

Notes from Southwest Airlines Case

From Dess, McNamara, & Eisner *Strategic Management*

- \$1.1B record earnings in 2014
 - fleet modernization
 - AirTran integration
 - Rapid Rewards program growth
- 2015 poised for fuel savings due to lower energy prices
- Fined \$1.6M for keeping passengers on plane too long on runway
- Is SWA getting too big, ignoring investments / core strategy elements of the past?
 - low-cost
 - organic growth
 - domestic point-to-point short-haul routes
 - customer-centric culture

The Kelleher Era

- First flight in 1971 after 4 years of legal battles
- Love Field used started in 1979
- Initial struggles developed a corporate warrior mentality, a fight to survive
- minimized costs via no meals, no baggage transfers, no assigned seats, only peanuts for snacks, single aircraft type
- additionally used less congested airports and point-to-point short-haul flights to maintain on-time flights and turnarounds
- hired for attitude over skills
- first reached \$1B in revenue in 1990
- won many Triple Crowns (Best-on-time record, best baggage handling, fewest customer complaints)

From Kelleher to Kelly

- In 2001, Kelleher stepped down, naming new CEO and COO
- Distance between line workers and top management increasing
- relationship between employees and customers decreasing over time
- CEO stepped down in 2004 abruptly

Gary Kelly: The Beginning of Change

- in 2004, Gary Kelly took over as CEO, from CFO
- was a believer in the low-cost culture
- made initial bold moves away from original strategy
 - acquisition of 6 gates at Chicago Midway
 - signed first code-share agreement with ATA
 - entered Philly market, aiming for low-cost
 - added Phoenix to code-share in April 2005
 - added Florida in October 2005
 - added Denver and Washington DC in 2006
- pushed for repeal of Wright amendment which limited carriers providing service out of airports other than DFW
- started adding international destinations in late 2008 with WestJet's flights to Canada, then its own flights
- Added more jets, reaching 683 by the start of 2015, for 93 cities in 40 states and 5 nearby countries
- costs rose from 7.07 cents to 12.6 between 1995 and 2013 per average seat-mile but still below big carriers
- needed further cost reductions but did not want layoffs or fare increases
- competition was increasing in low-fare segment as well
- reconfigured cabins for less legroom to get more seats on each plane
- added Business Select fare in 2007 to allow passengers to be among first 15 on the plane, but this irritated passengers
- added in-flight entertainment and on-demand TV, plus wifi
- abandoned organic growth strategy by acquiring AirTran Holdings for \$1.4B in 2010, opening up Atlanta market for low-fare flights, but only a year later SWA started conceding to Delta
- Added flights to Jamaica and Bahamas in 2014
- lower demand for international crude due to shale oil aided SWA when hedges expired in 2013
- complete elimination of Wright amendment in 2014 helped SWA increase traffic out of Love field significantly, but market share declined
- stocks continued to rise in 2015

SWA needs to decide to continue the low-cost model or continue down the new path of utilizing

consumer surplus