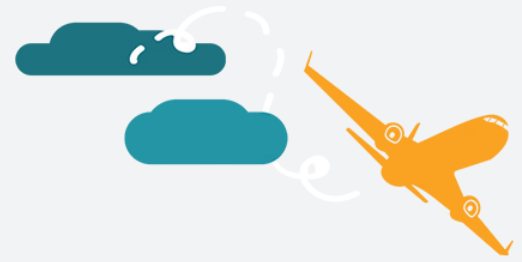


# Assets & Airlines



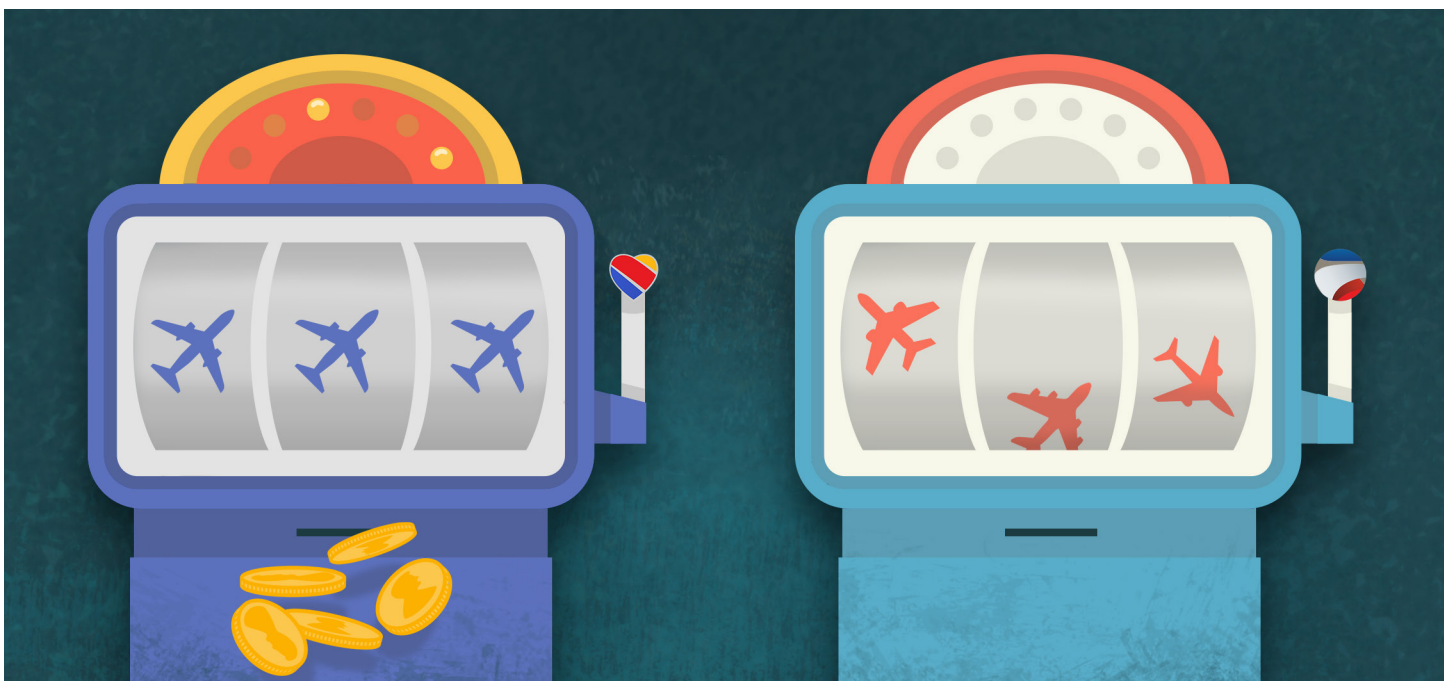
Delta Airlines tops the charts when it comes to profit margins and total earnings in the airline industry. However, there's another airline that, except for 2020, has always managed to avoid losses. Dallas-based Southwest Airlines has been profitable annually in its 56-year history, including during the crisis following 9/11. When American Airlines, Delta Air Lines, and United Airlines lost billions of dollars during the Great Recession, Southwest still earned hundreds of millions per year. Even after the 2022 Christmas fiasco, Southwest came through with another profitable year.

How has Southwest achieved such sustained profitability? One big factor is the efficient use of its assets. Let's take a look at some examples:

**1. Streamlined fleet management.** Efficiency is all about doing more with less. Most commercial airlines use many models in their fleets, but Southwest uses only one: the Boeing 737. The

resulting savings in crew and ground-service personnel training, maintenance, and inventory — plus the ability to substitute any aircraft for nearly any other — also help Southwest consistently produce industry-leading turn times. Unfortunately, that makes Southwest uniquely vulnerable to the Boeing 737 Max's manufacturing defects scandal of 2024.

**2. Fast turn times.** One way to improve asset efficiency is by maximizing asset output. Southwest not only fits more seats on its planes, but it also averages 25 minutes to unload and reload flights. A very efficient time compared to the industry average of 35–60 minutes. Additionally, the company's strategy of point-to-point flights (rather than the traditional hub-and-spoke pattern) reduces connection times, flight delays, and total trip times. This means that its key assets, such as airplanes and pilots, are idle for about two hours less than competitors' assets every single day. "That's like getting one





airplane in five for free,” said a former Southwest executive.

**3. Fuel hedging.** If Southwest’s success is any indication, a little bit of planning can go a long way. Since 1999, it has employed an aggressive fuel hedging program and paid up to a dollar less per barrel of fuel than its competitors. Between 1999 and 2008, it saved \$4 billion through hedging, allowing it to come out ahead during the 2000s energy crisis that hurt many other airlines. While it hasn’t been a win 100 percent of the time, hedging has helped Southwest weather plenty of storms in the turbulent energy market.

**4. No fees or frills.** “Stick to your strengths” is advice often forgotten, so in such a complicated industry, Southwest’s business plan is refreshingly simple: sell tickets. Southwest is the last remaining airline to offer two free checked bags and zero change fees, and it sells only one-way flights and offers no seat assignments. (It also sells tickets online exclusively through its website, not through third-party agents.) Without various upgrade processes and systems to manage, Southwest can maintain an astounding 2,700-to-1 passenger-to-employee ratio; in comparison, Lufthansa maintains a 500-to-1 ratio.

Other airlines may want to consider trimming some fat if they want to keep up.

**5. Happy employees.** Southwest fosters a unique corporate culture that values employees and encourages teamwork, innovation, and a sense of ownership. In 2017, Southwest shared \$586 million in profits with its 55,000 employees, averaging a 13% bonus for each employee. It’s well known that Southwest’s employees are among the happiest in the industry: its employee turnover is 2.5% versus the industry’s average of 19%, and it has rarely had a layoff. 85% of employees say they’re proud to work for Southwest. This goodwill has fostered an environment where employees go above and beyond to care for the company’s assets and provide customers with the best possible experiences allowing Southwest to have the lowest number of customer complaints of all airlines.

Southwest has charted a flight path to consistent profit through its great management of assets. Southwest flies more passengers each year than almost any other airline, repeatedly receives top consumer-satisfaction awards, and reliably presents an awe-inspiring balance sheet.

# Activity

Below you'll find a figure comparing Southwest's asset usage to other airlines'. Review this information thoroughly and then use your business acumen to discuss the items at the bottom of the page with your team.






Plane Types / Total Fleet	1 / 815	18 / 989	19 / 967	7 / 721
Baggage Fees	First bag = \$0 Second bag = \$0	First bag = \$35 Second bag = \$45	First bag = \$35 Second bag = \$45	First bag = Free Second bag = \$90
Passengers to Employee	1,831-to-1	2,111-to-1	1,937-to-1	1,267-to-1
Net Income	\$465M	\$4.61B	\$822M	\$7.32B
Total Assets	\$36.48B	\$73.64B	\$63.06B	\$49.42B

1. Southwest brands itself as "the low-cost airline." How might its fleet and inventory management help it provide lower fares than its competitors?
2. A plane about to board passengers malfunctions, and your company decides that the plane will need to be swapped out. What do you do if you are working for Delta Air Lines or American Airlines? What do you do if you are working for Southwest?
3. Southwest doesn't charge customers for baggage. Wouldn't the extra income from baggage fees improve its bottom line? Why or why not?
4. Compare Southwest's passenger-to-employee ratio with Delta's. Is a lower passenger-to-employee ratio ultimately a good thing? Why or why not?
5. Fuel hedging can be a risky business. If you're a supply chain manager at Southwest, what fuel-hedging costs would you look to control besides price-per-barrel?
6. Now that you've completed the case study with your team, write down three lessons you've learned that will help you make better business decisions in the future.

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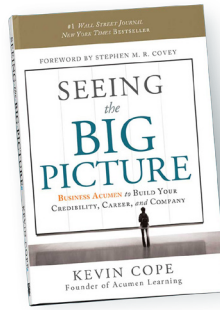
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At its heart, *business acumen* means knowing how your company makes money and making better decisions around the money-making process. As a business leader, you are in a unique position to bridge the gap between functions. You can grow the business in a way nobody else can.

Acumen Learning specializes in business and financial acumen courses that help participants understand The 5 Business Drivers®, the metrics used to measure them, and their role in creating sustainable, profitable, mission-driven growth. The results are employees who are more engaged — aligned, efficient, and productive — which will have an immediate and enduring impact on your company's financial performance. And companies experiencing profitable growth can provide greater opportunities for people to have meaningful careers.





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