



Gary C. Kelly, Southwest's CEO, 2004–Present

Gary Kelly was appointed vice chair of the board of directors and chief executive officer of Southwest effective July 15, 2004. Prior to that time, Kelly was executive vice president and chief financial officer from 2001 to 2004, and vice president–finance and chief financial officer from 1989 to 2001. He joined Southwest in 1986 as its controller. In 2008, effective with the retirement of Kelleher and Barrett, Kelly assumed the titles of board chair, CEO, and president.

When Kelly was named CEO in 2004, Herb Kelleher said:¹³

Gary Kelly is one of our brightest stars, well respected throughout the industry and well known, over more than a decade, to the media, analyst, and investor communities for his excellence. As part of our Board's succession planning, we had already focused on Gary as Jim Parker's successor, and that process has simply been accelerated by Jim's personal decision to retire. Under Gary's leadership, Southwest has achieved the strongest balance sheet in the American airline industry; the best fuel hedging position in our industry; and tremendous progress in technology.

In his first two years as CEO, Kelly and other top-level Southwest executives sharpened and fine-tuned Southwest's strategy in a number of areas, continued to expand operations (adding both more flights and initiating service to new airports), and worked to maintain the company's low-cost advantage over its domestic rivals.

Kelly saw four factors as keys to Southwest's recipe for success:¹⁴

- Hire great people, treat 'em like family.
- Care for our Customers warmly and personally, like they're guests in our home.
- Keep fares and operating costs lower than anybody else by being safe, efficient, and operationally excellent.
- Stay prepared for bad times with a strong balance sheet, lots of cash, and a stout fuel hedge.



To guide Southwest's efforts to be a standout performer on these four key success factors, Kelly had established five strategic objectives for the company:¹⁵

- Be the best place to work.
- Be the safest, most efficient, and most reliable airline in the world.
- Offer customers a convenient flight schedule with lots of flights to lots of places they want to go.
- Offer customers the best overall travel experience.
- Do all of these things in a way that maintains a low cost structure and the ability to offer low fares.

In 2008–2009, Kelly initiated a slight revision of Southwest's mission statement and also spearheaded a vision statement that called for a steadfast focus on a triple bottom line of Performance, People, and Planet—see [Exhibit 4](#) .

EXHIBIT 4

Southwest Airlines's Mission, Vision, and Triple-Bottom-Line Commitment to Performance, People, and Planet

THE MISSION OF SOUTHWEST AIRLINES The mission of Southwest Airlines is dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.

OUR VISION Become the world's most loved, most flown, and most profitable airline.

TO OUR EMPLOYEES We are committed to provide our Employees a stable work environment with equal opportunity for learning and personal growth. Creativity and innovation are encouraged for improving the effectiveness of Southwest Airlines. Above all, Employees will be provided the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Southwest Customer.

TO OUR COMMUNITIES Our goal is to be the hometown airline of every community we serve, and because those communities sustain and nurture us with their support and loyalty, it is vital that we, as individuals and in groups, embrace each community with the SOUTHWEST SPIRIT of involvement, service, and caring to make those communities better places to live and work.

TO OUR PLANET We strive to be a good environmental steward across our system in all of our hometowns, and one component of our stewardship is efficiency, which by its very nature, translates to eliminating waste and conserving resources. Using cost-effective and environmentally beneficial operating procedures (including facilities and equipment), allows us to reduce the amount of materials we use and, when combined with our ability to reuse and recycle material, preserves these environmental resources.

TO OUR STAKEHOLDERS Southwest's vision for a sustainable future is one where there will be a balance in our business model between Employees and Community, the Environment, and our Financial Viability. In order to protect our world for future generations, while meeting our commitments to our Employees, Customers, and Stakeholders, we will strive to lead our industry in innovative efficiency that conserves natural resources, maintains a creative and innovative workforce, and gives back to the Communities in which we live and work.



In 2010, Kelly initiated one of the biggest strategic moves in the company's history: the acquisition of AirTran Airways, a low-fare, low-cost airline that served 70 airports in the United States, Mexico, and the Caribbean (19 of the airports AirTran served coincided with airports served by Southwest). In 2011, Kelly initiated a five-year strategic plan that featured five strategic initiatives:

- Integrating AirTran into Southwest.
- Modernizing Southwest Airlines's existing aircraft fleet.
- Adding over 100 new Boeing 737-800 aircraft to the Southwest fleet.
- Launching international service and a new reservation system.
- Growing membership in the company's Rapid Rewards® frequent flyer program.

SOUTHWEST AIRLINES'S STRATEGY IN 2016

From day one, Southwest had pursued a low-cost/low-price/no-frills strategy to make air travel affordable to a wide segment of the population. While specific aspects of the strategy had evolved over the years, three strategic themes had characterized the company's strategy throughout its existence and still had high profiles in 2016:

- Charge fares that were very price competitive and, in some cases, appealingly lower than what rival airlines were charging.
- Create and sustain a low-cost operating structure.
- Make it fun to fly on Southwest and provide customers with a top-notch travel experience.



Fare Structure Strategy

Southwest employed a relatively simple fare structure displayed in ways that made it easy for customers to choose the fare they preferred. In 2016, Southwest's fares were bundled into four major categories: "Wanna Get Away[®]," "Anytime," and "Business Select[®]," and fares for seniors (people 65 and older):

1. Wanna Get Away fares were always the lowest fares and were subject to advance purchase requirements. No fee was charged for changing to a previously purchased ticket to a different time or day of travel (rival airlines charged a change fee of \$100 to \$175), but applicable fare differences were applied. The purchase price was nonrefundable but the funds could be applied to future travel on Southwest, provided the tickets were not canceled or changed within 10 minutes of a flight's scheduled departure.
2. Anytime fares were refundable and changeable, and funds could also be applied toward future travel on Southwest. Anytime fares also included a higher frequent flyer point multiplier under Southwest's Rapid Rewards[®] frequent flyer program than do Wanna Get Away fares.
3. Business Select fares were refundable and changeable, and funds could be applied toward future travel on Southwest. Business Select fares also included additional perks such as priority boarding, a higher frequent flyer point multiplier than other Southwest fares (including twice as many points per dollar spent as compared to Wanna Get Away fares), priority security and ticket counter access in select airports, and one complimentary adult beverage coupon for the day of travel (for customers of legal drinking age). The Business Select fare had been introduced in 2007 to help attract economy-minded business travelers; Business Select customers had early boarding privileges, received extra Rapid Rewards (frequent flyer) credit, and a free cocktail.
4. Fares for seniors were typically priced between the Wanna Get Away and Anytime fares. No fee was charged for changing a previously purchased ticket to a different time or day of travel, but applicable fare differences were applied. The purchase price was nonrefundable, but funds could be applied to future travel on Southwest, provided the tickets were not canceled or changed within ten minutes of a flight's scheduled departure. Fares for seniors were not displayed on the list of fare options at the company's website unless customers checked a box indicating that one or more passengers were 65 years of age or older.



In 2008, rival airlines instituted a series of add-on fees—including a fuel surcharge for each flight, fees for checking bags, fees for processing frequent flyer travel awards, fees for buying a ticket in person at the airport or calling a toll-free number to speak with a ticket agent to make a reservation, fees for changing a previously purchased ticket to a different flight, and fees certain for in-flight snacks and beverages—to help defray skyrocketing costs for jet fuel (which had climbed from about 15 percent of operating expenses in 2000 to 40 percent of operating expenses in mid-2008) and try to bolster their operating performance. Southwest, however, choose to forego “à la carte” pricing and stuck with an all-inclusive fare price. During 2009 and periodically thereafter, Southwest ran “Bags Fly Free™” ad campaigns to publicize the cost-savings of flying Southwest rather than paying the \$20 to \$50 fees that rival airlines charged for a first or second checked bag. Southwest also had run ads promoting its policy of not charging a fee for changing a previously purchased ticket to a different flight.

When advance reservations were weak for particular weeks or times of the day or on certain routes, Southwest made a regular practice of initiating special fare promotions to stimulate ticket sales to stimulate ticket sales on flights that otherwise would have had numerous empty seats. The company’s use of special fare sales and Bags Fly Free ads to combat slack air travel during much of the Great Recession in 2008–2009 resulted in company-record load factors (the percentage of all available seats on all flights that were occupied by fare-paying passengers) for every month from July through December 2009.

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Southwest was a shrewd practitioner of the concept of price elasticity, proving in one market after another that the revenue gains from increased ticket sales and the volume of passenger traffic would more than compensate for the revenue erosion associated with low fares. When Southwest entered the Florida market with an introductory \$17 fare from Tampa to Fort Lauderdale, the number of annual passengers flying the Tampa–Fort Lauderdale route jumped 50 percent to more than 330,000. In Manchester, New Hampshire, passenger counts went from 1.1 million in 1997, the year prior to Southwest’s entry, to 3.5 million in 2000 and average one-way fares dropped from just over \$300 to \$129. Southwest’s success in stimulating higher passenger traffic at airports across the United States via low fares and frequent flights had been coined the “Southwest Effect” by personnel at the U.S. Department of Transportation. [Exhibit 5](#)  shows the cities and airports Southwest Airlines served in July 2016.



EXHIBIT 5

Southwest's Aircraft Fleet as of December 31, 2015

Type of Aircraft	Number	Seats	Average Age	Comments
Boeing 737-300	118	137/143	22 years	Southwest was Boeing's launch customer for this model.
Boeing 737-500	11	122	24 years	Southwest was Boeing's launch customer for this model.
Boeing 737-700	471	143	11 years	Southwest was Boeing's launch customer for this model in 1997. All were equipped with satellite-delivered broadband Internet reception capability.
Boeing 737-800	104	175	2 years	All were equipped with satellite-delivered broadband Internet reception capability.
Total	704			
Other Fleet-Related Facts				
Average age of aircraft fleet—approximately 12 years				
Average aircraft trip length—750 miles, with an average duration of 2 hours and 2 minutes				
Average aircraft utilization—nearly 6 flights per day and 11 hours and 10 minutes of flight time				
Fleet size—1990: 106; 1995: 224; 2000: 344; 2009: 537				
Firm orders for new aircraft—2016: 36; 2017–2027: 289				

Sources: Company 10-K report, 2015; information posted at www.southwest.com (accessed May 18, 2016).

Southwest's Strategy to Create and Sustain Low-Cost Operations

Southwest management fully understood that earning attractive profits by charging low fares necessitated the use of strategy elements that would enable the company to become a low-cost provider of commercial air service. There were three main components of Southwest's strategic actions to achieve a low-cost operating structure: using a single aircraft type for all flights, creating an operationally efficient point-to-point route structure, and striving to perform all value chain activities in a cost-efficient manner.

Use of a Single Aircraft Type

For many years, Southwest's aircraft fleets had consisted only of Boeing 737 aircraft. Operating only one type of aircraft produced many cost-saving benefits: minimizing the size of spare parts inventories, simplifying the training of maintenance and repair personnel, improving the proficiency and speed with which maintenance routines could be done, and simplifying the task of scheduling planes for particular flights. In 2013, Southwest operated the biggest fleet of Boeing 737 aircraft in the world. [Exhibit 5](#)  provides information about Southwest's aircraft fleet.

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Southwest's Point-to-Point Route Structure Strategy

Southwest's point-to-point scheduling of flights was more cost-efficient than the hub-and-spoke systems used by most all rival airlines. Hub-and-spoke systems involved passengers on many different flights coming in from spoke locations (and sometimes another hub) to a central airport or hub within a short span of time and then connecting to an outgoing flight to their destination—a spoke location or another hub). Most flights arrived and departed a hub across a two-hour window, creating big peak–valley swings in airport personnel workloads and gate utilization—airport personnel and gate areas were very busy when hub operations were in full swing and then were underutilized in the interval awaiting the next round of inbound–outbound flights. In contrast, Southwest's point-to-point routes permitted scheduling aircraft to minimize the time aircraft were at the gate, currently approximately 25 minutes, thereby reducing the number of aircraft and gate facilities that would otherwise be required. Furthermore, with a relatively even flow of incoming–outgoing flights and gate traffic, Southwest could staff its terminal operations to handle a fairly steady workload across a day whereas hub-and-spoke operators had to staff their operations to serve three or four daily peak periods.



Exhibit 6  shows the cities and airports served by Southwest in mid-2016. Going into 2016, Southwest had nonstop service between 637 airports. In 2015, Southwest’s average passenger airfare was \$154.85 one way, and the average passenger trip length was approximately 994 miles.

EXHIBIT 6
Airports and Cities Served by Southwest Airlines, December 2015

Southwest’s Top 10 Airports by Departures			
	Daily Departures	Number of Gates	Nonstop Cities Served
Chicago Midway	233	34	64
Las Vegas	214	24	59
Baltimore/Washington	208	29	61
Denver	184	22	57
Dallas (Love Field)	180	18	51
Phoenix	167	24	48
Houston (Hobby)	161	19	51
Atlanta	126	18	37
Los Angeles	124	15	26
Orlando	113	16	40



Other Airports Served by Southwest Airlines

Akron-Canton OH	Greenville/Spartanburg SC	Ontario CA	Tucson
Albany	Harlingen/South Padre Island TX	Orange County CA	Tulsa
Albuquerque	Hartford/Springfield	Panama City FL	Washington, DC (Dulles)
Amarillo	Indianapolis	Pensacola FL	Washington, DC (Reagan National)
Austin	Jacksonville	Philadelphia	West Palm Beach
Birmingham	Kansas City	Pittsburgh	Wichita KS
Boise	Little Rock	Portland OR	
Boston Logan	Long Island	Portland ME	International
Buffalo	Louisville	Providence	Aruba
Burbank CA	Lubbock	Raleigh-Durham	Belize City
Charleston	Manchester NH	Reno/Tahoe	Cabo San Lucas
Charlotte	Memphis	Richmond	Cancun
Cleveland	Midland/Odessa TX	Rochester	Liberia, Costa Rica
Columbus OH	Milwaukee	Sacramento	Mexico City
Corpus Christi TX	Minneapolis/St. Paul	St. Louis	Montego Bay
Dayton OH	Nashville	Salt Lake City	Nassau
Des Moines	Newark	San Antonio	Punta Cana DOM
Detroit Metro	New Orleans	San Diego	Puerto Vallarta
El Paso	New York (LaGuardia)	San Francisco	San Juan
Flint MI	Norfolk/Virginia Beach	San Jose	

Fort Lauderdale	Oakland	Seattle/Tacoma	
Fort Myers/Naples	Oklahoma City	Spokane	
Grand Rapids MI	Omaha	Tampa	

Sources: Company 10-K report, 2015; information posted at www.southwest.com (accessed May 18, 2016).

Striving to Perform All Value Chain Activities Cost-Effectively

Southwest made a point of scrutinizing every aspect of its operations to find ways to trim costs. The company's strategic actions to reduce or at least contain costs were extensive and ongoing.

- Sharply rising prices for jet fuel over the past from the mid-2000s through 2014 that caused fuel expenses to rise from 16.5 percent of total operating expenses in 2003 to between 28 and 38 percent of total operating expenses between 2006 and 2014 had prompted a number of projects to increase fuel efficiency, including:
 - The installation of “blended winglets” on all of its planes beginning in 2007 and then, in 2014, starting to upgrade its aircraft fleet with newly designed split scimitar winglets—see [Exhibit 7](#) . These winglets reduced lift drag, allowed aircraft to climb more steeply and reach higher flight levels quicker, improved cruising performance, helped extend engine life and reduce maintenance costs, and reduced fuel burn.
 - The use of auto-throttle and vertical navigation procedures to maintain optimum cruising speeds.
 - The introduction of new engine start procedures to support using a single engine for runway taxiing.
 - Reductions in engine aircraft idle speed while on the ground.

EXHIBIT 7

Southwest's Fuel-Saving Blended Winglets and Split Scimitar Winglets



Blended Winglets (first installations began in 2007); fuel savings of about 3.5 percent per aircraft.

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Source: Southwest Airlines.



New Split Scimitar Winglets (first installations began in 2014); fuel savings of about 5.0 to 5.5 percent per aircraft.

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- Southwest was the first major airline to introduce ticketless travel (eliminating the need to print and process paper tickets); by 2007 ticketless travel accounted for more than 95 percent of all ticket sales.
 - Southwest was also the first airline to allow customers to make reservations and purchase tickets at the company's website (thus bypassing the need to pay commissions to travel agents for handling the ticketing process and reducing staffing requirements at Southwest's reservation centers). Selling a ticket on its website cost Southwest roughly \$1, versus \$3–4 for a ticket booked through its own internal reservation system and as much as \$15 for tickets purchased through travel agents and professional business travel partners. Online ticket sales at Southwest's website grew swiftly, accounting for 74 percent of Southwest's revenues in 2009 and 80 percent of all company bookings in 2015.

- For most of its history, Southwest stressed flights into and out of airports in medium-sized cities and less-congested airports in major metropolitan areas (Chicago Midway, Detroit Metro, Houston Hobby, Dallas Love Field, Baltimore–Washington International, Burbank, Manchester, Oakland, San Jose, Providence, and Fort Lauderdale–Hollywood). This strategy helped produce better-than-average on-time performance and reduce the fuel costs associated with planes sitting in line on crowded taxiways or circling airports waiting for clearance to land. It further allowed the company to avoid paying the higher landing fees and terminal gate costs at such high-traffic airports like Atlanta’s Hartsfield–Jackson International, Chicago’s O’Hare, and Dallas–Fort Worth (DFW) where landing slots were controlled and rationed to those airlines willing to pay the high fees. More recently, however, having already initiated service to almost all of the medium-sized cities and less-congested airports where there were good opportunities for sustained growth in passenger traffic and revenues, Southwest had begun initiating service to airports in large metropolitan cities where air traffic congestion was a frequent problem—such as Los Angeles LAX, Boston Logan International, New York LaGuardia, Denver, San Francisco, Philadelphia, and Atlanta (when it acquired AirTran).
- To economize on the amount of time it took terminal personnel to check in passengers and to simplify the whole task of making reservations, Southwest dispensed with the practice of assigning each passenger a reserved seat. Initially, passengers were given color-coded plastic cards with the letters A, B, or C when they checked in at the boarding gate. Passengers then boarded in groups, according to the color/letter on their card, sitting in whatever seat was open when they got on the plane. In 2002, Southwest abandoned the use of plastic cards and began printing a big, bold A, B, or C on the boarding pass when the passenger checked in at the ticket counter; passengers then boarded in groups according to the letter on their boarding pass. In 2007–2008, Southwest introduced an enhanced boarding method that automatically assigned each passenger a specific number within the passenger’s boarding group at the time of check-in; passengers then boarded the aircraft in that numerical order. All passengers could check in online up to 24 hours before departure time and print out a boarding pass, thus bypassing counter check-in (unless they wished to check baggage).



- Southwest flight attendants were responsible for cleaning up trash left by deplaning passengers and otherwise getting the plane presentable for passengers to board for the next flight. Rival carriers had cleaning crews come on board to perform this function until they incurred heavy losses in 2001–2005 and were forced to institute stringent cost-cutting measures that included abandoning use of cleaning crews and copying Southwest’s practice.
- Southwest did not have a first-class section in any of its planes and had no fancy clubs for its frequent flyers to relax in at terminals.
- Southwest did not provide passengers with baggage transfer services to other carriers—passengers with checked baggage who were connecting to other carriers to reach their destination were responsible for picking up their luggage at Southwest’s baggage claim and then getting it to the check-in facilities of the connecting carrier. (Southwest booked tickets involving only its own flights; customers connecting to flights on other carriers had to book such tickets either through travel agents or the connecting airline).
- Starting in 2001, Southwest began converting from cloth to leather seats; the team of Southwest employees that investigated the economics of the conversion concluded that an all-leather interior would be more durable and easier to maintain, more than justifying the higher initial costs.
- Southwest was a first-mover among major U.S. airlines in employing fuel hedging and derivative contracts to counteract rising prices for crude oil and jet fuel. From 1998 through 2008, the company’s fuel hedging activities produced fuel savings of about \$4.0 billion over what it would have spent had it paid the industry’s average price for jet fuel. But unexpectedly large declines in jet fuel prices in late 2008 and 2009 resulted in reported losses of \$408 million on the fuel hedging contracts that the company had in place during 2009. Since then, the company’s fuel hedging activities had continued to be ineffective in reducing fuel expenses; the company recognized losses on its fuel hedging activities of \$324 million in 2010, \$259 million in 2011, \$157 million in 2012, and \$118 million in 2013. Southwest’s fuel hedging strategy involved modifying the amount of its future fuel requirements that were hedged based on management’s judgments about the forward market prices of crude oil and jet fuel. As of January 2016, the company had fuel derivative contracts in place for ~20 percent of its expected fuel consumption in 2016, ~65 percent of expected fuel consumption in 2017, and ~35 percent of expected fuel consumption in 2018.

- Southwest regularly upgraded and enhanced its management information systems to speed data flows, improve operating efficiency, lower costs, and upgrade its customer service capabilities. In 2001, Southwest implemented use of new software that significantly decreased the time required to generate optimal crew schedules and help improve on-time performance. In 2007–2008, Southwest invested in next-generation technology and software to improve its ticketless system and its back office accounting, payroll, and human resource information systems. During 2009, the company replaced or enhanced its point-of-sale, electronic ticketing and boarding, and revenue accounting systems. During 2010, it completed an initiative to convert to a new SAP Enterprise Resource Planning application that would replace its general ledger, accounts payable, accounts receivable, payroll, benefits, cash management, and fixed asset systems; the conversion was designed to increase data accuracy and consistency and lower administrative support costs.



For many decades, Southwest's operating costs had been lower than those of rival U.S. airline carriers—see [Exhibit 8](#) for comparative *costs per revenue passenger mile* among the five major U.S. airlines during the 1995–2015 period. [Exhibit 9](#) shows trends in Southwest's operating costs *per available seat mile* rather than per passenger-occupied seat.

Making It Fun to Fly Southwest: The Strategy to Provide a Top-Notch Travel Experience

Southwest's approach to delivering good customer service and building a loyal customer clientele was predicated on presenting a happy face to passengers, displaying a fun-loving attitude, and doing things in a manner calculated to provide passengers with a positive flying experience. The company made a special effort to employ gate personnel who enjoyed interacting with customers, had good interpersonal skills, and displayed cheery, outgoing personalities. A number of Southwest's gate personnel let their wit and sense of humor show by sometimes entertaining those in the gate area with trivia questions or contests such as "who has the biggest hole in their sock." Apart from greeting passengers coming onto planes and assisting them in finding open seats and stowing baggage, flight attendants were encouraged to be engaging, converse and joke with passengers, and go about their tasks in ways that made passengers smile. On some flights, attendants sang announcements to passengers on takeoff and landing. On one flight while passengers were boarding, an attendant with bunny ears popped out of an overhead bin exclaiming "Surprise!" The repertoires to amuse passengers varied from flight crew to flight crew.

EXHIBIT 8**Comparative Operating Cost Statistics per Revenue Passenger Mile, Major U.S. Airlines, 1995, 2000, 2005, 2010–2015**

Costs incurred per revenue passenger mile (in cents)										
	Total Salaries and Fringe Benefits		Fuel and Oil	Maintenance	Rentals	Landing Fees	Advertising	General and Administrative	Other Operating Expenses	Total Operating Expenses
	Pilots and Copilots	All Employees								
American Airlines										
1995	0.94¢	5.59¢	1.53¢	1.34¢	0.59¢	0.22¢	0.19¢	1.14¢	3.65¢	14.25¢
2000	1.16	5.77	2.04	1.90	0.48	0.23	0.18	0.58	3.30	14.48
2005	0.90	4.65	3.67	1.42	0.41	0.32	0.10	0.95	3.66	15.18
2010	0.88	5.18	4.57	1.92	0.47	0.35	0.13	1.23	3.68	17.53
2011	0.89	5.27	5.82	1.91	0.51	0.31	0.15	1.82	4.07	19.87
2012	0.86	5.17	6.10	1.87	0.43	0.30	0.12	1.91	3.70	19.61
2013	0.91	4.39	5.94	1.82	0.57	0.31	0.14	1.35	4.38	18.90
2014	1.01	4.63	5.56	1.92	0.66	0.31	0.07	1.56	4.46	19.18
2015	1.27	5.01	3.08	1.77	0.67	0.30	0.07	2.26	3.93	17.09

Delta Air Lines

1995	1.27¢	4.97¢	1.70¢	1.16¢	0.71¢	0.30¢	0.18¢	0.43¢	4.07¢	13.53¢
2000	1.27	5.08	1.73	1.41	0.54	0.22	0.12	0.74	3.03	12.85
2005	0.93	4.31	3.68	1.10	0.38	0.22	0.16	0.84	6.01	16.69
2010	0.91	4.15	4.51	1.33	0.14	0.28	0.10	0.64	6.26	17.41
2011	0.95	4.27	5.77	1.41	0.15	0.28	0.13	0.54	7.09	19.65
2012	0.99	4.57	5.97	1.53	0.15	0.28	0.14	0.71	6.85	20.21
2013	1.11	4.82	5.42	1.58	0.13	0.28	0.13	0.68	6.61	19.65
2014	1.15	5.17	6.43	1.56	0.16	0.28	0.12	1.03	5.95	20.70
2015	1.19	5.55	3.45	1.47	0.18	0.27	0.12	1.38	5.08	17.50

Southwest Airlines

1995	0.92¢	3.94¢	1.56¢	1.21¢	0.79¢	0.35¢	0.41¢	1.09¢	1.56¢	10.91¢
2000	0.86	4.22	1.95	1.22	0.48	0.31	0.35	1.42	0.96	10.91
2005	1.18	4.70	2.44	1.17	0.31	0.34	0.29	0.73	1.23	11.21
2010	1.37	4.97	4.63	1.47	0.28	0.46	0.26	0.83	1.32	14.23
2011	1.37	4.99	5.76	1.47	0.23	0.45	0.26	0.98	1.35	15.50
2012	1.57	5.66	6.70	1.86	0.42	0.51	0.26	1.29	1.72	18.43
2013	1.59	5.87	6.38	1.85	0.46	0.52	0.23	1.21	1.68	18.19

Note 1: Cost per revenue passenger mile for each of the cost categories in this exhibit is calculated by dividing the total costs for each cost category by the total number of revenue passenger miles flown, where a revenue passenger mile is equal to one paying passenger flown one mile. Costs incurred per revenue passenger mile thus represent the costs incurred per ticketed passenger per mile flown.

Note 2: US Airways and America West started merging operations in September 2005, and joint reporting of their operating costs began in late 2007. Effective January 2010, data for Delta Air Lines include the combined operating costs of Delta and Northwest Airlines; the merger of these two companies became official in October 2008. United Airlines acquired Continental Airlines in 2010, and the two companies began joint reporting of operating expenses in 2012.

Note 3: America Airlines and US Airways merged in December 2013, but continued to operate under their separate names through 2014. Previously, US Airways had merged with America West in September 2005.

Note 4: Delta Air Lines and Northwest Airlines merged in October 2008; however, combined reporting did not begin until 2010.

Note 5: Southwest Airlines acquired AirTran in late 2010; starting in 2013 and continuing into 2014, AirTran flights were rebranded as Southwest Airlines flights. Southwest's first international flights began when some of AirTran's international flights were rebranded as Southwest flights in 2013.

Note 6: United Airlines acquired Continental Airlines in 2010, and the two companies began joint reporting of passenger traffic in 2012. Prior to 2012, traffic count data are only for United flights.

EXHIBIT 9

Southwest Airlines's Operating Expenses per Available Seat Mile, Various Years 1995–2015

Costs (in cents) per available seat mile							
Expense Category	2015	2014	2013	2010	2005	2000	1995
Salaries, wages, bonuses, and benefits	4.54¢	4.14¢	3.86¢	3.76¢	3.27¢	2.81¢	2.40¢
Fuel and oil	2.57	4.04	4.42	3.68	1.58	1.34	1.01
Maintenance materials and repairs	0.72	0.75	0.83	0.76	0.52	0.63	0.60
Aircraft rentals	0.17	0.22	0.28	0.18	0.19	0.33	0.47
Landing fees and other rentals	0.83	0.85	0.85	0.82	0.53	0.44	0.44
Depreciation	0.72	0.72	0.66	0.64	0.55	0.47	0.43
Acquisition and integration	0.03	0.10	0.07	—	—	—	—
Other operating expenses	<u>1.60</u>	<u>1.68</u>	<u>1.63</u>	<u>1.45</u>	<u>1.41</u>	<u>1.71</u>	<u>1.72</u>
Total	11.18¢	12.50¢	12.60¢	11.29¢	8.05¢	7.73¢	7.07¢

Note: Figures in this exhibit differ from those for Southwest in [Exhibit 8](#)  because the cost figures in [Exhibit 8](#)  are based on *cost per passenger revenue mile*, whereas the cost figures in this exhibit are based on *cost per available seat mile*. Costs per revenue passenger mile represent the costs per ticketed passenger per mile flown, whereas costs per available seat mile are the *costs per seat per mile flown (irrespective of whether the seat was occupied or not)*.

Sources: Company 10-K reports and annual reports, various years.

During their tenure, both Herb Kelleher and Colleen Barrett had made a point of sending congratulatory notes to employees when the company received letters from customers complimenting particular Southwest employees; complaint letters were seen as learning opportunities for employees and reasons to consider making adjustments. Employees were provided the following policy guidance regarding how far to go in trying to please customers:

No Employee will ever be punished for using good judgment and good old common sense when trying to accommodate a Customer—no matter what our rules are.¹⁶

When you empower People to make a positive difference everyday, you allow them to decide. Most guidelines are written to be broken as long as the Employee is leaning toward the Customer. We follow the Golden Rule and try to do the right thing and think about our Customer.¹⁷

Southwest executives believed that conveying a friendly, fun-loving spirit to customers was the key to competitive advantage. As one Southwest manager put it, “Our fares can be matched; our airplanes and routes can be copied. But we pride ourselves on our customer service.”¹⁸

Southwest’s emphasis on point-to-point flights enabled many passengers to fly nonstop to their destinations, thereby cutting total trip time and avoiding not only the added built-in travel time to make connections but also the oft-encountered delays associated with connecting flights (late incoming flights, potential equipment failures requiring repairs at the gate, and late departures). In recent years, about 72 percent of Southwest’s passengers flew nonstop to their destination—nonstop travel was a major contributor to providing customers with a top-notch travel experience.

In 2007, Southwest invested in an “extreme gate makeover” to improve the airport experience of customers. The makeover included adding (1) a business-focused area with padded seats, tables with power outlets, power stations with stools, and a large screen TV with news programming; and (2) a family-focused area with smaller tables and chairs, power stations for charging electrical devices, and kid-friendly TV programming. Later, Southwest added free wireless Internet service for passengers waiting in its gate areas.



In 2013–2014, Southwest began offering in-flight satellite-based Internet service on all of its 737-700 and 737-800 aircraft, representing over 75 percent of Southwest's fleet. Southwest's arrangement with its Internet service provider enabled the company to control the pricing of in-flight Internet service (which in 2014 was \$8 a day per device, including stops and connections). The addition of in-flight Internet service, coupled with the free wireless service available in all of Southwest's gate areas, meant that passengers traveling on a Southwest airplane equipped with satellite Internet service had gate-to-gate connectivity for small portable electronic devices—in early 2016, Southwest was the only carrier currently offering gate-to-gate connectivity on 80 percent of its total aircraft fleet.

In 2013, Southwest joined with DISH Network to give customers free access to 17 live channels and 75 on-demand recorded episodes from various TV series at no additional charge. This promotion was later extended through the end of 2014. Shortly thereafter, Southwest added a selection of movies-on-demand (currently priced at \$5 per movie) to its entertainment offerings and, in December 2013, became the first airline to offer a messaging-only option for \$2 a day per device, including all stops and connections. Passengers did not have to purchase in-flight Internet service to access television offerings, movies-on-demand, or the messaging-only service.

In 2013, Southwest introduced a completely redesigned Southwest mobile website and app for iPhone and Android that had more features and functionality. The app enabled passengers to begin using mobile boarding passes.

Strategic Plan Initiatives, 2013–2016

Integrating Southwest's and AirTran's Operations

The process of integrating AirTran into Southwest's operation began in 2013 and was completed by year-end 2014, with the last AirTran flight operating on December 28, 2014. Important integration accomplishments included:



- Transitioning of AirTran's Atlanta hub into a point-to-point operation to capture the efficiencies related to the scheduling of aircraft, flight crews, and ground staff.
- In addition to converting AirTran's flight schedules into a point-to-point operation, Southwest had merged and optimized the combined Southwest–AirTran flight schedules.
- Southwest had established a Southwest presence in all AirTran cities not currently served by Southwest and rebranded all AirTran operations and activities as Southwest.
- Conversion of AirTran's Boeing 737-700 aircraft to the Southwest fleet.
- AirTran's flight attendants had transitioned from the Association of Flight Attendants–CWA (“AFA”) to the Transportation Workers of America union representing Southwest's flight attendants.

Southwest's Fleet Modernization Initiative

Southwest had multiple efforts underway to modernize its aircraft fleet. One effort, referred to by Southwest as *Evolve—The New Southwest Experience*, entailed retrofitting and refreshing the cabin interior of its fleet of 471 Boeing 737-700 planes. The goal of the Evolve program was to enhance customer comfort, personal space, and the overall travel experience while improving fleet efficiency and being environmentally responsible. The cabin refresh featured recyclable carpet, a brighter color scheme, and more durable, eco-friendly, and comfortable seats that weighed less than the prior seats. By maximizing the space inside the plane, Evolve allowed for six additional seats on each retrofitted aircraft, along with more climate-friendly and cost-effective materials. Southwest retrofitted 78 of its 737-300 aircraft with Evolve in 2013. In addition, the new 737-800 aircraft entering the company's fleet had the Evolve interior. The 17 AirTran 737-700 aircraft that were transferred to Southwest's fleet at year-end-2013 were refreshed with the new Evolve interior, and the remaining 35 AirTran 737-700 aircraft were refreshed with the Evolve interior when they became part of the Southwest fleet in the second half of 2014.