Marketing Excellence Southwest Airlines

Southwest Airlines debuted in 1971 with little money but lots of personality. Marketing itself as the LUV airline, the company featured a bright red heart logo and relied on outrageous antics to generate word of mouth and new business. Flight attendants in red-orange hot pants served Love Bites (peanuts) and Love Potions (drinks). Today, it is Fortune’s seventh-most admired company in the world.

How did a small-budget airline accomplish so much? Southwest’s business model is based on streamlining its operations, which results in low fares and satisfied, loyal consumers. The company uses a point-to-point routing system, flying thousands of shuttle trips between different pairs of airports or “points” and carrying more passengers per plane than any other airline. Each aircraft averages 6.25 flights a day, flying for almost 12 hours. Southwest can accomplish such a feat because it avoids the traditional hub-and-spoke system and has extremely fast turnaround. In its early years, it turned planes around in less than 10 minutes. Today it averages 30 minutes—half the industry average.

Southwest’s unique boarding process also helps expedite departure. Instead of getting assigned seating, passengers are put in one of three groups (A, B, C) and given a number when they check in. Group A boards first and in numerical order (for example, A1–A30). Once on board, passengers may sit anywhere they like.

Southwest also saves by flying only Boeing 737-700s and 737-800s. This simplifies the training process for pilots, flight attendants, and mechanics and lets management substitute aircraft, reschedule flight crews, and transfer mechanics quickly and effortlessly.

One of Southwest’s biggest cost savings techniques is its strategy of purchasing fuel options years in advance. Jet fuel is an airline’s largest expense and now accounts for 35 percent of operating costs versus 13 percent just a little more than a decade ago. Many of Southwest’s long-term contracts allowed the airline to purchase fuel at $51 per barrel, a significant savings especially during the 1990s and 2000s when oil spiked past $100 per barrel. Analysts estimate it has saved more than $2 billion this way.

Southwest also improves its fuel efficiency by making its planes lighter. Crew members power-wash the jet engines each night to remove dirt, planes carry less water in bathrooms, and seats have been replaced with lighter models. Because the airline consumes approximately 1.5 billion gallons of jet fuel each year, every minor change adds up.

Southwest has expanded by entering new markets other airlines overprice and underserve. These usually include secondary cities with smaller airports, whose lower gate fees and reduced congestion promote faster turnaround and lower fares. The company believes it can reduce fares by one-third to one-half whenever it enters a new market, and it expands every market it serves by making flying affordable for more people. Southwest acquired Air Tran in 2011 for $1.4 billion, expanding its consumer base and adding new destinations like Richmond, Memphis, and cities in Mexico and Puerto Rico, its first international locations.

Southwest has pioneered unique services and pricing programs such as same-day freight service, senior discounts, Fun Fares, and Ticketless Travel. The airline was the first with a Web site, the first to deliver live updates on ticket deals, and the first to post a blog. In recent years, it has added revenue through premium ticketing features like premium boarding positions at the gate and early bird check-in, which automatically assigns the best seat possible.

Throughout Southwest’s history, its advertising has focused on low fares, frequent flights, on-time arrivals, and a top safety record. The company uses humor to convey its warm, friendly personality. Its tagline, “Ding! You are now free to move around the country,” was a parody of in-flight announcements. The lighthearted attitude carries over to entertaining on-board messages, crews who burst into song in the terminal, and several personalized aircrafts, including three painted like flying orca whales.

Despite its no-frills service, Southwest wins the hearts of customers. The company consistently ranks at the top in customer service for airlines and has the lowest ratio of complaints per passenger. It has been Fortune magazine’s most admired U.S. airline since 1994 and one of its five best places to work. Southwest’s financial results also shine; the company has been profitable for 41 straight years, with no layoffs despite a travel slump created by the slow economy and fears of terrorism. When other airlines started charging for baggage, drinks, and snacks, Southwest went against the tide with a “bags fly free” policy.

Although the hot pants are long gone, Southwest’s NYSE stock symbol is LUV, and red hearts are found across the company, embodying the idea of employees “caring about themselves, each other, and Southwest’s customers.” “Our fares can be matched; our airplanes and routes can be copied. But we pride ourselves on our customer service,” said Sherry Phelps, director of corporate employment. In fact, having a sense of humor is a selection criterion for hiring. As one employee explained, “We can train you to do any job, but we can’t give you the right spirit.”

Questions

Southwest has mastered the low-price model and has the financial results to prove it. Why don’t other airlines copy Southwest’s model?
What risks does Southwest face? Can it continue to thrive as a low-cost airline when tough economic times hit or other airlines mimic its business model?