

- b. Is your company a member of a strategic group in an industry? If so, which one?
7. How could you improve your company's business model and strategies to strengthen its competitive advantage?

CLOSING CASE

Southwest Airlines Forges Ahead

The importance of continuously improving efficiency is very clear in the airline industry. During the recent financial crisis, most major airlines were reporting billions of dollars in losses as a result of rising fuel prices, but one airline, Southwest Airlines, was only reporting lower profits. In fact, Southwest has long been the most profitable U.S. airline, despite that its fares have been 25% or more *below* those of its rivals. The major reason for its high performance is its never-ending quest to increase operating efficiency.¹⁸

Since its inception, Southwest Airlines focused on developing an operating structure that lowers the cost of inputs and the cost of converting inputs into outputs, which are on-time flights that satisfy customers. How does it do this? First, Southwest carefully selects its human resource inputs; only 3% of those who are interviewed each year are hired. Its existing employees do all the hiring—to make certain the potential new employee fits into Southwest's culture, and is a team player with a

great attitude. This is a vital strategy because employees are expected to have a positive, helping attitude toward passengers and to other fellow employees. To increase efficiency, all of Southwest's employees are expected to work as a team to prepare everything necessary to speed the departure of its planes. Efficiency in the airline industry is measured by the time each plane spends in the air, not the time stationed at the gate, and Southwest can land an aircraft and have it back in the air in 30 to 45 minutes—a much shorter time than its rivals. Southwest needs fewer employees than other airlines to efficiently run its fleet of planes, which means major cost savings.

It also uses other inputs efficiently; for example, it only flies one kind of plane, the Boeing 737, which means that far less pilot training is required, and maintenance costs are reduced. Southwest planes mainly fly into low-cost lower-trafficked airports instead of highly congested city airports where landing charges are typically much higher, and plane turnaround is much slower. It also operates what is called a “hub-and-spoke” network, meaning its planes typically touch down at least once before they reach the final destination, allowing planes to more easily fill with passengers, and make better use of resources. Finally,

Southwest has never offered passengers meals or other free perks, a policy that all airlines have now copied to reduce costs as fuel prices soar. Although the company has experimented with assigned seating, boarding is on a first-come, first-served basis, which additionally simplifies its procedures.

Southwest works to streamline and simplify all of its operating procedures in order to improve efficiency. Coordination between its employees, however, is the only thing that makes it possible for its lean and simplified procedures to work. And as we discussed earlier, coordination is not enough for operating structures to efficiently work; employees must also be motivated to work hard and cooperate. Southwest has, since it first began operating, motivated employees by offering a generous profit-sharing plan which includes stock in the company—a measure of how well the company cohesively performs. Today employees own over 20% of Southwest's stock, and this is a clear indicator that its continuous concern to design an operating structure that improves efficiency has paid off. In 2011, Southwest purchased JetBlue, its closest low-cost competitor, to expand its national route structure, and both these airlines are consistently rated as the highest in customer satisfaction.¹⁹

Case Discussion Questions

1. Why has Southwest's business model and strategies changed over time?
2. In what ways is Southwest trying to improve its competitive advantage in 2011?

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