



Furthermore, Southwest had divested AirTran's fleet of Boeing 717-200 aircraft. It had negotiated an agreement with Delta Air Lines, Inc. and Boeing Capital Corp. to lease or sublease AirTran's 88 Boeing 717-200 aircraft to Delta. Deliveries to Delta began in September 2013. The company did not want to keep Boeing 717-200 planes in its aircraft fleet because of the added maintenance and repair costs associated with having a second type of plane in its fleet. Moreover, replacing the Boeing 717 aircraft capacity with Boeing 737 capacity provided incremental revenue opportunities with more seats per aircraft, while costing approximately the same amount to fly on a per-trip basis as the smaller Boeing 717 aircraft.

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Incorporating Larger Boeing Aircraft into Southwest's Fleet

Starting in 2012, Southwest began a long-term initiative to replace older Southwest aircraft with a new generation of Boeing aircraft that had greater seating capacity, a quieter interior, LED reading and ceiling lighting, improved security features, reduced maintenance requirements, increased fuel efficiency, and the capability to fly longer distances without refueling. Of the 704 active aircraft in Southwest's fleet at year-end 2015, the company had plans to remove 122 Boeing 737-300 aircraft (with 143 seats and an average age of 20 years) and 15 Boeing 737-500 aircraft (with 122 seats and an average age of 22 years) from its fleet over the next five years and replace them with new Boeing 737-700s (143 seats), 737-800s (175 seats), and 737-MAX aircraft (up to 189 seats). While Southwest had added 54 new Boeing 737-700 and 737-800 planes to its fleet in 2012–2013 and 52 Boeing 737-800 aircraft delivered in 2014–2015, 56 Boeing 737-700 aircraft were scheduled to be delivered in 2016–2018 (with options to take delivery on an additional 36 planes) and 200 737-MAX aircraft to be delivered during 2017–2024 (with options to take delivery on an additional 83 planes—Southwest was Boeing's launch customer for the 737-MAX. Plans called for some of the new aircraft to be leased from third parties rather than being purchased—of the company's current fleet of 704 aircraft, 581 were owned and 123 were leased.



Southwest expected that the new Boeing 737-800 and 737-MAX aircraft would significantly enhance the company's capabilities to (1) more economically fly long-haul routes (the number of short-haul flights throughout the domestic airline industry had been declining since 2000); (2) improve scheduling flexibility and more economically serve high-demand, gate-restricted, slot-controlled airports by adding seats to such destinations without increasing the number of flights; and (3) boost overall fuel efficiency to reduce overall costs. Additionally, the aircraft would enable Southwest to profitably expand its operations to new, more distant destinations (including extended routes over water) such as Hawaii, Alaska, Canada, Mexico, and the Caribbean. Southwest management expected that the new Boeing 737-MAX planes would have the lowest operating costs of any single-aisle commercial airplane on the market.

Launching International Service and a New Reservation System

In January 2014, Southwest launched an international reservation system separate from its domestic reservation system (but linked to and accessible from www.southwest.com) and began selling tickets for its inaugural international daily nonstop service on Southwest aircraft beginning July 1, 2014, to Jamaica (Montego Bay), the Bahamas (Nassau), and Aruba (Oranjestad). The company added service to new Latin American destinations in 2015, including San Jose, Costa Rica; Puerto Vallarta, Mexico; Belize City, Belize; and Liberia, Costa Rica. The company expected to add flights to additional near-international locations in 2016 after the opening of a five-gate international terminal and customs facility and Hobby Airport in October 2015. Southwest also operated international flights from Fort Lauderdale, Florida.

Growing Southwest's Rapid Rewards Frequent Flyer Program

Southwest's current Rapid Rewards frequent flyer program, launched in March 2011, linked free travel awards to the number of points members earned purchasing tickets to fly Southwest (the previous version of the Rapid Rewards program had tied free travel awards to the number of flight segments flown during a 24-month period). The amount of points earned was based on the fare and fare class purchased, with higher fare products (like Business Select) earning more points than lower fare products (like Wanna Get Away). Likewise, the amount of points required to be redeemed for a flight was based on the fare and fare class purchased. Rapid Rewards members could also earn points through qualifying purchases with Southwest's Rapid Rewards Partners (which included car rental agencies, hotels, restaurants, and retail locations), and they could purchase points. Members who opted to obtain a Southwest co-branded Chase® Visa credit card, which had an annual fee of \$99, earned 2 points for every dollar spent on purchases of Southwest tickets and on purchases with Southwest's car rental and hotel partners, and they earned 1 point on every dollar spent everywhere else. Holders of Southwest's co-branded Chase Visa credit card could redeem credit card points for items other than travel on Southwest, including international flights on other airlines, cruises, hotel stays, rental cars, gift cards, event tickets, and more. The most active members of Southwest's Rapid Rewards program qualified for priority check-in and security lane access (where available), standby priority, free in-flight Wi-Fi, and—provided they flew 100 qualifying flights or earned 110,000 qualifying points in a calendar year—automatically received a Companion Pass, which provided for unlimited free roundtrip travel for one year to any destination available on Southwest for a designated companion of the qualifying Rapid Rewards Member.

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Rapid Rewards members could redeem their points for every available seat, every day, on every flight, with no blackout dates. Points did not expire so long as the Rapid Rewards Member had points-earning activity during the most recent 24 months.

In 2016, the current Rapid Rewards program had exceeded management's expectations with respect to the number of frequent flyer members added, the amount spent per member on airfare, the number of flights taken by members, the number of Southwest's co-branded Chase Visa credit card holders added, the number of points sold to business partners, and the number of frequent flyer points purchased by program members.



Southwest had enabled the members of AirTran's A+ Rewards frequent flyer program to transfer their loyalty rewards to Southwest Rapid Rewards. In 2015, the members of the Southwest Rapid Rewards frequent flyer program redeemed approximately 7.3 million flight awards, accounting for approximately 12.0 percent of revenue passenger miles flown. This was significantly higher than the 2012 redemptions of approximately 4.5 million flight awards (accounting for approximately 9.0 percent of revenue passenger miles flown) and the 2011 redemptions of approximately 3.7 million flight awards (accounting for approximately 8.6 percent of revenue passenger miles flown).

Southwest's Growth Strategy

Southwest's strategy to grow its business consisted of (1) adding more daily flights to the cities/airports it currently served and (2) adding new cities/airports to its route schedule.

It was normal for customer traffic to grow at the airports Southwest served. Hence, opportunities were always emerging for Southwest to capture additional revenues by adding more flights at the airports already being served. Sometimes these opportunities entailed adding more flights to one or more of the same destinations and sometimes the opportunities entailed adding flights to a broader selection of Southwest destinations, depending on the mix of final destinations the customers departing from a particular airport were flying to.

To spur growth beyond that afforded by adding more daily flights to cities/airports currently being served, it had long been Southwest's practice to add one or more new cities/airports to its route schedule annually. In selecting new cities, Southwest looked for city pairs that could generate substantial amounts of both business and leisure traffic. Management believed that having numerous flights flying the same routes appealed to business travelers looking for convenient flight times and the ability to catch a later flight if they unexpectedly ran late. As a general rule, Southwest did not initiate service to a city/airport unless it envisioned the potential for originating at least 8 flights a day there and saw opportunities to add more flights over time—in Denver, for example, Southwest had boosted the number of daily departures from 13 in January 2006 (the month in which service to and from Denver was initiated) to 79 daily departures in 2008, 129 daily departures in May 2010, and 184 daily departures in 2016.



On a number of occasions, when rival airlines had cut back flights to cities that Southwest served, Southwest had quickly moved in with more flights of its own, believing its lower fares would attract more passengers. When Midway Airlines ceased operations in November 1990, Southwest moved in overnight and quickly instituted flights to Chicago's Midway Airport. Southwest was a first-mover in adding flights on routes where rivals cut their offerings following 9/11. When American Airlines closed its hubs in Nashville and San Jose, Southwest immediately increased the number of its flights into and out of both locations.

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When US Airways trimmed its flight schedule for Philadelphia and Pittsburgh, Southwest promptly boosted its flights into and out of those airports. Southwest initiated service to Denver when United, beset with financial difficulties, cut back operations at its big Denver hub. In 2016, it was clear that Southwest intended to pick up the pace in adding service to more locations, particularly larger metropolitan airports, places like Hawaii and Alaska, and international destinations.

Marketing, Advertising, and Promotion Strategies

Southwest was continually on the lookout for novel ways to tell its story, make its distinctive persona come alive, and strike a chord in the minds of air travelers. Many of its print ads and billboards were deliberately unconventional and attention-getting so as to create and reinforce the company's maverick, fun-loving, and combative image. The company launched its TransFAREncy campaign in 2015 that focused on its easy-to-understand pricing that did not include hidden fees for checked bags, preferred seating, or flight changes. The other three largest U.S.-based airlines typically included upcharges for baggage or seat selection either immediately prior to online fare payment or upon airport check-in. In addition, American, Delta, and United all issued either nonrefundable tickets or tickets that included hefty change fees that could exceed the cost of a new ticket.

Previous campaigns had promoted the company's performance as "The Low-Fare Airline" and "The All-Time On-Time Airline," and its Triple Crown awards. One of the company's billboard campaigns touted the frequency of the company's flights with such phrases as "Austin Auften," "Phoenix Phrequently," and "L.A. A.S.A.P." Each holiday season since 1985 Southwest had run a "Christmas card" ad on TV featuring children and their families from the Ronald McDonald Houses and Southwest employees. Fresh advertising campaigns were launched periodically—[Exhibit 10](#)  shows four representative ads.



Southwest tended to advertise far more heavily than any other U.S. carrier. Passenger traffic at Southwest subsequently rose while passenger volumes went in the opposite direction at Southwest's largest competitors—all of which had recently introduced or increased fees for checked baggage.

The company periodically launched national and local advertising and promotional campaigns to highlight what management believed were important points of differentiation between Southwest and rival airlines. These differentiating features included:

- Being the only major U.S. airline not to charge additional fees for first and second checked bags—moreover, Southwest allowed each ticketed customer to check one stroller and one car seat free of charge, in addition to the two free checked bags.
- Being the only major U.S. airline not to impose a fee for customers to change their travel schedules. Nor did Southwest impose additional fees for items such as seat selection, fuel surcharges, snacks, curbside check-in, and telephone reservations.
- Offering a wide range of in-flight entertainment options and conveniences for passengers (in-flight Internet service, access to 17 live channels and episodes of 75 different television series, movies-on-demand, and messaging).

Southwest management believed these differentiating features—along with its low fares, network size, numerous nonstop flights, friendly customer service, and Rapid Rewards program—had been instrumental in helping grow passenger traffic on Southwest flights, build market share, and increase revenues. The company's advertising and promotional expenditures totaled \$218 million in 2015, \$207 million in 2014, and \$208 million in 2013; these expenditures were included in "other operating expenses" in

Exhibit 9 .

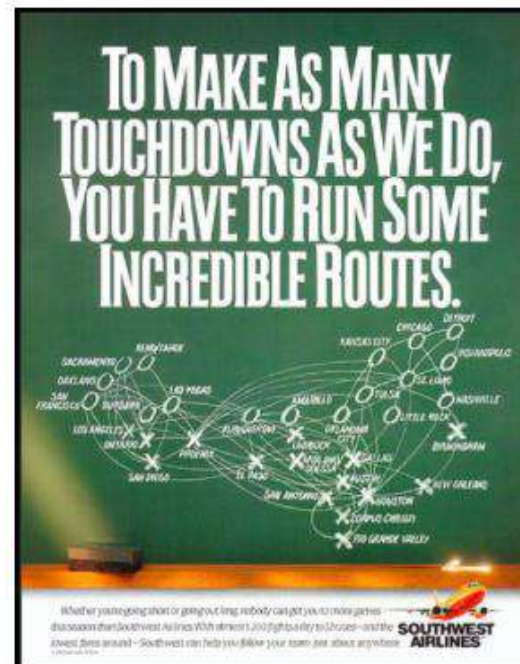
SOUTHWEST'S PEOPLE MANAGEMENT PRACTICES AND CULTURE

Whereas the litany at many companies was that customers come first, at Southwest the operative principle was that “employees come first and customers come second.” The high strategic priority placed on employees reflected management’s belief that delivering superior service required employees who not only were passionate about their jobs but who also knew the company was genuinely concerned for their well-being and committed to providing them with job security. Southwest’s thesis was simple: Keep employees happy—then they will keep customers happy.

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EXHIBIT 10

Four Samples of Southwest's Ads



OTHER AIRLINES CHARGE UP TO \$120 ROUNDTRIP

ON SOUTHWEST AIRLINES BAGS FLY FREE*

VIDEOGADS

BAGS FLY FREE

VIDEOGADS

RIDICULOUSLY WELCOME

Did you know that Southwest Airlines does not charge for your first or second checked bag? That's right. While bag fees have become the norm among our competitors, we've stayed true to our reputation as the nicest airline in the industry by not charging for bags. Your size and golf bags, too. Free too!

So what are you waiting for? It's time to get going. Time to get out there and take care of business...or just have a little fun.

Take a stand against when airlines' bag fees. Book a Southwest flight today and save up to \$120 roundtrip when your bags fly free!

CHECKED BAGGAGE FEE COMPARISON CHART

	SOUTHWEST	"THE OTHER GUYS"
1st Bag	FREE	\$25 one-way
2nd Bag	FREE	\$50 one-way
3 bags	FREE	\$100 one-way \$120 roundtrip

Source: Southwest.com

Southwest Baggage Policies

*First and second checked bags. Baggage weight and size limits apply.

WE'D LIKE TO MATCH THEIR NEW FARES, BUT WE'D HAVE TO RAISE OURS.

No matter what the competition may come up with, Southwest Airlines' everyday low unrestricted fares are still lower than the Big Three. That's a fact that can save you a lot of money every day.

And unlike our competitors, with our low unrestricted fares, we don't charge you a penalty when your plans change. Which makes our fares the smart choice for you and your company. Always have been. Always will be.



SOUTHWEST AIRLINES
Just Plane Smart.
1-800-I-FLY-SWA
(1-800-435-9592)



© Southwest Airlines

Since becoming the company's CEO, Gary Kelly had continuously echoed the views of his predecessors: "Our People are our single greatest strength and our most enduring long term competitive advantage."¹⁹ Page C-336

The company changed the personnel department's name to the People Department in 1989. Later, it was renamed the People and Leadership Development Department.



Recruiting, Screening, and Hiring

Southwest hired employees for attitude and trained for skills. Herb Kelleher explained:²⁰

We can train people to do things where skills are concerned. But there is one capability we do not have and that is to change a person's attitude. So we prefer an unskilled person with a good attitude... [to] a highly skilled person with a bad attitude.

Management believed that delivering superior service came from having employees who genuinely believed that customers were important and that treating them warmly and courteously was the right thing to do, not from training employees to *act* like customers are important. The belief at Southwest was that superior, hospitable service and a fun-loving spirit flowed from the heart and soul of employees who themselves were fun-loving and spirited, who liked their jobs and the company they worked for, and who were also confident and empowered to do their jobs as they saw fit (rather than being governed by strict rules and procedures).

Southwest recruited employees by means of newspaper ads, career fairs and Internet job listings; a number of candidates applied because of Southwest's reputation as one of the best companies to work for in America and because they were impressed by their experiences as a customer on Southwest flights. Recruitment ads were designed to capture the attention of people thought to possess Southwest's "personality profile." For instance, one ad showed Herb Kelleher impersonating Elvis Presley and had the message:²¹

Work In A Place Where Elvis Has Been Spotted. The qualifications? It helps to be outgoing. Maybe even a bit off center. And be prepared to stay for a while. After all, we have the lowest employee turnover rate in the industry. If this sounds good to you, just phone our jobline or send your resume. Attention Elvis.

Colleen Barrett elaborated on what the company looked for (see [Exhibit 11](#) ) in screening candidates for job openings:²²

We hire People to live the Southwest Way. They must possess a Warrior Spirit, lead with a Servant's Heart, and have a Fun-LUVing attitude. We hire People who fight to win, work hard, are dedicated, and have a passion for Customer Service. We won't hire People if something about their behavior won't be a Cultural fit. We hire the best. When our new hires walk through the door, our message to them is you are starting the flight of your life.

All job applications were processed through the People and Leadership Development Department.

EXHIBIT 11

Personal Traits, Attitudes, and Behaviors That Southwest Wanted Employees to Possess and Display



Living the Southwest Way

Warrior Spirit

- Work hard
- Desire to be the best
- Be courageous
- Display a sense of urgency
- Persevere
- Innovate

Servant's Heart

- Follow The Golden Rule
- Adhere to the Basic Principles
- Treat others with respect
- Put others first
- Be egalitarian
- Demonstrate proactive Customer Service
- Embrace the SWA Family

Fun-LUVing Attitude

- Have FUN
- Don't take yourself too seriously
- Maintain perspective (balance)
- Celebrate successes
- Enjoy your work
- Be a passionate team player

Source: www.southwest.com (accessed August 18, 2010).

Screening Candidates

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In hiring for jobs that involved personal contact with passengers, the company looked for people-oriented applicants who were extroverted and had a good sense of humor. It tried to identify candidates with a knack for reading people's emotions and responding in a genuinely caring, empathetic manner. Southwest wanted employees to deliver the kind of service that showed they truly enjoyed meeting people, being around passengers, and doing their job, as opposed to delivering the kind of service that came across as being forced or taught. Kelleher elaborated: "We are interested in people who externalize, who focus on other people, who are motivated to help other people. We are not interested in navel gazers."²³ In addition to a "whistle while you work" attitude, Southwest was drawn to candidates who it thought would be likely to exercise initiative, work harmoniously with fellow employees, and be community-spirited.