

Airline of the Year

Southwest Airlines

Thirty consecutive years of profit is a remarkable performance in any business, but in the airline industry it borders on the miraculous. And yet, unless a volcano buries Dallas Love Field under a mountain of lava, it seems inevitable that Southwest Airlines this year will notch its 30th year of profit without a break, including during the post-9/11 recession.

While most US Major carriers were cutting capacity 10%-25% and laying off 110,000 workers in the past 16 months, Southwest hired 6,000 people. While passengers on US sectors of up to 750 mi.—where the majority of Southwest routes lie—were declining 10%-25% in 2002, Southwest's RPMs increased 2% for the year.

The airline has not backed down in these hard times, adding 5.5% in ASMs and boosting its fleet with 22 new airplanes last year and 17 more this year while increasing its order backlog to 396 aircraft in the 2004-12 period.

In 2001 when US carriers were losing more than \$7 billion, Southwest earned \$511.1 million in net profit and carried 64.4 million passengers, making it the fourth-largest carrier in the world in passenger numbers. In 2002 as massive contraction was the order of the day elsewhere, Southwest carried more than 63 million passengers and at this writing seemed likely to earn more than \$400 million. Meanwhile, US carriers are wrapping up a loss in the neighborhood of \$9.5 billion.

The story of how Southwest continues to produce this string of incredible performances has been told many times and with each retelling changes very little. It is the original template for how low-fare airlines are supposed to operate and how they can continue to prosper despite the ravages of economic distress and the pressures of a mature corporation. Amazingly few have bothered to copy this template for success, but those that have stayed true to the model are reaping similar rewards.

However, being first has its advantages, and Southwest's growth rate on top of its substantial existing business means that in a very few years it will fly more passengers than any other airline in the world.

At the top of the list of Southwest's business model priorities—ahead of avoidance of congested, expensive airports and sticking with a single-model fleet—is its key focus: Maintaining control of costs. Cost per ASM, excluding fuel, has declined or held steady since 1999. Using costs as its base, Southwest sets fares at levels sufficient to 1) reward employees and managers, 2) attract more passengers and 3) satisfy shareholders, who include many employees.

And yet, keeping costs under control does not explain how Southwest has been able to keep its passengers satisfied. That



explanation must address the company's drive to deliver exactly the service the passenger expects. Although it is a low-frills airline, flying on it is not a hardship. Its load factor remains in the mid-to-low range for all US airlines and its seat pitch is more than adequate for most travelers. Extras cost more so onboard service is light, but the mood is cheery and that's what passengers expect, especially at those prices.

Some recent changes are noted: Southwest's average route length grew by 4.3% last year, some part of that a reflection of the flying public's disdain for short-haul flights since 9/11 and another part the airline's "connect-the-dots" strategy that includes longer routes and its first transcontinental nonstops. Connect-the-dots routes are cheaper to start, with existing Southwest operations at both ends.

The early two-tier fare structure is long gone, replaced by several fare products, but the range is quite narrow. The focus on Internet sales remains, pushing that outlet to more than 50% of last year's revenues. Although Southwest was the first Major to offer ticketless travel and the second to sell on the Web, technology investments were watched carefully. However, when confronted by new security concerns that threatened its traditional boarding procedures, it quickly started installing kiosks to issue the required boarding passes.

Southwest has won *ATW's* top award twice previously. So dedicated to the business model are its management and staff that it looks like the carrier's third trophy won't be its last.