STRATEGIC Plan

Jessica L. Eden

Ernestina Lujan

Team C

New Mexico Highlands University



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Executive Summary

Jessica Eden and Ernestina Lujan; Team C for Strategic Management 489 decided to research Southwest Airlines to formulate a strategic plan for the company to help with future endeavors.

Southwest Airlines is one of many options in the airline industry; and as a result felt the need to set themselves apart by strategic management and company spirit. The importance of providing employees with not only a job but a career anyone would be proud of is crucial to Southwest Airlines’ success.

New implementation plans will help Southwest Airlines continue to stand out from other airlines. LUV 1st promotes open communication throughout departments to help maintain functionality of aircraft and strengthen the company spirit of helping each other. This new strategy will minimize time lost on delays related to the “Air Carrier” and increase percentage of “On-Time” flights.

Another suggestion is the acquisition of a hotel chain to more effectively serve Southwest Airlines customers both in the air and on the ground. The purchase of a hotel chain will not only save on the cost of building new facilities but also provide a smooth transition for existing employees of the chain further investing and enforcing the Southwest Airline corporate culture of valuing its employees.

In addition to Southwest Airline Hotels we suggest Southwest Airlines work with airports in need of revitalization in order to create Southwest Airline Lounges for travelers as a way to further show appreciation for flying Southwest Airlines. This project will not only benefit Southwest Airlines, the people they serve, but also the surrounding areas of the airport as a facelift could provide additional revenue not only through retail space but also in the architecture of the updated wing. The updates should reflect the culture, spirit, and history of the people in the area to spark interest in travelers who might re-visit the location on a personal trip.

Another recommendation for Southwest Airlines to take into consideration is the wing design that The National Aeronautics and Space Administration (NASA) and Boeing are working on in order to design aircraft that use less fuel and put off less emissions than current aircraft.

# History of the Company

Air Southwest was founded on March 15, 1967 by Rollin W. King and Herbert D. Kelleher beginning its service in Dallas, San Antonio, and Houston, TX with three Boeing 737 aircrafts. On June 18, 1971 the company changed its name to Southwest Airlines, and now services 100 destinations and operates more than 3,800 flights a day within the US and internationally, including: District of Columbia, Mexico, Jamaica, The Bahamas, Dominican Republic, Costa Rica, Cuba, Belize, Aruba, and the Commonwealth of Puerto Rico. Southwest Airlines was the first to offer a frequent miles program, a convenient service for frequent flyers to save air-miles-traveled to use for a free ticket or credit towards a reduced fair. Since its inception, Southwest Airlines has been committed to providing exceptional customer service, stable work for employees, and profitable return on investment for its shareholders.

Southwest Airline’s board of directors includes: David W. Biegler, J. Veronica Biggins, Douglas H. Brooks, William H. Cunningham, PhD, Presiding Director, John G. Denison, Thomas W. Gilligan, PhD, Gary C. Kelly, Chairman of the Board and CEO, Grace D. Lieblein, Nancy B. Loeffler, John T. Montford, J.D., Ron Ricks, Vice Chairman of the Board. Southwest Airlines believes work should be fun, work is important and should not be spoiled with seriousness, and people are important and each person makes a difference. The company’s motto is simple: employees come first and customers come after them. Keeping employees happy then causes them to keep the customers happy.

# Vision Statement

Southwest Airlines vision is to expand locations both domestically and overseas by being the largest and most profitable airline company to achieve both short- and long-haul carriers efficiently and at a low cost. Additionally, to be an airline carrier with the most productive workforce to guarantee the best flight possible for each and every passenger. This vision statement is the perfect model for airliners and Southwest Airlines has cornered the market and provides an affordable ticket price to enable people from all walks of life to travel.

## Mission Statement

The mission of Southwest Airlines is dedication to the highest quality of customer service delivered with a sense of warmth, friendliness, individual pride, and company spirit. This is done through achieving the highest standards of honesty to ensure passengers, employees and stockholders are getting the best possible results. The company spirit asks employees to work hard, strive to be the best, to be courageous, always display a sense of urgency, and to persevere and be innovative. This is done by putting others first, treating everyone with respect, and embracing the Southwest Airlines Family.

### **Formulating a Plan**

Southwest Airlines realizes employees are its greatest asset but its second greatest asset are the customers so there are always opportunities to improve. One way in which Southwest Airlines will outshine other airlines is through implementation of an open communication system “LUV 1st,” in which aircraft and Southwest Airline employees will be in constant communication with each other in order to reduce the time lost with maintenance and fueling. This will allow absolute certainty that baggage and freight are on the correct flights, thus minimizing plane routes to get items to their proper destination. LUV 1st will show the employees that when they work together and do not prioritize their own personal agendas but make the travelers top priority, by taking such care of the aircraft, it will help to diminish lost time in “Air Carrier Delays” which will result in more “On-Time Flights”.

In addition to LUV 1st, Southwest Airlines should consider installing lounges in the top 10 airports based on daily departures as of December 31, 2016; Chicago Midway, Baltimore-Washington, Denver, Las Vegas, Dallas Love Field, Phoenix, Houston Hobby, Atlanta, Los Angeles, and Oakland (New Records, New Adventures. (n.d.)). The Southwest Airline Lounges will be a way for the company to show their appreciation for their valued flyers and a way for airports to take advantage of the revitalization of a terminal in the airport. Another option for Southwest Airlines to consider is to reach out to airports that currently have terminals for Southwest Airline that are in need of updating due to outdated furnishings or the need to better serve more customers.

Chart 1 references Southwest Airlines flight status for July, 2017 for all 100 airports in which Southwest Airlines services. The U.S. Department of Transporation’s (DOT) Bureau of Transportation Statistics (BTS) helps give flyers an up-to-date breakdown of large air carrier U.S. domestic flights. If the flight is more than 15 minutes late then it will fall under one of several categories (Bureau of Transportation Statistics, n.d.). Air Carrier delays are cancelations or delays due to instances that are within the control of the airline such as maintenance or crew issues, cleaning, fueling, and baggage loading. In July they accounted for 6.64 percent of delays. National Aviation System (NAS) delays or cancelations are instances beyond the carriers grasp such as heavy flight traffic, airport operations, and non-extreme weather conditions. Aircraft Arriving Late delays create a domino effect, when one flight is late departing or upon arrival and it pushes other aircraft schedules back causing delayed flights. Extreme weather delays such as a tornado, hurricane, or blizzard could potentially prevent the flight altogether or simply delay the departure. Security delays are caused by having to evaucate a terminal or concourse and having to re-board.

Chart 2 references JetBlue Airways flight status for July, 2017 for all 107 airports in which JetBlue Airways services. Comparing the on-time percentage for Southwest Airlines (74.29 percent) and JetBlue Airways (63.49 percent) you will see that Southwest Airlines is ahead by 11.43 percent. Southwest Airlines needs to increase their on-time percentage and the best place to start is with situations within the air carrier’s control such as Air Carrier Delays which enevitably lead to Aircrafts Arriving Late (Bureau of Transportation Statistics, n.d.).

### **Strengths**

Internal Strengths: Southwest Airlines has never had a lay-off, while others in the industry experience frequent lay-offs. Colleen Barret of Southwest Airlines says it best, “We’ve always seen our competition as the car. We’ve got to offer better, more convenient service at a price that makes it worthwhile to leave your car at home and fly with us instead.” Southwest Airlines recruitment and selection process is unique, focusing more on attitude than on skills, and team spirit is an absolute must. A hiring panel is used and includes customers tasked with looking for people-oriented, gregarious applicants, with a good sense of humor.

Competitors might view Southwest Airline’s choice to only fly the Boeing 737 in the fleet as a limitation for flyers who prefer luxurious options such as first class, but this is viewed as a strength by Southwest Airlines to ensure the ability to stay true to the company mission of offering low priced flights to customers and cutting operating costs. A business model that will soon be mirrored by other airlines in hopes of following Southwest Airlines model and essentially bringing market shares up. When flights are scheduled with few or zero connecting flights it leaves a small margin of error for delayed flights caused by Air Carrier Delays which enevitably lead to Aircrafts Arriving Late.

Only flying Boeing 737s helps minimize the spare parts inventories, makes maintenance scheduling for aircrafts easier, and is a bargaining chip for obtaining the best price for aircraft from Boeing. Management makes good acquisitions for the company such as the purchase of AirTran on May 2, 2011 which expanded Southwest Airlines by 25 percent, obtaining 52 Boeing 737s. By acquiring AirTran, Southwest Airlines chose to remain competitive against other airlines that could have just as easily purchased the airline, and opened up first international destinations to Mexico and the Caribbean (Mouawad, J.).

Southwest Airlines’ dedication to customer satisfaction stems from the ability to get travelers from point a to point b with little to no delay. Part of this ability can be attributed to low-cost solutions such as not offering a wide range of amenities such as first class, meals, and many drink options. The airline also stands out because of its open seating policy, when boarding the plane any open seat is available to sit in whereas other air-carriers have assigned seating. By offering a single coach cabin which is fairly roomy due to the fact that they did not cram it behind a first class cabin allows staff to quickly clean and restock the aircraft getting it underway in a timely manner (I, 2015).

### **Weaknesses**

Internal Weaknesses: Southwest Airlines does not have an airport lounge for its travelers, as other airlines do. Additionally, inflight service is limited to complimentary soft drinks, juices, coffee, peanuts or pretzels. Beer, wine, and cocktails are also options for a fee. On select Southwest Airlines flights WiFi is available for $8 but with limitations; access to high-bandwidth websites such as Netflix, HBO Go, and VoIP are prohibited as they slow down the network. Delta offers free WiFi messaging through the same applications as Southwest Airlines; iMessage, Viber, and WhatsApp, however, Southwest Airlines charges $2. Southwest Airlines does not have screens built into seatbacks or overhead and some would view this as a weakness but airlines may begin to phase the screens out due to the fact that customers preferring to use tablets and smartphones for their entertainment (Mele. 2017). In not having the screens Southwest Airlines has saved money because the hardware and wiring add weight to the aircraft and require bulkier seats to house the devices. The heavier the aircraft is the more lift is needed and as a result there is more drag to overcome, requiring more thrust which is generated through more fuel. (Woods, B 2014). Southwest Airlines currently only offers 14 international destinations, whereas competitor Delta Air Lines has 43 international destinations.

### **Opportunities**

External Opportunities: Southwest Airlines saw an opportunity at Kansas City International Airport (KCI) to update the Southwest Airline terminal while also improving the functionality of the airport allowing for more flights in and out of the Southwest Airline terminal. The airport itself for instance must be able to provide travelers with decent amenities such as food, beverages, places to sit, proper restrooms, and retail options (Sisneros, 2017). KCI terminal layout was severely lacking in these as the airport was built for a short curb drop off and even shorter walk to the gate to reach a flight. The new and improved terminal will incorporate Kansas City’s cultural heritage in addition to the ability to comfortably host travelers while waiting for their plane to arrive (A New Look for KCI, 2017). Updated terminals will not only help give a wonderful impression to travelers of the surrounding areas but also allow Southwest Airlines to increase flights in and out of the airport.

Southwest Airlines admitted that being able to fly travelers from point a to point b is a huge part of the experience but there are other things to take into consideration. Another way Southwest Airlines can extend its reach is through the hotel industry. No other airline has yet to delved into the hotel business and this would be a wonderful way for Southwest Airlines to further distinguish itself from competitors. Southwest Hotels would not only be ideal for business travelers but also for the family vacation. Currently you can book a flight, hotel, and rental car through Southwest Airline’s website. If the company were to expand into the hotel industry Southwest Airlines could combine the travelers frequent flyer miles and their hotel stays to increase the traveler’s benefit of flying and staying with Southwest Airlines/Hotels. That way the traveler could easily keep track of not only their travel miles but also their hotel stays, Southwest Airline/Hotel could alert the traveler through the Southwest Airlines app when they have for instance reached the rewards for a free flight or free stay at any of the Southwest Airlines Hotels. The convenience of only having to keep track of one reward program would be a major incentive rather than at each different hotel the traveler stays at.

Yet another way Southwest Airlines can stand out is through work with NASA and Boeing in attempts to design wings that will cut fuel usage in half (NASA, 2016). Not only will this new wing design be a cost saving measure for the company in fuel but it will also appeal to consumers who are becoming more conscious of their purchases and wanting to spend money on companies who are conscious of their environmental impact. The wing design is thinner, longer, and lighter than those used currently and will create less drag which will reduce fuel and emissions.

### **Threats**

External Threats: Oil prices could be a potential threat, when prices skyrocket people are less inclined to travel. Leisure travel could decline with a poor economy, terrorism, and additional transportation options becoming available. Terrorist attacks typically cause a slump in tourism abroad and air travel. Tourists fears are heightened by attacks and this typically alters where, when, and if they will travel to a destination. Due to the March, 2016 terrorist bombings in Brussels, all airlines suffered a loss, however since Southwest Airlines currently does not offer many international flights, this does not impact the airline as much but it still fell .8 percent. Another major threat to the airline business is high speed-rail travel. Elon Musk is working on a project in Maryland that will provide transportation between New York and Washington in just 29 minutes (Cox & Grantz, 2017). The underground transit cuts travel time in half as the current flight time from New York City to Washington D.C. is roughly 43 minutes but passengers using the underground transit would not have to worry about losing their luggage or weather delays.

##### **Stock Exchange**

As previously mentioned, Southwest Airlines has never been close to filing a Chapter 11 bankruptcy and since being listed on the New York Stock Exchange in 1977 has delivered an annual average of returns at 17.5 percent compared to the markets average of 11 percent (Tully, 2015). Much unlike American Airlines which filed for bankruptcy as a means of cutting costs and as a result had to reduce flight schedules which resulted in downsizing its employees (C., 2011).

##### **Goals and Objectives**

Goal 1: Guarantee customers the best customer service while in the air or on the ground. This can be accomplished in the air through LUV 1st initiative of making sure everything stays on schedule, and on the ground through the implementation of Southwest Airline Lounges so valued flyers feel appreciated for their choice of flying Southwest Airlines. But customer service does not have to stop when the flyer leaves the airport. Through Southwest Airlines Hotels flyers can feel that sense of familiarity and comfort they have become accustomed to while in the air and throughout their entire travel experience. Always be ready to help customers under any circumstances and make sure flyers get to their destinations in a safe and timely manner.

Goal 2: Another key component of Southwest Airlines’ success is its theme of “Leadership in a Diverse World” as Gary Kelly Chairman and CEO alleges: “I don’t think it’s enough to just respect diversity, and I don’t think you can simply just be open to it. You have to embrace it,” (Grasso, 2015). Kelly attributes Southwest Airline’s success to the culture of the company by taking care of the employees and maintaining the lowest fares and the ability to fly people from any financial background. Ellen Torbert; Vice President Diversity & Inclusion aids efforts to promote diversity, diverse recruiting and training and oversees 46,000 people from diverse backgrounds and helps keep everyone together. Kelly notes many companies have like-mindedness groups as an example; Mexican-American group or a lesbian, gay, bisexual, and transgendered group (LGBT). Southwest Airlines strives to keep communication open from executive leadership to employees in attempts of brining everyone together rather than self-segregation (Grasso, 2015).

##### **Prior Year Accomplishments**

Southwest Airlines donated $20 million in travel and cash to nonprofit organizations in addition to Southwest Airlines employees volunteering 144,596 hours. Consumers are more conscious of their purchases and are more likely to purchase from companies who are green and socially responsible. This percentage increase is up from 55 percent in 2014 to 72 percent in 2015 of consumers that are more apt to purchase from companies who are socially and environmentally responsible (Nielsen Global, 2015).

Southwest Airlines has the largest fleet of Boeing aircraft in the world as of October 1, 2017. Southwest Airlines added four new destinations; Long Beach CA, Havana, Varadero, and Santa Clara Cuba. 2016 was our 44th consecutive year of profitability with a net income of $2.24 billion $3.55 per share (New Records, n.d.).

##### **Awards and Leadership**

Ranked 8th in 2017 Most Admired Companies in the World List *Fortune Magazine (23rd consecutive year),* Awarded Domestic Carrier of the Year *Airforwarders Association (7th consecutive year),* Named Best Low Cost Carrier in North America *Premier Traveler (3rd consecutive year),* #30 100 Best Corporate Citizens in 2016 *Corporate Responsibility Magazine*, 2016 Airline Program of the Year for our Rapid Rewards Program *InsideFlyer,* Names 2016 Most Valuable Employer for military *CivilianJobs.com,* Ranked #13 Best Employer in 2016 *Forbes,* Won Best Airline in North America in Social Media *Simpliflying.* In 2008 Southwest Airlines received 199,200 resumes and hired 3,350 new employees (New Records).

##### **Conclusion**

Southwest Airlines has been with us 51 years and holding strong and shows no sign of faltering. After reviewing the companies’ strengths and growth opportunities it is clear Southwest Airlines should consider pampering its frequent flyers with airport lounges. One way to do this is to work directly with airports that are in need of revitalization as was the case with the Kansas City International Airport. In addition to acquiring a merger of a prominent hotel chain in the industry in order to save on building costs, hiring and training employees, this will save Southwest Airlines time and money in starting Southwest Airlines Hotels.

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