Southwest Airlines Case Analysis

Investment Recommendation

After analyzing Southwest Airlines' company as a whole, looking at company strategy, the general and industry environments, and resources and competencies, investors should invest in this company.

Business-level Strategy

Southwest Airlines' business-level strategy is cost leadership. The airline focuses on being highly efficient and extremely low-cost, with the goal of getting their business travelers to their destination "on-time, every time." Southwest declines to offer additional packages and amenities free of charge whilst competing airlines include them. This leads to the conclusion that their strategy is not differentiation but rather cost leadership.

Potential Challenges Facing the Airline

Southwest Airlines as a whole faces various complications as it strives to compete in such a technical market. Firstly, the airline faces the challenge of keeping up with competitors including both the traditional carriers which are reputable and experienced, as well as the ULCCs which are quick to adjust and maximally cost efficient. Southwest's safety violations over the years have also caused challenges to their strategy; the company has had to settle various lawsuits and suffered reputational damage as a result.

The General Environment

An increase in demographic trends is seen with the growing globalization of air-travel. Initially, Southwest Airlines was introduced as a carrier between the "golden triangle," which included Houston, Dallas and San Antonio, Texas, three rapidly growing cities at the time. As the years went on and the company further developed, it expanded into international markets. This expansion led to great economic prosperity and ultimately widened the airline's demographic to include global consumers.

Within the Sociocultural environment, unionization is increasing as employees within Southwest feel their work is lacking sufficient recognition. The airline has seen an abundance of unions form as their employees pose disagreements with the compensation contracts proposed by Southwest. The employees are unionizing in attempts to increase their leverage within contract negotiations. The impacts of these unions led to additional burdens on the company's strategy and reputation.

Fuel costs are continually rising, causing jet fuel and oil prices to be the second largest operating costs for the company. Increasing fuel costs are partially out of the airline's control, though Southwest uses a variety of derivatives to keep costs low. However, there is an evident risk that using the fuel derivatives will eventually cost more than traditional fuel, which would erode the pricing advantage Southwest has against competitors.

Technological trends are ascending as technological advancements are being made regularly, especially within the airline industry. Southwest Airlines has invested ample amounts into technological development with the largest technology project being the new reservation system. This system primarily focuses on advancements regarding flight scheduling and inventory management.

The Industry Environment

The threat of new entrants in the airline industry is generally low due to high capital costs. However, this does not completely eliminate competition as seen with the introduction of ULCCs. ULCCs introduced a completely new outlook to air travel with an even more potent emphasis on low-fares. Rather than focus on ticket prices like Southwest, ULCCs focus on providing low-cost travel nonstop to less popular destinations. They also focus less on timings that consumers prefer and rather on fleet availability. These companies set flights that compliment them and take insights to later adapt and adjust to consumer responses. This success of ULCCs in the industry has slightly raised the threat of new entrants by proving that this new business model can succeed.

Suppliers hold an upper hand in the case of the rising jet fuel and oil prices. Because airlines require these to operate, they have no choice but to succumb to the prices set by fuel suppliers. The airline lacks the ability to control this and must adapt efficiently when determining a plan of action.

On the other hand, buyers have the ability to pick and choose from a variety of airlines and tickets, distributing the power of choice to the consumers. Flyers can compare differences between airlines when determining which tickets to buy, leading Southwest to determine what their competitive advantage is to sway consumers to purchase their flights.

There are numerous forms of transportation that can substitute in place of flight travel including cars, trains, buses, boats, etc. Though the threat of substitution proves to be moderate for short-haul, domestic flights, it tends to be quite low for long-haul, intercontinental flights.

Southwest faces an abundance of tough competition within such a highly-utilized industry. Some of the biggest competitors include traditional carriers, such as Delta Airlines, American Airlines and United Airlines. These airlines along with Southwest share many similarities with what they offer, causing rivalry to be high. For this reason, Southwest prioritizes low-cost strategies to provide some sort of competitive advantage. However, ULCCs such as Frontier Airlines and Spirit Airlines also pose competition to Southwest as they challenge these low cost strategies.

Internal Resources, Capabilities and Competencies

Southwest holds numerous internal resources, capabilities and competencies to aid its attempts to please consumers, sustain a competitive advantage and benefit the company at large. The addition of the new reservation system provided the airline with an advanced technological standpoint in comparison to their competitors and assisted the airline within its operational aspects. In opposition to the business-level strategy, the airline also added new amenities at a cost to customers, providing features such as priority boarding and checked baggage furthering the development of the airline into aspects never touched previously. To relieve fuel use and CO2 emissions, the airline modernized its fleet by investing in the latest Boeing aircraft models, continuing the Boeing 737 tradition Southwest has. The purchasing of AirTran in Atlanta was another significant departure for the airline as this was an invasion of rival territory that resulted in great financial prosperity. Finally, the expansion internationally broadened the scope of the airline allowing it to reach further than they did solely flying domestically.

New Resources, Capabilities and Competencies

In an attempt to heighten the competitive advantage Southwest has against competing airlines, it can venture further into existing resources, capabilities and competencies as well as develop new tactics. International expansion has proven to be affluent for the airline regardless of the limited countries it set forth into. Southwest should consider intensifying this expansion as it could have similar, positive outcomes. The airline could also revise its fuel cost derivatives to lessen the uncertainty that comes with increasing fuel and oil prices. This would reduce risk and promote the airlines’ business-level strategy by limiting costs. In an attempt to regain consumer trust after the numerous safety incidents, the airline could begin a regeneration of its safety message and protocols to reassure passengers that a change has been made.