Financial Strategy for the Southwest Airlines

Introduction

Southwest Airlines was instituted in 1967, initially as Air Southwest by Rollin King and Herb Kelleher and assumed the present name in 1971. It has grown from a small airline to one of the prevalent in the industry in the US as well as in the world. It is considered the leading low-fare carrier in America. Additionally, it is also a major carrier for domestic flights. Ever since its inception, the airline’s profits have gradually been increasing. Its operational policy is based on the knowledge that clients made choices based on the ticket cost. That has put the company at an advantage. Notably, unlike all its other competitors, it has survived several crises among them energy calamities, the September 11 attack by terrorists and even the great global recession of 2008-2009 (Gittell, 2003).

However, some major changes in the industry have affected the airline negatively, posing as challenges to the revenue generated. By the year 2009, the legacy carriers in the nation had gained ground and big mergers concerning some major airlines were shaking up the business. Moreover, some other smaller airlines were challenging Southwest Airlines with the concentration on low-fares and passenger responsiveness. Internally, in 2011, the airline had to deal with the consequences of a merger with AirTran. They had to assimilate a labor force of in excess of 8000 and control a fleet of airplanes different from the normal Boeing 737 they were used to (Ruppel, 2009).

*Key Issues*

Inside every component of its commercial tactic, Southwest pursued to distinguish itself by simplicity. In its initial years, the diversity was plain. The company did not provide meals onboard. There was no assignment of seats or first class package. In addition, there was also no harmonization with other air companies. Outstanding customer service is one of the ways Southwest lingers its clamp on the place market of low-fare commercial air travel. Southwest’s marketing has always placed the airline with low prices that endorsed regular, convenient travel (Gittell, 2003).

*Mergers*

When the company bought Air Tran Airways, it faced a problem in integration of the operations and culture. That posed a challenge to the company. it was not easy to acquire the new changes from the merging process. A lot of care had to be involved to ensure that the merger did not work against the company. The reason why it was a difficult task to take in the changes was because the Air Tran Airways was also a large company that had its unique procedures of operations. In addition, the market base became bigger for the new company. The operational expenses became higher because of the rise in the number of the flights involved. Also, the number of employees increased tremendously.

*Competition*

The company faced stiff competition from the upcoming companies in the industry. For instance, the Jet Blue poses a challenge to the success of the Southwest Company. Its substantial marketing and low preliminary fares started a pricing conflict with incumbent airlines. In addition, the company has to survive in the international market amid the rising competition. Many companies have come up with new methods of satisfying customers. Although the Southwest Company is not left behind, the situation is now different from the past when it was the largest Airline company in the US. To be able to maintain low costs and evade severe competition, it focused most of its initial extensions on medium-sized towns and subordinate airfields of big cities.

*Threats*

The cost of operations for Southwest airlines is a factor that poses as a hazard. These costs include increasing labor costs and fuel costs. The airline also has to deal with increased expenses in regards to passenger security. In response to the September 11 terrorists’ attacks, laws and orders were introduced to enhance security. Southwest can be unable to pass on the costs to customers since it embarks on low-fares and have to cater for the security costs and purchase anti-weapon structures (Gittell, 2003).

Different competitive factors in the market can also affect the customer preference for Southwest. While the airline holds price as the competitive aspect for clients, some passengers may feel different. They may be more oriented to the frequency of flights and the suitability of scheduling, travelling safety and security protocols and even the customer service. These factors can determine the number of customers who prefer Southwest over other airlines (Slack, Orife, & Anderson, 2010).

*Recommendations*

Clearly, Southwest airline has penetrated many of the utmost lucrative markets. Nevertheless, there continues to be numerous other opportunities for expansion. By maintaining its present operational approach, the airline can adopt an amplified consideration on gaining market share by antagonistic extension expediting its low liability levels whereas the remaining industry stays moderately weak. The airline should concentrate on penetrating the cities where they have not entered, upsurge occurrence in current markets, and in the long run look for destinations within the continent and perhaps overseas. Moreover, they can focus on acquisitions and mergers which will not only help them expand but it will also reduce their competitors. By steady attention on operational competence and cost regulation, Southwest will linger on as profitable and vibrant (Slack, Orife, & Anderson, 2010).

In addition, the company should put in place a strategic plan that will ensure that it does not run into losses when rough times come about. For instance, when doing any merger, it should be with a company that is operating at almost the same level as the company. That will ensure that the employees absorbed have the relevant skills and will not necessitate retraining. Moreover, the company should do away with any procedures that do not seem to add any value to its operations. It should ensure that responsibilities are assigned based on specializations. Surplus personnel could also be eliminated (Gittell, 2003).

References

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