**Student Name:** A\_\_\_\_\_ G\_\_\_

**Company Name:** Southwest Airlines Co.

**Industry:** 481111 - Scheduled Passenger Air Transportation

**Market:** NYSE

**Symbol:** LUV

**Revenue (values in 000’s):** $20,425,000

**TOWS MATRIX**

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| --- | --- | --- |
|   | **Internal Strengths (S)**1. Relationship building and employee motivation.2. Standardization of fleet.3. Customer satisfaction rankings4. High number of departures and capacity utilization | **Internal Weaknesses (W)**1. Oil hedging strategy2. Conservative growth strategy3. Unionization of workforce |
| **External Opportunities (O)**1. Increasing income and growth of Hispanic population.2. Technology advances in the airline manufacturing industry.3. Increase in online marketing, promotions and reward programs.4. Baby Boomer leisure travel. | **SO** | **WO** |
| **External Threats (T)**1. Domestic and international terrorism.2. Threats from low-fare competitors.3. Remote working and video conferencing.4. Increasing world prices of crude oil. | **ST** | **WT** |

**SO STRATEGY**

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|  | **EXTERNAL FACTOR EVALUATION MATRIX (EFE)** **U.S. Aviation Industry** |

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| **KEY EXTERNAL FACTORS** | **WEIGHT** | **RATING** | **WEIGHTED SCORE** |
| ***Opportunities*** |
| 1. Increasing income and growth of Hispanic population
 | .20 | 3 | .60 |
| 1. Technology advances in the airline manufacturing industry
 | .10 | 4 | .40 |
| 1. Increase in online marketing, promotions and reward programs
 | .05 | 3 | .15 |
| 1. Baby Boomer leisure travel
 | .15 | 2 | .30 |
|   |
| ***Threats*** |
| 1. Domestic and international terrorism
 | .15 | 2 | .30 |
| 1. Threats from low-fare competitors
 | .15 | 1 | .15 |
| 1. Remote working and video conferencing
 | .05 | 4 | .20 |
| 1. Increasing world prices of crude oil
 | .15 | 3 | .45 |
| **TOTAL** | **1.00** |  | **2.55** |

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**OPPORTUNITIES**

1. **Increasing income and growth of Hispanic population**

 According to an article in Fortune, recent data from the U.S. Census Bureau shows an increase in average household incomes, mostly thanks to higher employment levels and number of combined paychecks per household (Donnelly, 2017). Although the numbers are still below the income levels prior to the financial crisis in 2008, the biggest change in recent years is the growth in the Hispanic population and their household incomes. According to the article, their average household income grew by 4.3% in 2016, meaning that the so-called Latinx population is becoming one of the most important demographic groups for the airline industry. Southwest Airlines Co. started seizing this opportunity over a decade ago, when, in addition to several promotions and grassroots campaigns aimed at Hispanics, they launched a Spanish version of their website, called Vamonos, in 2004 (Southwest Airlines Co., 2004). In 2014, Southwest began operating their first international routes to the Caribbean, and later added flights to Mexico and Costa Rica as well. Because of their low prices, high customer service, and point-to-point route offerings, Southwest is likely to become one of the frontrunners when it comes to attracting Hispanic consumers.

1. **Technology advances in the airline manufacturing industry**

 Keeping up with innovation and improvements in aviation technology can not only lead to cost savings through fuel efficiency, but also can also reduce maintenance costs for the airlines and increased operation efficiency (Cederholm, 2014). Many airlines today also offer in-flight Wi-Fi, which is especially important for business travelers, and inflight entertainment such as movies, TV shows and games for longer routes. Southwest offers WiFi for their travelers at a cost of $8 per day, which, although it doesn’t result in any significant increases in revenue for Southwest, is much cheaper than competitor Delta, which offers the same service for $16 per day. Southwest also leads the industry when it comes to low maintenance costs. Since they only operate one type of aircraft, the Boeing 737-800, maintenance is both cheaper and more effective since they only have to train their employees on one type of aircraft. Southwest is currently in the process of replacing their existing fleet with the new 737 Max, and although it is very similar to its predecessor, it boasts with better fuel efficiency, noise reduction and it can fly longer routes (Shine, 2017).

1. **Increase in social media marketing, promotions and reward programs**

 Since the beginning of the 21st century, the increasingly widespread use of the internet has allowed airlines to not only make their booking systems simpler to use and more easily available to millions of consumers, but also to market their services online, resulting in increased brand recognition and customer loyalty through social media and reward programs. Some of the biggest airlines in the world are also frontrunners when it comes to their social media strategies (Ashraf, 2015). Southwest uses its social media platforms to connect with and listen to their consumers, and they have a discussion board on their official website where employees and customers alike can share their stories, currently with over 100,000 members, which helps strengthen the Southwest community.

The airline also recently revived its “Wanna Get Away” slogan, which encourages travelers to share embarrassing moments they wish they could have gotten away from (Slefo, 2016). There are also countless videos online with Southwest flight attendants rapping or singing the safety announcements, emphasizing the values Southwest holds at its core: friendliness, a sense of warmth and having fun. Their Rapid Rewards program offers customers reward flights on any day of their choosing, and it is easy to earn points through flights as well as from everyday purchases, and the points never expire.

1. **Baby Boomer leisure travel**

Despite representing half of the U.S. population in 2017, the Baby Boomer generation is relatively overlooked and underserved in this industry, as airlines place most of their efforts on attracting younger consumers through competitive pricing, online booking and high-tech in-flight amenities. As the people born between 1946 and 1964 retire, they suddenly have both money and time to travel, and according to AARP’s Travel Research: 2017 Travel Trends, 99% of Boomers will go on at least one leisure trip in 2017, with the average being as many as five trips planned for the year (Gelfeld, 2016). Instead of solely focusing on millennials, the airlines should put a lot more effort into servicing their parents, as they will represent an enormous portion of passengers in coming years.

Southwest recently spent $500 million on updating their online booking system, but for many Boomers, personalized service is of the utmost importance. Although there is no indication that Southwest Airlines Co. is currently better at targeting this generation than its competition, going forward, Southwest should try to customize both the booking process and their rewards program to cater to Boomers, in order to conquer this consumer segment. While many go on international “bucket list” vacations, most Boomer trips are domestic, and relatively brief in nature, a travel format which is somewhat of a Southwest specialty.

**THREATS**

1. **Domestic and international terrorism**

Since 9/11, with the rising threat from terror groups across the world, many of which have made those threats into reality, the aviation industry has responded by taking every safety measure possible to make sure that hijackings are made nearly impossible, while the terrorists come up with new ways to harm people in airports and tourist spots around the world. Unfortunately, this has had its effect on the U.S. airline industry, with about 10% of Americans stating that they have canceled trips because of terror threats and attacks, which has eliminated over $8 billion in revenue for the travel industry, according to a survey performed by YouGov (Burke, 2015). In recent years, Southwest has come under fire from the public several times after having responded to concerned passengers’ suspicions of other passengers, and while putting safety first is always important, racial profiling is not the answer. Other than removing passengers from flights, the safety concerns are mostly the responsibility of the airports, meaning that there aren’t that many more precautions Southwest can take with this issue, other than keeping their prices low and service high to encourage people to fly despite their fears.

1. **Threats from low-fare competitors**

In the 1990’s, thanks to a prospering U.S. economy, air travel had become safer and more accessible to the average consumer than ever before, and the major players in the industry did their best to stay competitive through high service, comfort and amenities, despite the fact that the days of glamourous air travel were already long gone. From out of what seemed like nowhere, there came an airline that managed to force its competitors to cut their prices in every market the airline penetrated. Experts called it the Southwest Effect (Mutzabaugh, 2016).

While Southwest Airlines Co. is technically still regarded as the leading low-cost carrier in the airline industry, the company has spent a lot of time and capital in recent years trying to compete for market share with the big dogs, and meanwhile, smaller budget airlines such as Jet-Blue, Frontier and Spirit, that Southwest has possibly been overlooking out of pure arrogance, are suddenly presenting a whole new front for Southwest to battle with. While Southwest has been forced to increase their prices since the latest financial crisis, mainly because of its failed fuel hedging strategy, these “no-frills” budget airlines are competing for the low-budget crown that Southwest once wore, by using the very same strategy. To combat this threat, Southwest should focus more on staying ahead of the low-cost carriers with a similar business strategy as theirs, instead of competing with Delta and United.

1. **Remote working and video conferencing**

Domestic business travelers make up a big portion of the market for the airline industry, logging 457 million individual trips for business purposes and accounting for $307.2 billion in revenue for the airline industry as a whole in 2016 (U.S. Travel Answer Sheet, 2017). Although a high number, it is nearly 2 million fewer trips than prior to the financial crisis in 2008, and while this can partly be attributed to reduced corporate spending, the rise of virtual meetings have reduced the need for business travel, especially in the years since the crisis thanks to rapid technological innovation. While Southwest only offers one seating class on their flights, the lack of a business class section is compensated for with the high quality of customer service, low price for on-board WiFi, and point-to-point routes. Since meetings are constantly cancelled or pushed around, another perk of using Southwest for business travel is their “free ticket change and cancellation” policy, allowing business travelers a lot more flexibility. The Southwest Rapid Rewards loyalty program also makes it easy for business travelers to collect and redeem points from frequent flying, and they have their own corporate booking website called SWABIZ.

1. **Increasing world prices of crude oil**

One of the key external drivers for the airline industry is the world price of crude oil. The prices of oil are extremely volatile, and according to a report from IBISWorld, the prices are expected to rise in 2017, and steadily increase over the next five years, potentially posing a great threat to the airline industry (Sayler, 2017). Between 2000 and 2008, Southwest saved $3.5 billion through their strategy of hedging fuel costs for years ahead, a strategy which no other airline could compete with. Unfortunately for Southwest, the past few years have seen declines in oil prices, and the airline has suffered great losses because of it (Levine-Weinberg, 2016). Hopefully, future increases in oil prices will reduce the company’s hedging losses, and their new fleet of more fuel-efficient aircraft will perhaps soften the blow.

**Conclusion**

 According to the External Factor Evaluation, with a score of 2.55, Southwest Airlines Co. are slightly above average when it comes to forecasting and effectively seizing opportunities in the industry, as well as protecting the firm against external threats. If Southwest manages to capture what are most likely the two most rapidly emerging consumer segments of the decade, the profits generated would be able to lessen the financial blow caused by their fuel hedging strategy.

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|  | **INTERNAL FACTOR EVALUATION MATRIX (IFE)** **Southwest Airlines Co.** |

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| KEY INTERNAL FACTORS | WEIGHT | RATING | WEIGHTED SCORE |
| ***Strengths*** |
| 1. Relationship building and employee motivation
 | .20 | 4 | .80 |
| 1. Standardization of fleet
 | .10 | 4 | .40 |
| 1. Customer satisfaction rankings
 | .15 | 4 | .60 |
| 1. High number of departures and capacity utilization
 | .15 | 3 | .45 |
| ***Weaknesses*** |
| 1. Oil hedging strategy
 | .10 | 2 | .20 |
| 1. Conservative growth strategy
 | .15 | 1 | .15 |
| 1. Unionization of workforce
 | .15 | 2 | .30 |
| TOTAL | 1.00 |  | 2.90 |

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**STRENGTHS**

1. **Relationship building and employee motivation**

It is no coincidence that Southwest Airlines Co. has been listed on Glassdoor.com as one of the best places to work for years, as they have spent over four decades building a company culture where employees will go the extra mile for the passengers, all with a smile on their faces while doing so. Not only does Southwest publically praise employees that have gone above and beyond in servicing their passengers on a regular basis, but they have also realized the importance of uniting their workers around a common purpose. For example, when the time came to update the design of the Southwest uniform in 2016, Southwest asked their employees, regardless of department, to contribute with ideas, resulting in a more functional and comfortable uniform than ever before (Thomas, 2016).

Earlier in 2017, Southwest Airlines Co. also made a news release announcing its intention to share $586 million of the 2016 profits with their 54,000 employees, which equals approximately 6 weeks’ pay per employee (2017). Although many other airlines have tried to copy Southwest’s successful business strategy, they have never been able to imitate its core values, which can all be attributed to founder Herb Kelleher. He refers to his competitors’ attempts to copy his ideas by saying that “They can buy all the physical things. The things you can’t buy are dedication, devotion, loyalty—the feeling that you are participating in a crusade” (Gallo, 2014).

1. **Standardization of fleet**

One of the unique things about Southwest’s business strategy is the choice to operate only one type of aircraft, the Boeing 737 series. While this gives Boeing a strong leverage over the company, it has also enabled Southwest to remain cost efficient, because workers only need to be trained on one type of aircraft (Greess, 2015). This means that if a pilot is sick, any other Southwest pilot can step in, resulting in fewer cancelled flights. It also increases efficiency because every employee, from maintenance workers to flight attendants, knows their way around every plane. Moreover, standardization of the fleet means that only one type of each part and tool is needed in inventory, and it improves the chance that any part needed to solve a malfunction will be readily available.

1. **Customer satisfaction rankings**

Southwest continuously manages to top the industry lists when it comes to pleasing their passengers. The North America Airline Satisfaction Study, which measures customer satisfaction based on performance in factors such as services, aircraft, crew, check-in and booking procedures as well as boarding and baggage handling, placed Southwest Airlines Co. in shared first place with Alaska Airlines this year (2017). Despite Southwest’s slim offerings when it comes to amenities and travel customization, their superior level of service in all categories mentioned above gives them a competitive advantage in the industry. In addition, Southwest also manage to steal this year’s top spot in YouGov BrandIndex’s annual holiday travel satisfaction rankings away from Virgin America (Marzilli, 2017).

1. **High number of departures and capacity utilization**

Southwest currently serves the highest number of passengers in the airline industry, mainly because of their low prices, but also due to their strategy of overbooking flights to increase capacity utilization. At the beginning of the third quarter of 2017, Southwest’s load factor, meaning their ability to fill seats, was 87.17%, according to the Bureau of Transportation Statistics (2017). Southwest also operates over 4,000 departures a day, which is quite the staggering number for an airline that operates mainly domestic routes, with each plane averaging nearly five flights, or 11 hours in the air, every day (“Corporate Fact Sheet”, 2017). Their point-to-point strategy results in lower operating costs, because the shorter distances flown allows for more flights per aircraft and day, and higher utilization, both in terms of seats filled and daily flights, results in lower fixed costs for the airline.

**WEAKNESSES**

1. **Oil hedging strategy**

One of the areas that Southwest has taken quite the risk in is with their fuel purchases. Although the company’s aggressive strategy to hedge jet fuel saved them billions of dollars between 1999 and 2008, it has become a great liability for the airline in recent years because of falling crude oil prices worldwide. In the first half of 2016, Southwest’s hedging losses totaled $484 million, and their CFO, Tammy Romo, predicted that the losses would land at approximately $550 million in 2017 (Levine-Weinberg, 2016). Despite currently being in the process of replacing its fleet with the more fuel-efficient Boeing 737 Max, it is extremely unlikely that this move will be enough to cover the losses in the short run, considering that the acquisition of new planes will result in astronomical costs for the airline.

1. **Conservative growth strategy**

Despite being the largest American airline in terms of number of passengers, Southwest’s sales growth is very low, averaging 5.46% over a five-year period in comparison to industry average at 41.85% (“Southwest Airlines Co”, 2017). The Southwest executives want to continue with Southwest’s winning business strategy while proceeding with caution, but there are several steps that could be taken to increase growth for the airline that carry relatively low risk. One example of this is the deliberate choice to be the only prominent U.S. airline to not sell tickets through third-party booking sites, which could be a great way to attract new customers and increase revenue, despite the small fee attached to the process, especially because Southwest’s cheap tickets would most likely show up in the top search results (White, 2015). Southwest’s too-careful management are also behind the slow expansion of their route offerings to South and Central America, despite a rapidly growing Hispanic consumer base, and the recent upgrade of their reservation system for the first time in 30 years, despite it being the only means through which passengers can book their tickets. This upgrade came only after a glitch in the old system that caused 2,000 cancellations over the course of several days (Kelleher, 2016).

1. **Unionization of workforce**

Despite Southwest’s dedication to employee satisfaction, their encouragement of employees to join labor unions seem to have backfired lately. In “Why Southwest Airlines Is Struggling Through the Summer.”, author Kevin Kelleher writes that in 2016, four unions that represent over 2/3 of the company’s employees demanded the resignations of Southwest’s CEO and COO (2016). Additionally, in 2017, the president of the airline’s largest labor union Transport Workers Union penned a letter which attacks top management for intolerable working conditions and mistreatment of employees, all of which Southwest’s board of directors brush off as maneuvers by the unions in order to win contract negotiations that have been ongoing for years. If this battle continues, it could prove severely detrimental to Southwest Airlines’ reputation, and, subsequently, the value of the LUV stock.

**Conclusion**

 The IFE score of 2.90, which is only slightly above average, shows that while Southwest Airlines Co. has been successful at establishing itself as one of the highest ranked airlines in the industry in most aspects related to customer satisfaction and cost efficiency, there are quite a few weaknesses that the company is struggling with that need to be dealt with quickly, or they could potentially become very damaging for the company. Although their business model has proven to be a winning concept for years, Southwest executives must work harder on keeping up with innovation and be willing to take a few more risks in order to stay both relevant and profitable, as well as taking the war that the unions are waging on the airline more seriously than they are at present.