

**Competitive analysis Report on
Strategic Management Process of Delta and Southwest Airlines**

By

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To

Mr. Raja Tumati

Oman Tourism College

Introduction:

The airline industry is one of the largest and fast growing industries in the world. It has a big impact on the economic growth of any country. Business or leisure can be reasons for this industry to grow more. As a result, it helps to increase the investments internationally or locally and help tourism as well. Airlines industry is facing lot of challenges as each airline is offering affordable rates for people which encourage traveling. This creates lot of competition among companies resulting negative effect on profits.

In this report we are going to analyse the vision, mission and strategic objectives of Delta and Southwest airlines. Highlighting the effects of macro environment on the organization through SWOT analysis of both airlines. Core competencies and competitive strategies that are used by both companies will be discussed.

Analysis:

Delta airline

Delta airlines are one of the famous and oldest airlines for passengers and cargo in the United States. They are operating both domestic and international which flew with more than 150 million passengers every year in 341 destinations in the world (Fields et al. 2012). The airline headquarter is in Atlanta in Georgia. They are also providing connecting flights for those who doesn't have direct flights. Delta airlines have introduced a credit card called Sky Miles. Passengers are recommended to use the card to get more points in every time they fly using the airline. This will help passengers to save money especially with the next long miles flight (Delta, Stats & Facts 2014).

Airline name	Delta Airline
Headquarters:	Atlanta, Georgia, USA
CEO	Richard Anderson
Hubs:	Atlanta, Cincinnati, Detroit, Minneapolis-St. Paul, New York-LaGuardia, New York-JFK, Salt Lake City, Seattle, Paris-Charles de Gaulle, Amsterdam and Tokyo-Narita

Joint Venture Partners	Air France-KLM, Alitalia, Virgin Australia, Virgin Atlantic
Annual Revenues(2013):	\$37.7 billion
Countries/Destinations Served with Worldwide Partners	606 destinations in 119 countries

Table1: General information of Delta Airline (Source: Delta.com, 2014)

Southwest Airlines

Southwest airline is known of its low fares in the domestic airline industry. It could differentiate itself by offering excellent services to more than 100 million passengers in a year. They are operating to more than 93 destinations such as Columbia and Puerto Rico. Its target is to increase the number of passenger by offering lower fares. Also, they have introduced Bags Fly Free, unlimited of size and weight for the first and second luggage you checked in. Also they allow their customers to change flight without paying any extra fees (Southwest report, 2011).

Airline name	Southwest Airline
Headquarters:	Dallas, Texas
CEO	Gary C. Kelly
Daily Departures	More than 3,600 flights a day
Employees	Almost 46,000 employees
Total operating revenue (2014):	\$5.00 billion
Booking tools (2014)	More than 78% of passengers were booked via southwest.com, swabiz.com, and airtran.com.

Table2: General information of Southwest Airline (Source: Southwest.com, 2011)

1. Comparative analysis of vision, mission and strategic objectives

1.1 Vision

Delta's vision is to be proactive in providing customers with services and solutions in a simple and creative way this will lead to increase the success and profit of the airline. (Fields et al, 2012). However, southwest vision is to provide and ensure long term balance between the business side

and workers, local community, surroundings and financial capabilities side. This all will lead to protect the coming generation and keep on their promise to all involved (Southwest, 2014).

1.2 Mission

Delta stated in the mission of the company that delta workers, passengers and partners are working together to frame a positive and better living standards along with positive surrounding environment for workers and passengers and local community for a dynamic global change (Jeans, 2012). They are committed to provide the best quality of service to the customers with a friendly and warm spirit.

Southwest airlines mission is to offer the low fares with best service to the customers. In addition, they are committed to their employees to provide a healthy environment, assure learning experience and personal development for each individual (Garrison & Keller, 2008). They want to maintain the balance between owner/operators, suppliers, and company employee's interests as the three groups is the key for business operations.

1.3 Strategic objectives

For an organization to achieve its goals and meet their customers' needs, they need to have good strategic objectives. Strategic objectives are combination of three processes which are analysis the company's goals, making decisions on goals and objectives and action the objectives. It is very important to have a good quality of strategic objectives to prove the existence of the organization or company because every organization is proving the reason for its existence (Strategic-Analysis-Of-Delta-Airlines, 2014)

On the last day of 2012 Richard Anderson, chief executive declared to the staff of delta air line saying, "We enter 2013 as a stronger airline, ready to continue improving our performance and executing on our key strategic initiatives". He also said that many of their competitors are still focusing on significant integration or restructuring effort is a chance for delta air line to improve their position around the world. His statement refers to the American airlines failure and their merge with US airways to be the second largest airline after United Continental.

After cheering the staff for their performance in the previous year, Richard set the goals for the new year 2013 including:

- Focusing on customer service and well mannered employees
- Developing operations process
- Coming up with new aircraft including 50 seat
- Working on the budget and particularly with the fuel (Jean, 2012)

However, southwest airline came up with short and simple goals to achieve and that is their goal for years. Providing low ticket fare, good quality of service, direct flight without any transit, shorter waiting times in the airport, quick language transfers (Advance consulting, 2009)

2. Evaluation of macro environment using SWOT analysis

The aim of macro environmental analysis is to define and discover the strength, weakness, opportunities and threats of a business and what’s surrounding the business. After completing this analysis the company or organization will be able to define what can affect the growth of the company and what are the impacts that might come up in the future. Therefore, it is very important for an organization or company to do this analysis. Tables below highlighted some of the strength, weaknesses, opportunity and threat of Delta and Southwest airlines (macro-environment-analysis, 2014)

2.1 SWOT analysis of Delta Airlines

Delta Airlines	
Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong Management • Almost 5000 flights in a day • Strong hub in Atlanta • Has gain customer loyalty • The only airline who has no expire dates for their offers in the SkyMiles 	<ul style="list-style-type: none"> • Financial issues caused by high debt • Staff turnover is increasing

Opportunities	Threats
<ul style="list-style-type: none"> • Coming up with new services for customers • Introducing new technology • Expanding online market 	<ul style="list-style-type: none"> ☒ Increase fuel prices ☒ competitive with other airlines ☒ Reputation and political issues

Table 3: SWOT analysis of Delta Airline (Delta, 2014).

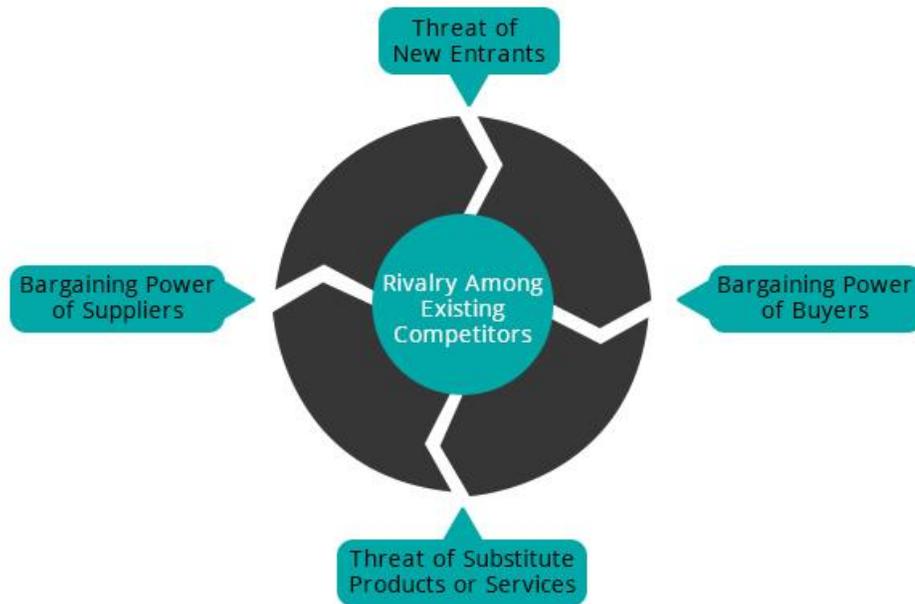
2.2 SWOT analysis of Southwest Airlines

Southwest Airlines	
Strengths	Weaknesses
<ul style="list-style-type: none"> • Low operating costs • Image • Safety record • Customer service • Technological expertise 	<ul style="list-style-type: none"> • Product breadth and depth • Multi-country coverage • No baggage transfer outside Southwest system • Lack of intra-airline services and alliances
Opportunities	Threats
<ul style="list-style-type: none"> • Growth opportunities for smaller urban airport destinations • Societal values in the changing economy • Long-term industry growth 	<ul style="list-style-type: none"> • Costs: fuel, labor • Terrorist attack on an aircraft • Weather • General economic downturn • Rival distribution channels

Table 4: SWOT analysis of southwest Airline (Southwest, 2014)

3. Porter's five Forces

According to porter (2014) five model is the paramount tool of strategic analysis because of the nature of the external environment. The five forces involves, bargaining power of buyers, bargaining power of suppliers, potential of new entrants, industry rivalry, and potential of substitutes. Globally, many industries have been used the Porter's five forces model to gauge their external environment, market competitiveness, and gathering of competitive intelligence.



(Source: Porter, M. E. (2014) on competition, Boston MA: Harvard Business School Publishing, USA.)

3.1 Threat of New Entrants

Barriers of entry is one of the main force that will affect the business. If barriers to entry is high then the entry of new companies will be low and vice-versa. (Porter D, 1998, cited in Evans et al., 2003). The main barriers to entries or restrictions are the patents and brand identification also called as brand loyalty, access to distribution channels which means the business need to have a safe and secure distribution channels for their products. Product differentiation which refers to the uniqueness of products for example, brand name, loyalty of the customers, and price which can be a strong barriers of new entrants. Also, economies of scale means the cost of production and manufacturing and the amount of units produced. (Kossowski, 2003).

The act of the airline deregulation in 1978 was targeted to make the US government to move out the airline industry and help consumers find out reasonable prices for air tickets. This action also controlled the access to the US market and made it difficult for non-American firms to break in (Latimore, 2014). Additionally the decision of the Federal Aviation Administration (FAA) with President Kennedy to prevent the entrance of foreign companies gives the excited and new American airline companies the protection from the international competition.

3.2 Threat of Substitute Products

This refers to the capability of the customer to find a different way of doing a process differently from the way the company does it (Porter, 2014). If it is cheaper doing a process manually, then the customers may substitute it from with what the company offers. The travelers within the US have several alternatives to travel, such as cars, public buses & rail service. The road trips culture, cheap rent cars deals and the wide-ranging highway system all factors help in creating a direct competition to the airlines industry.

Bus Services also compete with airlines by offering a cheap ticket for around 1 USD and they have the ability to deliver the passengers to any part of the US. An example of those bus service providers is Mega Bus Company (Davies, 2011). Even that the rail service is not available everywhere in the US. With that it still considered as a strong competitor in some areas where it is take over lots of customers who might book an airline tickets to reach their destination.

3.3 Bargaining power of Buyers

Buyers are the business's customers and it is the most important factors. According to Peter (2002) "there is only one main and correct definition of purpose of any business which is to create customers". The power of buyers rest on on different attributes of the market conditions such as availability of alternative products, competition between companies, and number of companies offered the same product in the market.

Searching engines offer the customers the choices of the airline they want to book based on price, date, time or the airline they prefer. In refer to this service those search engines charge a percentage of the ticket price from the airline. According to Jean (2012) Delta airlines has to pay percentages to these search engines on regular basis whereas Southwest has no such deals with any search engines and they offer their tickets to their customers directly through their websites and physical counters. Cutting those costs give them the ability to sell their tickets with lower prices to the consumers compare to their competitors.

3.4 Bargaining power of Suppliers

This is used to analyze the ease with which the suppliers can raise their prices. Some important determinants are the number of companies providing the same services, the cost of a consumer switching from one company to the other and the market control of each company (Enz, 2009). Even with the globalization and the ability of firms to place their products all over the world but in the aircrafts industry there are only two main suppliers which are airbus and Boeing. This is due the FAA safety regulations and the huge capital required for establishing such business.

3.5 Competitive Rivalry

Rivalry refers to the competitors and their responses to the customer needs. The competition challenge for Southwest is created by the legacy companies such as Delta and American airlines. According to Hall (2007) Southwest strategy of offering more direct flights gives it the advantage over other competitors who provide adapted the hub & spoke strategy. This strategy also helps southwest to cut the cost of extra staff needed to unload and reload the passengers plus the time required to complete this operation.

Other budget airlines in the US compete with southwest by following the strategy of direct flights and smaller airport. Even with that competitors fail to compete in the customer relation field. Especially that the customer relation is an essential in the American market (Davies, 2011).

4. Value chain analysis used to create competitive advantage

Core competency refers to the unique features offer a competitive advantages in marketplace which assists the organizational growth. Also it means how to make your business different from others and how they can reach a high position in the markets (Rouse, 2015).

Delta Airline

The success of delta is a result of innovative approaches in the core competencies and the supply chain optimization. Buying Monroe Energy the refinery company in April 2012 was one of the most innovative actions that ever done by Delta airline. With yearly oil costs of Delta airline are over 11 billion USD, obtaining cost cutting in this area is playing a significant role in the ability to compete with other airlines. The step in the refinery industry by Delta air line considered as immature and

will have lots of negative consequences (Delta, Stats & Facts, 2014). Especially that Delta airline has no experience in this field. Shipping the first batch of jet fuel on September in the same year was a surprise to most of the disbelievers. Realizing investment in the third quarter which was started in the second quarter of the same year considered a big success to delta.

The ability to manage the fuel supplies has helped Delta air line not only to reduce costs, but to bargain activities. Monroe CEO Jeddery warmann stated that "We've seen a number of different areas where we've been able to influence the jet fuel price to the advantage of Delta," and he also commented ""We don't have to go beg, borrow or steal from various suppliers...If I can supply my own and don't have to take your jet fuel, that's negotiating." The above also gave the chance to Delta airline to focus on other areas such as the supply chain, developing the business practices and optimize the supply and material operation (The Strategic Source, 2013).

Southwest Airline

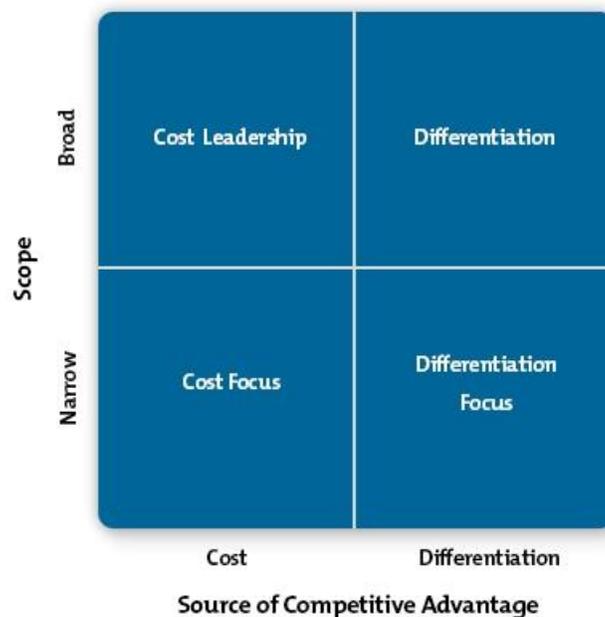
According to Garrison & Keller (2008) "Southwest human resources management is used as a core competency to build a productive workforce to control costs". Inspiring the sense of enjoyment not only in their customers along with their employees is describing their strategy. The employee attitude is the most important character in the hiring and training process. In addition the employees are requested to attend courses in-order to increase the awareness about the company and its customer satisfaction performance (Advance consulting, 2009). Moreover, the staffs are encouraged to do jobs rotation to have a wider idea about how the firm operates. They believe that each employee has the responsibility to satisfy their passengers.

5. Competitive strategies used by both the organizations

According to Valdani (2012) competitive scope in the business dictates the necessary grounds which will make the company a success in the business field. The strategies used by both are different in Delta and Southwest. The variation can be explained by dividing the competitive strategies into two divisions which are lower cost strategy and differentiation strategy. Competitive advantages it is a part of the core competencies provides the same values of products and services

of other competitors but with less charge of price or increasing the price with high values which make it different from them.

According to West (2015) there are several tools of competitive advantages for instance, cost leadership, differentiation, cost focus, and differentiation focus. These four tools depends on the company if it wants to expand its functions in a broad or narrow markets. On the other hand competitive strategies have disadvantages and risks which can affect badly on the company because these strategies are not sustain for a long time, there are changes which can impact over the time.



(Source: Evans, N. et al. (2003) Strategic Management for Travel and Tourism, 1st edition, Amsterdam. Butterworth- Heinemann publication).

Delta Airline

According to Goold (2004) Delta's differentiation strategy focuses on delivering high customer service to appeal to their core demographic, business travelers. Delta's commitment to customer service is evidenced by their recent multi-billion dollar investment in enhanced training programs for customer service agents, designed to improve the customer experience. Delta's commitment to customer service also led to their development of the first mobile bag tracking feature on smartphones. These new changes have been well received by business travelers, leading to Delta's

#1 ranking by corporate clients four years in a row by Business Travel News. Their fleet appears newer, flight attendants are friendlier, and their food/beverage service is superior among the U.S. carriers.

Southwest Airline

The functional strategy of Southwest is achieved through its competitive advantage, which is accomplished through low fares and great service (Southwest report, 2011). Southwest achieve stay on top of the competition by scoring the below goals:

1. **Efficiency:** by achieving higher revenue with lowest cost.
2. **Winning the competitive race:** by creative and innovative ideas.
3. **Business-level strategy:** through cost leadership and differentiation focus.
 - **Cost leadership:** by keeping expenses and consumer costs low.
 - **Differentiation focus:** through market segmentation of focusing on Hispanic and Asian community.

Unique competencies are attained through offering basic services excluding the additional costs such as food or expensive trimmings. Southwest is a domestic airline so the global strategy is not reflecting directly to it. As a result it loses the luxury of shifting the operation for a cost reduction process. In addition, Southwest focusing on specific market segment like Hispanic and assian community. While corporate level strategy is accomplished via alliances with some vendors. Nevertheless via diversification by expanding the airline and the assets activities (Hall, 2007).

Conclusion

All in all, differentiation is a strategy which delta will need to apply for their products. Which means products needs to be more attractive to attract a particular market. As a recommendation for their strategy to completely refurbish, improve and have high quality service for their customers to increase Delta's reputation. This is a good move for Delta because it will fit in the value chain within its limits. Delta will have to use all the tools and ways to fulfill their needs to change.

However, Southwest has definitely proved in the market by providing services at lower fees among the rest of the airlines. Through the branding, interior culture, creative ideas and competitive advantages. Southwest focus more on their interior culture especially with their employees who come out with a positive income and therefore, will lead employees to provide services with a warm touch and great customer service experience.

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