial Overview

For the 45th consecutive year, the Company was profitable, reporting $3,488,000,000 in net income as of its 2017 annual report. This was a 55% increase from its 2016 net income of $2,244,000,000. As of its 2018 fourth-quarter report, the Company remains profitable, though it reported net income of $2.5 billion for the year, a significant decrease from its 2017 profits. This decline in profits could be due to a decline in the total number of bookings made by customers in 2018, attributed by the Company to its first fatal accident, which occurred in April of 2018 and led to inspections of each aircraft owned by the Company.

Market Overview

Aviation in the United States is a mature market, and the Company has many competitors. In 2017, the Company's market share was the greatest of any major US airline--18.9%, followed by Delta Air Lines at 17.0%, and then by American Airlines (16.9%), and United Airlines (12.5%). The rest of the Company's competitors held less than 5% of the market share each. In 2018, the Company tied for greatest market share with its major competitor American Airlines at 17.9% each, followed by Delta Air Lines (16.8%) and United Airlines (15%). The Company's remaining competitors held 6% or less of market share each. Southwest Airlines Co. faces the bulk of its competition from Delta Air Lines, American Airlines, and United Airlines.

SWOT Analysis

Strengths

High-Quality Customer Service at Low Fares

Southwest Airlines is well-known for its low fares and is the only major U.S. airline to offer customers up to two checked bags at no extra cost. It is also the only major airline to allow changes to flight reservations free of charge. Additionally, the Company does not levy additional fees for seat selection, in-flight refreshments, and telephone reservations. These free services distinguish Southwest Airlines from numerous competitors and appeal to a wide range of potential customers, leading to greater market share acquisition potential.

Combination of Point-to-Point and Hub-and-Spoke Service Models

Southwest Airlines has developed a "linear" method of transportation: most flights travel from one point to another and make several stops between higher-traffic and more profitable destinations, known as hubs. This method combines aspects of the point-to-point and hub-and-spoke air travel models to take advantage of them both. This combination of the point-to-point and hub-and-spoke models allows Southwest Airlines to fulfill customer travel needs with minimal interruptions and flexibility to handle unpredicted complications. Flights between hubs also reduce seat-mile costs as the company uses larger aircraft to move more passenger with fewer flights. This model significantly enhances customers' traveling experience while also keeping costs low for both the Company and its customers.

Large Networks of Domestic and International Destinations

Southwest Airlines operates flights to 100 destinations in 41 states, Mexico, Central America, the Caribbean, and Hawaii, and manages over 4,000 flights daily. Its vast network of destinations allows its passengers to travel locally and globally with maximum flexibility. This huge system also that indicates Southwest Airlines, as the world's largest low-cost carrier, is well-established and reliable. Consequently, many existing and potential customers are willing to keep flying or start flying Southwest Airlines due to its reputation and the destination options the Company is able to offer.

Weaknesses

Heavy Reliance on Passenger Revenue

In 2017, Southwest generated freight revenues of $173 million, less than 1 percent of its overall revenue of $21 billion. 99% of its operating revenue was contributed by passenger services. This is cause for concern because passenger services are becoming less profitable year after year due to the increasing competition for domestic market share. Unstable fuel prices also contribute to the uncertainty inherent in revenue based on a variable quantity of passengers. This reliance on passenger revenue is a long-term concern for the Company.

Dependence on One Type of Aircraft

As Southwest Airlines' sole supplier of aircraft, Boeing has a significant amount of bargaining power, which could affect the company's business where there to be disagreement between the corporations. Furthermore, Boeing's reputation directly affects Southwest Airlines' operations. Recent safety concerns and a crash involving the Boeing 737 MAX 8, the aircraft comprising the Company's entire fleet, have led to distrust of the aircraft among consumers. This directly affects Southwest Airlines' profits and reputation, and is a major weakness, especially in the event of safety concerns.

Opportunities

Expanding Networks Locally and Globally

Southwest Airlines continues to expand its domestic and international destination networks. Increased support for near-international destinations is an opportunity to gain international market share, and an increase in passenger revenue from more destinations leads to reductions in overall seat-mile cost. Further expansion into the international market also increases brand exposure for Southwest and presents an opportunity to further enhance its reputation.

Thriving E-Commerce

Worldwide e-commerce sales are expected to grow at a rate of 10% per year. The rapid growth of online retailing creates massive opportunities for the airlines as cargo shipping providers due to the safety and efficiency of air shipping. Global e-commerce is also increasingly dependent on air cargo services in order to adapt to the customers' needs for faster product deliveries. Southwest Airlines is currently expanding its freight service in an effort to take advantage of the shipping opportunities created by the increased proliferation of e-commerce domestically and abroad.

Growing Tourism

The global tourism industry, maintains a steady increase of 3 to 4% every year. As an airline that focuses on passenger service and expansion of its international networks, Southwest Airlines stands to gain from increasing travel volume.

Threats

Intense Competition

Domestically, Southwest Airlines has several major competitors including Delta Airlines, United Airlines, and American Airlines. These prominent airlines hold the majority of market share and have well-established local and global networks. They are also older and more established than Southwest. Additionally, small airlines such as JetBlue and Allegiant continue to modernize their fleets and expand networks to better control their seat-mile costs in order to lower their fares and compete with Southwest Airlines. There are also many other well-known global airline corporations positioning themselves similarly to Southwest Airlines.

Increasing Concern About Airplane Safety

Aviation accidents cause great air travel anxiety among potential customers. Recent Boeing 737 MAX 8 crashes and safety concerns have led to hesitation and loss of consumer trust, ultimately leading to reduced passenger revenue. Given Southwest's dependence on Boeing's aircraft, the Company is directly threatened by its aircraft supplier's current safety crisis.

Company Strategy

One of the most essential marketing strategies Southwest consistently employs is to minimize operation costs while charging profitable but competitively low fares, which successfully maintains company's competitive edge. This pricing strategy embodies a more-for-less value proposition when understood in the context of the customer service provided on a Southwest flight.

As mentioned above, Southwest is currently the only American airline that does not impose bag fees, change fees, or hidden fees, making the company well-known for its free and exemplary customer service. It has kept its unit cost down by wisely adjusting its stage length. Additionally, Southwest Airlines has contracted an alliance with Boeing, the world's largest leading aerospace manufacturer, using a single aircraft supplier, the Boeing, to simplify the flight operation and training process and to lower the cost of maintenance. It also consistently modernizes the fleet, investing in the newest Boeing 737 MAX 8, to improve fuel efficiency and reduce fuel and oil expense, which was the company's second largest operating cost in 2017.

While the cooperation with Boeing effectively reduces its variable cost and helps generate more profits, Southwest Airlines' unique service routine also helps better control its operational costs. Its point-to-point service routing between many secondary airports achieves high fleet utilization and high Employee productivity. Adding aspects of the hub-to-spoke model also assists the company in lowering the seat-mile cost.

Southwest Airlines also accounts for the changing market environment. It has realized the advantages of the large network and consumer base and continues expanding many popular destinations locally and globally while the global tourism industry grows steadily. The company also acknowledges its overdependence on passenger revenues and the lack of freight business. It has officially begun expanding international cargo service since February 2018. These strategies help Southwest Airlines stand out in the competitive airline industry.

Analysis

Strategic Planning

Southwest Airlines offers two kinds of air travel services: passenger transportation for the regular consumer, and cargo shipping for other businesses. The first is a cash cow for the airline--it provides a consistent revenue stream and maintains relatively stable market share. Market share growth, if it occurs in a given period, is small due to the Company's existing prominence in the market. Cargo shipping constitutes a much smaller percentage of Southwest Airlines' revenue, and is more difficult to describe in terms of the BCG Growth-Share Matrix. While still an important revenue stream, cargo shipping service is well outstripped by Southwest Airlines' passenger service. While not quite a dog and not quite a question mark, cargo shipping remains an area of potential growth for Southwest.

The airline has already begun to expand its cargo shipping services, but faces certain challenges in doing to. Competitors such as Delta and American Airlines are already well-established as cargo shipping service providers in the industry. Differentiation of such a homogenous service will be difficult for Southwest. Known for setting itself apart in passenger service with a more-for-less value proposition, Southwest Airlines would be wise to use the same proposition for cargo shipping expansions. Presenting businesses, especially e-commerce retailers, with a shipping option that charges less for greater delivery speeds could lead Southwest to higher revenues for this kind of service while staying consistent with the airline's existing reputation.

Southwest would also do well to continue expanding to serve more destinations both in the United States and abroad, and especially in the latter. The costs of expansion abroad may be high, the more foreign destinations Southwest can offer its primarily and almost exclusively American customer base at its established more-for-less value proposition, the better for the airline in the long term. While known for domestic flights, further expansion into international markets while maintaining its low-cost, high-service reputation would bring Southwest market share that previously belonged to its competitors, especially larger competitors such as Delta Airlines.

At this moment, Southwest faces major challenges concerning the management of its fleet, comprised entirely of Boeing aircraft. Due to recent crashes in Ethiopia and Indonesia have led to the jets' grounding in multiple countries and, subsequently, ddrops in revenue for many airlines--Southwest included. Additionally, repairs and inspections will cost the airline, further cutting into profits. To avoid such problems in the future, Southwest should seek out multiple jet companies with which to contract for further expansions to its fleet.

Southwest's reputation has also taken several hits in the past year, especially since the airline's first fatal accident in the summer of 2018. Over the course of the remainder of 2018, the airline did the right thing in terms of both ensuring safety and in terms of repairing its reputation--inspections of the entire fleet showed a commitment to passenger safety. In this crisis, to which Southwest is uniquely exposed among American airline companies, Southwest should again make a similar visible commitment to the safety of its passengers. While incurring greater costs in the short term, inspections and if, necessary, adjustments to equipment and practices will keep profits strong in the future.

Southwest faces challenges to its cost structure in 2019, given the overall negative effect on the economy and potential customers' disposable income that the government shutdown had at the beginning of the year. The airline cannot rely on passenger revenue to maintain strong profits under these economic conditions. Expansion into cargo shipping could serve to strengthen revenues, but overall economic contraction due to the shutdown will affect product purchases for the companies using Southwest's shipping services, and result in declines in that area as well. Given such an inauspicious start due to circumstances outside of Southwest's control, expectations for the 2019 fiscal year are already somewhat lower. However, Southwest can control damages through proactive strategy.

Making flights and travel more attractive to economically anxious consumers is Southwest's best, and, arguably, only course of action. At the very least, Southwest Airlines must reiterate and strengthen the messaging behind its more-for-less value proposition. Focusing on customer service and convenience in advertising materials while also emphasizing getaway destinations with the message of getting away from a stressful environment.

Southwest could also turn to its international markets and advertise destinations within the United States to those consumers in order to diversify income among different international sources. In no way will the airline be able to entirely replace a dependence on its United States market, nor should it try, but multiple sources allow for growth even in harder times.

Given this overall difficult economic start to the 2019 fiscal year, Southwest must also consider its own cost structure--the company is accustomed to providing a level of service it may not be able to afford to carry at its existing price points. Further penetrating the air travel market, is, of course, the first course of action--a price increase should never be the first option. Southwest already takes advantage of seasonal opportunities and occasion-based marketing to sell more flights for summer getaways and winter holiday travel.

The company could further access the air travel market through advertising to other businesses not as a shipping and cargo carrier, but by taking greater advantage of its Swabiz.com platform and positioning itself as a more-for-less airlined to more and more businesses seeking to fly workers to different office locations. Businesses are first and foremost concerned with getting the most done at the smallest cost--Southwest Airlines inherently presents an opportunity for a business to save on trips for its employees due to its faster linear travel model and low prices. Targeting businesses, and especially highly profitable sectors such as finance, is a start towards gaining market share and ensuring, if not growth, then stability in the 2019 fiscal year.

Southwest Airlines, as an established airline in the continental United States and several close international markets, has grown to a point at which it becomes difficult to capture more of the airline industry's market share very quickly. However, if the company takes advantage of current trends in e-commerce and positions itself to retailers as an efficient, reliable, and affordable cargo carrier, and to other businesses as an affordable travel option for employees, all while continuing to take advantage of its existing international market destinations, it can maintain stability in a fiscal year that began inauspiciously for the economy as a whole.