Should Southwest Airlines Expand its International Operations?

Student Name

School Name

Should Southwest Airlines Expand its International Operations?

Introduction

Popular American flight provider Southwest Airlines has been a market leader in the American domestic industry for more than a decade. Led by a marketing approach that is innovative, and using a business model that differentiates its service, Southwest has gained a very strong foothold both with commercial and standard passengers. Based out of Texas, with its major hubs in Dallas and Houston, Southwest Airlines has long focused on simply providing American flights, and especially those flights that only cover short distances. In 2014, however, Southwest announced that it was changing course. All of a sudden, Southwest decided to expand beyond the initial approach, looking to dive into the shallow waters of international travel. While Southwest did not become a full-service international carrier like some of its American counterparts, the company *did* decide to make some significant changes. This brings to bear a number of questions. For one, a person can rightly ask whether it was right for Southwest to make this move at all. A subsidiary question considers whether the Southwest business model, and whether its marketing approach, is appropriately geared toward the international travel market that it is about to seek. Secondly, with some data in now that Southwest has moved itself into the international realm, it is probably worth considering whether Southwest would be right to expand its international operations at this time. This paper explores these questions, finding that while the Southwest model is not exactly geared toward international travel, the company *could* have success there, but it may be best focusing on shorter route international travel, modifying its domestic approach to suit its new international venture.

Discussion and Analysis

When looking at the logistics of air travel, one must first consider the *type* of airplane that an airline has the opportunity to offer. Southwest Airlines is somewhat unique in this regard. While some other airlines might have the ability to offer something different because of their bigger planes, Southwest is left to offer its customers a more cramped style of travel. Southwest is primarily stocked with a fleet of Boeing 737 planes. These are smaller planes that typically seat, at most, six people across the body of planes. International travelers have grown accustomed to bigger planes for longer trips. There are, of course, both convenience reasons for this *and* practical business reasons for this. Companies with larger planes are able to offer their customers a more comfortable experience on these longer flights. While smaller planes may be appropriate for domestic flights that only last a couple of hours, when customers are going international, they are typically being asked to endure much longer flights. On top of that, airlines are often forced to confront the reality of higher fixed costs for these longer treks. This means that they like to stock these longer flights with many more passengers in order to make the trip worth the company's while. Southwest, because of certain limitations in its operations, has significant problems keeping up with its competitors in this regard. It cannot offer as much room as those airlines with bigger planes. Beyond that, it will struggle to keep up with the margins of its primary competitors – American Airlines and United Airlines – if those competitors are able to fill their larger planes consistently for these trips.

When seeking to answer the question of whether Southwest should expand its international operations, one must first note what Southwest is doing *right now* with its international operations. At current, Southwest flies only to the Caribbean, where it services a number of islands. This makes some sense given the location of Southwest's biggest hubs. From Hobby International Airport in Houston, which recently expanded so that it could accommodate the needs of Southwest, the company can easily route its international travel to the Caribbean, keeping its routes shorter, which is important, of course, because of the way in which the company's fleet is constituted. If the company is to expand its international operations to more Southern destinations or to European locations, as it has suggested already, then the company would run into significant amounts of trouble. Its customers to this point have been satisfied with the international service, but there may be more problems and more complaints if the routes became longer.

One of Southwest's primary strengths are current is the fact that the company offers superior service at lower costs than some of its competitors. For instance, Southwest has benefitted significantly from its “Bags Fly Free” campaign, which has been a staple both of its customer service *and* its marketing approach to this point. Because Southwest has a run a series of domestic routes that have been relatively short and simple, baggage handling has been easier and cheaper. While it is certainly true that the company has some operational advantages over its competitors – for instance, its hiring puts a high premium on even those baggage handlers who value the corporate culture of Southwest – this advantage will probably take a tumble if the company decides to expand its operations even further. International flights bring into play more complex baggage handling schemes, and the added weight costs the airlines much more money on longer flights. In addition, there are extra security and liability risks to the company when they could potentially lose luggage brought across borders. All of this will make it more difficult than ever for Southwest to maintain itself with the “Bags Fly Free” mantra. This suggests that an expansion may make the company re-consider the core of its advertising and marketing, which could be a particular challenge to the company during this important time. It may weigh on both the company's domestic sales and its international sales.

One would be remiss when discussing opportunities for expansion if one did not look into the balance sheet for Southwest. Companies typically expand their operations for a number of different reasons. One reason is because the company is losing out on market share in the home market, and must move into different markets in order to remain viable. Another reason is so that the company can take advantage of its strong financial position, leveraging itself for more potential growth. Southwest is coming off of a record year, fueled, at least in part, by higher levels of domestic travel and increased business travel. The company posted a nearly 50-percent increase in its net income in the third quarter of 2014 over 2013. Its profits were up, and its occupancy was up almost five-percent. This is significant, as well, because of the fact that Southwest was in a period of transition, bringing along Airtran into its operational mix. All of this points to very good things for Southwest moving forward, and the balance sheet screams that the company has the cash on-hand to take some risks at this point in time. However, one must wonder whether it might be better for the company to focus on what seems to be a very strong position in its home market.

Ultimately, the decision by Southwest to expand its international operations comes with significant risk. For one, it comes with the risk that Southwest will lose some of its status as the local American carrier. It comes with the risk that Southwest will not be able to keep up its reputation as a carrier able to provide top-level service without charging top-level prices for things like baggage. Beyond that, there is a risk that Southwest’s planes might not be big enough to manage the new routes. The choice for Southwest, however, is not whether to end its international operations. It is, rather, whether to expand them to something beyond what the company is doing right now. It seems as if the company is making the proper decision, dipping its toes into the international market in a way that will allow it to test itself without giving up its business model, which has been obviously very successful. The company going only into a few Caribbean markets allows it to keep its same fleet of planes, thus ensuring that it does not have to make huge purchases out of its new cash-heavy position. On top of that, the company can likely still keep its marketing approach, and it can continue to focus on service without the problems associated with longer-term travel.

Conclusion

Southwest Airlines is faced with a number of different decisions in the future. It just had one of its biggest years, and it seems poised to have more great years in the American domestic market. There, it has set itself apart from competitors by being different and by doing things the right way. While some of its advantages may transfer into the international realm, others almost certainly will not be able to transfer to those markets. Should Southwest expand international travel? It seems as if the company has found the sweet spot to some extent, and should remain in that sweet spot moving forward.

References

Lim, S. H., & Hong, Y. (2014). Fuel hedging and airline operating costs. *Journal of Air Transport Management*, *36*, 33-40.

Nolan, J., Ritchie, P., & Rowcroft, J. (2014). International Mergers and Acquisitions in the Airline Industry. *The Economics of International Airline Transport (Advances in Airline Economics, Volume 4) Emerald Group Publishing Limited*, *4*, 127-150.

Wittman, M. D. (2014). Are low-cost carrier passengers less likely to complain about service quality?. *Journal of Air Transport Management*, *35*, 64-71.