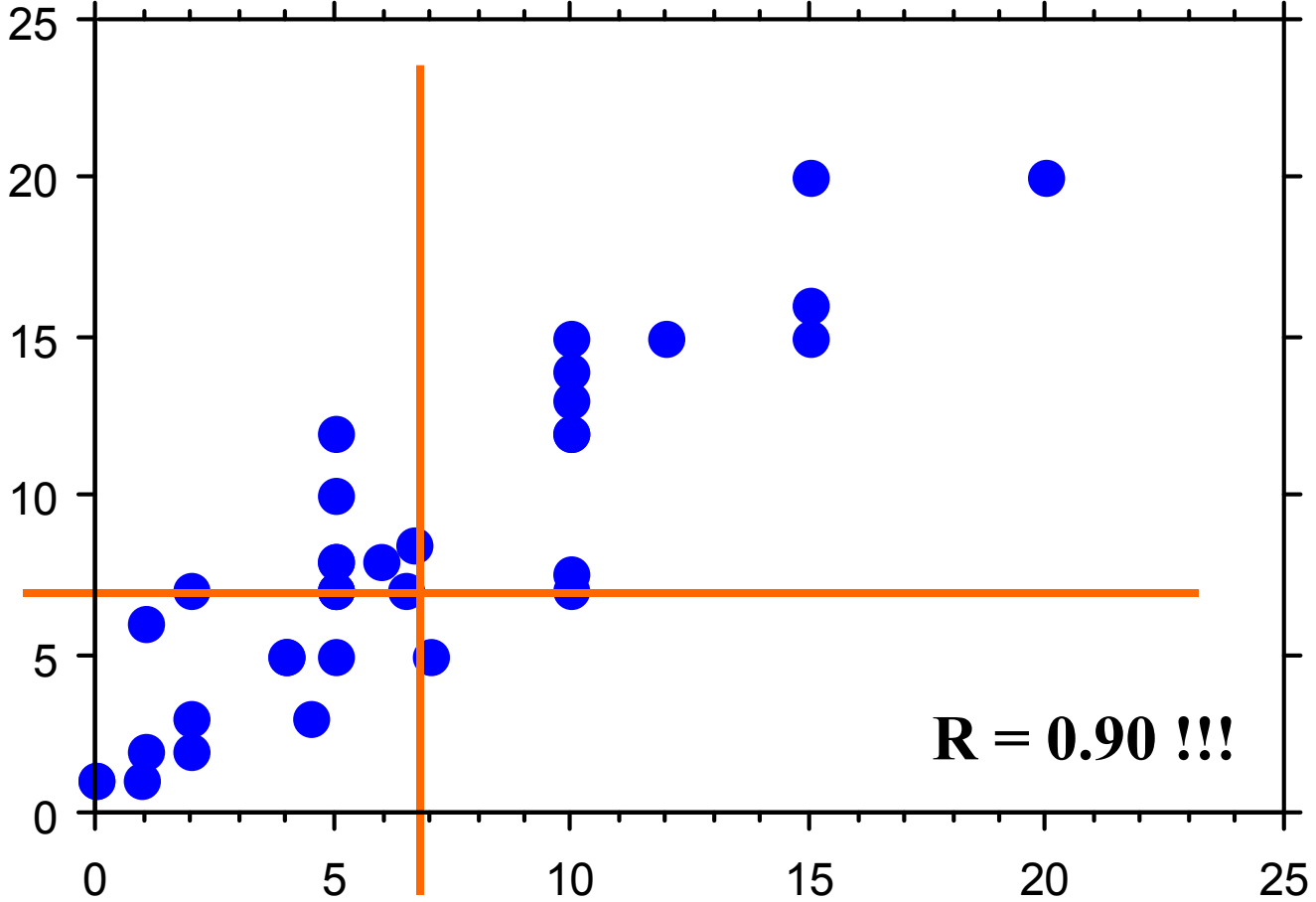


# Spring Marketing Electives

- 15.828 New Product Development
- 15.831 Marketing High Tech Products
- 15.834 Marketing Strategy
- 15.835 Entrepreneurial Marketing

**the  
market**



**you**

**R = 0.90 !!!**

Repeat after me...

- **Everybody is not like me.**
- **Everybody is not like me.**
- **Everybody is not like me.**

# Southwest Airlines: key concepts

- **Break-even analysis**
- **Price elasticity**
- **Price wars**

**What are some of the product attributes of an airline flight?**

# How does importance of attributes differ by segment?

- Safety                      Business                      Pleasure
- Comfort                     Business                     Pleasure
- Service                     Business                     Pleasure
- Convenience              Business                     Pleasure
- Price                        Business                     Pleasure

# Southwest Airlines

Who was Southwest Airlines major competitor?

- *"We've always seen our competition as the car. We've got to offer better, more convenient service at a price that makes it worthwhile to leave your car at home and fly with us instead."*

(Colleen Barrett, executive vice president)

# Southwest Airlines

- Why did the president feel that the *current* level of usage underestimated *potential* demand?
  - Because the interstate carriers weren't doing the job in this market.
    - it was difficult to get reservations (Why?)
    - poor record for punctuality (Why?)
    - poor service (Why?)

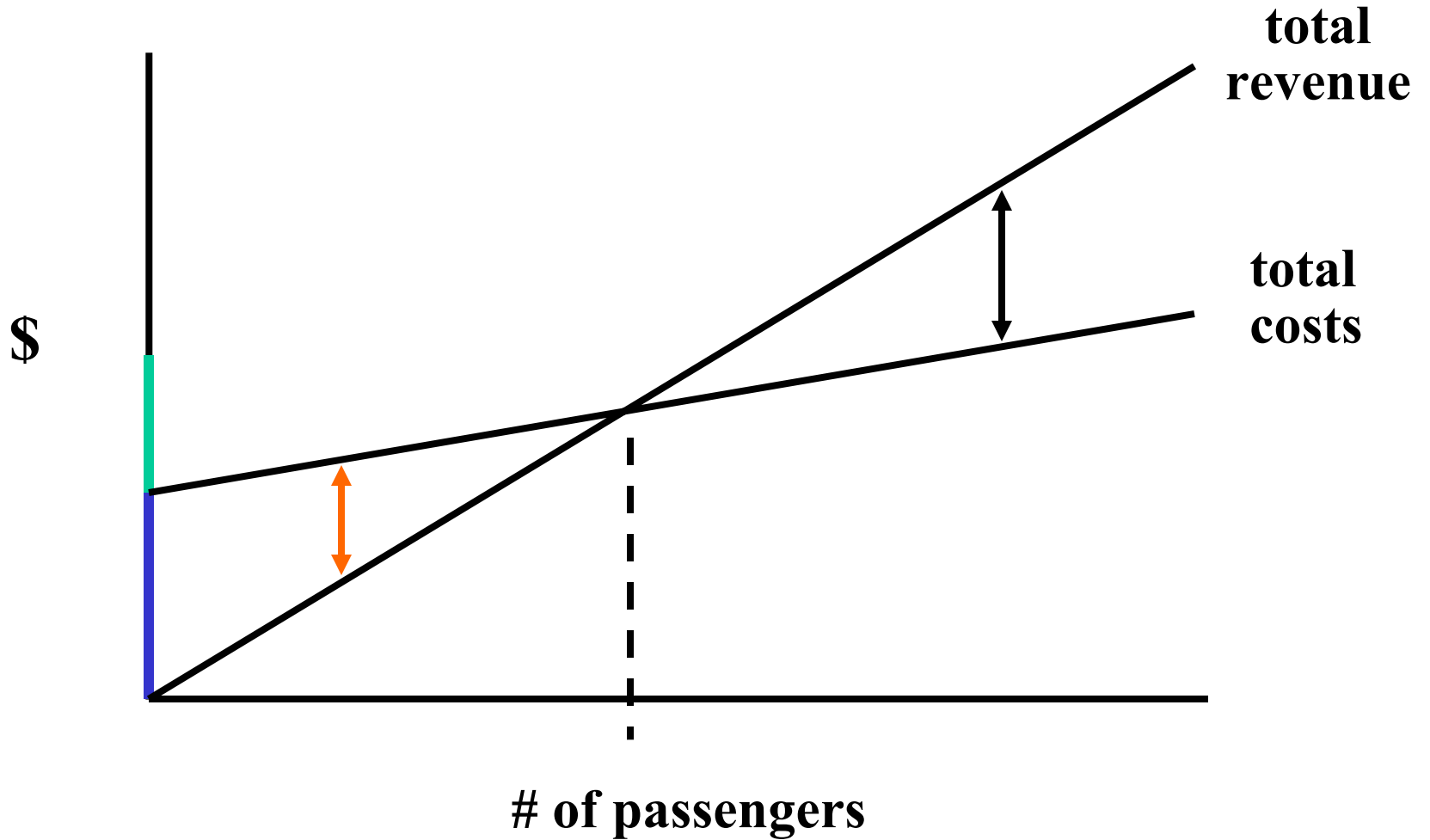
# Southwest Airlines

- What were SW's innovations?
  - fun atmosphere
  - no assigned seating
  - flight attendants required to clean airplane
  - turnaround an aircraft in 15 minutes
- pilots paid per trip
- flight attendants paid per trip. (Lower pay, but more flexibility)
- job security valued over pay
- compensation in terms of stock options
- extremely selective hiring policies (More selective than Harvard)

# Southwest Airlines

- How did Southwest arrive at their initial price of \$20?
- "*Break-Even Analysis*": "Pick a price at which you can break even with load factor that you can reasonably expect to get within a short period of time...the price ought to be as low as you can get it without running out of money"

# Break even analysis

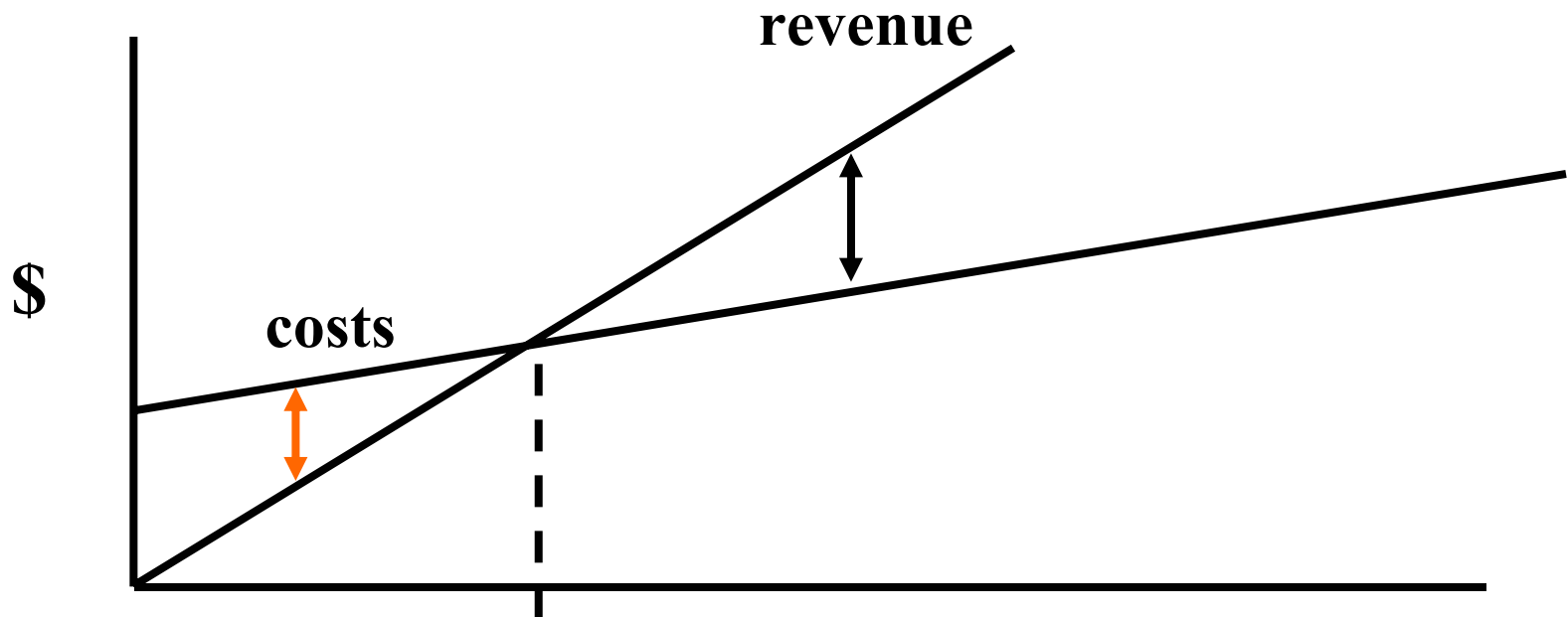


# Break even analysis

$$\text{BEQ} = \frac{\text{Fixed cost}}{\text{Unit Price} - \text{Unit VC}}$$

Fixed cost= \$670 per flight

Variable cost= \$2.80

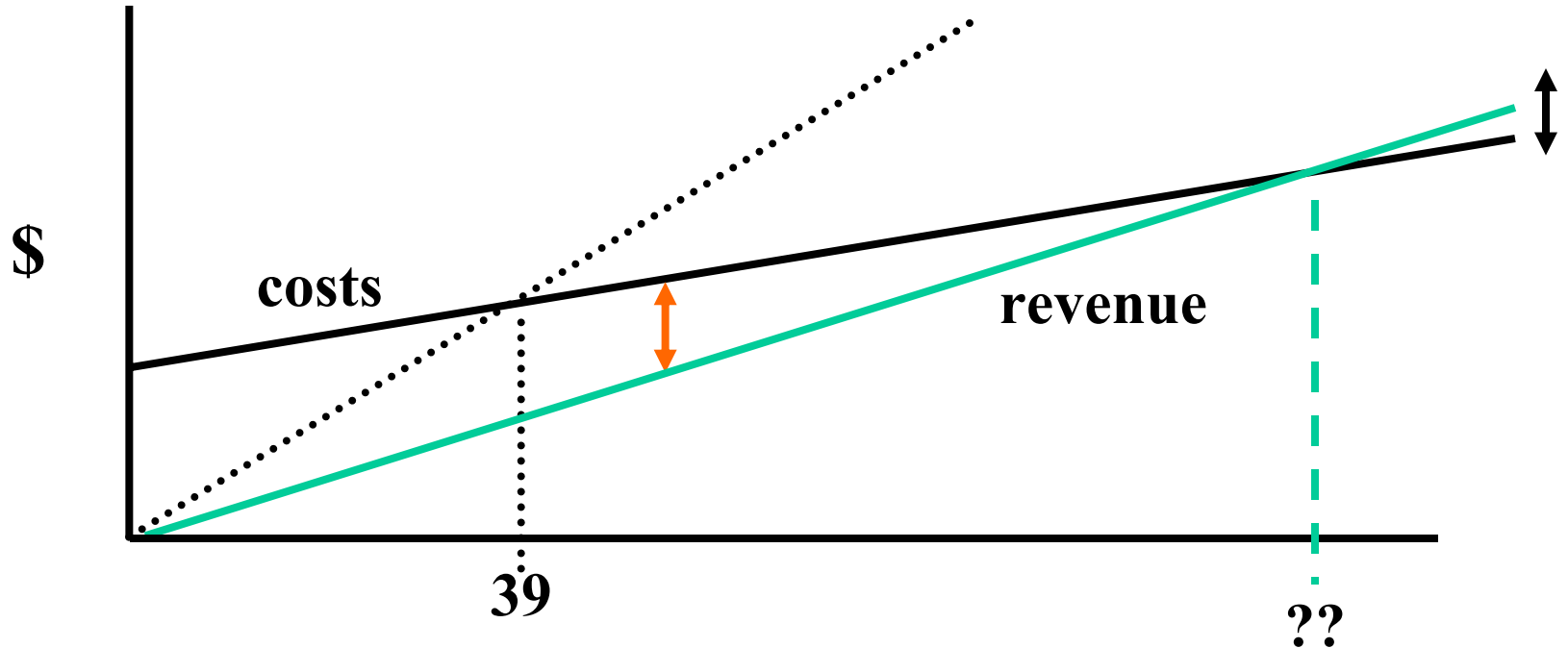


# Break even analysis

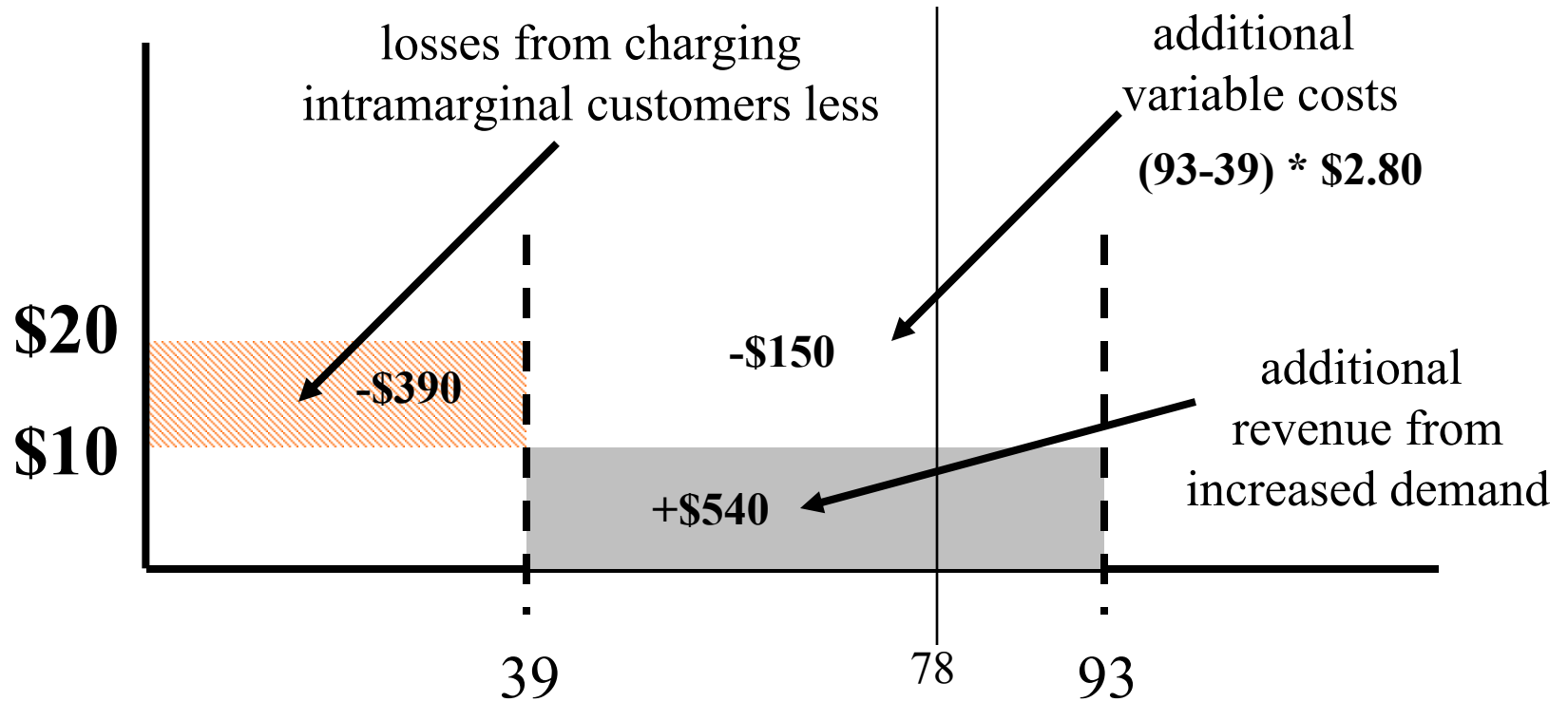
$$\text{BEQ} = \frac{\text{Fixed cost}}{\text{Unit Price} - \text{Unit VC}}$$

Fixed cost= \$670 per flight

Variable cost= \$2.80



# Break even analysis



# Was the BEQ of 39 passengers per flight realistic, given the current market?

- What was the daily demand for flights between Dallas and Houston, prior to Southwest's entry? (see Exhibit 1)
- (p. 4) Southwest scheduled called for 12 daily round trips between Dallas and Houston. That's 24 flights.
- (p. 5) break-even load requirements = 39
- What proportion of the *current* market would SWA have to capture?
- Southwest needed to not only take share from competition, but to expand primary demand.
- To expand primary demand via price cuts, demand for air travel between Dallas and San Antonio needed to be price elastic. Was it?

# Was demand elastic with respect to price?

from  
page 11

	Price	Quantity
1973 (Jan)	\$26	17
1973 (Feb)	\$13	48

Yes, very  
elastic !!

from  
page 22

	Price	Quantity
1972 (June)	\$20	29
1972 (July)	\$26	26

Much more than  
a previous  
calculation  
would imply

# **Radio ad for Southwest Airlines**

- **Southwest Airlines half-fare flights. Every flight between San Antonio and Dallas every day. Only \$13**
- **[Irate Male Voice] "Hey! If you people fly Southwest Airlines during this half-price sale, you're gonna have a lonely bus driver on your conscience. Take the bus. It only costs a little more and is just 4 hours longer."**

# Pricing strategies: a timeline

- **June 1971** SW Opens. Introduces \$20 flights
- **July, 1971** Braniff and TI reduce price to \$20
- **July, 1972** SW raises basic fare from \$20 to \$26, but flights after 9:00 p.m discounted to \$10.
- **July, 1972** Braniff and TI raise price to \$26; Braniff adds a \$10 flight to Houston after 7:30 p.m.
- **January 22, 1973** Announces a "60-Day Half-Price Sale" on all flights between Dallas and San Antonio.
- **February 1, 1973.** Braniff announces 60 Day "Get Acquainted Sale" between Dallas and Houston (H).

**How should Southwest respond to Braniff's  
move? What are their alternatives?**

# What did Southwest do?

- Offered people a choice between the low fare \$13 or the normal fare of \$26.
- If they paid the \$26, they received a thank you gift.
  - Liquor
  - Ice bucket (for the Mormons who *claimed* they don't drink)
- Initiated a PR campaign in which they accused Braniff of predatory pricing
- Reminded customers what service was like before SW.

# Postscript

- When Braniff's 60 day sale was over, they returned prices to \$26. So did Southwest.
- In 1975, a federal grand jury indicted Braniff and TI for predatory pricing
- Both Braniff and Texas International Airlines are now defunct
- Southwest worth more than all other airlines combined (11 Billion).
- Successful business model for the east coast?
  - More weather related delays
  - People not as friendly or fun loving

# Advertising campaigns

- Braniff
- Texas International
- Southwest

	Price	Quantity
1972 (June)	\$20	23,000
1972 (July)	\$26	19,000

