South West Airline

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# **Summary**

South West Airlines started its operations in 1971 as an airline that was restricted to smaller airports of the country. To date, it has become one of the major players in the Airline industry of the US. Factors like increased fuel prices, economic downturns, and decrease in demand have not affected it a great deal. Rolling king and Herb Kelleher were the two initial owners of the airline. The main concerns of the people were the travel time between Texas and Dallas. There were a large number of barriers to the start of a new airline, and most of these were posed by the existing airlines in the US. In 1971, the South West airline was launched. The airline stopped offering the drinks at the day time to the passengers to become a low cost, no benefits airline. In 1972, the airline shifted from one airport of Houston to another that was much closer to the main city and this rewarded the company in the form of increased revenues. The advertising campaign on the San Antonio Dallas route paid off huge benefits for the company and it was able to report a profit for the first time in 1973 (Taylor, 2019). The airline expanded further on the basis of lower charges and in almost all the cases, the revenues of the company increased. The success story started under the leadership of Kelleher who resigned as CEO in 2001 and the airline had 30000 employees by then. The basic strategy applied by the Airline is cost leadership that has helped it to keep its profits higher. In a highly competitive industry like air travel, it is necessary that the South West airlines implement this strategy successfully over a long period of time. The continuous payment of dividend to the shareholders is also a representative of the success of the airline.

# **SWOT analysis**

## **Strengths**

 The major strength of the airline is the point to point flying technique as opposed to the hub and spoke technique. This technique allows the airline to keep the planes on their destination airports and also to take the reverse flight quickly. In the other type of operations, there is a central hub from where all flights are operated. This strategy allows the airline to operate return flights within twenty minutes.

There is excellent coordination within the company regarding the direction in which it has to go. The lowest cost strategy is very well backed up by the excellent marketing strategies and customer service (Bundguard, Bejjani, & Helmer, 2006).

## **Weaknesses**

 Some of the markets in which the airline is working are already congested and the airline is facing problems in managing these markets.

 The Boeing 717 planes have been outdated and are less cost-effective, especially in terms of fuel.

## **Opportunities**

 The major opportunity for the airline is presented by the busiest airports of the world which have not been catered as yet

 Some facilities can be provided to passengers like free Wi-Fi and showing some live sports events.

## **Threats**

 The major threat for the company is the fluctuation in the prices of petroleum, which is also affecting the ability of the company to run as the lowest cost operator in the industry.

 Various regulations from time to time also present a considerable threat to the airline.

# **Financial analysis**

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| **Ratio** | **Value** |
| Quick Ratio | 1.16 |
| Current Ratio | 1.56 |
| Total debt to equity | 0.3 |
| Gross Profit margin | 27.35% |
| Net profit margin | 18.56% |
| Return on Assets | 4.69% |
| Return on investment | 5.62% |
| Return on equity | 9.04% |
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Almost all the ratios for the company have been good. The current and quick ratios have shown the short run debt-paying ability of the company. The percentage of debt to equity is also very low which shows that the airline is not indebted hugely. Both gross and net profit margins are in double figures showing that the airline is making good profits after deducting all the expenses from the revenues. The investors will also be satisfied as the airline is offering a return on investment worth 5.62%. The consistent payment of a dividend is also a positive sign for investors (Hawkins, Misra, & Tang, 2012).

## **Strategic Issues**

The major issue faced by the airline is the maintenance of the lowest cost advantage over a longer period. This is because certain other airlines have entered the market with the same lowest cost strategy.

The relationship between labor and management also pose strategic challenges for the airline because there have been many strikes by labor.

The airline can lose some of its regular customers due to certain factors including no pre-assigned seats for the customers.

## **Recommendations for strategic issues**

To maintain a competitive advantage in the various markets, the airline should continue to deliver the highest level of customer service. This will allow the airline to keep the customers intact. Passengers may change to other airlines if they feel uneasy finding the right place to sit. Thus, the airline should allow specific seats to its passengers.

The airline should come up with a reward system which will give points to those passengers who travel very frequently on the same routes. These rewards can then be extended to all routes.

The customers having discounted tickets should be allowed to use their tickets even if they get late for their designated flights. Presently, the passengers have to pay the difference between the discounted price and original price if they cannot catch up on the designated flight.

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