

Southwest Airlines

A review of the operational and cultural aspects
of Southwest Airlines

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Introduction

- Southwest Airlines was established in 1971 in Texas with 3 planes and routes between Dallas, Houston and San Antonio.
- Business model was simply: “If you get your passengers to their destinations when they want to get there, on time, at the lowest possible fares, and make darn sure they have a good time doing it, people will fly your airline.”
- Today Southwest Airlines is the 4th largest airline in the United States servicing 58 cities with a fleet of 366 planes and is on its 29th straight year of profitability.



Class Discussion



Business Model

- ❑ Customers – who are they?
 - ❑ Short haul business travelers who want to get there when they want. In other words offer several flight time choices between cities in close proximity.
 - ❑ Families who decided to take a short flight rather than driving their car the same distance.

- ❑ Low Cost
 - ❑ Average one-way fare is \$83 and it supplies 90% of all discount fares
 - ❑ Concerned with keeping cost low to increase profitability rather than increase market share. Understand specific market niche.

- ❑ Fly Short Distances
 - ❑ Southwest does not use a hub-and-spoke system, but rather flies point to point.
 - ❑ Average flight last just over an hour.

- ❑ Have Fun!!
 - ❑ Typical flight attendant spiel: "Please pay attention to the flight attendant at the front of the cabin. She's either going to be Miss America 2000 or a very bitter runner up."

Employee Culture

- Recruiting
 - Hire for attitude and train for skills
 - Humor taken seriously
 - Hired 6,406 new employees in 2001

- Employees
 - Encourage to assume ownership
 - Hire for life
 - Trust their decisions

- Communication
 - Give employees immediate access to critical information. They have the power to make adjustments to fix significant problems quickly.
 - On-time arrivals, baggage handling, and customer complaints are communicated on a weekly basis.
 - Everyone is focused on customer service and making Southwest a success which allows them to expand outside of “assigned” responsibilities.



Bottom Line

On average 6 seats per flight accounted for profit in 2001.

Market Comparison

- JetBlue is modeled after Southwest
 - Airbus planes with leather seats and satellite TVs
 - Founder also started Morris Air, which Southwest bought in 1993

- American Airlines announces layoffs and restructuring

- US Air declares bankruptcy August 11

- United Airlines expected to declare bankruptcy later this year

- Source: BusinessWeek, August 5, 2002 and August 12, 2002

2001 Selected Financials

	Southwest Airlines	Continental Airlines	American Airlines
all numbers in \$, millions			
Revenue			
Passenger	5379	8457	15780
Cargo	91	512	662
Operational Expense			
Wage	1856	3021	8032
Fuel	771	1229	2888
Aircraft Rentals	192	903	829
Landing Fees	311	581	1197
Maintenance and Repairs	398	568	1165
Depreciation & Amortization	318	467	1404
Passenger Servicing		347	778
Commissions	103	364	835
Net Income	511	-95	-1762
Balance Sheet			
Cash	2280	1132	120
A/R	71	404	1414
Spare Parts	71	272	822
Flight Equipment	7534	6153	14980
Ground Property and Equipment	899	1494	2079

Queuing Theory Applied to Check-in

□ Customer Arrivals

■ Other airlines have wider distribution

- Centered around 0.5 hr. before departure
- Longer tail

■ Southwest encourages early arrival

- Check-in begins one hour before
- Distribution much tighter, short tail on end

□ No Seat Assignments

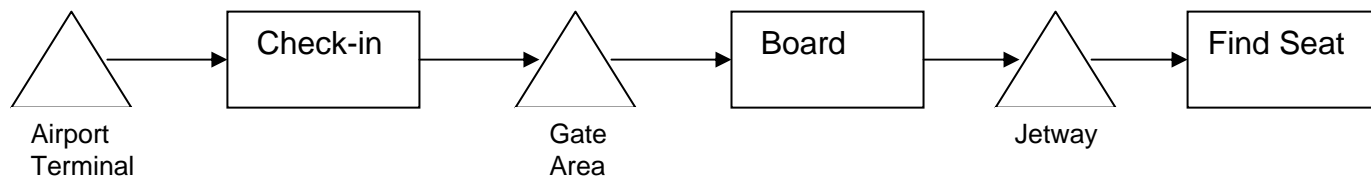
- Service Time
- Quicker seating

Southwest Boarding Pass

SOUTHWEST AIRLINES	BOARDING PASS	SOUTHWEST AIRLINES
Passenger Name		OPEN SEATING
Flight 1234	C	Passenger Name
March 2004		C

Typical 737 Seating Chart

□ Continental Airplane (737)





Southwest 737 Layout

- 13 – 18 seats more than typical layout
- 3 seats to choose from



Point-to-Point vs. Hub and Spoke

□ Hub and Spoke = Batch Process



Point-to-Point vs. Hub and Spoke

□ Point to Point = Line Flow Process

737 Fleet of Airplanes

- Enables point to point route structure
 - Short – medium haul airplanes
 - Small passenger carrying capabilities.
 - Reduced takeoff and landing runway length requirements
- Costs
 - Operating costs 4% lower than other airplanes in its class.
 - Low weight
 - Lower engine thrust ->less fuel ->lower engine maint. costs
 - Lower landing fees
 - Lowest maintenance costs in their class. 35% lower than the A320 as reported by the US Department of Transportation.

737 Fleet of Airplanes

- Maintenance
 - Simple design and low stance easy to maintain and load
 - Engines can be serviced from the ground
 - Bags can be loaded from the ground
 - Ground Crews familiar with airplane
 - Common ground equipment, tools, and manuals for all airplanes
- Flexibility
 - In case of “mechanical irregularities” a one model fleet allows easy substitution with one airplane for another.
 - Simplified fleet management
- Pilots
 - Ease of cross training
 - Any pilot for any airplane
 - Boeing 737-700 design inputs



737-200 Flight Deck



737-700 Flight Deck



SWA 737-700 Flight Deck Option



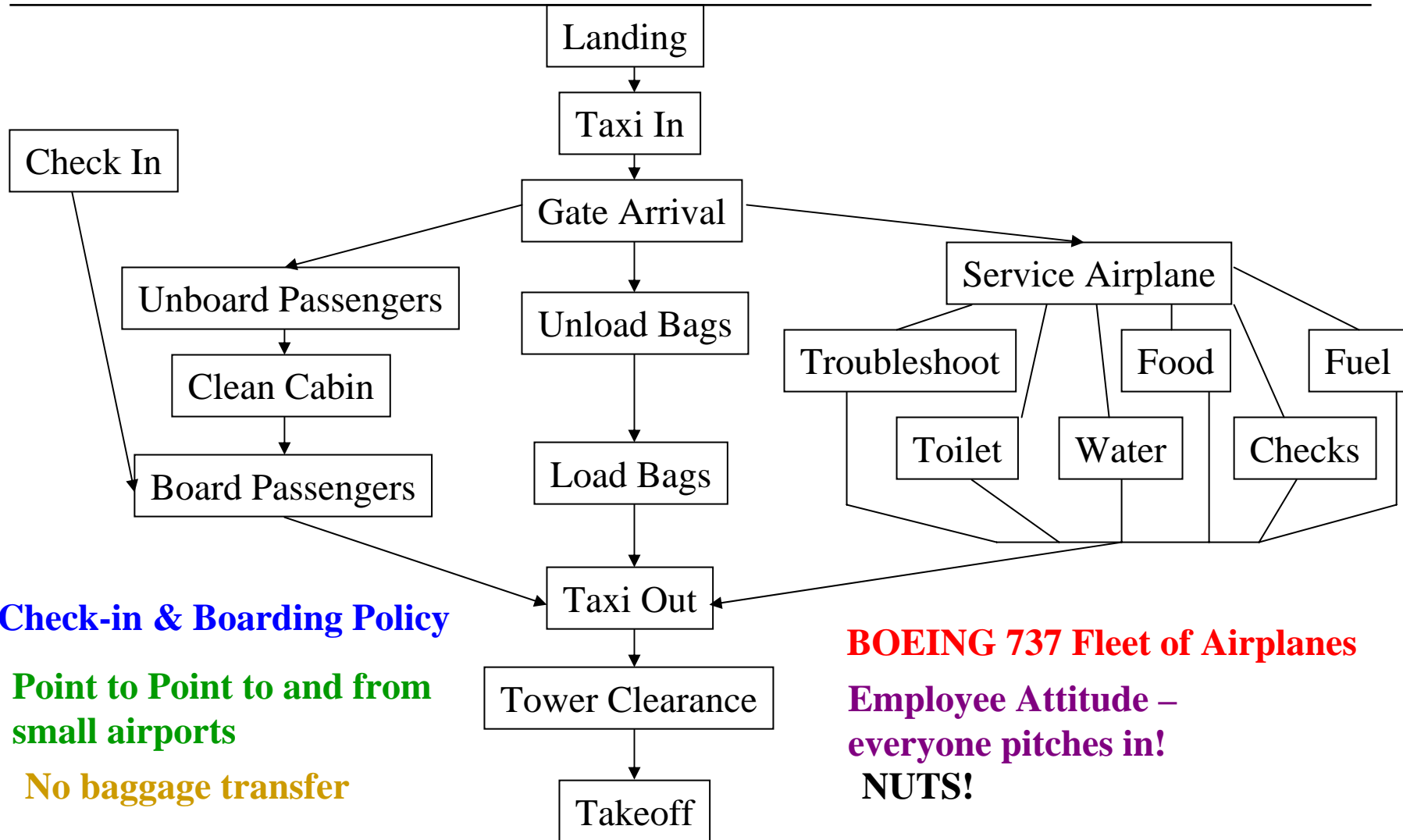
737 Fleet of Airplanes

Reduced number of airplanes means inventory levels can be kept lower

Rapid Turnaround Times

- 20 minute turnaround times
 - 25 minute average
 - 45 minutes – 1 hour industry average
- Everybody does everything
 - Do what it takes to get the airplane out the door
 - Pilots help check in
 - Flight Attendants help clean
 - HIGH OCTAINE!!!
- High airplane utilization.
 - 2 additional hours of flying time per day.

Critical Path Method for Turnaround





Necessity is the Mother of...

- Customer Service = More Customers
- Leveraging System = Competitive Advantage
- High Utilization = Low Cost