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THESIS

INFORMATION SYSTEMS STRATEGY
IN AIR TRANSPORT

by

Desmond P. McGlade

September, 1993

Thesis Advisor: William J. Haga

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Seeking to improve the role of Information Technology (IT) and business practices in the Department of Defense, organizations were sought to serve as a model to aid in the improvement process. Southwest Airlines, a major U.S. carrier based in Dallas, Texas was chosen because of its record of profitability and its unique use of information technology. This case study describes Southwest's mission, goals, organization, business decisions, attitude, growth and information technology. The primary focus is the fact that Southwest does not participate in a major carrier's reservation system. Lessons learned for a military officer in terms of Information Technology are to avoid redundancy, improve functionality, avoid expensive enhancements that do not contribute to your requirements, and don't discount old technologies.

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Information Systems Strategy in Air Transport

by

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Submitted in partial fulfillment
of the requirements for the degree of

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ABSTRACT

Seeking to improve the role of Information Technology (IT) and business practices in the Department of Defense, organizations were sought to serve as a model to aid in the improvement process. Southwest Airlines, a major U.S. carrier based in Dallas, Texas was chosen because of its record of profitability and its unique use of information technology. This case study describes Southwest's mission, goals, organization, business decisions, attitude, growth and information technology. The primary focus is the fact that Southwest does not participate in a major carrier's reservation system.

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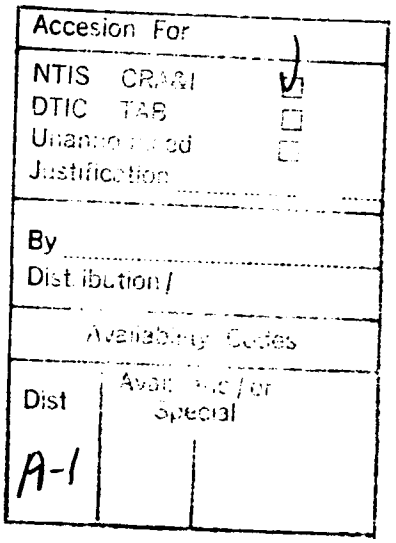

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I. INTRODUCTION

A. GENERAL DESCRIPTION

Seeking to improve the role of Information Technology (IT) and business practices in the Department of Defense, organizations were sought to serve as a model to aid in the improvement process. Southwest Airlines based in Dallas, Texas was chosen because of its record of profitability and its unique use of information technology.

This thesis chronicles the role of information technology in the growth of Southwest Airlines (SWA). It includes the business decisions and strategy used in the development of the organization. SWA is a model of a well run organization. It can serve as an example to military members in the areas of cost consciousness, running a lean and efficient organization, and taking care of its customers. The information is presented in a case study format that covers a period of 22 years and is analyzed in light of the rapid evolution and spread of information systems technology.

B. METHODOLOGY

A case study is a description of a real situation that occurred in a real organization (Cohen, 1980, p. 108). A case study evolves from one or more key issues or problems

in a given situation. This case will concentrate on IT issues faced by the executives and management at Southwest Airlines. It will focus on the decisions made during procurement of information technology and how the culture of the organization influenced those decisions.

A case study is an effective method for presenting valuable insight into the constant technological change and innovation characteristics of the computer systems management field and their effects on management and organization change (Benbasat, 1987, p. 370).

This thesis is written as a teaching tool by re-creating the organization's environment, and portraying its characters so as to present a situation where students discern the problems and recommend solutions. The information is presented in chronological sequence using a narrative and dialogue format. This format is designed to facilitate the probe for questions and answers, problems and solutions. The dialogue will allow a reader to learn about the personal characteristics of those people making decisions. Personal characteristics are often key to understanding *how* and *why* certain decisions are made.

Information regarding this case comes from written documentation, interviews, and observing practices within the organization. Presenting the information in chronological sequence provides a logical discussion of the decisions and events surrounding the management of Southwest

Airlines. This method encompasses the depth necessary for the details and processes within a situation to be completely understood.

C. BACKGROUND

Southwest achieved major airline status in 1989 and was ranked as the seventh largest airline in the United States in 1993. An airline becomes a major when it exceeds one billion dollars in annual revenue.

In the first half of 1993, it was the number one U.S. major airline in terms of profitability and service. Service is measured by the number of customer complaints, on time performance of flights, and baggage loss. (Alderman, 1992, p. 126)

Southwest Airlines is unique in that it does not share a major airline's Computer Reservation System (CRS). A CRS is considered to be an essential marketing tool in the airline world. (Sutton, 1989, p. 418)

D. EDUCATIONAL OBJECTIVES

"In an increasingly constrained budget environment when all aspects of federal spending are properly coming under greater scrutiny, improved management of costly automated information systems represents a substantial opportunity for significant defense cost savings" . (Conyers, 1989, p. 1)

The amount of money that is spent by the Department of Defense (DoD) in the area of Information Systems is of grave concern (Table 1.1).

TABLE 1.1 IT BUDGET (DoD)

Fiscal Year	Budget ($ billions)
1993	9.9
1994	9.5
1995	9.4

(Telephone, Cardiff, 1993)

In the author's opinion, a portion of this budget is wasted by poor planning on procurement of Automatic Data Processing (ADP) equipment, inadequate management of Information Resources (IR), the development of redundant systems, and agencies being seduced into buying expensive luxury options or "bells and whistles" from contractors. Responsibility for these actions must lie with the leadership of the various military organizations and they should be held accountable for all decisions.

It appears to the author that DoD agencies are sometimes encouraged to procure unnecessary systems just because another agency might have the latest technology. It seems as though the two fundamental questions for a sound business decision:

1. Do we need this?
2. Does it make sense to buy it?

(Interview, Dennison, 1993)

sometimes evade the Department of Defense when it comes to procurement of ADP equipment.

Upon graduation, the officers at the Naval Postgraduate School will be returning to their respective commands to fulfill their payback tour, assuming jobs which may entail working with contractors and making decisions for new Information Systems (IS). Maintaining the attitude of "having the latest toy" can only perpetuate the needless spending which has permeated the DoD and still continues today.

The Corporate Information Management (CIM) initiative was established in October 1989 by the Department of Defense to improve the standardization, quality and consistency of data from DoD's multiple management information systems. It was designed to also implement new or improved business methods. (Hutto, Feb. '91, p. 1)

From the author's experience, military personnel are used to dealing with multi-million dollar, high technology equipment, e.g. tactical jet aircraft, M-1 tanks, aircraft carriers, etc. Their primary concern is the operation and not the financial management of this equipment. Members who later in their careers become involved in the

procurement/development process tend to carry this same financial unaccountability attitude toward cost into their new positions. The issue of attitude must be addressed in order to curtail the current needless spending.

This thesis will trace the history of Southwest Airlines. Through it's past, we will see a simple, uncomplicated philosophy which was used to make business decisions and the role IT played within the company. Perhaps this simple, yet highly successful attitude could prove to be exactly what is needed in today's changing environment, specifically in the Defense Information Systems Agency (DISA) (Hamblen, 1992, p. 4).

II. CASE METHODOLOGY

A. INTRODUCTION

This chapter defines case methodology. Other research methods will be compared to the case study, drawing contrasts and parallels between them. The benefits of a case study in terms of research and teaching will also be discussed. (Gonzalez, 1991)

B. CASE STUDY FOR RESEARCH PURPOSES

A case study stands on its own as a research strategy as evidenced in the following definition:

> A case study is an empirical inquiry that:
> - investigates a contemporary phenomenon within its real life context; when
> - the boundaries between phenomenon and context are not clearly evident; and
> - multiple sources of evidence are used. (Yin, 1976, p. 23)

Prior to this definition, a common misconception held by those uneducated in case methodology was that research strategies were of a hierarchical nature (Yin, 1976, p. 15). Historically, case studies were considered to be at the bottom of the research hierarchy. Case studies were often used as the preliminary part of other types of research. (Gonzalez, 1991)

Presently, however, views on conducting research have evolved to the point that each type of research strategy is

seen as "a different way of collecting and analyzing empirical evidence." (Yin, 1976, p. 15) The research strategy selected is based on the subject matter and research objectives. Research serves one of three purposes: exploration, description, or explanation. Each research strategy can be used for each of the research purposes. The strategy selected depends on the following conditions: (1) type of research question; (2) extent of control over behavioral events; (3) focus on contemporary or historical events (Yin, 1976, p. 16)

There are five research strategies recognized within the social sciences: experiment, survey, archival analysis, history, and case study. Case study, history and experiments are the only research strategies that will be addressed. They are used to answer the "how" or "why" research question. A case study focuses on contemporary phenomena where there is no control by the researcher over the behavior of the persons involved in the case. History's focus is on past phenomena with no requirement to control behavioral events. The case study method has the advantage of adding direct observations and interviews when compared to history. This advantage is due primarily to the difference in research focus, present versus past. Experiments, on the other hand, focus on contemporary phenomena and require control over behavior. Traditionally, researchers have emphasized quantitative and controlled

events in an effort to generalize the results, as well as, replicate the event. Today, these researchers recognize the benefits obtained from case research as being more than an analysis of decisions or events. (Yin, 1976, p. 19)

C. ADVANTAGES OF CASE STUDIES

Case studies provide a description of "holistic and meaningful characteristics of such real life events as life cycles, organization and managerial processes, neighborhood change, international relations, and maturation of industries." (Yin, 1976, p. 14) Case study research has a unique strength in its ability to assemble multiple sources of information and present this evidence as a whole, complete picture. It captures a complete understanding of the entire situation, including cause and effect relationships. "As a research endeavor, the case study contributes uniquely to our knowledge of individual, organizational, social, and political phenomena." (Yin, 1976, p. 14)

Qualitative data in the form of words give the case study method another advantage. Qualitative data are a "source of well-grounded, rich descriptions, and explanations of processes occurring in local contexts." (Miles, 1984, p. 15) Personal feelings and opinions, documented through interview and observation, are a vital source of information in understanding decisions

made in any given situation. Attitudes, relationships among personnel, and the power and influence within the organization are portrayed with words. "Words, organized into incidents/stories provide a concrete, vivid, meaningful flavor that often proves far more convincing to a reader...than a page of numbers." (Miles, 1984, p. 15)

D. DISADVANTAGES OF CASE STUDIES

The qualitative advantage found in case study research is also contributing to the difficulty in accepting the case study method as a key research strategy. Words, often having a variety of meanings, are subject to interpretation and could therefore bias a researcher's view of the situation. Also, "observations tend to be unique and nonreplicable." (Lee, 1986, p. 2) This suggests that another researcher would not be able to replicate the entire case study from gathering and analyzing the information. (Gonzalez, 1991)

Case study research does not conform to a standard and accepted method of data analysis. This lack of common language contributes to the uncertainty of case study. Case study researchers in the past have been found to influence the case study results. (Lee, 1986, p. 2)

Several other drawbacks to the case study method are also apparent. Case study preparation is time-consuming and

their documentation is voluminous. One who favors the quantitative viewpoint may be skeptical of case study research because there is the tendency to draw generalizations from the conclusions and apply them to other situations. This, however, is not the intent of case study conclusions. "Case study conclusions are generalizable to theoretical propositions and not to populations or universes...In this sense a case study does not represent a 'sample' and the investigators' goal is to expand and generalize theories (analytic generalization) and not to enumerate frequencies (statistical generalization)." (Yin, 1976, p. 21)

The case study method has proven to be invaluable to the information systems arena. "The information systems area is characterized by constant technological change and innovation" (Benbasat, 1987, p. 370). This technological change and innovation has had an impact on management and organizational issues in information systems departments. Case study research has been able to provide valuable insights into these issues (Benbasat, 1987, p. 370).

E. CASE STUDY FOR TEACHING PURPOSES

In any learning situation there are two factors: the specific knowledge to be learned and the process of learning. The learning process is a method used by the individual to solve a problem or make a decision. A

student's knowledge and ability to deal with the reality of life outside the classroom is dependent on both of these criteria. (Pascale, 1973, p. 1)

Case studies present real life situations. Case studies provide a wide range of experiences for the student to compare and contrast. A student may one day find himself or herself in a similar situation and would be able to draw from these case study experiences. "Case studies are valuable lessons in teaching students the habits of diagnosing problems, analyzing, and evaluating alternatives and formulating workable plans of action." (Harvey, 1988, p. 56) Students must also learn that decisions are not made purely from an analysis of the facts. "The decision is a political process...involving power and influence." (Lee, 1986, p. 2)

Using case studies in a safe classroom environment allows a student an opportunity to apply the theory he or she has learned to a given situation. There is also the challenge of validating a theory in a contemporary setting. If a theory does not hold there is an opportunity to explore the reasons why. Students may debate the issues of cause and effect, problem and solution. These debates will force them to examine their assumptions and defend their positions on the issues. Other benefits of the use of a case study in a classroom include teaching students the following skills:

how to search for facts, choose between alternatives, and what questions it is essential to ask. (Pascale, 1973, p. 2)

Retired Navy Admiral Stansfield Turner believes strongly in using case studies within military classrooms. He says, "Many of the education programs, are simply cramming officers' heads with facts rather than helping them to develop the skills to deal with difficult problems of leadership, strategy, and management...the case study method will help prepare students for the time when they rise to the level where they really have to make decisions for our country." (Rosenau, 1988, p. 1)

F. METHODOLOGY OF THESIS CASE STUDY

The case study that is the subject of this thesis chronicles the management of an organization during a twenty-three year period. It describes the leadership, planning, business philosophies, and technical issues as they relate to information resource management. A case study treats people as the observable agents through which the unobservable forces of the organization act (Lee, 1986, p. 9).

Sources of information included written documentation, interview, and direct observation. Written documentation included articles written on the organization. All interviews but four were conducted in person. The four exceptions were conducted via telephone. Interviews were

conducted with personnel related to information technology within the organization. The case setting is considered a contemporary situation because computer systems management is a relatively new field. (Gonzalez, 1991)

III. BACKGROUND AND ORGANIZATION

A. INTRODUCTION

> Edmund Burke said, 'We walk in the footsteps of our forefathers,' and I [Herb Kelleher] think if we remember where we have been, it's sometimes helpful to instruct us as to where we are. (Kelleher, 1988, p. 16)

The story of Southwest Airlines began in 1967 with Rollin W. King, a San Antonio investment counselor, and Herb Kelleher, a New Jersey born San Antonio real estate lawyer. Air transportation between Dallas and Houston was very poor. It was serviced by long haul carriers and the fares were too high. As a result, the market had not developed and current airlines could not compete with an automobile. (Hallock, 1977, p. 160)

The mission of these two gentlemen was to create a scheduled commuter airline, based in Dallas, Texas, targeting the Dallas, Houston and San Antonio commute for business persons. The concept was two fold.

The first goal was to create a short haul carrier to compete with automobiles. Bigger airlines shunned the less profitable, short haul flights. Southwest aimed to specialize in this market, utilizing a point to point system rather than a hub-and-spoke system. The second element was

to be a low fare carrier with very high frequency, because frequency equaled convenience to customers. (Kelleher, 1988, p. 17)

A simple fare structure was used, geared basically to attracting business and other customers with low fares at peak times, and even lower fares to fill seats at off-peak times. It was to be a scrappy, low cost commuter airline designed to fill a regional void left by expansion-happy Braniff (Bayer, 1985, p. 4). Adopting a no-frills approach, meal service or assigned seating would not be offered on any flight. (Sutton, 1989, p. 418)

King's lawyers received permission from the Texas Aeronautics Commission (TAC) to initiate operations. A critical point, being an intrastate airline it could set it's own fares without approval from the Civil Aeronautics Board (CAB). Airline regulation dictated by the CAB was in effect at this time, however Texas depicted a microcosm of deregulation. (Joyce, 1972, p. 20)

Braniff, an already established airline holding 80% of the commuter market would be the chief competitor for Southwest. Trans Texas and Continental accounted for the other 20% of the market. These three airlines viewed Southwest as an unnecessary intrusion, and lead a legal battle against them for three years, all the way up to the Supreme Court. They claimed that the Texas market couldn't possibly support another carrier. (Joyce, 1972, p. 20)

Rollin King raised the money and Herb Kelleher spent it as quickly arguing Southwest's case in the appellate courts. The case ended in a favorable decision for Southwest to begin operations out of Love field in Dallas. Trans Texas and Braniff were convicted of antitrust violations; however, the antitrust grand jury was subsequently dismissed with no action against Trans Texas or Braniff (SWA History, 1993). (Henderson, 1982, p. 42); (Loeffelholz, 1989, p. 26)

With $143 in the bank, no planes, no crews, Southwest began as an airline at the start of 1971. M. Lamar Muse, a Texas financial man who had recently joined the company, became president. King became the executive vice president and head of operations. Herbert Kelleher was the general counsel and director, and was named chairman of the board in 1978. To obtain investment capital, Muse obtained clearance from the Security Exchange Commission (SEC) to go public. 650,000 shares of SWA stock was issued at $11 per share (SWA History, 1993). Southwest could now purchase aircraft with this capital. (Joyce, 1972, p. 20)

The Boeing Aircraft Company had overproduced Boeing 737s on speculation and were having a "clearance sale". King flew up to the Seattle based company and bought four 737s $600 thousand less per aircraft than the going price. Painting the aircraft's exterior red, orange and Texas gold

seemed to accentuate the hurried mood the airline would elicit (Shifrin, July, 1985, p. 45). (Joyce, 1972, p. 21)

Pacific Southwest Airlines (PSA) was their guiding light and would be the model to investors that a similar operation in Texas could work. PSA had started a commuter airline between Los Angeles and San Francisco ten years earlier at reduced fares and proved to be successful. (Joyce, 1972, p. 20)

Braniff was using Boeing 727s with three engines and a three man crew, compared to two engines and a two man crew on the Boeing 737s used by Southwest. This was the first advantage Southwest would gain, with operating expenses about 33% less than Braniff. Another advantage was that many of Braniff's pilots had tenure and were paid a high salary; the pilots of the brand new Southwest Airline started at a lower pay level. Also, Southwest's flights originated in Dallas and many of Braniff's flights originated their flights out of state. This resulted in 99% of Southwest's flights arriving within five minutes of schedule, a definite plus to the group that both airlines were targeting - businesspeople. (Joyce, 1972, p. 21)

Dick Elliot, formerly with Braniff, was brought in to head marketing. Both he and King selected the Bloom Agency in Dallas to lead a good natured "sex exploitation" advertising campaign for Southwest. (Appendices B & C) Recruiting the Southwest hostesses, they looked for warm,

personable and great-looking girls in hot pants (Joyce, 1972, p. 23). The 40 out of 1200 girls selected were then trained by a woman who had trained the Bunny hostesses on Hugh Heffner's Playboy plane. "Love" became the catchword for Southwest (remember that they were also operating out of Love Field in Dallas) and adopted LUV as their New York Stock Exchange symbol (Erickson, 1984, p. 22).

Wearing tangerine hot pants, clinging orange sweaters and white go-go boots, the hostesses would greet the passengers by saying "Welcome to the love flight, I hope this will be a love affair to remember". At Southwest, the customers fought not for the window seats, but for the aisle seats (Texas Gets Bigger, 1979, p. 93). However, Elliot maintained that it was not sexy they were after, it's youth, and it was this youthful vigor that caught the fancy of the passengers.

June 14, 1971, advertising for Southwest flooded the market with the following comparisons:

TABLE 1 1971 COMPARISONS OF AIRFARES

Airline	Fares*	In flight liquor prices
Braniff	$27	$1.50
Texas Air	$27	$1.50
Southwest	$20	$1.00

* (Dallas-Houston and Dallas-San Antonio routes)

If any passengers complained on Southwest, they would get a free drink (love potion) or if a passenger showed up five minutes prior to a flight that was full, he or she was first to board on the next flight, flew for free, and got unlimited free drinks.

The three routes that Southwest started with were:

a. Love Field, Dallas - Hobby Field, Houston
b. Hobby Field, Houston - San Antonio
c. San Antonio - Love Field, Dallas

Southwest's first flight was June 18, 1971 carrying ten passengers from Dallas to San Antonio. (Castelli, 1990, p. 40)

B. CIVIL AERONAUTICS BOARD

In 1964 the Civil Aeronautics Board (CAB) declared that all interstate carriers would operate from a single Dallas/Ft. Worth airport. All airlines signed an agreement in 1968 with the two cities that they would operate from the

new airport when completed, but Southwest was not party to that agreement. Southwest also received their Commuter Airline's Certification from the Texas Aeronautics Commission, not the Civil Aeronautics Board and didn't come under their regulations. (Dallas/Ft. Worth Sue, 1972, p. 30)

Trouble loomed on the horizon for the new airline. In June 1972, the cities of Dallas and Ft. Worth filed suit against Southwest, trying to force the airline to operate at the new Dallas/Ft. Worth Airport (D/FW), 19 miles from downtown Dallas, rather than Love Field which was only seven miles from downtown. Southwest knew the extra 12 miles would make the rush hour drive longer than the 50 minute flight from Houston. The concern for D/FW was that other airlines would seek permission to move back to Love field, reducing the intended revenue to pay off construction of the new airport. Winning the suit would give Southwest an obvious advantage over their competitors. (Dallas/Ft. Worth Sue, 1972, p. 30)

The U.S. Supreme Court found in favor of Southwest. Galled by the decision, city backers influenced Texas Congressman and Speaker of the House Jim Wright to stick a rider (Wright Amendment) on a trade bill that banned interstate flights between Love Field and anything but the states contiguous to Texas - New Mexico, Arkansas, Louisiana, and Oklahoma. (Loeffelholz, 1989, p. 27)

But no one predicted that the Love-Hobby route would turn out to be one of the biggest monopoly markets, with well over one million passengers per year (Field, 1986, p. 36). Southwest was the only airline to operate from Love Field. Francisco Lorenzo, President of Texas International, threatened to move flights back to Love Field. Undaunted, M. Lamar Muse continued with plans to develop the Southwest passenger terminal at Love Field. (Southwest Wins Fight, 1973, p. 36)

C. PRODUCTIVITY ATTITUDE

After operating for one year, Southwest captured 40% of the Dallas-Houston market, however, were still showing a loss of about $1.5 million for the year. (Southwest Lowers, 1973, p. 26)

A loss factor for SWA was the required dead-head trips. Each night the aircraft returned to home base in Dallas for both operation and maintenance reasons, with a poor showing in traffic volume. Southwest, looking at a $9.95 one way bus fare from Houston to Dallas decided to charge only ten dollars for the last flight home and discovered a new market of kids, housewives and hippies. They typically sold 100 seats on that flight, making money on anything over 50 sold seats. The market was already there, Southwest simply converted them to a new mode of transportation. This was also the beginning of Southwest's two-tiered pricing

structure, the Executive Class if traveling before 7 P.M. and the Pleasure Class for after 7 P.M. (Southwest's Ten, 1972, p. 33)

In the first quarter of 1973, Southwest lost $176,000 (Commuter, 1973, p. 30); yet, initiated the industry's first employee profit sharing plan (Southwest Cites,1976, p. 41). SWA initiated the plan not in exchange for union concessions but because they wanted employee involvement (Sutton, 1989, p. 416). They believed that job satisfaction and a sense of participation would contribute to a dynamic organization (Bayer, June 1981, p. 4).

In the second quarter of 1973 Southwest turned its' first profitable quarter, netting $183,000. Immediately management sought route expansion to Harligen and Corpus Christi, Texas, and purchased another Boeing 737 (Commuter Airline, 1973, p. 30).

By 1976, Southwest had successive profit quarters since the second quarter of 1973. Its earnings were $2.1 million in 1974 and $3.4 million in 1975 on revenues of $22.8 million (Flying Cheap, 1976, p. 5). Southwest was providing the same service as other airlines, but 42% cheaper than anybody else (Southwest Airline Pushing, 1976, p. 32). SWA owed its success to a "productivity" attitude among the employees. The following are some examples of this productivity attitude:

1. **Contracts.** Pilots signed a new contract in 1979 and insisted on keeping everything based on production, not on credit hours. Normally in the industry, a pilot received credit hours whether or not he flew a flight. At Southwest, a pilot was paid only if he actually flew. (Baumgarner, 1979, p. 80).

2. **Aircraft Usage.** The industry operated an average plane approximately eight hours per day whereas Southwest used its' planes 11 hours each day (Nulty, 1981, p. 46).

3. **Terminal Gate Usage.** Every airline uses terminal gates to load and unload their passengers. The average number of flights at each terminal gate in the industry was 4.5 flights per day. The average number of Southwest flights per day at each gate was 10.5 flights (Welles,1992, p. 47). Southwest operated a high-flying mass-transit system. Its passengers knew that if they missed one "bus", the next one would be along shortly (Henderson, July 1991, p. 36).

4. **Turnaround Times.** Southwest was enjoying a better than anticipated turn around time of ten minutes on the Boeing 737s, claiming 95% on time performance in its schedules (Southwest's Ten, 1972, p. 33). But the ten minute turnaround time was actually born out of necessity rather than good planning. Shortly after starting the airline and four years of lawsuits, Southwest was nearly broke. They sold one of their four aircraft in May 1972 to Frontier for $500,000 profit to raise some working capital

(SWA History, 1993, p. 2). They had to fly a four plane schedule on three airplanes, and the only way to do that was by implementing a ten minute turnaround time. (Henderson, 1982, p. 37)

This quick turnaround time was extremely important to Southwest and became the focus of their advertising. The productivity attitude of all employees cooperating together from ticket agents to baggage handlers was required to achieve the ten minute turnaround goal. There were many simple, yet effective cost saving factors which contributed to this goal:

a. **Manifesting Passengers.** In the early years, a ticket agent used cash registers located at each gate to issue a ticket to a passenger. The airline ticket was the receipt itself. By controlling a foot operated on/off switch the agent simultaneously spoke into a mike recording the passenger information. This provided the required flight manifest. (Southwest Cites, 1976, p. 40)

Initially customers were mistaking these cash register tickets as receipts and discarding them. Southwest executives proposed to do what every other carrier had done and purchase a multi-million dollar system to issue standard airline tickets. While at a meeting discussing one of these machines, an individual suggested that the current cash register ticket be modified and have printed on them in big

capital letters, "THIS IS A TICKET". That's what Southwest did. They considered all options, rather than conforming to an industry norm (Henderson, 1991, p. 36). Cash register ticketing was so important that in 1978 Southwest refused to raise fare prices to cover fuel costs increases, because they would have run out of keys on their cash registers and would then be required to buy new machines (Southwest Airline Seeking, 1978, p. 36).

b. **Modifying Aircraft Interior.** Southwest found that the first passengers to board an aircraft held up the boarding line, messing with the closets then grabbing the nearest seat. When the plane landed, the departing passengers were held up by the same people rooting through the closets. This delay infringed on the ten minute turnaround time. A simple fix for Southwest: they removed closets from the airplanes. (Taylor, 1988, p. 108)

c. **Point-to-Point System.** Southwest used a point-to-point system rather than the hub system which grew out of deregulation as a way to maximize aircraft usage. Hubs complicated matters for a short haul carrier. The point-to-point system maintained an evenly spaced flow of aircraft all day long (Brown, 1990, p. 82).

d. **Connecting Traffic.** Another factor contributing to quick turnaround times was the lack of connecting traffic in Texas. Most passengers traveled just one stop. Since the flights were less than two hours there was no need to

provide meal service, and the ground time of loading meals was eliminated. (Southwest Cites, 1976, p. 40)

e. **Conflicting Traffic.** The lack of conflicting air traffic at both Love Field and Hobby contributed to quick turnaround times.

f. **Assigned Seating.** Southwest had reserved seating on their flights, but no assigned seating. This quickened the process of embarking passengers. It also would have required more gates and an increase cost in data-processing equipment and staffing. SWA would lose their competitive edge with the resulting increases in fares. (Henderson,1991, p. 33)

Colleen Barrett, Southwest's Executive V.P. for Customers, stated, "Southwest didn't make any bones about what they were, but they delivered what they promised." (Oneal, 1991, p. 117)

g. **Team Work.** Flight attendants didn't wait for the ground crews to refasten seat belts and pick up discarded newspapers at the completion of a flight. They would start these tasks as the customers debarked the aircraft. Also, supervisors helped baggage handlers on the ramp if an extra hand was required. (Southwest Cites, 1976, p. 40)

h. **Boarding Passes.** Southwest used large, colored, sequentially numbered, reusable boarding passes. An actual

number of passengers were readily available and the brightly colored passes wouldn't be carried off accidentally. (Southwest Cites, 1976, p. 40)

i. **Aircraft Boarding.** Because of the non-assigned seating, passengers first on a boarding line had priority seating. Prior to a plane pulling up to a terminal gate, people were "milling" around the doors, ready to quickly board the aircraft. Some referred to this process as "cattle-car boarding" but Southwest liked to think of it as boarding "family style" (Henderson, 1982, p. 37). This boarding method made Southwest's quick turns at the gate possible. The planes made money in the air, not on the ground, so if the planes were flying more than sitting, lower fares could be charged. (Bayer, 1981, p. 84)

Team work and enthusiasm on the part of Southwest employees was key to the operations. Moving to a more leisurely 20 minute turnaround time would require two more aircraft to fly the same number of flights, which would have incurred higher costs (Bayer, 1981, p. 84). (Southwest Cites, 1976, p. 40)

An economist studying Southwest owed its' profitability to the two-tier price structure in which there was an Executive Class fare for those traveling during the week prior to 7 P.M.. Business people were targeted for this service. The second tier was the Pleasure Class for those traveling after 7 P.M. on week days and weekend flights

(non-peak hours). Generally 65% of the passenger revenues were derived from the Executive Class (peak hours) and Pleasure Class accounted for 35% of the revenues. Using a two-tier fare system rather than the single-tier low fare system of Pacific Southwest increased aircraft utilization and spread out fixed costs over a wider base of flights. (Troxell, 1977, p. 35); (Sutton, 1989, p. 418)

D. MUSE ERA ENDS

Southwest's 1976 stock prices more than tripled since the airline first started turning a profit in 1973. Muse set his sights on running a low cost commuter out of Chicago's nearly deserted Midway Airport, using the same two-tiered fare system and the "low fares and full planes" philosophy. The cities he aimed to serve were within 200-500 miles, so he could maintain the same economical, two engine Boeing 737s in his inventory. (Flying Cheap, 1976, p. 45)

High startup costs were associated with these new routes, however Southwest usually managed to keep the unit cost at a minimum by quickly expanding its revenue and traffic base. Susan Loeffelholz of Financial World noted, "They simply breed traffic wherever they went." (Loeffelholz, 1989, p. 27) Air travel tended to double in

any city within 12 months after Southwest began service with more frequent flights and low fares. (Troxell, 1985, p. 34)

Muse said, " They [the competitors] want to make money by raising fares and we make the highest profit margin in the airline industry by cutting fares." (Flying Cheap, 1976, p. 46) Daniel Kaplan, director of the office of economic analysis for the Civil Aeronautics Board notes, "The profit that Southwest experienced by offering much lower fares than competitors indicated price elasticity in the airline industry." (Taub, 1983, p. 19) Travel agents generally didn't like to handle Southwest because of their low fares. Agents normally made approximately a ten percent commission on each ticket sold. Their concern was the dollar volume. There was a natural bias for travel agents to put people on airplanes whose ticket prices were higher than those of Southwest's prices. (Baumgarner, 1979, p. 82)

In 1975 and 1976 Southwest made gains in both revenue and profits without a fare increase. Muse said, "I wanted to prove to those dumb bastards running those other airlines that the way to make money is by lowering the fares, not raising them." (Bailey, 1978, p. 29)

Muse gloated over his success in the Texas market and wanted to prove that Southwest's strategy could work anywhere. He raised Southwest's debt limit from $60 million

to $125 million and planned to issue 750,000 shares at $20/share to the public to help finance the Midway project. Southwest directors were concerned with the complications of managing two separate organizations, one in Dallas and the other in Chicago. The purchase of aircraft, hiring additional personnel, and the duplication of operational and maintenance support were all added costs which Southwest was unwilling to make at this time. Southwest directors were skeptical and Muse grew impatient. (Bailey, 1978, pp. 29-30)

On March 24, 1978, Muse sent a letter to the members of the board demanding that they either drop a director (Rollin King) that was hesitating on the Midway decision, or accept his resignation. A few day later, 45 seconds into a routine board meeting, they accepted Muse's resignation. Howard C. Putnam was named as the new CEO. (Bailey, 1978, p. 29)

Disregarding the notion of operating out of Midway, Southwest received permission from the CAB on a new Houston-New Orleans (Moisant Field) route. Now that Southwest was interstate, it fell under the jurisdiction of the Civil Aeronautics Board (Baumgarner, 1979, p. 82). Within six months it was operating at a 81.38% load factor, due to its two-tier fare system, high frequency, and low fare. (Bulban, 1979, pp. 38-39)

E. DEREGULATION

In 1977, the Civil Aeronautics Board (CAB) eliminated government control of airline fares, commencing airline deregulation. In 1978, the Airline Deregulation Act was passed, which eliminated the 30 to 60 day approval process required for adding or dropping routes. These two events allowed airlines a greater utilization of their resources instead of having the government dictating what routes to fly and fares to charge. (Yovovich, 1981, p. S2)

With deregulation, fares were brought more in line with actual costs. Pricing flexibility was the advantage that the airlines gained from the lack of CAB regulation. Major airlines could better control traffic from the point of origin to the point of destination by using the hub-and-spoke model more efficiently. (Yovovich, 1981, pp. S2-S6) For the first time in 40 years, airline deregulation turned a protected market into a competitive scramble. Airlines discovered what passenger preferences were and how the consumer made their choices. They experimented with cut rate and special fares for frequent travelers and interest groups. (Nulty, 1981, p. 45)

Unfortunately, during the next decade of deregulation, service would take a middle seat to growth, mergers, and competition for many airlines (O'Neal, 1991, p. 116). Twenty new carriers started since deregulation, but by 1984 twelve airlines had filed for bankruptcy protection. The problem

was that new lines were under-capitalized. They relied on bookings for cash flow and when the market softened, they had no cash reserves to fall back on. The free market left little room for marginal operators. (Dubin, 1984, p. 75)

"Southwest's need to outgrow Texas coincided with the Civil Aeronautics Board's deregulation policy to make the market vision possible." (Texas Gets Bigger, 1979, p. 88) In comparison, PSA had developed the market in California, but stagnated while waiting for deregulation in order to enter new markets - one of the contributing factors to their decline (Henderson,1982, p. 43). Southwest Airline would be a prime example of the advantages of deregulation in the industry (Bulban, 1979, p. 38).

Over the years of regulation, the larger airlines had built up a considerable debt incurred from labor agreements, large jets, expensive service such as hot meals, and luxurious terminals intended to attract upscale passengers (Nulty, 1981, p. 46). This was evident by newcomers such as New York Air, People Express, and a low-fare line such as Southwest Airlines able to operate about 40% less than the major airlines. Overall, airline industry employment increased, passenger loadings increased and fares dropped under deregulation.

F. CONTINUED GROWTH

With Southwest's KISS philosophy (Keep It Simple Stupid), they limited their fleet to the fuel efficient, low maintenance Boeing 737s. The benefits were crew interchangeability, reduced training, reduced ground equipment requirements, and simplified maintenance. (Henderson, 1982, p. 36)

In 1978 the market in Texas continued to be explosive. The new CEO Putnam, a former V.P. for marketing at United Airlines (UA), incorporated some of the planning systems from United. He laid out a blue print for the markets Southwest would expand to in the next two to three years. (Baumgarner, 1979, p. 80)

He had some ambitious plans, but changed his mind on a lot of things. Putnam said, "Too much sophistication too soon would stifle the creativity around here, and would cost more than we can afford. We keep the process simple by not being too big. Why mess with a winning formula?" (Baumgarner, 1979, p. 80)

Putnam confidently boasted about Southwest achieving an annual growth rate in the neighborhood of 40%. The Boeing 737s were reconfigured with Slimline seating, to increase the capacity from 112 to 118 seats. (Baumgarner, 1979, p. 80)

Putnam did not see growth from other competing airlines, but instead from automobiles and busses (Baumgarner, 1979, p. 81). For example, Braniff was charging $62 one way Dallas to San Antonio, where Southwest only charged $15. Southwest could have easily raised their price to $30 or $40 and still maintained an advantage over Braniff. However, an individual could drive to San Antonio for $18, so Southwest left the price at $15 (Brown, 1990, p. 83). Southwest's John Dennison, Executive Vice President of Corporate Services, said "The cost structure at Southwest was set to entice the customers out of the automobile with speed and efficiency to get from point A to point B, so the customer could achieve their business purposes." (Interview, Dennison, 1993)

Putnam looked for other short haul routes that tied to Texas in order to maintain one crew domicile and maintenance facility in Dallas (Baumgarner, 1979, p. 81). A single crew domicile and maintenance base was not only a cost savings, but fostered an "esprit de corps" within the company (Henderson, 1982, p. 37).

The airline hadn't much interest in the long haul flights. Having no meal gallies, Southwest wanted to stay out of the food business and keep each flight below two hours. Putnam maintained, "The airline's growth must now be prudently managed to assure the spirit and positioning isn't wrecked by building too far, too fast." (Bernstein, 1978,

p. 78). Foremost in Putnam's plan was continued growth while maintaining the employee motivation that had been a key factor in the airline's success. (Southwest Airline Seeking, 1978, p. 36)

G. A NEW ERA

Putnam left Southwest in 1981 to become president of financially ailing Braniff, taking with him the Bloom Advertising Agency. Southwest signed a contract with GSD&M Advertising in Austin, and vied for a new advertising image. (Henderson, 1982, p. 35)

Herb Kelleher, Chairman of the Board, took a permanent leave of absence from his San Antonio law firm to become CEO of Southwest. He felt that the "sex and hot pants" campaign of Southwest had run its course and looked for an evolutionary transition from "love" to "spirit". (Henderson, 1982, p. 42)

Uniforms were changed to shorts, casual shirts and sneakers (Appendix B). He insisted that employees call him "Herb", "Herbie" or "Uncle Herb". His message was, "let's have fun". (Erickson, 1984, p. 22)

Kelleher felt that fun was a stimulant to people. They could enjoy their work more and be more productive if they had fun. He also believed that title and position signified nothing about a person's true worth (Henderson, 1991, p. 38). (Chakravarty, 1991, p. 50)

While the US airline industry in 1981 reported a net loss of $237 million, Southwest Airline had another year of profitability (8th year in a row) declaring a net income of $34 million (Henderson, 1982, p. 34). A well known and respected airline analyst at Merrill Lynch, Edmund Greenslet, stated that in the competitive airline industry, an airline "must have a firmly established business plan and pursue it diligently." (Henderson, 1982, p. 35) Southwest remained profitable by sticking to their original plan, low "no gimmick" fares, frequent flights, easy check-in and quick turnaround times at the gates. Greenslet rated Southwest as the highest quality equity investment in the airline industry. (Henderson, 1982, p. 35)

Southwest began a major expansion in 1982 in its route structure. By listening to the demands of their customers over the years, the carrier now served Phoenix, San Diego, Las Vegas, Albuquerque and El Paso. Phoenix was chosen as a base because no other carrier held a strong identity there (Short Haul, 1982, p. 40)

With Southwest's success, people in the industry constantly queried Southwest for the secret to their success. But Southwest's Bill Franklin, VP Ground Operations, pointed out that the competition only saw part of them. They focused on just one entity and assumed that must be the key, whereas Southwest was actually a sum of all

its parts working together in a well orchestrated arrangement. As Kelleher put it, "We're the product of 1,000 small decisions, all designed to achieve simplicity." (Taylor, 1988, p. 108)

H. TRAN-STAR

In 1981 Muse, former CEO at Southwest, started Muse Air, a commuter service based at Love field mirroring Southwest's operations. He vied to beat Southwest prices (Nulty, 1981, p. 48). Muse based his campaign on a strategy of sophistication, promising a colorful competition with Southwest. He took off with McDonnell Douglas Super 80s (155 seats) and 20 minute turn around times compared to Southwest 737s (118 seats). Muse said, " The 737 was the low cost, fare-setting plane in the 1970's, but the Super 80 will be the fare setter in the 1980's." (Bayer, July 1981, p. 2)

Southwest was looking to buy some new airplanes but didn't conform to the industries attraction to Super 80s or Boeing 757s (Southwest Expects, 1981, p. 42). Southwest flew just one type of aircraft, the Boeing 737. The simplicity of one aircraft from both an operational and maintenance standpoint made sense. They felt that the benefits derived were less than the long term costs that would be incurred if they purchased the MD-80s or the Boeing 757s. Preserving the "KISS" management principle, they

continued their commitment to the Boeing 737. Southwest purchased ten new Boeing 737-300 series in June 1981 at $16.2 million per aircraft. The 737-300s fit 142 seats, was 70% quieter and 20% more fuel efficient than the 737-200s. (Southwest Buying, 1981, p. 34)

Muse Air projected an image of luxury even while offering economical fares. But analysts were concerned about the large aircraft that they flew, since empty seats excised the advantage of low costs (Face Off, 1983, p. 17).

Air traffic controllers went on strike at the same time that Muse commenced operations (Henderson, 1985, p. 41). Widely known as "Revenge Air", Muse Air aimed to break Southwest's hold on the Love-Hobby route. However, it never turned a profit. When bankruptcy threatened, Kelleher, who had remained friends with Muse, offered to buy him out for $67.7 million. Muse accepted. Critics echoed concerns that Kelleher should not buy the failing Muse Air and needed to rethink his "KISS" strategy (Weber, 1987, p. 62). Southwest acquired assets that included six McDonnell Douglas MD-80s and nine DC-9s from Muse. Kelleher saw the potential for profit, if the operation was run correctly. Even though Kelleher would be chairman of both lines, Southwest and Muse Air were operated as separate entities, but held under a common airline holding company. (Henderson, 1987, pp. 53-54)

Keeping the operations separate allowed Southwest to avoid the difficulties of merging different aircraft and

seniority lists (Shifrin, 1985, p. 43). Muse Air's name was changed to Tran-Star, but retained it's identity of a two class service (leather seating in preferred class), hot meals, assigned seating and a nonsmoking policy. Diverging philosophies depicted Southwest as a cattle car and Muse Air as a Cadillac. By acquiring the larger aircraft from Muse, Southwest now created a corporate branch that specialized in longer flights (Garland, 1986, 74S). (Henderson, 1987, p. 54)

The first half of 1987 the airline holding company (Southwest and Tran-Star) lost $9.2 million, forcing it to close Tran-Star (Weber, 1987, p. 62).

I. SOUTHWEST GOES MAJOR

Kelleher continued to stress that high productivity, not low wages, would lower costs. He sought the smaller markets not pursued by the majors. Kelleher stated, "We're happy with scraps - lots of little animals get fat on table scraps." (Henderson, 1987, p. 51)

In 1989 Southwest attained major airline status by earning more than one billion dollars in annual revenue (Appendix F). In 18 years it had grown from three aircraft serving three cities to 94 Boeing 737s serving 27 cities. One secret revealed by Kelleher was that Southwest was flexible and could seize initiatives in a hurry. For example, if Southwest received anticipated slots in a new

city, within a few days they could reshuffle their inventory and produce a schedule to accommodate the new service. (Brown, 1990, p. 5)

Southwest was the first to implement a frequent flyer program in the form of "buy several, get one free" discount, rather than a program based on mileage. This benefited the short haul traveler more than did other programs (Henderson, 1987, p. 53).

J. EMPLOYEES

In 1990 Southwest was ranked the 8th largest major airline. Every year the U.S. Department of Transportation (DoT) rated the nation's 12 largest airlines in three categories for the Triple Crown award (Appendix I). Southwest was the first to receive the top ratings in all three categories for two years. It had the best on-time record with 86.9% of its flights arriving promptly; the lowest baggage loss rate, 3.4 per 1000, and the lowest customer complaint record, .31 per 100,000. Kelleher credited Southwest's employees for this record: "They are the factor that sets us apart from the competition." (Eisman, 1990, p. 18)

The company didn't keep people by paying higher wages than other airlines, but by making them feel they're part of a family. The employee turnover rate was less than 10%, unheard of in the airline industry (Castelli, 1990, p. 40).

An airline analyst for Dean Witter Reynolds, New York, Mark Daugherty noted that the management style at Southwest was a major factor in its success. Daugherty notes, "There's a lot of management-employee communication and a lot of recognition, but there's not a lot of hierarchy." (Eisman, 1990, p. 18) Kelleher said,

> Southwest has its customers, the passengers, and I have my customers, the airline's employees. If the passengers aren't satisfied, they won't fly with us. If the employees aren't satisfied they won't provide the product we need. The front office was there to support the working troops, not vice versa. (Brown, May, 1991, p. 75)

The management at Southwest treated their employees the same way that they expected the employees to treat the customers. Southwest's John Dennison said, "The success of the company was made up of a little bit of fate, a little bit of determination to succeed, but the majority of success came from the people, who all had a tremendous amount to contribute." (Interview, Dennison, 1993)

The management worked hard at hiring people they liked, and who would like each other, and then simply asked them to do the very best job that they could. Only about one in ten applicants interviewed was deemed to have the effervescent personality Southwest wanted. The People (Personnel) Department looked for extroverts, people with a sense of humor who said "we" rather than "I." They felt if they hired people with good attitudes, a specific job could be taught. However, attitudes couldn't be taught, no matter

how much experience or intelligence an individual had. New hires were sent to the "University for People" located at Southwest's headquarters in Dallas. Southwest brought in members of its frequent-flier program to interview prospective cabin attendants. They liked to hire people who matched their customer's personalities. (Henderson, 1991, p. 37)

The following is an example from Southwest's 75 page Guideline for Leaders which was available to all employees. The mission of Southwest Airlines:

> Dedication to the highest quality of Customer service delivered with a sense of warmth, friendliness, individual pride and company spirit. Creativity and innovation are encouraged and 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 customer. (Henderson, 1991, p. 37)

The word "Customer" was always capitalized when used in ads, brochures or annual reports, to flag employees and the public that Customers mattered. Both employees and management worked together to build a cohesive organization to serve the Customer, as can be seen by the following examples:

1. Five medical students, who commuted on Southwest weekly to an out-of-state medical school, complained that their flight got them to school 15 minutes late. In response, Southwest moved the departure time up a quarter hour. (Teitelbaum, 1992, p. 115)

2. Employees were solicited for ideas to make the company a better place to work. One of the worker involvement programs at Southwest was Together We Make It Great. Employees meet for one hour each week in a seven member team to come up with money-saving, timesaving or process-made-easier ideas. Even if an idea wasn't used, the team received feedback in the form of a letter explaining why. Awards for the best ideas ranged from cash to merchandise (Eisman, 1990, p. 18).

3. Kelleher believed that you had to know your troops. He talked to employees about leadership, rather than managing or administering. A believer that people want to be led and not managed, he wanted everyone to be a leader in their respective jobs, not in just what they said, but in the way they listened and responded to others, in what they did, and most importantly how they did it (Jaffe, 1991, p. 59).

It was not unusual for Kelleher to show up in the maintenance hangar at three A.M. to pass out donuts and coffee and just chat with the workers. O'Brian of the Wall Street Journal said, "Even with 11,500 workers, Mr. Kelleher still attaches the right name to the right face most of the time." (O'Brian, 1992, p. A7)

4. Each quarter, managers and executives took one day to work in a different job, for example as a gate agent, a baggage handler, or flight attendant (but not as a pilot).

This was a reminder of the true worth of every individual in the company. (Jaffe, 1991, p. 59)

5. A Culture Committee was established to indoctrinate employees in Southwest's way of doing things (Henderson, 1991, p. 33).

6. Employees created their own catastrophic-assistance charity. This program was supported by voluntary payroll deductions averaging $1.37 per paycheck. It was used by fellow employees in times of crisis. (Henderson, 1991, p. 37)

7. The employee profit sharing plan (which was really a retirement plan) was Southwest's largest stock holder. An employee started to accrue benefits in the profit sharing plan after one year of employment at Southwest.

At the end of each year, 10% of company profits would be set aside in the company's profit sharing fund, before being allocated to an employee's individual account. 50% of an employee's allocation was taken as Southwest stock. The other 50% of allocation was distributed in an employee's choice of funds. An employee accessed his or her savings by either retiring or resigning from Southwest. (Interview, McGlade, 1993)

Instead of reading Playboy magazine on their lunch breaks, the employees read the Wall Street Journal to stay abreast of stock prices and business currents. The

employees felt they were working for themselves. They tended to work harder because they wanted to maintain their profit sharing by maintaining profitability. (Erickson, 1984, p. 22)

8. When Southwest opened in a new city, special SWAT teams (Southwest Advance Teams) recruited people who would fit in. Starting up service to Little Rock in 1984, Southwest ran advertising which was augmented by pilots and flight attendants knocking on doors handing out schedules to potential customers (Erickson, 1984, p. 23). When Southwest entered a new market it attacked the market and overwhelmed it with "affordable frequency" (Bayer, 1985, p. 72). (Castelli, 1990, p. 40)

9. Community service was a major part of the employee motivation program. Employees were involved in the Ronald McDonald House, Junior Olympics and Muscular Dystrophy Association. (Eisman, 1990, p. 19-20)

K. UNIONS

The low costs at Southwest were not the product of a nonunion work force. Each entity of the organization was represented by a union, e.g. Transport Worker Union (flight attendants), Teamsters (mechanics) and the Southwest Pilots Association (pilots). Southwest's Pete McGlade said, "If the workers don't have representation there can be confusion in the masses." (Interview, McGlade, 1993)

Ironically, unions weren't opposed by the management at Southwest. They recognized a positive relationship between workers and management which had to be a team effort to make the company effective and efficient. Traditionally, unions have been a barrier to such cooperation. (Henderson, 1987, p. 51)

Because employees knew they had a stake in the efficient operation of the company, Southwest negotiated flexible work rules and were able to write labor contracts devoid of overly restrictive language. Ironically, the work force was 90% unionized, but owned 11% of the company - the highest percentage by any major airline (Welles, 1992, p. 46).

L. THE MYTH

Herb Kelleher was the glue which held together this remarkable culture. A five pack a day smoker, he studied philosophy and literature at Wesleyan and graduated at the top of his New York University law school class. Sleeping only four hours each night and reading two to three books a week, he was a keen student of military history (Welles, 1992, pp. 44-45).

Kelleher maintained a seat-of-the-pants, hands off management style (Loeffelholz, 1989, p. 28). He believed that rigid rules were a substitute for management. He detested permanent committees because they ended up taking

on a life of their own. Instead, he liked to set up ad hoc committees to tackle specific problems. The members could consist of anyone from executives to baggage handlers. When a solution was found, the committee was disbanded. (Henderson, 1991, p. 37)

Kelleher believed that a requisite to working at Southwest was a sense of humor or "professionalism worn lightly." Humor, Kelleher believed, could put the world in perspective and served a serious purpose. He wanted customers to leave a flight feeling that they just had a pleasant travel experience, rather than a trip from point A to point B. This alone would bring customers back for more. (Why Herb Kelleher, 1984, p. 114)

Kelleher introduced zaniness and fun to the company, warning his passengers that traveling Southwest on a holiday they were likely to find flight attendants and other employees dressed in outrageous costumes (Bayer, June, 1985, p. 72). On one flight during the holiday season, flight attendants were dressed as reindeer and elves while the pilots gently rocked the plane back and forth singing Christmas carols over the intercom (Kelly, 1989, p. 53).

Kelleher encouraged employees to act as delegates of the "fun" marketing position. Perhaps Kelleher's "fun" was used to disguise the lack of services such as hot meals and interlining (checking baggage through to a different

airline), the kind competitors guaranteed to all their passengers (Hiestand, 1989, p. 31).

A bright individual, but self admittedly, sometimes a "bit of a scatterbrain" Kelleher once rushed to catch a flight from Dallas to Houston but then stopped his car in a loading zone to chat with a friend. Arriving in Houston an hour later, a Southwest employee asked him if he knew where he left his car. "In the parking lot?" Kelleher asked. No. He had left it idling at curbside in Love field, Dallas. (Kelly, 1989, p. 53)

As a promoter of good humor, Kelleher naturally enjoyed a practical joke. For the opening of Sea World in San Antonio in 1988, Kelleher had one of his 737s painted to look like a killer whale. Robert Crandall, CEO of American Airlines called to congratulate Herb on this clever marketing scheme, but asked him where he was planning to dump the waste. A week later, Kelleher sent a messenger with his response to Crandall in the middle of his staff meeting - with a large tub of chocolate mousse and a spoon (Kelly, 1989, p. 53)!

Kelleher appeared in many of Southwest's TV commercials. In 1989 America West ran an ad charging that Southwest passengers should be embarrassed by flying on a no-frills airline. In response, Kelleher did a TV commercial with a bag over his head. He offered the bag to any Southwest

passenger, suggesting that it be used for the extra money they saved by flying Southwest. (Kelly, 1989, p. 55)

Kelleher started the Friday "Fun Day" uniforms, when employees were free to wear casual clothes and hold cookouts. One Friday, Kelleher showed up to a board meeting at the second largest bank in Texas looking for a multi-million dollar loan while wearing khaki pants and a red sweatshirt. It was Friday! (Weber, 1987, p. 58)

M. STRATEGY

According to David Brown of Aviation Week and Space Technology, Southwest continued to grow big by thinking small and was ready to undertake the future by keeping its eye on the past (Brown, May, 1991, p. 75). Take care of your people and keep a sharp focus on costs was the decree that was echoed throughout the company (Interview, Dennison, 1993). Don Burr founded People's Express with the idea of making it the Southwest of the northeast, but before long was lured into the profit and prestige of the long haul flights. Burr expanded too quickly by trying to establish a hub to the west. He bought Frontier Airlines in Denver, but soon perished. PSA didn't seem to have a sense of history about what made them successful. When they were finally sold to US Air they were a different airline than when they started. Southwest vowed not to lose their sense of history. With 30 cities in 1990 petitioning Southwest to

serve their areas reaffirmed to Southwest that they had the right formula. (Loeffelholz, 1989, p. 27)

Kelleher acknowledged the temptation to grow and expand to new cities, but believed more importantly to take a slow, conservative approach and maintain a strong financial position (Southwest Expects, 1981, 42).

Southwest never allowed success to seduce it into straying from the niche they created for themselves. They were still the nation's only high frequency, short distance, low fare airline. They did not get into a head-to-head competition with larger airlines (Chakravarty, 1991, p. 48). They searched for markets that were overpriced and underserved. These tended to be smaller cities where the airport was closer to downtown and was less congested. Southwest would open a new route only after careful consideration - then it moved with considerable force attacking with a high volume and frequency of flights. This achieved two points:

1. It spread Southwest's fixed costs over more seats
2. Provided the customer with a lot of options

(Welles, 1992, p. 46)

Kelleher believed that you had to know what your capabilities were and to exercise proper judgment. He saw Southwest as fighting on the flanks, as opposed to the center of the activity where the opposition could mass its forces (Chakravarty, 1991, pp. 48-49). Growth for growth's

sake was not an objective that Southwest pursued, as evidenced by its avoidance of major hubs in favor of close-in airports (Henderson, 1991, p. 36).

Southwest had a strong propensity to place profit ahead of market share (Feldman, 1992, p. 71). They could do good in the bad times and very good in the good times, but only by not allowing spending to get out of control. Long term existence was the result of taking care of costs today. (Interview, Dennison, 1993)

In this consumer industry, costs determined the extent of revenues. Kelleher observed that after deregulation other airlines grew at alarming rates, exposing their companies to high financial risk and high costs. He vowed not to repeat those mistakes at Southwest. (Feldman, 1992, p. 70)

N. CALIFORNIA

In 1989 USAir decided to reduce its service in California. Southwest jumped into the California corridor, which was defined as the 15 routes connecting five airports in the Los Angeles basin with three in the San Francisco Bay area. This market attracted eight million passengers per year, making it the busiest corridor in the country (Zellner, 1992, p. 48). (Brown, May, 1992, p. 32)

The goal of Southwest was to attract passengers who had never, or rarely flown because of cost (Nelms, 1991, p. 66).

Southwest simply took out their "cookie cutter" and did the same thing in the California market. They charged an unrestricted one-way fare of $59 on any intrastate route. By contrast, the full coach fare on other arrivals between San Francisco International and Los Angeles International was $220. (Henderson, 1991, p. 33)

Air traffic on the Oakland-Ontario route increased 123% in the first quarter that Southwest flew. Southwest drove down market prices and as a result, American, USAir and United suffered losses. (Zellner, 1992, p. 48)

In April 1993 Southwest Airline announced the arrival of full service out of San Jose International (SJI) to begin June 1, 1993. Within hours, American Airlines, whose hub is SJI, announced that it would eliminate 50% of their flights from that airport. Competition from SWA would be too great. Ralph Tonseth, San Jose's Aviation Director, declared, "Southwest is a real phenomenon. It stimulates the market by having such low prices." (Sweeney, 1993, p. 21A)

Now a discussion on information technology at Southwest Airlines will follow.

IV. INFORMATION TECHNOLOGY

A. AN AGE OF INFORMATION

1. Background

The total spending for information technology (IT) in 1980 was about $120 billion, and has been growing at a rate of about 15% annually since then (Sprague, 1993, pp. 5-6).

In the early 1960s batch processing was predominant with on-line systems emerging in the late 1960s. With the advent of the personal computer in the 1980s processing power accelerated away from a central site to a single user. In the 1990s, a strong trend toward cooperative processing, which is computers working together, emerged. (Sprague, 1993, pp. 6-7)

By the 1990s users were tired of being locked into proprietary system in both hardware and software. A push for open systems evolved. An open system allowed different products to work together, known as interoperability; however, the cost for the interface conversion would be efficiency. (Sprague, 1993, pp. 7-8)

Telecommunications is an integral component of information technology. "Communications-based information systems link organizations to suppliers and customers." (Sprague, 1993, p. 9) In the late 1980s local area networks

(LANS) began to emerge furthering the age of information. In the 1990s, these LANS were interconnected to wide area networks (WANS). WANS were leading to computer connectivity among information workers, similar to the level of voice connectivity provided by the worldwide telephone system. The growth of this network infrastructure will complete the shift from mainframe-centered to work station-centric computing that began in the 1980s. (Sprague, 1993, p. 9)

2. Business Environment

In the market place, the speed at which events occur and the pace at which individuals and organizations can respond to events is paramount.

There have been two main areas of change that effected the market place:

a. Changes in the economic environment caused executives to re-examine how their firms competed to be successful. It used to be that quality meant reducing defects in product output. Now, quality was defined by the customer. Customer satisfaction forced management's attention on the key business processes in the organization. Information Systems was a key resource for examining and reengineering those processes to improve overall performance.

b. Changes in the work environment. There was a shift from depending on chains of command and the authority of a boss to emphasizing teams to accomplish major tasks and projects. Task oriented teams were organized to work

together on a team project long enough to accomplish the task, then were disbanded. This concept of teamwork caused the development of information systems called groupware, which promotes collaborative work and enriches communications among team members. (Sprague, 1993, pp. 11-13)

3. Mission of Information Technology

In the early transaction processing days, IT was concerned with throughput, the number of transactions processed per day. During the 1980s the focus shifted to producing summary reports or management by exception. The goal was to get the right information to the right person at the right time. But this was not enough. The 1990s demanded performance improvement in the organization and one of the resources used was information technology. (Sprague, 1993, pp. 13-14)

4. IT as a Competitive Tool

Organizations use IT as competitive tools in two ways: to beat their competition and to stay alive. "Those who do not keep up can fall so far behind that they are no longer competitive; they are acquired by the more nimble enterprises." (Sprague, 1993, p. 69)

Top management of organizations recognize IT as influencing the competitive measures of earnings, market share, and developing new ventures. Electronically linking

a company with its suppliers or customers is a must to capture market share. But using IT in an organization will not guarantee success. Applying IT to outmoded business practices is a futile process. "The 1980s search for achieving competitive advantage with IT taught an important lesson: merely automating current ways of working yields little." (Sprague, 1993, p. 68) Reengineering of processes is an important step in order to take advantage of technology. (Sprague, 1993, p. 69)

B. IT AT SOUTHWEST

In terms of a discipline, Information Technology (IT) didn't dictate how Southwest wanted to operate as a business. However, IT did accommodate their ability to operate more *efficiently*. *IT was chosen* based on a business application and a cost for that technology. Technology was not procured for the sake of technology. To procure technology, two questions were asked by Southwest:

1. Does it make sense?
2. Is there a need?

(Interview, Dennison, 1993)

Decisions for procurement were not based on the fact that everybody else in the business had a certain technology, or that Southwest should have it because they were now a major carrier. IT was viewed as something that Southwest had to have available in order to be competitive, but cost was always a major consideration. The requirements

and specifications concerning their business applications were first determined and developed. If an information system could be used to aid in a process, consideration was then given to that system. (Interview, Dennison, 1993)

Southwest took what some would perceive as a low technology approach to IT because they didn't belong to a major computer reservation system (CRS), which would cost $25 million annually. The focus at Southwest was always to think in terms of a revenue management perspective, to maximize the revenues received. Southwest's John Dennison, Executive V.P. (Corporate Services), believed that you couldn't just look at that one extra incremental unit, but what impact that unit would have on the entire system. A cost benefit analysis conducted on participation in a CRS might show a positive value for the one incremental unit at the margin. This would indicate that Southwest should participate in such a system. However, Southwest looked at the impact that one incremental unit would have on the entire system, the way they did business. Spending that extra $25 million annually would mean that fares would have to increase. Southwest would lose their competitive advantage to their chief competitor, the automobile. Therefore, the decision was made not to participate in the CRS. (Interview, Dennison, 1993)

C. RESERVATION SYSTEM

1. Introduction

The two main reservation systems in the airline industry were AMR's Semi-Automated Business Resource Environment (SABRE) and United Airline's (UA) APOLLO reservation system. AMR is the parent company of American Airlines (AA). Both AA and UA sold reservation services to other airlines.

Early in the deregulation years, AA and UA biased travel agent's computer screen displays. A travel agent queried the computer system to supply the best fare or route for a customer. UA or AA would automatically show their flights first, regardless if they weren't superior to another participating airline's fare or routing. Subsequently, the other airline's flights would show on the travel agent's screen. This did not necessarily give the consumer the best deal. Protests and civil litigation ensued. (Kahan, 1992, p. 25)

An investigation by the Department of Justice in 1982-1983 concluded that serious problems existed. Because of the injustices and violations of antitrust standards, AA and UA could have been divested from their reservation systems. However, the Justice Department chose to deal with the abuse by imposing regulation rather to require divestiture in December 1984. (Kahan, 1992, pp. 25-26)

The bias against competitor's flights were eliminated, but in return AA and UA charged other airlines uniformly high booking fees, with no retribution from the Department of Transportation (DoT). The airlines that did not own their own CRSs transferred a significant portion of their profits to AA or UA. For Southwest the portion of their profits would be $25 million annually. (Kahan, 1992, p. 26)

2. SABRE System

The SABRE System was built by American Airlines in the mid 1960s to reduce the costs of making airline seat reservations. In the mid 1970s, American offered the system to travel agents, which allowed agents to make reservations directly through on-line terminals. AA added functions to SABRE which allowed travel agents to prepare trip itineraries. Travel agents enjoyed the direct access capability. In the late 1970s SABRE was expanded to include reservations for hotels and rental cars. AA was transforming itself from an airline to a travel company. (Sprague, 1993, p. 54)

3. AMR Technology Group

The AMR Technology Group is based in Dallas, Texas. There are four primary divisions which fall under the technology group:

a. Decision Technology - deals in research and special operations.

b. SABRE Computer Services - is composed of programmers and operations for hardware.

c. AMR Information Services (AMRIS) - offered two internal reservation systems to airlines:

   1. SABRE: This system offered a full amenities package to airlines. It could accommodate such things as assigned seating, in-flight meals, hotel reservations, interlining and car rentals.

   2. SAAS: This system only offered a limited capability of reservations, i.e. passenger information.

(Telephone, Carbonell, 1993)

As of July 1993, 30 airlines used SAAS and 20 airlines used the SABRE systems (Telephone, Smith, 1993).

TABLE 4.1 COMPARABLE COSTS FOR SAAS and SABRE

	SAAS	SABRE
One Time Implementation Fee	$ 30K	$ 70K
Monthly Minimum Fee	$ 2.5K	$ 5K

(Telephone, Smith, 1993)

d. SABRE Travel Information Network (STIN) - This is the actual Computer Reservation System (CRS) that links the travel agents to the various airlines. Two levels of participation are offered.

1. Level I - a travel agent's computer monitor would only show the airline's flight schedule and fares. If the customer decided to fly with an airline, a travel agent would call that airline's central reservation facility to make a booking.

2. Level II - a travel agent viewed a monitor for flight schedules, fares and seat availability. Travel agents could then link to an airline's central reservation facility and make a booking. Level II provides on-line confirmation of a seat booking. The cost involved would be paid by the airline.

(Telephone, Carbonell, 1993)

4. Early Years - SWA's Reservations System

The reservation system at Southwest was unique in that it didn't follow the norms of the industry. The first reservation system was the Bunker Ramo system, originally designed by Paul McDuffy for PSA in California. It was nothing more than an inventory system which stored only the passenger's name. No data such as passenger's address or price quoted was kept on record. (Telephone, Carbonell, 1993)

The Bunker Ramo system had a $2^{1/2}$ inch screen and seven keys, lettered A through G. The operators of this system were located at headquarters in Dallas and had no computer link with travel agents. If a passenger wanted to book a flight from Houston to Dallas he made a telephone call to the Southwest Reservation office. An operator would manually consult a schedule binder because schedules were not part of the information system. The operator would then

punch the "D" key and enter the passenger's name for a particular flight. There were only two fares in the beginning, and by virtue of what time of day that you were flying, a fare was selected. (Interview, Johnson, 1993)

In 1987 former Southwest President Muse said, "Part of the problem was Southwest's lack of a sophisticated reservation system. When there's a change in technology and you don't participate, you get left behind and everybody loses their jobs." (Weber, 1987, p. 58) Southwest was growing and a more complex fare structure was introduced. There was a need for a new computer reservation system (Weber, 1987, p. 58).

Southwest swapped out its in-house reservation system for AMR information services' Sabre Automated Airline System (SAAS) in 1987. This system was originally Braniff's "Cowboy" Reservation System. When Braniff went out of business Southwest had the opportunity to buy it, but declined because the programmers required to run the system were collectively paid $100 thousand per year, a cost Southwest wasn't willing to incur. Another airline picked up the system, but when it failed a few years later Southwest was again offered this system. Declining a second time, AMR stepped in and offered to buy the system, with the stipulation that Southwest would be one of its' primary clients. Southwest agreed and signed a three year contract

for services. AMR made some modifications to the "Cowboy" system and changed the name to SAAS.

5. Southwest's Choice

a. SW's Internal Reservation System

Southwest was not interlining (checking bags through to another airline), flying international, or offering assigned seating or meals. Therefore they didn't require all the functions that SABRE offered. SAAS was also considerably less expensive than SABRE (Table 4.1). Southwest selected AMR's SAAS system as their internal reservation system. (Henderson, 1987, p. 54)

b. SW's CRS

Southwest was unique in that it did not share a major airline's computer reservation system (CRS), which was considered to be an essential marketing tool in the airline world (Sutton, 1989, p. 418). STIN offered two levels of participation. Southwest chose Level I participation in the CRS (Telephone, Carbonell, 1993). The cost to participate in Level I was $1.85 for each leg of a flight reserved (Telephone, Smith, 1993). Southwest's V.P. of Systems Jim Brunjen likened it to SABRE's full blown Computer Reservation System without the "bells and whistles" (Henderson, 1987, 54).

The extra cost to participate in the full CRS (Level II) was approximately $25 million annually, or paying $2.60

for each leg of a flight reserved (Telephone, Smith, 1993). This would have taken a serious cut out of Southwest's relatively small average fare, too large a percentage of the revenues. The incremental cost to participate in SABRE's Level II overrode the incremental income. (Brown, 1990, p. 83)

Inconvenience and extra time spent by a travel agent was an opportunity cost to Southwest. Many travel agents found it too time consuming to deal with Southwest unless by specific customer request. Says former Southwest V.P. Tom Volz, "Southwest's reservation system annoys travel agents. The travel agent, for better or worse, controls a hell of a lot of business." (Weber, 1987, p. 58)

But Kelleher was not eager to change his philosophy. He affirmed that amenities only drove up costs and were not required. Some wondered why Southwest didn't just raise their prices and participate in the Level II CRS. Southwest believed that an increase in prices would dampen the traffic volume upon which they relied. Kelleher believed that customers already knew Southwest's schedules, due to heavy advertising, and would make a conscious effort to choose Southwest for the service and value the airline offered. (Sutton, 1989, p. 418)

D. AIRPLANES

Ordinarily new Boeing 737s were delivered in 1992 fully outfitted with digitized cockpit gauges and flight instruments. These instruments provided information on an aircraft's performance and location, vital to the safe conduct of any flight. However, a new Boeing 737 delivered to Southwest still had the old analog gauges and instruments. By buying airplanes with digitized instrumentation Southwest would have had to carry an additional five million dollars in inventory for the two different cockpit configurations. (Interview, McGlade, 1993)

The analog system was still being used in military aircraft and was both functional and safe. Once again, cost was the decisive factor in Southwest's decision to maintain the older analog system.

E. AUTOMATIC TICKET MACHINES

A network of new Southwest Quick-It automatic ticket machines (ATM) were used in airports that Southwest served. They accepted credit cards and used touch-screen ease to issue a plane ticket within 20 seconds.

These machines were designed by a group of employees at Southwest who thought up the idea one night at a bar. They built the machines in their spare time using off-the-shelf computer parts. (Welles, 1992, p. 47)

The interior of the machine was a 386 Personal Computer with a modem. The cost of the ATMs were $15,000 each. When a customer swiped a credit card, the machine interacted with SAAS through a modem and verified the customer's credit card. A ticket received by a customer was a ticket to a destination, no specific time or flight was indicated. Tickets issued were for unrestricted fares (F class) only. (Telephone, Kensiar, 1993)

V. SOUTHWEST IN THE 1990s

A. 1990 - 1992

1990 was a year of gathering recession, Iraq invaded Kuwait, and fuel prices surged. Only three U.S. major airlines posted operating and net profits (Table 5.1). Operating profits are made up of revenues minus direct operating costs such as personnel, depreciation, insurance, fuel and leases. Net profits are the operating profits minus the net interest expenses and taxes.

TABLE 5.1 AIRLINE PROFITS - 1990

OPERATING PROFITS

American Airlines	$ 68 million
Southwest Airlines	$ 81.9 million

NET PROFITS

Southwest Airlines	$ 47.1 million
United Airlines	$ 95.8 million

Southwest was the only airline in the black in both the operating and net-income columns in 1990.

Southwest employees created the Fuel from the Heart program to buy fuel for their airline through payroll deductions. This was to help defray the rising prices of

fuel during the Gulf War. Kelleher didn't know about the program until he received a banner signed by the 3,000 out of 8,600 employees that voluntarily participated. Kelleher responded, "It wasn't so much the money as the attitude that I loved. It indicated that the spirit of Southwest Airlines was alive." (Chakravarty, 1991, p. 50)

In 1991 Southwest had the lowest debt to equity ratio (35.1%) and the highest credit rating of any U.S. carrier. Southwest entered the year with $100 million in cash and a $215 million revolving credit line (Appendix F). For 58 consecutive quarters the line paid its shareholders a dividend. (Henderson, 1991, p. 33)

Southwest had been allowed to grow as fast as possible without sacrificing service or a sound balance sheet. Southwest received the coveted Airline of the Year Award from Air Transport World in 1991 for overall excellence in the airline industry (18th Annual, 1992, p. 51) (Appendix H). (Henderson, 1991, p. 32)

Southwest's cost per available-seat-mile was still the lowest in the industry at 6.5 cents. In contrast, American Airlines was 9 cents and USAir was 15 cents. This number takes on greater significance when you consider that Southwest planes take off and land more often than any other

airline, so the fuel rate consumption is greater and the number of landing fees it must pay is greater. (Welles, 1992, p. 47)

In 1992 Southwest had $303 million cash, a $250 million credit line and paid cash for 13 new Boeing 737s. In the past three years, they had moved into California, the Midwest and Las Vegas. A strong balance sheet, enabled them to enter new markets despite the Gulf War (fuel price explosion) and a recession. They were ranked as the seventh largest airline in the United States in 1992. (Brown, May, 1992, pp. 56-57)

In October 1992 Money magazine published a study depicting the ten best stocks for a 20 year period (1972 - 1992). Southwest was ranked as the number one buy. $1,000 invested in Southwest in 1972 was worth $217,775 in 1992. (Alderman, 1992, pp. 132-133)

B. SWA LOOKS TO THE FUTURE

During the lean 1990s, many of the major airlines, other than Southwest, were looking for ways to reduce unnecessary costs. These airlines questioned such areas as interlining, assigned seating, in-flight meals and other amenities which were considered to be routine on many lines, but absent on Southwest. (Brown, April, 1992, pp. 32-33)

> Our problem [Robert Baker, executive V.P. of AA] is the same you face when you find you can buy the same gift at both Wal-Mart and Macy's. Macy's will wrap it for you. Is that enough to overcome the attraction of the lower price you will pay at Wal-Mart? (Brown, April, 1992, p. 32)

The question is how much the consumer is willing to pay for service? Will an attitude toward reduced costs invade the niche that Southwest has created for themselves?

Facing a rapid growth rate in the 90s, Southwest could end up with a number of older and louder aircraft that they either no longer need or the aircraft will not meet new environmental standards (noise pollution). Southwest solved this problem by initiating a selling and lease-back program. They sold five older airplanes each year and then leased them back. This way Southwest released aircraft that they no longer needed or meet the environmental standards.

Fifty-eight percent of Southwest's fleet of 128 aircraft in 1993 were owned and 42% were leased. SWA looked forward to achieving a 50-50 split of owned/leased in the future. Through the selling and lease-back program, SWA were able to avoid the risk of technological obsolescence and acquire the latest equipment with little money down. This in turn retained a strong cash reserve.

Southwest continued to fly the Boeing 737s, however, Kelleher would consider a larger aircraft such as the 757 only if the airports become so congested that SWA would have to reduce its frequencies. (Henderson, 1991, p. 36)

Because Southwest is now flying into more congested airports such as Los Angeles International and carrying more cargo, its turnaround time now averages 20 minutes compared to an industry average of 55 minutes. (Henderson, 1991, p. 37) However, there are no plans to expand into the northeast because of congestion both on the ground and in the airspace. It wouldn't help to turn an aircraft in 20 minutes if it had to sit on the taxiway for an hour waiting to take off. (Henderson, 1991, p. 37)

C. 1990's PRICING

As Southwest grew, it was no longer just the businessperson's airline. Passengers were carrying large suitcases rather than brief cases. Due to passenger demands and competition, Southwest could no longer operate on just a two tier price structure. In 1990 with the introduction of frequent fliers and advance purchase discounts, Southwest had to resort to a more complex pricing structure. (Interview, McGlade, 1993)

D. THE SAME OLD THING

Sometimes Southwest management ask themselves if they should continue to be the same type of airline. "Based on their record of profitability and history, they will just keep doing the same thing in more places and being their old humdrum selves." (Henderson, 1991, p. 38) No matter what

location that Southwest goes to, three things quickly happen:

1. fares are reduced
2. traffic usually increases threefold
3. Southwest develops a fervent following (evidenced by achieving a number one position in enplaning passengers over their competitors, usually within the first six months)

Kelleher advises his people that there is security in change. There is nothing passive about the airline business when your principal assets are moving at 540 knots. Ironically, he fears the absence of change, the lulling sense of calm that can overtake "successful" companies. Kelleher says, "Our job is to never lose focus on keeping our costs low and to never suffer an excess of hubris so we take on too much debt." (Welles, 1992, p. 47) Kelleher looks to increase Southwest seats by a modest 15% each year and to reach $2 billion in revenues by 1995. (Welles, 1992, pp. 46-47)

Kevin Murphy, Morgan Stanley's airline analyst likens SWA to an amoeba that keeps growing little by little through the United States. Murphy says, "Southwest's stock just won't quit. It is the Wal-Mart of the skies." (Welling, 1992, p. 24)

Of course there is a concern of what will happen to Southwest after Herb Kelleher (Chakravarty, 1991, p. 51). Puffing on one of his 100 cigarettes per day, Herb Kelleher claims to have a rare disease. Having floppy arteries and

veins, the smoke helps to constrict them, allowing the flow of blood to his head. (Kelleher, 1988, p. 16)

The 53 year old Kelleher insists that there are three or four people who could be successful at being CEO of Southwest. Kelleher says, "There's no real magic involved here. Keep it simple, be smart about costs, take care of your people, and don't try to be something that you're not seems to be the formula which keeps this airline on the top." (Welling, 1992, p. 24)

VI. CASE ANALYSIS

A. INTRODUCTION

This chapter analyzes the case study in the form of a teaching note. The teaching note has three sections. Section One contains questions for the purpose of helping a student prepare for the case analysis or to aid in generating class discussion. Section Two is a summary of the case study. Section Three covers the major issues or problems that appear in the case study. The identification of the issues serve as potential lecture material for the case study when used in a classroom setting. Section Four is the analysis of the case.

B. CASE STUDY TEACHING NOTE

1. Questions

- As Southwest maintains a steady growth, can Kelleher continue the family atmosphere that currently exists among the employees?
- Southwest's goal is to achieve $2 billion in annual revenues by 1995. Can they still maintain this CRS or will they have to submit to the larger reservation systems and incur the greater costs?
- With a 15% annual growth rate, will Southwest Airline be able to maintain their simplistic philosophy (KISS) which has brought them so much success, e. g. maintain one type of aircraft, no food served, no interlining or no assigned seating?

- One of the major reasons that Southwest has been so successful is that they are unique and do things differently from other airlines. As more airlines change their own structures to reflect that of Southwest, will that uniqueness eventually disappear and Southwest fall into oblivion as just another commuter?

- As members of DoD, are there any principles that Southwest adheres to that we could adopt into our own business decisions (i.e. procurement of ADP) in the future?

- As DoD members are we as sensitive to cost issues as Southwest is?

- In the military, we are used to dealing with multi-million dollar pieces of equipment (i.e. jet aircraft, ships, tanks, etc.). Concerned mainly with the operation of this equipment, we generally don't concern ourselves with the cost of procurement. Do you think this financial unaccountability attitude could be carried into your next assignment dealing with procurement of ADP? If so, how will it effect your future business decisions?

- Southwest has never been quick to go along with popular trends in the industry, e.g. they stayed with Boeing 737s vice switching to MD-80s; they didn't participate in a major carrier's CRS. Was their purpose to simply stand alone or are were these good business decisions? As military members what lessons learned here can we bring to our future jobs in ADP acquisition?

- In 1990 Southwest changed a simple two tier pricing system to accommodate their passengers demands and to remain competitive in the industry. If Southwest is starting to move toward more complex systems and structures, what impact will this have on Southwest's overall standing in the airline community?

- As DoD members, can we apply Southwest's cost saving techniques to our business activities, such as re-engineering, software reuse and hardware reuse?

- One aspect of TQL is to provide full support and cooperation by a vendor to a customer. What vendor-customer relationship techniques does Southwest practice and how can they be implemented in the DoD?

2. Case Summary

This case pertains to Southwest Airline, a relatively new airline based in Dallas. Descriptions of Southwest's mission, goals, organization, business decisions, attitude, growth, and information technology are discussed. The primary focus is the fact that Southwest does not participate in a major carrier's reservation system, and yet it still proves to be successful and profitable.

3. Major Issues

- Southwest has developed a niche in short haul, high frequency, no frills transportation market. They experience a tremendous profit by offering the lowest fares in the industry.
- Southwest Airlines pays particularly close attention to costs in all business facets, and it places profit ahead of market share.
- Southwest was the first airline to participate in an employee profit sharing plan. This unionized force owns 11% of the company.
- Southwest uses one type of aircraft, a Boeing 737, to standardize maintenance, training, and inventory costs.
- Southwest does not attempt to compete with other airlines but with the automobile, and attracts passengers that would not otherwise travel by air.
- Southwest uses a point to point system rather than the industry's norm, a hub system.
- An unusual attitude toward team work and accomplishing goals exists among the enthusiastic, fun-loving, unionized workers.
- Southwest uses the KISS philosophy in every aspect of its' business.

- Southwest does not use a major carrier's Computer Reservation System (CRS).

- Southwest bought out failing Muse Air and formed Iran Star. In 1987 a loss of $9.2 million was reported and Iran Star was dissolved.

- Southwest's ten minute turnaround time became a trademark and was actually born out of operational necessity rather than good planning.

- Southwest first determines their specific business applications, then lastly seeks information technology to help automate the process.

4. Case Analysis

a. Southwest - The Airline

This scrappy little commuter in 23 years has evolved into the top money making airline in the U.S. today. In the private sector, success is measured by profits and by this definition alone, Southwest has been very successful.

Over a 20 year study, Lesley Alderman of Money magazine rated Southwest as being the number one company to have invested in, yielding the highest return to investors for that period (Alderman, 1992, p. 132). Southwest has received numerous Airline of the Year awards, Triple Crown awards, and employees rate SWA airline as the best company to work for.

It is impossible to look at just one aspect of Southwest and say that is why they are successful. One must look at the sum of all its parts. SWA is a made up of many different aspects:

a. How well they treat their employees and customers
b. Drive for profit over market share; maintain a strong financial position
c. Sensitivity to cost issues
d. As more power is obtained Southwest becomes more aware of the mortality associated with hubris
e. Not trying to be something they're not; don't stray from your niche
f. Remain protective of the history at Southwest and competitors
g. First define needs, then procure technoloogy to enhance the process

Every aspect overlaps each other's boundaries, creating a well orchestrated organization which is completely integrated; yet managed by simple processing methods.

b. Human Resources

During the interview process and from the articles referenced in this thesis, Southwest executives each discuss elements of Southwest which contribute to its overall success. Each executive insisted that there is no magic formula about the successful operation at Southwest and that it's simply common sense. Southwest has narrowed it down to a simple slogan: Take care of your people and watch your costs. They believe that the most important resource at Southwest is Southwest employees. The SW

executives treat SW employees the same way that they expect the SW employees to treat SW customers.

Southwest practices TQL principles, without preaching TQL. Southwest executives want their employees to be involved in decisions and policy making by encouraging feedback from those people working in the trenches, e.g., Together We Make It Great program and their use of "ad hoc" committees. The S.W. executives value members of the company and understand that each member has a tremendous amount to contribute.

From their beginnings, Southwest let customers define quality for the airline. Southwest provided service to cities that customers requested and allowed customers to participate in the SW attendant hiring process.

Kelleher seems to be keenly aware of the human condition and how power can ruin both an organization and an individual. His constant reminder to both himself and the Southwest organization of the sin of hubris shows an acknowledgement and respect for one's position in life and how fragile that can be.

With their tremendous success and having the highest profits of all major airlines, Kelleher still realizes that their niche is that of a short haul, no frills, high frequency airline. Kelleher makes no pretense of taking on the larger major airlines (e.g., AA or UA with over 600 aircraft compared to SW's 140 aircraft). As

Kelleher says, "We're happy with scraps - lots of little animals get fat on table scraps." (Henderson, 1987, p. 51)

c. Southwest's IT

A factor that makes Southwest unique is its lack of a major airline's computer reservation system. The IT world considers a major reservation system an essential tool for major airlines to simply exist; yet not only is Southwest existing without a major system, but in terms of profits, is proving to be successful.

Cost is always the major consideration in business decisions at Southwest. However, their purpose was not to procure low technology because it was less expensive. Southwest views IT exactly what it was designed to do, to enhance applications and link the customer with an organization. In terms of a reservation system, Southwest looked at the functionality of both the SABRE and less expensive SAAS systems. SWA wasn't interlining, assigning seats or serving meals on their flights so those functions weren't required. SWA also selected a CRS which only showed their flights on a travel agent's monitor and relied on the agent to place a telephone call to make a reservation. But the important point here is that Southwest wasn't lured into thinking that since they were a major airline there was a perceived need for the bigger and more expensive SABRE system. Known in the IT world as "bells and whistles" or

"gold-plating" IT vendors can sometimes offer customers attractive more expensive systems when no need actually exists.

In Chapter IV, Sprague describes telecommunications as an integral component of IT which links organizations to suppliers and customers. Sprague goes on to say, "those who do not keep up can fall so far behind that they are no longer competitive." (Sprague, 1993, p. 69)

A business person reading that quote could easily interpret it to mean that if he doesn't keep up with the latest technology, his business will never survive. He goes on to establish his paradigm for IT. A paradigm is a set of rules for the way an individual views something, in this case IT. His IT paradigm is now defined as the latest technology being the best and is necessary for him to stay competitive.

Southwest's IT paradigm is defined in a much broader sense. It not only includes the latest technology, but also the older technologies and communication mediums. Just because a technology is obsolete, Southwest doesn't discount it. It is still a viable option. Southwest's method of reaching its customers is made up of the following:

SW's medium to reach customers	Purpose
a. Advertising - Radio - TV - Newspaper	Customer receives data
b. Level I CRS	Customer & Travel Agent Receives Data
c. Telephone (travel agent calls SWA Reservation)	Links the organization and the customer

Through the combination of new and old technologies Southwest links their organization with a customer. By choosing the less expensive, already established technologies, SW can achieve the same business purposes.

d. Training

The hiring and training process of flight attendants is unique at Southwest. In accordance with TQL principles, Southwest goes directly to the customer to determine what their expectations are. By actively participating in the flight attendent selection process, customers act as a feedback mechanism to the Southwest People (personnel) Department. SW satisfies customer's expectations by delivering a product that a customer expects, not a product that SW thinks the customer should accept.

e. Attitude

By following a KISS philosophy, Southwest keeps things in a growing company from getting too difficult to control. Keeping everything simple seems to work well with this company.

To Southwest, purchasing different aircraft other than 737s seemed to be redundant. Different aircraft would provide the same function, but the methods might differ. Kelleher was criticized by peers in the industry that he wasn't keeping up with the times and that he should purchase different aircraft. But to Kelleher, the complexity of different aircraft involved both operationally and maintainability just didn't make sense. Having redundant systems would be too costly.

VII. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

Southwest is unusual in its strange propensity to place profit over market share (Feldman, 1992, p. 71). During the 1980s many other major airlines couldn't expand quick enough. These airlines wanted to secure as much market share as possible, no matter what the cost. The main consideration has always been cost at Southwest and not allowing themselves to live beyond their means. This formula has breed success at Southwest. As a result, some of the other majors are trying to imitate the leader, Southwest, by trimming away the amenities that Southwest never adhered to (Feldman, 1992, pp. 70-74).

Herb Kelleher realizes the he is in a people oriented business. He first takes care of his own employees, fostering a caring, reciprocating environment. Aware of a leader's tendency toward arrogance once reaching a powerful position, Kelleher keeps his own hubris in check. Kelleher says he runs Southwest by simply taking a common sense approach. Kelleher's basic rule is to take care of his people and watch costs. He avoids the trap of basing decisions on the fact that Southwest is a major airline and majors are supposed to do things certain ways.

Significant is the fact that Southwest doesn't participate in a major carrier's computer reservation system, considered to be an essential marketing tool in the airline industry. At first look, many would say that Southwest is a low tech company and behind the times when it comes to information technology. On the contrary after closer examination, one realizes that instead of trying to have the latest technology that every other airline has, they simply look at their business applications and needs. Once these requirements are defined, they then search the market place for an IT product that will help them to achieve these business purposes. They do not limit themselves to just the latest technology. Older technology, which some would consider to be obsolete, is simply another resource to Southwest. Southwest uses the combination of advertising, a conservative and less expensive CRS, and having a travel agent use a telephone to connect the customer to their organization. By using these available, already in place assets, Southwest achieves their goal of servicing their customers and simultaneously watches their costs. These savings are subsequently passed on to the consumer.

B. RECOMMENDATIONS

In accordance with the problems encountered by the DoD regarding the procurement, development and maintenance of

Information Systems, the following recommendations are suggested to improve the DoD's effectiveness and efficiency:

- **Redundancy.** Using one type of aircraft at SW indicates that avoiding redundancy reduces costs. Similarly in the DoD, it is recommended to search for similar IT systems that have already been developed and adapt it to your needs.

- **Functionality.** Southwest looks at business applications that they want to automate, then they search for IT. As a DoD member, ensure that the systems to be automated are current and functional. Then search for an IT system that can enhance your capabilities.

- **Requirements.** Southwest chose SAAS over SABRE because of their business requirements. As a DoD member developing a new system, "bells and whistles" can increase your capability and flexibility in the future; however, beware of those expensive enhancements that don't contribute to your requirements.

- **Available Resources.** Southwest didn't limit themselves to just the latest technology, but instead viewed older technology as a viable option to solve their IT needs. As a DoD member, do not discount old technology as obsolete and unusable. Examine all resources.

For the past few years, the Department of Defense has been trying to improve general business practices, reduce the development of redundant systems, and to reduce spending. Through this case study on Southwest Airlines, we have seen how general business practices and attitude toward costs and IT play a major role in the success of an operation.

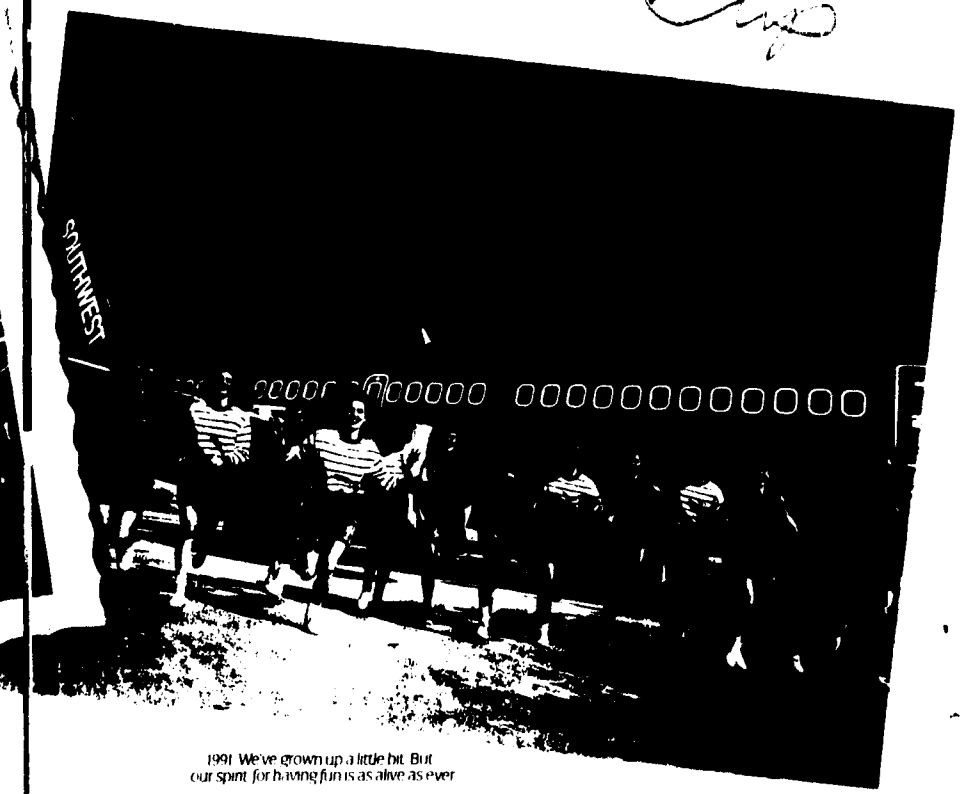
APPENDIX A

ACRONYMS

AA	American Airline
ADP	Automatic Data Processing
AMR	The stock market ticker tape symbol for American Airlines (AA) and is now its name, AMR Corporation.
AMRIS	AMR Information System
APOLLO	United Airline's CRS
ATC	Air Traffic Controllers
ATM	Automatic Ticket Machine
CAB	Civil Aeronautics Board
CEO	Chief Executive Officer
CIM	Corporate Information Management
CRS	Computer Reservation System
D/FW	Dallas/ Fort Worth Airport
DISA	Defense Information Systems Agency
DoD	Department of Defense
DoT	Department of Transportation
DSRS	Defense Software Repository Service
HI	Houston International
IR	Information Resources
IS	Information Systems
IT	Information Technology

KISS	Keep It Simple Stupid
LAN	Local Area Network
LUV	Southwest's New York Stock Exchange Symbol
OTS	Off the shelf
PSA	Pacific Southwest Airlines
SAAS	SABRE Automated Airline System
SABRE	Semi-Automated Business Resource Environment. (AA's CRS)
SEC	Security Exchange Commission
SJI	San Jose International
SW	Southwest
SWA	Southwest Airlines
STIN	SABRE Travel Information Network
SWIFT	Southwest Integrated Flight Tracking System
TAC	Texas Aeronautics Commission
TQL	Total Quality Leadership
UA	United Airline
WAN	Wide Area Network

1971. We were young and adventurous. Hot pants were in. And having fun was the rule of the day.



1991. We've grown up a little bit. But our spirit for having fun is as alive as ever.

WE WEREN'T AIRBORNE YESTERDAY.

Although it seems like just yesterday Southwest Airlines started flying, we've definitely earned our wings over the last 20 years.

A few of you might remember that little airline with three Boeing 737s and a route that included only Dallas, Houston, and San Antonio.

A lot's changed since then. Today we fly 106 Boeing 737s and have over 1,000 daily flights to 31 cities. We're ranked as the world's twelfth largest airline and America's seventh largest airline, in terms of passengers carried annually.

And so today we'd like to thank you, our Customers, for your support and patronage. Our employees for their loyalty. And the fashion world for changing clothing styles.

SOUTHWEST AIRLINES

APPENDIX C

THE ALI MCGRAW AIRLINE

When the Bloom Agency got the Southwest account, its people decided that an airline is a woman and the ultimate airline is Ali McGraw. Its "personality description model," a guideline for all Southwest marketing communications, read as follows:

> This young lady is young and vital. She is probably somewhere between 20 and 25 years old and looks somewhat younger, perhaps 18-20.
>
> She is charming and goes through life with great flair and exuberance. The first thing you notice about her is her exciting smile, her friendly air, her wit.
>
> In reality, she is quite efficient, and approaches all her tasks with care and attention; however, because of her dynamic personality, her efficiency is not obvious and is generally taken for granted.
>
> She is friendly and warm. Her hobbies are most likely horseback riding, swimming, and metal sculpture.

(Joyce, 1972, p. 21)

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [*FEE REQUIRED*]**

For the Fiscal Year Ended December 31, 1992 or

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [*NO FEE REQUIRED*]**

For the transition period from _____ to _____

Commission File No. 1-7259

Southwest Airlines Co.

(Exact name of registrant as specified in its charter)

TEXAS	**74-1563240**
(State of other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
P.O. Box 36611 Dallas, Texas	**75235-1611**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(214) 904-4000**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock ($1.00 par value)	New York Stock Exchange, Inc.
Common Share Purchase Rights	New York Stock Exchange, Inc.

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filings pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes [X] No [ ]

Aggregate market value of Common Stock held by nonaffiliates as of February 26, 1993:

$3,108,891,252

Number of shares of Common Stock outstanding as of the close of business on February 26, 1993:

92,566,448

DOCUMENTS INCORPORATED BY REFERENCE

(1)	Annual Report to Shareholders for 1992:	**Part I, Part II, Part IV**
(2)	Proxy Statement for Annual Meeting of Shareholders, May 19, 1993:	**Part III**

PART I

Item 1. *Business*

Description of Business

Southwest Airlines Co. ("Southwest" or the "Company") is a major domestic airline which provides single class air transportation characterized by frequent, high quality service at affordable prices. Southwest primarily serves shorthaul city pairs, targeting the business commuter as well as leisure travelers. The Company was incorporated in Texas and commenced Customer Service on June 18, 1971 with three Boeing 737 aircraft serving three Texas cities - Dallas, Houston and San Antonio. At yearend 1992, Southwest operated 141 Boeing 737 aircraft and provided service to 36 airports in 34 cities in the midwestern, southwestern and western regions of the United States. Southwest is unique among the major U.S. airlines in its operating and marketing strategies. Southwest focuses on point-to-point, rather than hub-and-spoke, service in shorthaul markets with frequent, conveniently timed flights. For example, the Company's average aircraft trip length in 1992 was approximately 378 miles with an average duration of one hour. At yearend, the Company served 201 nonstop city pairs with an average weekday frequency of seven roundtrips per city pair.

The business of the Company is somewhat seasonal. Quarterly operating income and, to a lesser extent, revenues tend to be somewhat lower in the first quarter (January 1 - March 31).

The information contained in the sections indicated below from the Annual Report to Shareholders for 1992 (the "Annual Report") of Southwest Airlines Co. is incorporated herein by reference:

Section Title	Annual Report Page Nos.
Letter to Shareholders	2-3
1992 Review	4-13
Quarterly Financial Data	F16
Ten Year Summary	F18-F19

Fuel

The cost of fuel is an item having significant impact on the Company's operating results. The Company's average cost of jet fuel per gallon over the past five years was as follows:

1988	$.51
1989	$.59
1990	$.78
1991	$.66
1992	$.61

The Company is unable to predict the extent of future fuel cost changes. The Company has standard industry arrangements with major fuel suppliers. Standard industry fuel contracts do not provide material protection against price increases or for assured availability of supplies. Although market conditions can significantly impact the price of jet fuel, at present, these conditions have not resulted in an inadequate supply of jet fuel. For more discussion of current jet fuel costs and the impact of these costs on the Company's operations, see Management's Discussion and Analysis of Financial Condition and Results of Operations, set forth in the Annual Report.

Regulation

Economic. The Dallas Love Field section of the International Air Transportation Competition Act of 1979 ("Competition Act"), as it affects the Company's scheduled service, provides that no common carrier may provide scheduled passenger air transportation for compensation between Love Field and one or more points outside Texas, except that an air carrier may transport individuals by air on a flight between Love Field and one or more points within the states of Arkansas, Louisiana, New Mexico, Oklahoma and Texas if (a) "such air carrier does not offer or provide any through service or ticketing with another air carrier" and (b) "such air carrier does not offer for sale transportation to or from, and the flight or aircraft does not serve, any point which is outside any such states." Southwest does not interline or offer joint fares with any other air carrier. The Competition Act does not restrict the Company's intrastate Texas flights or its air service from points other than Love Field to points beyond Texas and the four adjacent states.

The Department of Transportation ("DOT") has significant regulatory jurisdiction over passenger airlines. Unless exempted, no air carrier may furnish air transportation over any route without a DOT certificate of authorization, which does not confer either exclusive or proprietary rights. The Company's certificates are unlimited in duration and permit the Company to operate among any points within the United States, its territories and possessions, except as limited by the Love Field section of the Competition Act, as do the certificates of all other U.S. carriers. DOT may revoke such certificates, in whole or in part, for intentional failure to comply with any provisions of subchapter IV of the Federal Aviation Act of 1958, or any order, rule or regulation issued thereunder or any term, condition or limitation of such certificate; provided that, with respect to revocation, the certificate holder has first been advised of the alleged violation and has been given a reasonable time to effect compliance.

DOT prescribes uniform disclosure standards regarding terms and conditions of carriage, and prescribes that terms incorporated into the Contract of Carriage by reference are not binding upon passengers unless notice is given in accordance with its regulations.

Safety. The Company is subject to the jurisdiction of the FAA with respect to its aircraft maintenance and operations, including equipment, ground facilities, dispatch, communications, flight training personnel and other matters affecting air safety. To insure compliance with its regulations, the FAA requires airlines to obtain operating, airworthiness and other certificates which are subject to suspension or revocation for cause. Southwest has obtained such certificates. The FAA, acting through its own powers or through the appropriate United States Attorney, also has the power to bring proceedings for the imposition and collection of fines for violation of the Federal Air Regulations.

The FAA has also implemented a number of new requirements which are being incorporated into Southwest's maintenance program. These requirements relate to, among other things, inspection and modification of aging aircraft, corrosion control, cargo compartment liners, traffic collision avoidance and windshear. Based on its current implementation schedule, Southwest will be in compliance with the new requirements within the required timeperiods. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," set forth in the Annual Report.

Environmental. The Airport Noise and Capacity Act of 1990 ("ANCA") requires the phase out of Stage 2 airplanes (which meet less stringent noise emission standards than later model Stage 3 airplanes) in the contiguous 48 states by December 31, 1999. FAA rules establish interim compliance dates for ANCA of December 31, 1994, December 31, 1996 and December 31, 1998. An operator may comply by either implementing a reduction of the operator's base level of Stage 2 aircraft by at least 25% increments by the end of the three interim compliance dates or by operating a fleet that is at least 55% Stage 3 by December 31, 1994, 65% by December 31, 1996, and 75% by December 31, 1998. Selection of one of the two alternative compliance techniques is not irrevocable and operators are free to opt for

one method at one compliance date and another at the next. Operation of Stage 2 aircraft after December 31, 1999 is prohibited, subject, however, to an extension of the final compliance date to December 31, 2003, if at least 85% of the aircraft used by the operator in the contiguous United States will comply with Stage 3 noise levels.

The Company's fleet as of December 31, 1992 consisted of 49 Stage 2 aircraft and 92 Stage 3 aircraft, yielding a Stage 3 percentage of 65.25%. Accordingly, the Company already exceeds the Stage 3 fleet percentage requirement for the December 31, 1994 and December 31, 1996 interim compliance dates.

As of December 31, 1992, of the 49 Stage 2 aircraft operated by the Company, 29 are leased from third parties, and 20 are owned by the Company. The Company can comply with the rules by acquiring additional Stage 3 aircraft and returning Stage 2 aircraft to the lessors as the leases terminate according to their terms. Based upon the Company's current schedule for delivery of new Stage 3 airplanes, including options, the Company anticipates achieving an 85% Stage 3 fleet during calendar year 1999. Accordingly, in that event, Southwest would be entitled to maintain operation of at least 41 Stage 2 aircraft until December 31, 1999, or 2003 if the Company is successful in obtaining a waiver.

ANCA also requires the FAA to establish parameters within which any new Stage 2 and Stage 3 noise or access restrictions at individual airports must be developed. The published rules generally provide that local noise restrictions on Stage 3 aircraft first effective after October 1990 require FAA approval, and establish a regulatory notice and review process for local restrictions on Stage 2 aircraft first proposed after October 1990. While the Company has had sufficient scheduling flexibility to accommodate local noise restrictions imposed prior to October 1990, Southwest's operations could be adversely affected if locally-imposed regulations become more restrictive or widespread.

Southwest is subject to various other federal, state and local laws and regulations relating to the protection of the environment, including the discharge of materials into the environment.

Competition

The airline industry is highly competitive as to fares, frequent flyer benefits, routes and service, and some carriers competing with the Company have greater financial resources, larger fleets and wider name recognition. Some carriers competing with the Company have ownership interests in computer reservation systems ("CRS") or participate in a CRS to an extent to which the Company does not. The Company currently does not own an interest or significantly participate in any CRS. Profit levels in the air transport industry are highly sensitive to changes in operating and capital costs and the extent to which competitors match an airline's fares and services. The profitability of a carrier in the airline industry is also impacted by general economic trends.

The Company is also subject to varying degrees of competition from surface transportation in its shorthaul markets, particularly the private automobile. In shorthaul air services which compete with surface transportation, price is a competitive factor, but frequency and convenience of scheduling, facilities, transportation safety and Customer Service may be of equal or greater importance to many passengers.

Insurance

The Company carries insurance of types customary in the airline industry and in amounts deemed adequate to protect the Company and its property and to comply both with federal regulations and certain of the Company's credit and lease agreements. The policies principally provide coverage for public and

passenger liability, property damage, cargo and baggage liability, loss or damage to aircraft, engines and spare parts and workers' compensation.

Frequent Flyer Awards

The Company's frequent flyer program, The Company Club, is based on trips flown rather than mileage. The Company Club offers one free roundtrip travel award to any Southwest destination after completing an application and flying 10 roundtrips (or 20 one-way trips) on Southwest within a consecutive twelve-month period. After the initial application, the member must fly 8 roundtrips (or 16 one-way trips) within a twelve-month period to receive a free travel award certificate.

The trips flown as credit towards a free travel award certificate are valid for twelve months only; the free travel award is automatically generated when earned by the Customer rather than allowing the Customer to bank the trip credits indefinitely; and the free travel award is valid for one year only with an automatic expiration date. Based on the issuance of free travel awards to qualified members, coupled with the foregoing program characteristics and the use of "black out" dates for the free travel awards during peak holiday periods, the financial impact of free travel awards used on the Company's financial statements was not material. Free travel awards redeemed were approximately 209,000, 207,000 and 168,000 during 1992, 1991 and 1990, respectively. The amount of free travel award usage as a percentage of total Company revenue passengers carried was 1.5%, 1.8%, and 1.7% in 1992, 1991 and 1990, respectively.

The Company accounts for free travel awards using the incremental cost method, consistent with the other major airlines. This method recognizes an average incremental cost to provide roundtrip transportation to one additional passenger. The incremental cost to provide free transportation is accrued at the time an award is earned and revenue is subsequently recognized, at the amount accrued, when the free travel award is used. The estimated incremental costs include passenger costs such as beverage and snack supplies, baggage claims, baggage handling and liability insurance; operations costs such as security services, airport rentals, fuel, oil and into-plane charges; and reservations costs, such as communications and system operations fees. The liability for free travel awards earned but not used at December 31, 1992 and 1991 was not material.

The number of free travel awards outstanding at December 31, 1992 and 1991 was approximately 174,000 and 139,000, respectively. These numbers do not include partially earned awards. The Company currently does not have a system to accurately estimate partially earned awards. However, these partially earned awards may equate to approximately 60-70% of the current outstanding awards. Since the inception of The Company Club in 1987, approximately 16% of all award certificates have expired without being used.

Employees

At December 31, 1992, Southwest had 11,397 employees, consisting of 3,358 flight, 596 maintenance, 6,133 ground Customer Service and 1,310 management, accounting, marketing and clerical personnel.

Southwest has nine collective bargaining agreements covering approximately 83% of its employees. Southwest's fleet service employees are subject to an agreement with the Ramp, Operations and Provisioning Association which expires in December 1994. Customer Service and reservation employees are subject to an agreement with the International Association of Machinists and Aerospace Workers, AFL-CIO, which expires in February 1994. Flight attendants are subject to an agreement with the Transportation Workers Union of America, AFL-CIO, which expires May 31, 1996. The pilots are subject to an agreement with the Southwest Airlines Pilots' Association (SWAPA), which expires in

August 1994. Flight dispatchers are represented by the Southwest Airlines Employees Association, pursuant to an agreement which expires in November 1997. Mechanics and stock clerks are subject to agreements with the International Brotherhood of Teamsters, with both agreements expiring in August 1995. The flight simulator technicians are represented by the International Brotherhood of Teamsters pursuant to an agreement which expires in October 1995. The flight/ground school instructors are subject to an agreement with the Southwest Airlines Professional Instructors Association which expires in December 1995.

Item 2. *Properties*

Aircraft

The information contained under the sections indicated below from the Annual Report to Shareholders for 1992 is incorporated herein by reference:

Section Title	Annual Report Page Nos.
Aircraft Fleet	12
Ten Year Summary	F18-F19

Southwest operated 141 Boeing 737 aircraft as of December 31, 1992. The Company has 54 and 13 aircraft under operating and capital leases, respectively. The remaining 74 aircraft are owned.

For information concerning aircraft subject to liens, see Note 5 to the Consolidated Financial Statements.

For information regarding Southwest obligations under capital leases, noncancelable operating leases and sale and leaseback transactions, see Notes, 5, 6 and 11 to the Consolidated Financial Statements.

For information concerning Southwest's aircraft purchase commitments, see Note 3 to the Consolidated Financial Statements.

The Company has an agreement with CFM International, Inc. (a joint company of SNECMA (France) and General Electric Company) dated May 28, 1981 for the supply of spare engines for its Boeing 737-300 and -500 aircraft. CFM also supplies the engines to The Boeing Company for original installation on such aircraft. CFM is the sole manufacturer of engines for use on the Boeing 737-300, -400 and -500 aircraft.

Ground Facilities and Services

Southwest leases terminal passenger service facilities at each of the airports it serves to which it has added various leasehold improvements. The Company leases land on a long-term basis for its maintenance centers located at Dallas Love Field, Houston Hobby and Phoenix Sky Harbor, its training center near Love Field which houses two 737 simulators, and its corporate headquarters also located near Love Field. The maintenance, training center and corporate headquarters buildings on these sites were built and are owned by Southwest. Southwest also operates six reservation centers. The reservation centers located in Houston, Texas, Chicago, Illinois and Albuquerque, New Mexico occupy leased space. The Company owns its Dallas, Texas, Phoenix, Arizona and San Antonio, Texas reservation centers. The San Antonio reservation center is subject to liens securing long-term debt. See Note 5 to the Consolidated Financial Statements for additional information.

The Company performs substantially all maintenance on its aircraft and provides ground support services at most of the airports it serves. However, the Company has arrangements with certain aircraft maintenance firms for major component overhauls and repairs for its aircraft and engines, which comprises the majority of the annual maintenance cost.

Item 3. ***Legal Proceedings***

None to be reported.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None to be reported.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Southwest, their positions and their respective ages (as of March 1, 1993) are as follows:

Name	Position	Age	Officer Continuously Since
Herbert D. Kelleher	Chairman of the Board, President, and Chief Executive Officer	61	1967
Colleen C. Barrett	Executive Vice President-Customers and Corporate Secretary	48	1978
Gary A. Barron	Executive Vice President, Chief Operations Officer	48	1978
John G. Denison	Executive Vice President-Corporate Services	48	1986
Gary C. Kelly	Vice President-Finance, Chief Financial Officer	37	1986
James F. Parker	Vice President-General Counsel	46	1986
Ron Ricks	Vice President-Governmental Affairs	43	1986
James C. Wimberly	Vice President-Ground Operations	40	1985

Executive officers are elected annually at the first meeting of Southwest's Board of Directors following the annual meeting of shareholders or appointed by the President pursuant to Board authorization.

Herbert D. Kelleher has been Chairman of the Board, President, and Chief Executive Officer of Southwest for more than five years. Mr. Kelleher also serves on the Executive Committee of the Board of Southwest.

On November 21, 1990, Ms. Colleen C. Barrett was appointed Executive Vice President - Customers. Ms. Barrett had served as Vice President - Administration since July 1985, and Corporate Secretary of Southwest since March 28, 1978.

On June 5, 1989, Mr. Gary A. Barron was appointed Executive Vice President, Chief Operations Officer of Southwest. Mr. Barron had served as Executive Vice President - Corporate Services, Vice President - General Counsel, Vice President - Inflight Service, Vice President - Corporate Services and Vice President - Special Projects since joining Southwest in 1978.

On June 5, 1989, Mr. John G. Denison was appointed Executive Vice President - Corporate Services of Southwest. Mr. Denison had served as Vice President - Finance, Chief Financial Officer since joining Southwest in March 1986.

SOUTHWEST AIRLINES CO.

SCHEDULE V - PROPERTY AND EQUIPMENT
Years ended December 31, 1990, 1991 and 1992
(In thousands)

	Balance at beginning of year	Additions at cost	Retirements and sales	Other	Balance at end of year
1990					
Flight equipment	$1,255,076	$155,548	$154,356	$113,056	$1,369,324
Ground property and equipment	164,362	42,455	4,125	(8,574)	194,118
Deposits on flight equipment purchase contracts	137,956	119,727	—	(104,482)	153,201
	$1,557,394	$317,730	$158,481	$ —	$1,716,643
1991					
Flight equipment	$1,369,324	$177,915	$111,592	$ 115,872	$1,551,519
Ground property and equipment	194,118	35,211	165	(10,642)	218,522
Deposits on flight equipment purchase contracts	153,201	134,961	—	(105,230)	182,932
	$1,716,643	$348,087	$111,757	$ —	$1,952,973
1992					
Flight equipment	$1,551,519	$260,464	$142,601	$ 133,614	$1,802,996
Ground property and equipment	218,522	73,087	15	(3,671)	287,923
Deposits on flight equipment purchase contracts'	182,932	159,915	—	(129,943)	212,904
Balance before cumulative effect of change in accounting principle	1,952,973	493,466	142,616	—	2,303,823
Cumulative effect of change in accounting principle	—	39,521	—	—	39,521
	$1,952,973	$532,987	$142,616	$ —	$2,343,344

SOUTHWEST AIRLINES CO.

SCHEDULE VI - ALLOWANCE FOR DEPRECIATION
Years ended December 31, 1990, 1991 and 1992
(In thousands)

	Balance at beginning of year	Additions charged to operations	Retirement and sales	Other	Balance at end of year
1990					
Flight equipment	$303,417	$65,848	$24,796		$344,469
Ground property and equipment	49,720	13,581	1,664		61,637
	$353,137	$79,429	$26,460	$ ---	$406,106
1991					
Flight equipment	$344,469	$70,155	$33,493		$381,131
Ground property and equipment	61,637	16,047	36		77,648
	$406,106	$86,202	$33,529	$ ---	$458,779
1992					
Flight equipment	$381,131	$89,375	$24,987	$1,659	$447,178
Ground property and equipment	77,648	18,743	6		96,385
Balance before cumulative effect of change in accounting principle	458,779	108,118	24,993	1,659	543,563
Cumulative effect of change in accounting principle	---	15,489	---	---	15,489
	$458,779	$123,607	$24,993	$1,659	$559,052

SOUTHWEST AIRLINES CO.

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION
(In thousands)

	Years ended December 31,		
	1992	1991	1990
Advertising	$37,174	$32,971	$25,598
Ad valorem taxes	$20,232	$16,788	$13,746

SOUTHWEST AIRLINES CO.

Management's Discussion and Analysis of Financial Condition and Results of Operations

INDUSTRY CONDITIONS

The recession in the airline industry continued in 1992, resulting in three of the most financially devastating years in the history of the airlines. The industry changed its overall financial position from a cumulative industry profit to an overall industry loss during this three year period. Domestic competition was characterized by heated fare wars in 1992, which exacerbated industry losses. However, despite these adverse industry conditions, Southwest reported a profit for its 20th consecutive year.

The Company's low operating costs and shorthaul, low-fare market niche have allowed the Company to profit during this period. Southwest has continued to maintain steady growth in its mature markets, such as Texas, and to expand in markets where other carriers are reducing service. In 1992, Southwest became the largest carrier of intrastate passengers in California and also number one in originating passengers in Phoenix, Las Vegas, and Kansas City. The Company's expansion efforts at Chicago Midway airport were successful in 1992. Southwest added service to Indianapolis and opened two new cities in the midwest, Cleveland and Columbus, Ohio, each with nonstop service to Midway and St. Louis. A reservation center and pilot domicile were also opened in 1992 at Chicago Midway. In May 1993, the Company will begin service to Louisville, Kentucky with nonstop flights to St. Louis, Chicago, and Birmingham. In February 1993, the Company began taking calls at the Company's new reservation center in Albuquerque.

During 1993, the Company plans to continue expanding its shorthaul markets, particularly through added service to existing city-pair markets in California and the western region of its system. In addition, the Company will continue its focus on controlling costs and maintaining high quality Customer Service to protect its financial and competitive position within the industry.

RESULTS OF OPERATIONS

1992 COMPARED WITH 1991 The Company's consolidated net income for the year 1992 was $91.0 million ($.97 per share), before the cumulative effect of a change in accounting principle, compared to $26.9 million ($.31 per share) for 1991, an increase of 238.1 percent. The 1991 earnings per share has been restated for the 1992 two-for-one stock split (see Note 8 to the Consolidated Financial Statements). The increase in earnings was attributable to an increase in operating income of 190.2 percent.

Operating Revenues Operating revenues increased by 28.3 percent in 1992 to $1,685.2 million. Operating revenue per available seat mile (ASM) increased in 1992 to $.0789 from $.0710 in 1991. Operating revenues increased as follows: a 28.1 percent increase in passenger revenues; a 25.2 percent increase in freight revenues; and a 46.6 percent increase in other revenues.

The increase in passenger revenues, which accounted for 96.4 percent of total operating revenues, resulted from a 22.1 percent increase in revenue passenger miles (RPMs) in 1992 and a 5.0 percent increase in revenue passenger yield per RPM.

The increase in RPMs of 22.1 percent in 1992 exceeded the increase in ASMs of 15.6 percent for the same period and resulted in an increase in the load factor from 61.1 percent to 64.5 percent. The 1992 ASM increase resulted from the addition of 17 aircraft, which were primarily used to expand California, Las Vegas, Phoenix, and Chicago markets.

Freight revenues increased in 1992 to $33.1 million from $26.4 million in 1991. The 25.2 percent increase in freight revenues exceeded the 15.6 percent ASM increase for the same period primarily due to further expansion of United States mail services and increased freight marketing programs. Other revenues increased 46.6 percent primarily as a result of charter revenues. Charter revenues increased 91.9 percent due to a significant increase in commercial charters.

Operating Expenses Consolidated operating expenses increased 20.1 percent to $1,502.5 million from $1,250.7 million in 1991. The primary factors contributing to the increase were the 15.6 percent increase in ASMs resulting from the addition of seventeen 737 aircraft; increased contributions to profit sharing and employee savings plans; higher agency commissions; higher aircraft rentals; and increased maintenance costs. On a per-ASM basis, operating expenses increased 4.0 percent in 1992 as follows:

Operating expenses per ASM

	1992	1991	Increase (decrease)	Percent change
Salaries, wages and benefits	2.17¢	2.12¢	.05¢	2.4%
Profit sharing and employee savings plans	.18	.09	.09	100.0
Fuel and oil	1.14	1.22	(.08)	(6.6)
Maintenance materials and repairs	.56	.53	.03	5.7
Agency commissions	.50	.44	.06	13.6
Aircraft rentals	.30	.26	.04	15.4
Landing fees and other rentals	.48	.44	.04	9.1
Depreciation	.47	.47	–	–
Other	1.23	1.19	.04	3.4
Total	7.03¢	6.76¢	.27¢	4.0%

The increase in salaries, wages and benefits per ASM in 1992 of 2.4 percent resulted from a 16.1 percent increase in employee benefits per ASM. Salaries and wages per ASM remained constant. The increase in employee benefits per ASM resulted from increases in workers' compensation and health benefit costs. Although the Company has implemented, and plans to continue implementing, various cost savings programs to attempt to control the annual increase in these benefit costs, these costs are expected to continue to increase in the near term. Headcount increased 16.6 percent in 1992, slightly more than the 15.6

percent increase in ASMs. However, employee productivity improved from 2,451 passengers handled per employee in 1991 to 2,597 in 1992. Average salary and benefit costs per employee increased 3.7 percent from 1991 to 1992.

In January 1992, the Company signed a new collective bargaining agreement with the Transportation Worker's Union of America, which represents the Company's flight attendants. The contract extends into 1996.

Profit sharing and employee savings plan expenses per ASM doubled in 1992. This significant increase was primarily the result of a significantly more profitable year. For additional information, see Note 10 to the Consolidated Financial Statements.

Fuel and oil expenses per ASM decreased 6.6 percent in 1992 due to a 7.4 percent reduction in the average jet fuel cost per gallon from 1991. The average price of jet fuel decreased from 65.69¢ in 1991 to 60.82¢ in 1992. A combination of a relatively mild winter and unusually high inventories at the end of 1991 precipitated a rapid decline of jet fuel prices beginning late fourth quarter 1991, which resulted in an average of 54.96¢ per gallon in first quarter 1992. Jet fuel prices rose in second quarter 1992 to an average of 60.68¢ per gallon as a result of unusually cold weather late in the season, a global firming of supply-demand fundamentals, and a recognition that the Iraq-UN situation would not produce immediate oil exports. Jet fuel prices remained relatively steady throughout the remainder of 1992 with an average of 64.46¢ and 62.44¢ per gallon in third and fourth quarter 1992, respectively.

Maintenance materials and repairs per ASM increased 5.7 percent in 1992. This increase was primarily the result of performing more airframe and engine overhaul work in 1992. The Company performed 13 scheduled airframe overhauls in 1992, as compared to three in 1991, as a result of the recent modification of its airframe overhaul maintenance program with the Federal Aviation Administration (FAA) and growth of the Company's fleet. In addition, the Company changed its method of accounting for scheduled airframe overhaul costs from the direct expense method to that of capitalizing and amortizing the costs over the periods benefited. See Note 2 to the Consolidated Financial Statements for further information. Airframe overhauls were also more costly in 1992 as compared to 1991. Consequently, amortization of 1992 capitalized airframe overhauls, along with amortization of the cumulative adjustment related to the accounting change, exceeded overhauls directly expensed in 1991. Engine overhauls were also more expensive in 1992 due to the higher cost to repair 737-300 and -500 high-bypass engines, which represent an increasing percentage of the fleet.

Agency commissions per ASM increased 13.6 percent in 1992 primarily due to passenger revenue growth exceeding ASM growth coupled with a higher mix of travel agency sales.

Aircraft rentals per ASM increased 15.4 percent in 1992. The increase was the result of the Company leasing four used 737-300 aircraft in 1992 under long-term operating leases, along with incurring a full year's rent on the 14 aircraft acquired, or converted to operating leases, in 1991 through various leasing arrangements. On December 31, 1992, the Company completed the financing through sale/leasebacks of four 737-300 aircraft delivered in 1992; however, no rent expense will be recorded on these leases until 1993.

The increase in landing fees and other rentals per ASM of 9.1 percent resulted from an increase of 12.1 percent in landing fees per ASM, or .03¢, and a 2.1 percent increase in other rentals per ASM, or .01¢. The increase in landing fees per ASM is primarily attributable to overall rate increases, with significant increases in New Orleans and Chicago. The increase in other rentals per ASM is also primarily due to rate increases.

Depreciation expense per ASM remained constant in 1992. However, had the Company not changed the estimated remaining useful lives of its 737-200 aircraft as discussed in Note 2 to the Consolidated Financial Statements, depreciation expense per ASM would have increased 4.3 percent, or $.02 per ASM in 1992. The increase is primarily the result of acquiring more aircraft and certain leasehold interests as described in Note " to the Consolidated Financial Statements.

Other operating expenses per ASM increased 3.4 percent primarily due to increases in ad valorem tax rates and passenger-related costs. Passenger-related costs increased per ASM due to the 22.8 percent increase in passengers carried, which exceeded ASM capacity growth for 1992.

Other "Other expenses (income)" included interest expense, interest income and nonoperating gains and losses. Interest expense, net of capitalized interest, increased 52.2 percent in 1992 due to 1991-92 issuances of $400 million in senior unsecured notes. See Note 5 to the Consolidated Financial Statements for further information. Interest income decreased $287,000 in 1992 due to lower interest rates offset by higher investment balances. Net nonoperating losses consisted primarily of payments related to deficiency guarantees as discussed in Note 7 to the Consolidated Financial Statements.

Income Taxes The provision for income taxes decreased in 1992, as a percentage of income before income taxes and cumulative effect of change in accounting principle, to 38.0 percent from 38.6 percent in 1991. The decrease was primarily the result of a reduction in state income taxes versus previous estimates. See Note 12 to the Consolidated Financial Statements for further information.

1991 COMPARED WITH 1990 The Company's consolidated net income for the year 1991 was $26.9 million, or $.31 per share, compared to $47.1 million, or $.55 per share, for 1990, a decrease of 42.8 percent. The decrease in earnings primarily was attributable to: 1) a decrease in operating income of 23.1 percent; 2) a $7.3 million increase in net interest expense; and 3) a $4.6 million decrease in nonoperating gains, before the effects of income taxes.

Operating Revenues Operating revenues increased by 10.7 percent in 1991 to $1,313.6 million. Passenger revenues, which accounted for 96.5 percent of total operating revenues, increased 10.8 percent to $1,267.9 million while freight revenues increased 19.1 percent to $26.4 million and other revenues declined by 4.3 percent to $19.3 million.

Passenger revenue growth was negatively impacted in 1991 by the war in the Persian Gulf and the domestic economic recession. As a result, operating revenue per ASM declined in 1991 to $.0710 from 1990's $.0723, or 1.8 percent. The 1991 passenger revenue increase was attributable to a 14.3 percent increase in revenue passengers carried, which resulted from aggressive discount and promotional programs to stimulate an otherwise weak domestic travel market. However, the promotional programs that were successful in stimulating traffic caused passenger revenue yield per RPM to decline to $.1122 from $.1149 in 1990, or 2.3 percent.

The increase in RPMs was 13.4 percent in 1991 as compared to 1990 versus a 12.7 percent increase in ASMs for the same period, resulting in an increase in the load factor from 60.7 percent to 61.1 percent. The 1991 ASM increase primarily resulted from the addition of 18 aircraft that were used primarily to initiate service in Sacramento, California to Ontario, Burbank, and San Diego, California; expand service in Oakland, Los Angeles, Phoenix, and Las Vegas; and initiate service between Kansas City/St. Louis and between Los Angeles/Las Vegas.

During the third quarter 1991, traffic demand began to improve as compared to the preceding months of 1991, considering seasonality. As a result, RPM yields began to improve as compared to earlier 1991 results and load factors were up as compared to the corresponding month of the prior year for the period September through December 1991. Revenues per ASM increased in fourth quarter 1991 versus fourth quarter 1990, the first such favorable quarterly comparison in 1991. The Company believes it benefited from slightly improved economic conditions in its markets; successful expansion into new California markets; and service reductions from competitors in its California, Phoenix, Las Vegas, and Chicago markets.

Freight revenues increased 19.1 percent in 1991 to $26.4 million from $22.2 million in 1990. Freight revenues grew 83.1 percent from 1989 to 1991, more than double the rate of ASM growth over the same period. This growth primarily resulted from expanded United States mail services and increased cargo marketing efforts. Other revenues decreased 4.3 percent primarily due to a 20.7 percent decrease in charter revenues resulting from a decline in military activities requiring domestic charters.

Operating Expenses Consolidated operating expenses increased 13.2 percent to $1,250.7 million from $1,104.9 million in 1990. The primary factors contributing to the increase were the 12.7 percent increase in ASMs resulting from the addition of eighteen 737 aircraft and increases in aircraft rentals, terminal rentals, and landing fees. These increases were offset by a large decrease in jet fuel costs. The net result was an increase in operating expenses per ASM of only .4 percent over 1990 levels.

Salaries, wages and benefits per ASM increased 2.4 percent in 1991 resulting from a 1.8 percent increase in salaries and wages per ASM and a 4.7 percent increase in employee benefits per ASM. Headcount increased 13.4 percent in 1991, slightly more than the 12.7 percent increase in ASMs. Despite this increase in headcount, employee productivity increased from 2,393 passengers handled per employee in 1990 to 2,451 in 1991. Average salary and benefit costs per employee increased 3.2 percent from 1990 to 1991.

Profit sharing and employee savings plan expenses on a per-ASM basis decreased 18.2 percent in 1991. The decrease was a result of decreased profitability offset by increased employee eligibility and resulting participation in the employee savings plan matching contributions program. For additional information, see Note 10 to the Consolidated Financial Statements.

Fuel and oil expenses per ASM decreased 17.0 percent in 1991 as the jet fuel average cost per gallon decreased 15.7 percent to 65.69¢ in 1991 from 77.89¢ in 1990. During 1990, crude oil prices and, therefore, jet fuel prices, were very volatile as a result of the invasion of Kuwait and resulting war in the Persian Gulf. Jet fuel prices declined to pre-invasion levels by second quarter 1991. In addition, fuel conservation measures implemented following the Iraqi invasion of Kuwait were continued throughout 1991 reducing fuel burn approximately 4.0 percent from 1990 pre-invasion levels. As a result of declining production rates in the former Soviet Union, coupled with overall supply concerns, jet fuel prices escalated in third and fourth quarters 1991. In late fourth quarter 1991, as a consequence of continued high OPEC production and a relatively mild winter, the supply concerns disappeared based on high inventories of crude oil and refined products, thus precipitating a rapid decline in jet fuel costs.

Maintenance materials and repairs per ASM increased 3.9 percent in 1991. This increase was primarily a result of the higher cost of engine overhauls for the more expensive 737-300 and -500 high-bypass engines.

Aircraft rentals increased 62.5 percent in 1991 as a result of the 1991 sale/leaseback financing of three new aircraft with long-term operating leases and five older aircraft with short-term operating leases. In addition, in 1991 the Company leased three used 737-300 aircraft under long-term operating leases and three used 737-200 aircraft under short-term operating leases.

Landing fees and other rentals increased on a per-ASM basis by 18.9 percent in 1991 as a result of rate increases and expanded terminal facilities, principally Phoenix Sky Harbor Airport. Other operating expenses increased primarily due to increases in advertising and promotional expenses to stimulate traffic and increases in ad valorem tax rates.

Other "Other expenses (income)" included interest expense, interest income and nonoperating gains and losses. Interest expense, net of capitalized interest, increased 56.8 percent in 1991 due to issuances of $300 million in senior unsecured notes. See Note 5 to the Consolidated Financial Statements for further information. Interest income increased $3.0 million in 1991 due to higher investment balances, offset by lower interest rates. Net nonoperating gains declined $4.6 million in 1991, as more fully described in Note 11 to the Consolidated Financial Statements.

Income Taxes As a percentage of income before income taxes, the provision for income taxes increased in 1991 to 38.6 percent from 37.0 percent in 1990. The increase primarily resulted from increases in estimated state income tax rates. See Note 12 to the Consolidated Financial Statements for further information.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided from operations was $264.5 million in 1992 as compared to $103.2 million in 1991. During 1992, additional funds of $98.5 million were generated from the September 1992 issuance of $100 million in senior unsecured 7¼% notes due in 2007 (see Note 5 to the Consolidated Financial Statements for additional information). In addition, $120.0 million was generated from the sale and leaseback of four new 737-300 aircraft subject to long-term operating leases (increasing total commitments for operating leases by $245.0 million). The Company also received net proceeds of $86.9 million from the sale of 2,500,000 pre-split shares of its common stock in a public offering (see Note 8 to the Consolidated Financial Statements). These proceeds were primarily used to finance aircraft-related capital expenditures and provide working capital.

During 1992, capital expenditures of $409.2 million were primarily for the purchase of six new 737-300 aircraft and seven new 737-500 aircraft delivered during the year along with progress payments for future aircraft deliveries. At December 31, 1992, capital commitments for the Company consisted primarily of scheduled aircraft acquisitions. At yearend, Southwest had sixty 737s on firm order with options to purchase another fifty-three 737s. Aggregate funding required for these commitments approximated $1,497.1 million at December 31, 1992. See Note 3 to the Consolidated Financial Statements for further information.

As of December 31, 1992, the Company had 2,500,000 shares available from a 1990 authorization by its Board of Directors to purchase shares of its common stock from time to time on the open market. No shares have been purchased since 1990.

See Note 5 to the Consolidated Financial Statements regarding the 1992 conversion of the outstanding 6¾% convertible subordinated Debentures issued by Southwest Airlines Eurofinance N.V. into Southwest's common stock.

During 1992, the Company satisfied certain "deficiency guarantees." See Note 7 to the Consolidated Financial Statements for further information.

In January 1993, the Company's Board of Directors approved the early redemption, effective March 1, 1993, of $100 million 9% senior unsecured Notes due 1996. See Note 5 to the Consolidated Financial Statements for further discussion.

The Company will adopt Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," and Statement of Financial Accounting Standards No. 106, "Accounting for Postretirement Benefits Other Than Pensions," in first quarter 1993. See Note 1 to the Consolidated Financial Statements for additional information.

The Clinton Administration has proposed certain deficit reduction measures. These measures, among other things, presently include an increase in the Federal corporate income tax rate and a broad-based energy tax. If put into law, these measures would increase the Company's costs and, potentially, reduce its net earnings to the extent that the increased taxes cannot be recovered through increased revenues. Management cannot predict the ultimate outcome of any changes in taxes.

The Company has various options available to meet its capital and operating commitments, including cash on hand at December 31, 1992 of $411.0 million, internally generated funds and a revolving credit line with a group of banks of up to $250 million (none of which had been drawn at December 31, 1992). In addition, the Company will also consider various borrowing or leasing options to maximize earnings and cash flows.

During 1991, cash generated from operations was $103.2 million. Additional funds of $296.4 million were generated from issuances of a total of $300 million in senior unsecured notes. In addition, $132.4 million was generated from the sale and leaseback of eight aircraft: three were new 737-500 aircraft subject to long-term operating leases and five were older 737-200 aircraft subject to short-term operating leases (increasing total commitments for operating leases by $218.8 million). These proceeds were primarily used to finance aircraft-related capital expenditures, provide working capital, and retire long-term debt.

During 1990, cash generated from operations was $111.9 million. Additional funds of $200.0 million were generated through the sale and leaseback of 10 aircraft: six were new 737-500 aircraft subject to long-term operating leases with four older 737-200 aircraft subject to short-term operating leases (increasing total commitments for operating leases by $381.1 million). These proceeds were primarily used to finance aircraft-related capital expenditures, provide working capital, retire long-term debt, and purchase treasury stock.

Consolidated Balance Sheet

(In thousands except share and per share amounts)

	December 31, 1992	1991
Assets		
Current assets:		
Cash and cash equivalents	$ 411,036	$ 260,856
Accounts receivable	51,787	47,507
Inventories of parts and supplies, at cost	30,758	23,036
Prepaid expenses and other current assets	12,505	8,602
Total current assets	506,086	340,001
Property and equipment, at cost (Notes 3, 5 and 6):		
Flight equipment	1,842,517	1,551,519
Ground property and equipment	287,923	218,522
Deposits on flight equipment purchase contracts	212,904	182,932
	2,343,344	1,952,973
Less allowance for depreciation	559,052	458,779
	1,784,292	1,494,194
Other assets	2,599	3,096
	$2,292,977	$1,837,291
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 78,358	$ 54,970
Accrued liabilities (Note 4)	216,648	150,870
Air traffic liability	55,850	42,069
Income taxes payable	6,744	3,377
Current maturities of long-term debt	10,760	6,583
Total current liabilities	368,360	254,869
Long-term debt less current maturities (Note 5)	699,123	617,016
Deferred income taxes	133,430	105,757
Deferred gains from sale and leaseback of aircraft	224,645	222,818
Other deferred liabilities	13,166	8,310
Commitments and contingencies (Notes 3, 6 and 7)		
Stockholders' equity (Notes 8 and 9):		
Common stock, $1.00 par value: 200,000,000 shares authorized:		
92,472,755 shares issued in 1992 and 42,437,922 shares in 1991	92,473	42,438
Capital in excess of par value	155,938	81,987
Retained earnings	605,928	507,259
	854,339	631,684
Less treasury stock, at cost (2,904 shares in 1992; 217,732 shares in 1991)	86	3,163
Total stockholders' equity	854,253	628,521
	$2,292,977	$1,837,291

See accompanying notes.

Consolidated Statement of Income

(in thousands except per share amounts)

	Years ended December 31,		
	1992	1991	1990
Operating revenues:			
Passenger	$1,623,828	$1,267,897	$1,144,421
Freight	33,088	26,428	22,196
Other	28,262	19,280	20,142
Total operating revenues	1,685,178	1,313,605	1,186,759
Operating expenses:			
Salaries, wages and benefits (Note 10)	501,870	407,961	357,357
Fuel and oil	243,543	225,463	242,001
Maintenance materials and repairs	120,578	97,598	82,887
Agency commissions	106,372	81,245	72,084
Aircraft rentals	64,169	49,171	26,085
Landing fees and other rentals	102,717	83,177	61,167
Depreciation	101,188	86,202	79,429
Other operating expenses	262,105	219,852	183,870
Total operating expenses	1,502,542	1,250,669	1,104,880
Operating income	182,636	62,936	81,879
Other expenses (income):			
Interest expense	58,941	43,939	32,001
Capitalized interest	(15,350)	(15,301)	(13,738)
Interest income	(10,344)	(10,631)	(7,595)
Nonoperating losses (gains), net (Note 11)	2,552	1,089	(3,542)
Total other expenses	35,799	19,096	7,126
Income before income taxes and cumulative effect of change in accounting principle	146,837	43,840	74,753
Provision for income taxes (Note 12)	55,816	16,921	27,670
Income before cumulative effect of change in accounting principle	91,021	26,919	47,083
Cumulative effect of change in accounting principle (Note 2)	12,538	–	–
Net income	$ 103,559	$ 26,919	$ 47,083
Per share amounts (Notes 2, 8 and 13):			
Income before cumulative effect of change in accounting principle	$ .97	$ .31	$ .55
Cumulative effect of change in accounting principle	.13	–	–
Net income	$ 1.10	$ .31	$ .55
Pro forma amounts assuming the new method is applied retroactively:			
Net income	$ 91,021	$ 27,109	$ 47,538
Net income per share	$ .97	$ .32	$ .56

See accompanying notes.

Consolidated Statement of Stockholders' Equity
Three years ended December 31, 1992
(In thousands except per share amounts)

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Total
Balance at December 31, 1989	$ 32,254	$175,170	$441,591	$(61,699)	$587,316
Three-for-two stock split (Note 8)	14,135	(14,135)	–	–	(2)
Purchase of treasury stock	–	–	–	(25,560)	(25,560)
Retirement of treasury stock (Note 8)	(3,996)	(79,785)	–	83,781	–
Issuance of common stock upon exercise of executive stock options (Note 9)	21	197	–	(89)	129
Cash dividends, $.04835 per share	–	–	(4,115)	–	(4,115)
Net income – 1990	–	–	47,083	–	47,083
Balance at December 31, 1990	42,412	81,447	484,559	(3,567)	604,851
Issuance of common and treasury stock upon exercise of executive stock options and pursuant to employee stock option and purchase plans (Note 9)	26	540	–	404	970
Cash dividends, $.05 per share	–	–	(4,219)	–	(4,219)
Net income – 1991	–	–	26,919	–	26,919
Balance at December 31, 1991	42,438	81,987	507,259	(3,163)	628,521
Public common stock offering (Note 8)	2,328	82,094	–	2,524	86,946
Conversion of debentures (Note 5)	1,371	34,678	–	–	36,049
Two-for-one stock split (Note 8)	46,180	(46,180)	–	–	–
Issuance of common and treasury stock upon exercise of executive stock options and pursuant to employee stock option and purchase plans (Note 9)	156	3,359	–	553	4,068
Cash dividends, $.053 per share			(4,890)		(4,890)
Net income – 1992	–	–	103,559	–	103,559
Balance at December 31, 1992	$92,473	$155,938	$605,928	$ (86)	$854,253

See accompanying notes.

Consolidated Statement of Cash F vs
(in thousands)

	Years ended December 31,		
	1992	1991	1990
Cash flows from operating activities:			
Net income	$ 103,559	$ 26,919	$ 47,083
Cumulative effect of change in accounting principle (Note 2)	(12,538)	–	–
Income before cumulative effect of change in accounting principle	91,021	26,919	47,083
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	101,188	86,202	79,429
Deferred income taxes	21,260	(3,516)	(9,123)
Amortization of deferred gains on sale and leaseback of aircraft	(32,719)	(31,484)	(21,626)
Amortization of scheduled airframe overhauls (Note 2)	6,930	–	–
Gains from sale and leaseback of aircraft (Note 11)	–	(454)	(2,645)
Changes in certain assets and liabilities:			
Increase in accounts receivable	(4,280)	(3,620)	(5,936)
Increase in other current assets	(11,325)	(5,205)	(6,870)
Increase in accounts payable and accrued liabilities	65,706	38,972	20,666
Increase in air traffic liability	13,781	3,507	5,624
Increase (decrease) in other current liabilities	6,881	(9,339)	5,726
Other	6,092	1,240	(393)
Net cash provided by operating activities	264,535	103,222	111,935
Cash flows from investing activities:			
Purchases of property and equipment	(409,154)	(341,127)	(317,730)
Proceeds from sales of other property and equipment	251	97	2,464
Net cash used in investing activities	(408,903)	(341,030)	(315,266)
Cash flows from financing activities:			
Issuance of long-term debt	98,510	296,378	–
Proceeds from public common stock offering (Note 8)	86,946	–	–
Proceeds from aircraft sale and leaseback transactions	120,000	132,350	200,000
Proceeds from note receivable	–	–	4,200
Purchase of treasury stock	(86)	–	(25,560)
Payment of long-term debt and capital lease obligations	(9,449)	(15,634)	(29,832)
Payment of cash dividends	(4,890)	(4,219)	(4,115)
Proceeds from employee stock plans	3,517	970	–
Other	–	(688)	(219)
Net cash provided by financing activities	294,548	411,157	144,474
Net increase (decrease) in cash and cash equivalents	150,180	173,349	(58,857)
Cash and cash equivalents at beginning of period	260,856	87,507	146,364
Cash and cash equivalents at end of period	$ 411,036	$ 260,856	$ 87,507
Cash payments for:			
Interest, net of amount capitalized	$ 39,395	$ 16,963	$ 19,342
Income taxes	27,728	29,799	31,154

See accompanying notes.

SOUTHWEST AIRLINES CO.

Ten Year Summary

SELECTED CONSOLIDATED FINANCIAL DATA
(In thousands except per share amounts)

	1992	1991	1990	1989
Operating revenues:				
Passenger	$ 1,623,828	$ 1,267,897	$ 1,144,421	$ 973,568
Freight	33,088	26,428	22,196	18,771
Other	28,262	19,280	20,142	22,713
Total operating revenues	1,685,178	1,313,605	1,186,759	1,015,052
Operating expenses	1,502,542	1,250,669	1,104,880	917,426
Operating income	182,636	62,936	81,879	97,626
Other expense (income), net	35,799	19,096	7,126(2)	(13,356)(3)
Income before income taxes	146,837	43,840	74,753	110,982
Provision for income taxes	55,816	16,921	27,670	39,424
Net income	$ 91,021(1)	$ 26,919	$ 47,083	$ 71,558
Net income per common and common equivalent share	$.97(1)	$.31	$.55	$.79
Cash dividends per common share	$.05300	$.05000	$.04835	$.04665
Total assets	$ 2,292,977	$ 1,837,291	$ 1,471,138	$ 1,415,096
Long-term debt	$ 699,123	$ 617,061	$ 326,956	$ 354,147
Stockholders' equity	$ 854,253	$ 628,521	$ 604,851	$ 587,316

CONSOLIDATED FINANCIAL RATIOS

Return on average total assets	4.4%(1)	1.6%	3.3%	5.2%
Return on average stockholders' equity	11.7%(1)	4.4%	7.9%	12.4%
Debt as a percentage of invested capital	45.0%	49.5%	35.1%	37.6%

CONSOLIDATED OPERATING STATISTICS

Revenue passengers carried	27,839,284	22,669,942	19,830,941	17,958,263
RPMs (000s)	13,787,005	11,296,185	9,958,940	9,281,992
ASMs (000s)	21,366,642	18,491,003	16,411,115	14,796,732
Load factor	64.5%	61.1%	60.7%	62.7%
Average length of passenger haul	495	498	502	517
Trips flown	438,184	382,752	338,108	304,673
Average passenger fare	$58.33	$55.93	$57.71	$54.21
Passenger revenue yield per RPM	11.78¢	11.22¢	11.49¢	10.49¢
Operating revenue yield per ASM	7.89¢	7.10¢	7.23¢	6.86¢
Operating expenses per ASM	7.03¢	6.76¢	6.73¢	6.20¢
Fuel cost per gallon (average)	60.82¢	65.69¢	77.89¢	59.46¢
Number of employees at yearend	11,397	9,778	8,620	7,760
Size of fleet at yearend(9)	141	124	106	94

(1) Excludes cumulative effect of change in accounting principle of $12.5 million ($.13 per share)
(2) Includes $2.6 million gains on sales of aircraft and $3.1 million from the sale of certain financial assets
(3) Includes $10.8 million gains on sales of aircraft, $5.9 million from the sale of certain financial assets, and $2.3 million from the settlement of a contingency
(4) Includes $5.6 million gains on sales of aircraft and $3.6 million from the sale of certain financial assets
(5) Includes TranStar's results through June 30, 1987
(6) Includes $10.1 million net gains from the discontinuance of TranStar's operations and $4.3 million from the sale of certain financial assets
(7) Includes a gain of $4 million from the sale of aircraft delivery positions
(8) Includes the accounts of TranStar since June 30, 1985
(9) Includes leased aircraft

1988	198[illegible]	1986	1985[illegible]	1984	1983
$ 828,343	$ [illegible]51,649	$ [illegible]42,28[illegible]	$ 656,689	$ 519,106	$ 433,388
14,433	13,428	13,621	13,643	12,115	10,35[illegible]
1[illegible],658	13,251	12,882	9,340	4,[illegible]2[illegible]	4,491
860,434	[illegible]8,328	[illegible]68,[illegible]90	6[illegible]9,6[illegible]2	535,948	448,236
[illegible]4,454	[illegible]4[illegible],881	6[illegible]9,82[illegible]	601,148	46[illegible],451	3[illegible]9,[illegible]38
85,980	30,44[illegible]	88,963	[illegible]8,524	68,49[illegible]	68,498
620[illegible]	1,5[illegible]4[illegible]	23,51[illegible]	1[illegible],[illegible]40	649	4,92[illegible]
85,360	29,0[illegible]3	65,446	60,[illegible]84	6[illegible],848	63,5[illegible]1
2[illegible],408	8,918	15,411	13,506	18,124	22,[illegible]04
$ 5[illegible],952	$ 20,155	$ 50,035	$ 4[illegible],2[illegible]8	$ 49,[illegible]24	$ 40,86[illegible]
$.61	$.21	$.51	$.51	$.56	$.46
$.04415	$.04335	$.04335	$.04335	$.04335	$.04335
$ 1,308,389	$ 1,042,640	$ 1,061,419	$ 1,002,403	$ 646,244	$ 58[illegible],258
$ 369,541	$ 251,130	$ 339,069	$ 381,308	$ 153,514	$ 158,[illegible]01
$ 56[illegible],375	$ 514,2[illegible]8	$ 511,850	$ 466,004	$ 361,[illegible]68	$ 314,556
5.1%	1.9%	4.8%	5.6%	8.1%	8.1%
10.8%	4.0%	10.3%	11.4%	14.[illegible]%	14.2%
39.4%	32.8%	39.8%	45.0%	29.8%	33.5%
14,8[illegible]6,582	13,503,242	13,63[illegible],515	12,651,239	10,69[illegible],544	9,511,000
[illegible],6[illegible]6,25[illegible]	[illegible],[illegible]89,3[illegible]6	[illegible],388,401	5,9[illegible]1,400	4,669,435	3,893,821
13,309,044	13,331,055	12,5[illegible]4,484	9,884,526	[illegible],983,093	6,324,224
5[illegible].[illegible]%	58.4%	58.8%	60.4%	58.5%	61.6%
516	5[illegible]	542	4[illegible]2	436	409
2[illegible]4,859	2[illegible]0,559	262,082	230,22[illegible]	200,124	1[illegible]5,421
$55.68	$55.66	$54.43	$51.91	$48.53	$45.5[illegible]
10.[illegible]9¢	9.65¢	10.05¢	11.00¢	11.12¢	11.13¢
6.4[illegible]¢	5.84¢	6.11¢	6.88¢	6.[illegible]1¢	[illegible].09¢
5.82¢	5.61¢	5.41¢	6.08¢	5.86¢	6.00¢
51.3[illegible]¢	54.31¢	51.42¢	[illegible]8.1[illegible]¢	82.44¢	85.92¢
6.46[illegible]	5.[illegible]65	5.819	5.2[illegible]1	3.934	3.462
85	[illegible]5	[illegible]9	[illegible]0	54	46

SOUTHWEST AIRLINES CO.

Corporate Data

TRANSFER AGENT AND REGISTRAR
Continental Stock Transfer &
Trust Company
2 Broadway
New York, New York 10004
(212) 509-4000

STOCK EXCHANGE LISTING
New York Stock Exchange
Ticker Symbol: LUV

AUDITORS
Ernst & Young
Dallas, Texas

GENERAL OFFICES
P.O. Box 36611
Dallas, Texas 75235-1611

ANNUAL MEETING
The Annual Meeting of Shareholders of Southwest Airlines Co. will be held at 10:00 a.m. on May 19, 1993 at the Southwest Airlines Corporate Headquarters, 2702 Love Field Drive, Dallas, Texas.

SEC FORM 10-K
Shareholders may obtain free of charge a copy of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission by writing to the Chief Financial Officer, P.O. Box 36611, Dallas, Texas 75235-1611.

APPENDIX H

SOUTHWEST AIRLINES FACT SHEET
JANUARY 1993

COMPANY NAME: Southwest Airlines Co.

HEADQUARTERS: 2702 Love Field Drive
P.O. Box 36611
Dallas, TX 75235

LEADERSHIP: Herbert (Herb) D. Kelleher
Chairman of the Board, President,
and Chief Executive Officer

INITIAL SERVICE: June 18, 1971

CITIES SERVED:

Albuquerque	Los Angeles
Amarillo	Lubbock
Austin	Midland/Odessa
Birmingham	Nashville
Burbank	New Orleans
Chicago (Midway)	Oakland
Cleveland	Oklahoma City
Columbus	Ontario (California)
Corpus Christi	Phoenix
Dallas (Love Field)	Reno
Detroit (City & Metro)	Rio Grande Valley (Harlingen)
El Paso	Sacramento
Houston (Hobby & Intercontinental)	San Antonio
Indianapolis	San Diego
Kansas City	San Francisco
Las Vegas	St. Louis
Little Rock	Tulsa

Southwest serves 34 cities (36 airports) in 15 states across the United States.

TYPE OF SERVICE: Southwest operates 142 Boeing 737 jets.

TYPE	*NUMBER*	*SEATS*	*APPROX. RANGE*
737-200	49	122	1200
737-300	68	137	1600
737-500	25	122	1400

Cruising speed of 564 mph
The airline was a launch customer for the Boeing 737-500 and -300 series aircraft.

NUMBER OF EMPLOYEES: Over 12,000 total active employees throughout the system.

STOCK INFORMATION: Southwest's common stock is traded under the symbol "LUV" on the NYSE.

ABOUT THE COMPANY: The airline began service June 18, 1971 with flights to Houston, Dallas, and San Antonio. Southwest has grown to become the seventh largest U.S. airline (in terms of domestic Customers carried) with over 1,300 flights a day. The airline has 20 years of consistent profitability, and was the only major carrier in 1990, 1991, and 1992 to make net and operating profits. Southwest became a major airline in 1989 when it exceeded the billion dollar revenue mark. Southwest is the U.S.'s only shorthaul, low-fare, high-frequency, point-to-point carrier.

STATISTICS:

* Southwest had a net income of $91 million in 1992.
* Total passengers carried in 1992: 27.8 million.
* Total 1992 RPMs: 13.8 billion.
* 1992 passenger load factor: 64.5 percent.
* Number of job applications received in 1992: 85,000.
* Number of new employees hired in 1992: 2,674.
* Total operating revenue in 1992: $1.69 billion.
* Number of snacks served in 1992: 46,390,116.

POINTS OF INTEREST: On an average day in 1992, Southwest Airlines:

* Received 123,775 reservations calls.
* Served 127,096 snacks.
* Received 232 job applications.
* Hired seven new employees.

MAJOR AREAS OF SERVICE:

	DAL	*HOU (Hobby)*	*PHX*
Established	1971	1971	1982
Gate Count	14	14	16
Daily Departures	130	124	137
Nonstop Cities Served	12	13	17
Overnight Aircraft	11	13	17
Station Employees	1283	1674	1973

SOUTHWEST AIRLINES' TOP TEN AIRPORTS:

CITY	*DAILY DEPARTURES*
Phoenix	137
Dallas (Love Field)	130
Houston Hobby	124
Las Vegas	84
Los Angeles (LAX)	64
San Diego	61
Chicago Midway	61
St. Louis	61
Oakland	60
El Paso	53

AIRCRAFT FUEL STATISTICS:*

	1987	*1988*	*1989*	*1990*	*1991*	*1992*
Total Gallons	221.3	252.1	282.2	309.5	341.9	398.2
Total Fuel	$121.5	$129.5	$167.8	$241.1	$224.6	$242.2

* In millions

SOUTHWEST AIRLINES' DISTINCTIONS:

* Air Transport World named Southwest Airlines its 1991 Airline of the Year. "Southwest Airlines has demonstrated excellence over the years in disciplines required for safe, reliable, and fairly priced air transportation," reports Air Transport World's February 1992 issue.

* Southwest Airlines ranked Number One in Customer Satisfaction of all major U.S. airlines (based on 1991 data received by the U.S. Department of Transportation).

* The airline has earned the coveted "Triple Crown"--for best ontime performance, the fewest mishandled baggage reports, and the lowest number of Customer complaints--11 times, according to monthly statistics compiled by the U.S. Department of Transportation.

* The airline's average aircraft trip length in 1992 was 375 miles with an average duration of about one hour.

* In 1992, Southwest's average one-way airfare was just under $58 with an average passenger trip length of just under 500 miles.

* Southwest consistently ranks first in market share in more than 95 percent of its top 50 city-pair markets and, in the aggregate, holds a market share exceeding 60 percent.

* In its book, *How to Fly*, the Consumer Federation of America selected Southwest as America's best airline value, based on its combination of low fares and excellent service quality.

* The founding of Southwest is viewed by many as the "start of the deregulation revolution." (Source: New York Times, 1986).

* Southwest was the first airline to drastically lower fares based on peak and off-peak hours (two tier, systemwide fares).

* Southwest was the first to introduce "discount ticket books" to frequent travelers--the "grandfather" of the frequent flier bonus program.

* The airline began the first profit sharing plan in the U.S. airline industry. Through this plan, employees own about ten percent of the Company stock.

* Southwest's fleet was an average of only 6.9 years of age at the end of 1992.

* The airline was the first to announce senior citizens' discounts in 1971. Most other major airlines followed suit.

Southwest Airlines Co. • P.O. Box 36611 • Love Field • Dallas, Texas 75235-1611 • 214/904-4000

CONTACT: Melanie Jones
(214) 904-4413

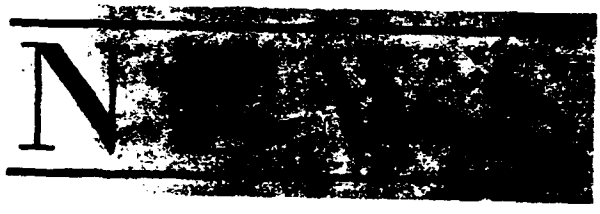
SOUTHWEST AIRLINES SWEEPS 1992 AIRLINE PERFORMANCE RANKINGS

DALLAS--February 4, 1993--For the first time in the history of the Department of Transportation (DOT) Air Travel Consumer Report, one carrier, Southwest Airlines, topped all three major performance categories for the year, capturing the industry's first annual "Triple Crown" for its 1992 performance.

"This landmark Triple Crown exemplifies the commitment of our over 12,000 Employees to consistently provide 'Positively Outrageous Customer Service'," said Colleen Barrett, executive vice president-Customers and corporate secretary of Southwest Airlines. "Our Employees began 1992 with their sights set on winning the annual Triple Crown, and we could not be more proud that their dedication, teamwork, and winning spirit made it happen."

The "Triple Crown" consists of the best ontime performance, best baggage handling record, and fewest Customer complaints of all carriers for which performance is reported in all categories of the report. The Dallas-based airline's "annual" win is an industry first; however, Southwest has previously captured the

(more)



Triple Crown title for individual months' performance 11 times, seven of them in 1992. No other carrier has ever earned the Triple Crown, even for a single month.

Southwest had 92.1 percent of its more than 1,300 daily flights arrive on time in 1992, the best annual average of any carrier since the report began in 1987. Only 3.72 out of every 1,000 Southwest Customers reported any baggage problems in 1992, and for every 100,000 Customers flying on Southwest during the year, only .24 filed complaints with the DOT.

Southwest is the nation's seventh largest domestic airline in terms of passenger enplanements. The carrier operates a fleet of 141 Boeing 737s with an average age of just seven years--one of the youngest pure jet fleets in the domestic airline industry.

###

1992 RESULTS

	ONTIME PERFORMANCE % (RANK)	BAGGAGE HANDLING RATIO (RANK)	CONSUMER COMPLAINTS RATIO (RANK)
Alaska	84.6 (4)	6.04 (7)	0.48 (2)
America West	88.9 (2)	4.42 (2)	1.50 (9)
American	82.1 (6)	4.73 (3)	1.40 (8)
Continental	79.0 (10)	6.13 (10)	1.17 (7)
Delta	79.1 (9)	5.71 (6)	0.58 (3)
Northwest	86.1 (3)	5.49 (5)	0.74 (4)
Southwest	92.1 (1)	3.72 (1)	0.24 (1)
TWA	82.1 (5)	6.06 (8)	2.82 (10)
United	81.3 (7)	5.30 (4)	1.05 (6)
USAir	79.6 (8)	6.10 (9)	0.85 (5)
AVERAGE	82.3	5.36	1.03

Source: DOT Air Travel Consumer Reports.

Note: Statistics shown for the baggage handling category are a compilation of monthly baggage handling statistics. In consumer complaints, the DOT ranks Alaska Airlines separately from the major airlines; however, as one of the ten carriers for which data is reported in all three categories, it is ranked above with the others for purposes of Triple Crown evaluation.

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