

Lessons from Southwest the amazing airline company

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Southwest airlines facts

- 86 million passengers, (max in USA)
- 3200 flights a day
- Owns 544 planes
- Serves 69 domestic cities in USA
- While leading airline operators have lost \$55B in the last decade, Southwest continues to make profit for the last 40 years
- Only consistently profitable player in the worst business in the history of business!



Accolades

- Has been in top 10 Most admired companies list of Fortune for many years
- In 2004
 - They earned \$442m more than all other US airlines combined.
 - Their market cap was bigger than all competitors combined!
- Post 9/11 it had the only investment grade debt rating of any airline tracked by S&P.



Return to investors

- It was the best performing stock from 1972-2002 according to Money magazine
- According to Herb Kelleher (Promoter and first CEO), “If you had invested \$100,000 in 1972 in Southwest, it would have grown to \$102 million by 2002



How do they do it?

- Here there are a LOT of lessons for all of us!



Maniacal focus

- Always focus on the main purpose:
 - Democratize the skies to give rank and file Americans freedom to fly
- Quirky and old fashioned
- Symbol of cutting edge business leadership in USA
- Redefine the terms of competition by embracing one of a kind ideas
- Developed an entirely different way to be in a difficult business



Game changer in air fare

- Relentlessly focused on low fares
- 'Cookie cutter' method of moving into a new city , sharply cutting fares and driving up traffic
 - After it entered Baltimore-Washington in 93 fares dropped 70% and passenger traffic increased seven fold!
- Dept of Transportation in 93 report:
 - 'The principal driving force behind dramatic fundamental changes that have occurred and will occur in the US airline industry over the next few years is the dramatic growth of low-cost South West airlines.'



Legendary customer service

- On time , reliable and fly where people want to go
- Some flight attendants joke with passengers, others play games and sing,
- One sings a rap song which is world famous!
 - see youTube -
<http://www.youtube.com/watch?v=tnOxvbGOTbM>



Extremely happy employees

- Best paid pilots, mechanics and flight attendants in industry
 - Company expects employees to be more productive
 - Pilots fly one hour longer than other airlines (as SouthWest flies shorter routes this is possible)
- When rest of industry laid off thousands after 9/11 , southwest did not furlough a single employee.
 - Result- They did not cancel a single flight!



It is a fun place

- They celebrate everything
- Its like a fraternity
- HO walls are festooned with more than 10000 picture frames containing employee pets etc
- CEO dresses like Elvis etc
- It looks like they have a perennial party.
- They have incredible *esprit de corps*
- More than just a co. ; it is a cause



Pick up assets in downturn

- In 2004 when industry was in doldrums it picked the cream of ATA's assets by making the highest bid of \$117M -it got a lot of value for its money.
- The CEO spent 3 days at the offices of its law firm day and night to ensure it got the assets.



Be different, act different

- Unique route system-No hub and spoke ; only point-to-point
- Unique Fleet-just Boeing 737 -low maintenance cost
- Unique ticketing policy - no first class, no assigned seats
- Unique its marketing and advertising -a passion brand
- Refuses to let its fares be published on travel websites such as Orbitz, Expedia and Travelocity.



Be different, act different contd.

- No meals only snacks (peanuts mostly) ;
- No fees to change same-fare tickets ;
- No electronic entertainment
- In short differentiate yourself in every possible way from competition!



Great financial management

- Kelly who was CFO arranged hedging contracts to lock in lower fuel prices.
- Thus when the spike in oil prices hit everyone in industry Southwest was unaffected!



Keep costs low

- South west costs are 6-14 % lower than US airways and American
- Obsession to keeping costs low
- Company manages during booms with an eye to the busts that inevitably follow.
- Herb Kelleher CEO and founder (a lawyer!) used to question every expenditure over \$1000!
- Famous incident of a Southwest counter agent lending a stapler to a colleague at another counter and following the other agent to get the stapler back so that it does not hurt his profit share!



Source:

- Many articles from magazines and
- The book: “Nuts! Southwest Airlines' Crazy Recipe for Business and Personal Success” by Kevin and Jackie Freiberg (one of the best I have ever read!)