

REPORT 2

EVALUATING LOW COST AIRLINE MODEL: SOUTHWEST AIRLINES

Southwest Airlines is a very successful low cost airline service operating out of USA which started offering air travel at low air fare in the beginning of 1970s. It is known for its point-to-point services which avoids travel to major hubs to get access to connection flights. It is unique in the fact that it has been able to generate profits for the 42nd consecutive year as per its annual report to shareholders for 2014. Its consistent profitability has contributed to its image as a stable participant in the stock markets resulting in increased stock prices over the years recently making it the top performer of the S&P 500 list. Southwest Airlines is the only US Airlines which continues to be investment grade-rated by the three major credit rating agencies. Southwest was recognized as the "2015 Airline of the year" by Air Transport World for its distinguished performance in 2014. For the past 21 years Southwest has appeared in the list of World's most Admired Companies brought out by the Fortune magazine and it is the only airline which was included in the top 10 companies of the list (2014 Annual Report, 2015).

The special services offered by Southwest include vacation deals which offer the best rates for travel as well as accommodation for its customers. While retaining its focus on the provision of low cost services to its customers, the collaboration with other segments which make travel and stay a meaningful experience have increase the overall potential and appeal of the business (Southwest 2015).

The capital of the company is handled in such a way that there is simultaneous focus on both the costs and the revenues. The company resorts to hedging to ensure profitability and protect the airlines against increasing fuel expenses. Priority is given to deriving the maximum out of all the investments, be it maximizing the utilization of the fleet they have at their disposal or in using cost cutting measures while ensuring an enjoyable travel experience to its customers. It employs the method of incremental cost of accounting to provide the customers with the Rapid Rewards Programme. The focus has been to invest only in Boeing 737 aircrafts with a maximum of three crew members and modernizing the existing fleet to cut down on future expenditure. With its recent entry into the international market Southwest hopes to continue to provide air travel at the lowest rates possible. Southwest had a strong cash and short term investment as big as \$3 billion with full access to bank line of credit (2014 Annual Report, 2015).

The unique work culture at southwest ensures satisfied labour which is reflected through its policy of 'Employees first, customer second'. The employees are instilled with the warrior spirit, motivating them to be proactive in providing assistance to the customers and evolving innovative and cost cutting measures to make air travel enjoyable. The cordial workforce is also extended flexible working hours to ensure their job satisfaction and thus in turn improve their work efficiency (Southwest 2015).

For a long time southwest had operated only at mid-sized cities and secondary airports to avoid the congestion at the main airports and also as a cost cutting measure. But recently southwest has reconsidered its practice and acquired some assets from ATA airlines in 2008 at \$7.5 million to gain access to the 14 landing slots it had at La Guardia Airport at New York. It has also acquired slots at

Washington Reagan national. Southwest is seeking to cover new grounds by accessing the areas previously catered to by AirTran which it acquired (2014 Annual Report, 2015).

The entrepreneurship at Southwest focuses on creating a brand name and ensuring that they remain the airlines providing the lowest airfares to such an extent that it has been feared by other low fare airlines that if Southwest reduces its travel fare any further, it will drive the others out of business.

Entrepreneurship has prioritized the fact that luxury can be compromised and alternate entertainment can be provided through low cost measures and by making all purchases while onboard using credit cards only so that all customers are ensured maximum satisfaction. Excluding bags from extra charges, travelling without tickets, allowing pets into the aircraft, not providing complementary meals onboard and maximum utilization of the existing workforce and fleet is done for improving the appeal of its services to the customers (Southwest 2015). The entrepreneurship also ensures that the existing fleet is modernized, the destinations are chosen carefully and in phases such that ticket charges for short distance destinations can be comparable to travel expense by road (2014 Annual Report, 2015).

The technology being relied on by Southwest from the beginning of its services is the Boeing 737. The annual report of 2014 says that Southwest aims to have 700 Boeing 737 aircrafts by the end of 2015. In its attempt to expand its market in the domestic front as well as internationally, Southwest aims to acquire more Boeing 737's in addition to modernizing its existing fleet to avoid unnecessary expenditure and wastage (2014 Annual Report, 2015).

<p style="text-align: center;">Strengths</p> <p>Maximum utilization of fleet Lowest possible airfare rates Satisfied workforce Cordial employees to ensure customer satisfaction Uncontested leader among low cost airlines in USA New international service looks promising New acquisitions have great contributing potential Higher frequency of flights Rapid Rewards Programme</p>	<p style="text-align: center;">Weaknesses</p> <p>Service is limited to low cost air travel Complete dependence on Boeing for its technology International services are few Majority of its employees are members of unions Revenue is mainly dependent on passenger travel alone</p>
<p style="text-align: center;">Opportunities</p> <p>New opportunities being explored through new acquisitions Expanded reach to new international markets and destinations Improving domestic tourism scenario Can start streamlined air travel services in other segments Expand into long distance domestic flight services Increasing preference for air travel whenever possible Explore options beyond Boeing to reduce</p>	<p style="text-align: center;">Threats</p> <p>Increasing competition in the market Fluctuating air turbine fuel prices which are dependent on many geopolitical and weather related developments across the world Similar services provided by the competitors Changing government regulations Ever present fear of terrorism Prevalence of adverse macroeconomic conditions in the country can directly affect the business Unforeseen increase in operational costs can adversely affect the business</p>

vulnerability	Any problem with Boeing can affect the image of the company
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References:

1. Southwest airlines Co *2014 Annual Report to Shareholders* as viewed on 14th November 2015 from southwest.investorroom.com/download/2014+Annual+Report.pdf
2. Southwest *Homepage* as viewed on 14th November 2015 from <https://www.southwest.com/>



EssayCorp 5 years ★★★★★



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