

**Southwest Airlines Strategic Analysis**

**Fall 2013**

**Team E:**

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Executive Summary

On October 3, 2013, Olivia Ayala, Melanie Romo, Anthony Sanchez and Melissa Soriano, otherwise known as Team E of the Strategic Management class 489, decided to pursue the company of Southwest Airlines for their strategic analysis.

Currently, Southwest Airlines is one of the most commonly known names in the air travel industry. The company is popular because of its reasonably priced flights and the many discounts they offer their customers. However, many forces drive the changes in the airline industry. These changes were researched by the team. The external environments such as the national organizations that govern the rules of the airlines industry, as well as Southwest’s competitors like Delta are just a few examples.

The internal environment involves performance evaluations, financial resources, technological resources, and capabilities. These areas are all important factors to Southwest’s success, as well as where new inventiveness will be needed.

The group conducted research in all of these areas in order to fully analyze Southwest Airline’s strategic standing. The members of the group looked at a variety of Web sites about the airline industry, as well as Southwest’s own website. These secondary sources helped the group to formulate their opinions about Southwest’s future implementations and initiatives.

The implementations the group decided would be beneficial to Southwest are by transporting more freight and reaching out to immigrants and foreign visitors. These initiatives can help increase Southwest’s market share by reaching a wider customer base and producing higher total operating revenue.

Company Introduction

Southwest Airlines’ mission and vision statements give a glimpse into what makes this company tick. Its mission is to “provide the highest quality of customer service with a sense of warmth, friendliness, individual pride, and company spirit” (Southwest, 2013a, p. 69). Its vision is to “become the world’s most loved, most flown, and most profitable airline” (Southwest, 2013a, p. 3). The company has done a good job of realizing these objectives since it started service on June 18, 1971.

Southwest Airlines was founded in 1967 by Rolling King and Herb Kelleher. It started its operation in1971 covering intrastate Texas cities, Dallas, Houston, and San Antonio. It is a very successful company in marketing due to product, price, place, and promotion. These elements may decide the success and failure of any service firm because any or all of them may influence the customer’s initial decision to purchase a service, as well as the customer’s level of satisfaction, repurchase decisions, and word of mouth publicity. Southwest Airlines is the best example for explaining the importance of people, process, and physical evidence in the success of a service firm. Southwest’s model made it seventh largest US airline by 1993, creating a winning model for profits in airline industry. It is evident from analysis of Southwest Airlines that effective strategies related to people, process and physical evidence help a company to overcome some of its characteristics, thus achieving success.

Environmental Analysis

Airline Industry Analysis

Southwest Airlines operates in the very competitive U.S. domestic airline industry. The product provided by the industry is primarily flights to cities in the United States for business or leisure, but it can also include transportation of freight (Brennan, 2013, p. 2). The main distribution channel is airports throughout the country, and related to that is the means through which customers can purchase tickets, which include the Internet or travel agents. In total, the airline industry consists of 348 businesses, a number that is decreasing due to mergers and firms leaving the industry (Brennan, 2013, p. 7). In 2013, industry revenue and profit were projected to be $138.3 billion and $6.9 billion, respectively. Annual revenue growth in the five years leading to 2013 was -0.3%, while growth in the five years after 2013 is expected to increase to 1.5% annually (Brennan, 2013, p. 3).

Airlines offer a fairly standardized product, so it is important that they differentiate themselves. One way they accomplish this is the level of amenities offered. For example, Delta offers Delta Sky Club in 34 U.S. airports as well as business and first-class seating (Delta, 2013). While Southwest does not offer these same services, the company has used other methods to differentiate itself, including open seating and low ticket cost. Differentiation factors into customers’ decisions to select one airline over another.

Market share for the top five companies falls within a fairly close range, so the industry can be considered fragmented since no single company has a large enough share to influence the industry directly. Southwest is in the middle with 12.4% of the market in 2013. Market shares for its major competitors are as follows: Delta Air Lines Inc., 18.1%; United Continental Holdings Inc., 16.1%; AMR Corporation 10.3%; U.S. Airways Group Inc., 7.7% (Brennan, 2013, p. 24). In November 2013, the proposed merger between AMR and U.S. Airways was allowed, which, if approved by a federal judge, will make it the world’s largest airline in terms of traffic. While experts are still debating the effects of the merger, it may be a possible opportunity for Southwest to gain gates at busy airports that were divested by the two airlines (Nicas & Kendall, 2013).

Major industry customers fall into two groups: individuals/households and business travelers. The former accounts for about 71.3% of industry revenue in 2013, which includes both coach and first class seating. Another 24.6% of the market comes from business travelers. While this group of consumers is smaller than the individual group, it is a desirable segment. According to Brennan, “Business travelers usually pay a premium for their tickets (business class) because payment is usually made under the company’s account or through last-minute bookings that command a higher price” (2013, p.15). However, the size of the private individual/household group gives them power in this industry.

Two major suppliers to the airline industry exist, and their products have the ability to affect the profitability of companies in it. The first is the airplane manufacturers. They have power because few firms supply large jet airplanes to the market. Boeing and Airbus are the two major manufacturers, but their power is somewhat mitigated because they are fierce competitors with each other. Boeing’s 2012 Form 10-K describes the commercial jet aircraft market as “extremely competitive” with “aggressive international competitors who are intent on increasing their market share” (Boeing, 2013, p. 4). At the same time, some airlines such as Southwest, which uses Boeing aircraft, are brand loyal and exclusively use one manufacturer’s product.

The other major supplier group is jet fuel providers. They supply a crucial input to the airline industry, and the price of it heavily determines company profits. According to Brennan, “The Air Transport Association estimates that for every dollar increase in the price of jet fuel . . . U.S. airlines incur an additional $445.0 million in fuel expenses” (2013, p. 6). The volatility of jet fuel price is a threat to Southwest.

Entry barriers are high for the airline industry. Three of the significant barriers are the cost of airplanes and other equipment, the acquisition of skilled labor, and compliance with safety regulations (Brennan, 2013, p.22). Those companies that do enter the industry face increased difficulties from established firms, including their well-established network alliances and contacts, strong track record, and ability to compete on price. While the low-cost model has been successful for new companies, the market is reaching saturation from existing companies, including Southwest Airlines (Brennan, 2013, p. 23).

According to Brennan, substitutes to air travel do exist, but the industry is protected from them based on the price and convenience of air travel. Substitutes include other forms of ground and sea travel such as bus, train, and personal vehicle travel (Brennan, 2013, p. 22). The business segment faces competition from video conferencing, which affects the need for business travelers to physically be in a certain location (Brennan, 2013, p. 14). Overall, though, the airline industry is not heavily affected by these substitutes.

The airline industry faces a medium level of regulation, and this trend is remaining constant. Some of the entities that regulate the industry are the Federal Aviation Administration, the Department of Justice, The Environmental Protection Agency, the Transportation Security Administration, and the U.S. Customs and Border Protection. These entities can issue directives that affect airline operations and profitability. The FAA, for example, has issued maintenance regulations that have resulted in large costs for the airlines (Brennan, 2013, p. 33).

External Stakeholders and the Broad Environment

Examining the external stakeholders and the broad environment of the airline industry is important to understanding the factors that influence both demand and industry cost structure. The major influences of demand can be narrowed down to three of the four entities of the broad environment: economic, technological, and socio-cultural.

The improving U.S. and global economies characterize the economic environment and future trend. This has positively affected the industry as the growth rate in the five years before 2013 was -0.3%, but it has improved to a projected rate of 1.5% after 2013. This is positive for the industry, even though this rate lags behind the rate of growth for the economy in general, which is expected to increase by 2.3% during the same period (Conference, 2013). The major effect of the recovering economy has been increases the confidence and disposable income for consumers and businesses, which enables them to use air travel for vacations and conferences. Another economic factor is the weak U.S. dollar. It has a dual effect of encouraging international visitors to the United States and discouraging U.S. residents from traveling abroad (Brennan, 2013, p. 8). Many international visitors use domestic airlines to reach their final destinations within the U.S.

Technology also influences industry demand. Aircraft design improvements have resulted in increasingly fuel-efficient planes, which is important because the price of jet fuel largely influences firm profitability (Brennan, 2013, p. 8). This trend can have a positive impact for consumers on the fees airlines charge, stimulating demand. In addition, automated systems have affected several areas. Among them are reservations, Web sites, maintenance, and in-flight services. E-commerce and e-ticketing affect operations as well, and the latter has resulted in savings to the global airline industry of $3.0 billion annually (Brennan, 2013, p. 31). In general, technology has resulted in cost savings to the airlines, which can result in competitive prices for consumers and higher industry demand.

The final broad environment factor that significantly affects demand is the socio-cultural area. Airlines can capitalize on increased immigration by accommodating this group of travelers through cultural training for employees and services in their native languages. For example, airlines can offer translation services both when the customers are searching for tickets as well as when they are at the airport. In addition to immigration, the U.S. population is getting older. According to the U.S. Census Bureau, the median age of the U.S. population in 2010 was 37.2, up from 35.3 ten years earlier (2011, p. 5). In addition, the growth rate of the 45 to 64 age group increased at a rate of 31.5%, which is larger than the rate of the 18 to 44 group at 0.6% (U.S. Census Bureau, 2011, p. 2). Both of these areas are opportunities for airlines.

Aside from the broad environment, two additional factors that influence demand are special marketing programs and pricing. Frequent flyer reward programs are important tools used to attract repeat customers. At least one program, American Airlines AAdvantage, allows members to share miles. In addition, pricing is an important tool to attract customers. Airlines frequently advertise discounted fares, especially on their Web sites, and famous price wars often increase consumer demand. However, this occurs at the expense of airline profitability. Regarding fares, Brennan reports, “Southwest Airlines is the largest U.S. airline based on the number of passengers, indicating that consumers are increasingly choosing cheaper options” (Brennan, 2013, p. 7).

Industry cost structure is influenced by several factors. One is the stage of the product life cycle. The airline industry is currently in decline even though companies are spending funds for new aircraft and other machinery. However, level of technical developments has slowed from previous models. According to Brennan, competition has resulted fewer opportunities for firms to expand services. This has in turn increased the rate of mergers and decreased the number of firms operating in the industry (Brennan, 2013, p. 11).

The medium level of capital intensity also affects industry cost structures. Firms have high capital requirements, but that is partially offset by the role labor plays in the industry. The acquisition of airplanes is a large source of the capital requirements, and most choose to own the asset rather than lease it. Firms have the ability to further reduce the need for non-flying and maintenance labor by investing in communications equipment, computerized booking systems, and packing equipment (Brennan, 2013, p. 30). It is important that airline industry firms have full flights to mitigate the higher level of capital purchases.

A couple of stakeholder groups within the task environment have influence in the industry, which also affects cost structure. The first group is unions. The airline industry is highly unionized, with Southwest airlines having the highest level on unionization among major airlines (Brennan, 2013, p. 26). In addition, airlines must be cognizant of environmental groups that are putting pressure on U.S. companies to increase their level of green initiatives. Brennan reports, “Over the longer term, capital investment in the industry should increase with . . . demand for high-quality, safe and green travel options” (2013, p. 31). Being aware of these groups allows airlines to take advantage of opportunities and minimize threats to operations.

Industry Strategic Issues

Analyzing the strategic issues that are facing the airline industry is also important. It begins with industry driving forces, continues to threats and opportunities, and concludes with the factors that are necessary for survival and success. The purpose of this analysis is to recognize important forces to the industry and therefore the organization (Harrison and St. John, 2004, p. 161).

According to Harrison and St. John, driving forces of any industry “are trends that are so significant that they are creating fundamental industry change . . .” (2004, p. 161). At this time, the airline industry does not appear to have any forces that are creating this level of change. It is currently in the decline stage of the product life cycle. Qualities of this stage include slow revenue growth and technological developments, reduced number of competitors, and segmented and stable products and brands (Brennan, 2013, p. 10). Although technology has impacted the industry, there does not appear to be any factors that fit the definition listed above.

The volatile price of jet fuel is a constant threat for the airline industry. This can significantly affect profits. While the price of fuel is expected to decrease in 2013, the price can fluctuate, so it remains a threat to the industry.

Opportunities for companies in the industry are varied. One is the increase in corporate profit expected in 2013. When business customers earn higher profits, it positively affects demand for flights (Brennan, 2013, p. 4). Per capita disposable income is also expected to increase at a slow rate in 2013 (Brennan, 2013, p.5). Since most industry revenue comes from this source, it represents another opportunity for airline companies. Trips within the country by both U.S. residents and non-U.S. residents are expected to increase in 2013 (Brennan, 2013, p. 5). Both of these trends indicate that demand should increase for flights, and airlines have the opportunity to increase market share or earn more money by taking advantage of this opportunity.

Safety is the cornerstone of survival in the airline industry. The story of ValuJet demonstrates its importance for airline survival. The company experienced safety issues in in the mid- to late 1990s with over 50 emergency landings in both 1995 and 1996 and an accident rate that was high both among low-fare airlines and also the major (legacy) airlines. It culminated with the crash of Flight 592 in the Florida Everglades on May 11, 1996. In 1997, the company merged with the parent of AirTran, which was acquired by Southwest Airlines in 2011 (ValuJet, n.d.). This story demonstrates that safety is a requirement for the industry as well as an important element of success.

Brennan lists six factors that are key for success in the airline industry. The first is to have the highest capacity possible for flights. The second is on-time performance. Third is internal processes, which include the airline’s reservation system. Fourth is the ability of the airline to control costs. Fifth is the airline’s flexibility when the economy changes. Finally, success is highest for those companies that use implement the latest technology. Without these six factors, airline performance and profitability are reduced (Brennan, 2013, p. 19).

Future Trends

As world travel continues to grow, so must the industries within it. Southwest Airlines is focusing on making environmentally responsible decisions, or using a green filter (Southwest, 2013a) as well changing their aircraft to more fuel-efficient vessels. Southwest has become focused on waste management and recycling.

Creating a green-filtered corporation has become a priority for many airline companies. Southwest has taken steps in order to guarantee that they are living up to their economic responsibility. Southwest has created a waste management and recycling system that has helped reduce the amounts of waste volumes from landfills. They have “diverted more than 9,800 tons of materials from landfills since August 2008, which is the equivalent weight of 233 Boeing 737-700 aircraft” (Southwest, 2013a). Southwest aims to have a 2.5% per year, for a total 10 percent improvement in materials recycled levels. This creates an improvement in Southwest’s appeal to customers because it shows that they are concerned with the environment, while it also gives them a positive public image.

Southwest is one of the first of the airline industry to use electronic ticketing to help reduce the use of paper (Virgin Vacations, 2013). This was one of the first steps for Southwest to become a green company. This trend of becoming environmentally conscious is spreading to the rest of the airline industry. Virgin Atlantic Airways and Delta have both taken steps into creating a green corporation. Delta has partnered with Nike to donate money to an organization that offsets carbon dioxide emissions. Every time a Nike employee flies on a Delta airline, the two companies donate to the organization (Virgin Vacations, 2013). Virgin Atlantic chairman Richard Branson has offered a $25 million prize to the company that can come up with a solution to removing greenhouse gases, as well as committing profits from the transportation industry to discovering a new renewable energy source (Virgin Vacations, 2013). These companies are all trying to improve their environmental standing in order to lessen their carbon footprint, and create a positive image to society.

Becoming environmentally friendly has become a key asset to many companies. This issue is important to many people. Traveling involves a lot of fuel, which many people are trying to lower. By becoming green, an airline can add that in its advertising allowing them to become more popular to consumers. Google is now partnered with The Earth Day Network, in this partnership Google allows “travelers to search for, view, and book all parts of their trips, from hotel to car rental, using ‘Green’ businesses” (Virgin Vacations, 2013). By becoming part of this select few, Southwest has increased its chances of gaining more consumers. Becoming green is a trend that will continue to grow and change the companies around us. The travel industry will most defiantly be affected by these changes because of their use of fossil fuels. Southwest is becoming prepared for the future by making these changes today.

Organizational Analysis

Internal Environment

This section outlines the strengths and weaknesses that exist in Southwest Airlines’ internal environment. Southwest faces many of the same obstacles that other airline companies in the 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, it is evident that Southwest has employed a strategy founded on exploiting internal strengths and reducing internal weaknesses.

Performance Evaluation

The heavy reliance on customer revenue during a time when customers were spending less had a significant effect on the firm’s profits. Although the airline rebounded by building on its strengths, Southwest should look at expanding services in to other areas of the airline industry to remain competitive. Instead of having over 95% of revenue from customer transport, Southwest should expand on the growing air freight 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.

Resources

Financial Resources: Southwest has always managed revenue well. In fiscal year 2011, the airline generated $985 million with an operating income of $262 million. It also had a very good credit value.

Physical resources: The size of Southwest’s fleet was 698 Boeing 737-717 aircraft.

Technological resources: Southwest believes in cutting additional costs, achieving business objectives, and maintaining efficient operations. The company first introduced ticketless travel, and it intends to continue devoting significant technology resources to accommodate the introduction of the 737-800 into the Southwest fleet and to implement a new reservation system that will allow the company to add international destinations while improving revenue management and customer service functionality. Finally, the company’s Web site is responsible for 46% of its revenue, and the Web site has the one of the largest number of clicks per day among all the airlines.

Capabilities

Management: The management of Southwest is considered one of the most dynamic of all time.

Distribution: By April 2011, Southwest was operating in about 73 cities in United States. The growth plan has been conservative with only a few cities being researched and added each year. According to the company’s 2012 Form 10-K, Southwest began service in 2012 to two new states and six new airports, while in the current year the company planned to add service to Maine and Kansas as well as airports in Branson, MO; Charlotte, NC; Flint and Grand Rapids, MI; Rochester, NY; Portland, ME; and Wichita, KS. In addition, Southwest added service to San Juan, Puerto Rico, its first destination outside the continental United States (2013b, p. 1).

Marketing: Southwest aggressively promotes its product and brand. Recent campaigns have focused on the fact that the airline does not charge fees for up to two checked bags. The company in its 2012 Form 10-K says, “Through its ‘Bags Fly Free’ marketing campaign, Southwest has continued to aggressively promote this point of differentiation from its competitors” (2013b, p. 12).

Human Resources Management: Southwest maintains good relations with its employees. Its hiring policy is unique within the airline industry, and it revolves around finding people with the right attitude that will thrive in the company culture. Extensive procedures are used to screen for positive attitude and dedication from its employees.

Financial Ratios and Analysis

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Comparison of Selected Financial Ratios, Dec. 2012 (Morningstar, 2013)** | | | | | | |
|  | **Southwest** | **Delta** | **United** | **American** | **U.S. Airways** | **JetBlue** |
| **Profitability** | | | | | | |
| **EPS** | 0.56 | 1.19 | -2.18 | -5.60 | **3.28** | 0.40 |
| **Return on Assets** | 2.30 | 2.29 | -1.91 | -7.92 | **7.19** | 1.81 |
| **Return on Equity** | 6.07 | -- | -63.23 | -- | **135.53** | 7.02 |
| **Gross Margin** | 49.38 | 40.94 | 45.39 | 51.84 | 47.05 | **55.58** |
| **Net Margin** | 2.46 | 2.75 | -1.95 | -7.55 | **4.61** | 2.57 |
| **Liquidity** | | | | | | |
| **Current Ratio** | 0.91 | 0.62 | 0.78 | 0.76 | **1.08** | 0.68 |
| **Leverage** | | | | | | |
| **Debt-to-equity** | **0.47** | -- | 23.35 | -- | 5.54 | 1.30 |

An analysis of 2012 key ratios for Southwest Airlines and its main competitors reveals that Southwest has solid financial performance even though the company does not have the highest ratios. In the area of profitability, U.S. Airways is the top performer with ratios that are several times higher than Southwest’s, but the latter remains a profitable company. The current ratio, a measure of liquidity, is a strong area for Southwest. It is the second highest performer among the list of companies and shows that it should be able to meet its short-term debt. Finally, Southwest does not appear to be a highly leveraged company as evidenced by its low debt-to-equity ratio. Among the competitors, it has the lowest value for this ratio.

Southwest’s strong financial position continues in the current year. In October 2013, the company reported record third quarter earnings of $259 million. In addition, the company expects solid bookings for November and December, but the recent government shutdown negatively affected unit revenues (Maxon, 2013). Southwest’s financial performance should come as no surprise as it has been profitable for 40 consecutive years, “a remarkable feat unmatched in the U.S. aviation industry” (Southwest, 2013a, p. 5).

Strategic Initiatives

Current Strategic Initiatives

As a company that operates in a highly competitive environment, Southwest Airlines recognizes that it must plan several years in advance to maintain its competitive advantage. The company is currently in the midst of implementing its own strategic initiatives that focus on five areas: AirTran integration, Rapid Rewards changes, fleet modernization, new aircraft purchases, and reservation system improvements (Southwest, 2013a, 25).

Since purchasing AirTran in May 2011, Southwest has been busy integrating it into its corporate environment. Highlights from the integration include converting AirTran aircraft to Southwest livery, working with unions from both companies to resolve issues, and having former AirTran-served cities become Southwest-served destinations (Southwest, 2013a, p. 8). The company plans to have spent total acquisition and integration costs of $550 million when integration is complete in 2014 (Southwest, 2013a, p. 25).

Changes are also occurring with Southwest’s frequent flyer program, Rapid Rewards. The changes are customer driven because they give customers different ways to earn and redeem points under the program. For example, there are no blackout dates, and customers earn points based on dollars spent rather than flights taken. Although Southwest initiated the changes in March 2011, it expects positive benefits in the coming years through increased revenue from new Rapid Rewards members, existing customers, and partnerships with hotels, rental cars, credit card, and retail companies (Southwest, 2013b, p. 7-8).

Another major part of Southwest’s strategic initiative is a fleet modernization to save on maintenance and fuel costs while making it a more green company. In replacing its older 737-300s and 500s as well as retrofitting newer aircraft, the company hopes to reduce fuel and other operating costs while being more environmentally sustainable. In addition to the Boeing 737-800 discussed shortly, purchases of the Boeing 737 MAX are a large part of this initiative (Southwest, 2013b, p. 9).

Related to fleet modernization is the company’s purchase of Boeing 737-800 aircraft. This larger model offers more seating capacity as well as interior features such as LED lighting and a quieter cabin. In addition, it enables the company to fly longer trips more efficiently and economically. This offers the potential to fly to further destinations such as Canada, Mexico, Hawaii, Alaska, and the Caribbean (Southwest, 2013b, p. 10).

Finally, Southwest is making improvements to its reservation system in preparation for international flights in 2014. The company has chosen Amadeus IT Group to implement the system. After this is complete, Southwest is planning to revamp its existing domestic reservation system to incorporate the international changes. In addition, these changes are expected to “allow for other customer service, revenue management, and schedule-production capabilities” (Southwest, 2013b, p. 10-11).

In total, these five major initiatives of Southwest’s five-year plan should help it reach its goal of 15% pre-tax return on invested capital by increasing revenue, reducing costs, and improving customer service (Southwest, 2013b, p. 6).

Proposed Strategic Initiatives and Implementation

Southwest Airlines is a well-run company. It has performed well financially for over 40 years, and it is consistently recognized as one of the world’s most admired companies by *Fortune*, many of those years in the top ten (Southwest, 2013a, p. 3). Additionally, it has its own strategic plan in place to guide the company for the next five years. These items increase the challenge of finding new frontiers for the company to make more money and increase market share. Ways for the company to accomplish this follow.

The first way Southwest can make more money and increase market share is by transporting more freight than it currently does. In 2012, freight represented $160 million of total operating revenue, or 0.94%. This was an increase of 15.1% over the previous year (Southwest, 2013b, p. 76). According to Brennan, this segment has been “increasing steadily over the past 10 years” even as it fluctuates with the economy as a whole (2013, p. 13). There is room for Southwest to capitalize on this segment of the market by harnessing its own strengths.

The company currently has over 3,700 daily flights, including AirTran, to 96 cities in 41 states and it currently transports freight through its Southwest Cargo segment (Southwest, 2013c). To implement increasing its transportation of freight, Southwest will perform an advertising blitz during peak shipping seasons such as Christmas to notify consumers of this service and emphasize its strength in these advertisements. The company must emphasize that it can generally deliver a package to a destination the same day while providing the level of customer service that customers have come to expect from Southwest.

The second way Southwest can make more money and increase market share is by increasing its outreach to both immigrants and foreign visitors. As noted in the environmental analysis, a socio-cultural trend is increasing immigration to the United States as well as more visitors from outside of the country.

The Brookings Institution provides statistics regarding immigration in the United States that, while likely affected by the recent recession, are relevant information when evaluating this possible strategic initiative. In general, these statistics paint a picture of the increased impact of immigration on the U.S. It begins with the country being home to one-fifth of the world’s immigrants, which results in a substantial percentage of U.S. population growth coming from immigration (Wilson, 2009, s. 2). From 2000-2005, about 42% of population growth came from net immigration, while the remaining 58% was from natural increases (Wilson, 2009, s. 5). Immigrants also formed roughly 15.7% of the country’s labor force (Wilson, 2009, s. 6). One final statistic is that 52.4% of foreign-born immigrants have limited English proficiency, which is an opportunity for the company to assist this group of potential travelers.

While the impact of these statistics may not be surprising, Southwest can further its efforts to be the airline of choice for all people traveling within the United States by providing enhanced accommodations to these travelers. Implementation of this strategic initiative starts with the company’s Web site because that is the first contact many travelers today have with the company. In addition to English, the company currently offers a Spanish version of its Web site, southwest.com, but it can capitalize on the growing number of immigrants from Asia. According to Wilson, more than a quarter of immigrants now come from that continent (2009, s. 9). Translating southwest.com to Japanese, Vietnamese, Korean, and Chinese dialects will help the company accomplish it.

The second component of implementation occurs when customers are at the airport or in the air. In gateway metro areas, ones in which there are high numbers of immigrants or visitors from other countries, all employees who directly interact with customers must be bilingual, speaking English in addition to another language. For employees who speak only English, the company can provide second-language training through a Web-based platform. For the purposes of this initiative, the three most important gateway metro areas are New York (5.3 million immigrants), Los Angeles (4.5 million), and Miami (2.0 million). These are all metro areas that Southwest currently serves.

The metro areas listed above, in addition to others such as Dallas, Houston, and Seattle, are also gateway cities for foreign visitors starting their travel to other U.S. cities, such as Albuquerque and Tucson. The U.S. Department of Commerce estimated that the total number of international visitors to the United States increased from 51.0 million in 2006 to 61.4 million in 2011, an increase of 20% (U.S. Department of Commerce, n.d.). Visitors from other countries use domestic airlines to reach their final destination in the Unites States, so this is an important way for Southwest to capitalize on this trend by demonstrating to these visitors that they value their business.

A final way for Southwest to earn more money and increase market share is for it to expand into the hospitality industry with a division called Southwest Hotels. The plan is to purchase or build value hotels near major airports and use its recognizable brand name to attract customers. Since the hospitality industry is related to the airline industry, the company can capitalize on its current strengths to obtain a high occupancy rate.

While Southwest Hotels will provide clean, comfortable, and affordable accommodations to all passengers, it would cater to business travelers and offer amenities geared for this segment. It starts with a business center where guests can make copies, fax documents, or participate in conference calls. Also within the hotel is a car rental company so that travelers can quickly and easily rent a car to reach their destinations. A complimentary shuttle to the airport will get passengers to and from the airport and hotel. Within each hotel is a Southwest Airlines courtesy desk with convenient flight and baggage check-in. Although this is new territory for the Southwest, it has the strengths to make this endeavor a success.

Conclusion

Southwest Airlines has been flying high since it was founded over 40 years ago. After reviewing the company’s history, the industry in which it operates, and its own internal strengths, the company does not show signs of slowing down. Despite having its own five-year strategic plan in place to navigate the challenging U.S. domestic airline industry, there are still ways the company can earn more money and gain market share. Our team members have suggested ways that include increasing its outreach to immigrants, transporting more freight than it currently does, and entering the hospitality industry through Southwest Hotels. These things will enable the company to continue to fly high for years to come.

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