Strategic Audit of AirTran Airways

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Part A. 1. Current Situation

AirTran Airways was formerly known as ValuJet Airlines, which began operations in 1992, before acquiring the new name in September of 1997. The carrier chose Atlanta as its hub, while the headquarters were located in Orlando, Florida. After a name change, a new management team, under the leadership of Joe Leonard, formerly of Eastern Air Lines, implemented improved efficiencies, built a sustainable route network, factors which contributed to a greater presence at its Atlanta hub. Additionally, the airline was able to expand operations to other major cities. In 2001, the company's stock began trading on the New York Stock Exchange under the ticker symbol AA1 (Davies, 2016).

Beginning 2004, AirTran introduced new fleets of Boeing 737 to address customer safety concerns, explored potential flights to Mexico, enhanced its low-fare price point, and improved employee relations. In subsequent years, the company experienced favorable growth, and in May of 2011, AirTran was acquired by Southwest Airlines, in a deal worth $3.4 billion. At the time of the merger, AirTran had a 22% share of the domestic market from its operations at Hartsfield-Jackson Airport, with 50 percent of its flights originating and terminating from the hub. AirTran offered business class products and levied fees on checking bags and flight changes (Bleakley, 2011).

According to Southwest, the AirTran merger supported its goal of achieving 15 percent pre-tax return on capital investment, representing a unique opportunity for the airline's long-term sustainability strategies. The acquisition enabled the airlines to increase its offer on low-fare destinations, in markets where the two had previously been absent. Additionally, the merger provided access to other international leisure markets located in Mexico and the Caribbean.

AirTran and Southwest achieved key integration milestones in 2011, among which were: moving majority of AirTran's operational functions to Dallas, the headquarters of Southwest Airlines; incorporating the related frequent flyer programs; harmonization of pilot seniority programs of the two carriers; optimizing AirTran's network and synchronizing flight schedules; merging the maintenance facilities in Baltimore and Orlando.

In 2012, the merger achieved notable integration milestones which included: harmonization of flight attendant's and flight instructor's seniority programs; assimilation of a number of AirTran employees into the Southwest family; Southwest began scheduled flights to Atlanta; completion of shared city transitions, co-locating operations between the two carriers. The airlines were issued with a Single Operating Certificate in March of 2012, and subsequently, AirTran began transferring its aircraft to Southwest for conversion to the latter's' configuration and livery. At the end of the integration processes, the merger had generated more than $400 million in yearly net pre-tax synergies, and this was minus acquisition and integration costs (In Bitzan et al., 2013).

The operating revenues increased substantially after the merger, as a result of higher capacity, with strong figures for bookings and revenue trends notable during the year 2012. AirTran integration was completed at the end of 2014, and the merged entity under the Southwest banner began to focus on developing new networks and implementing efficient operational systems. In 2015, the firm improved its on-time performance which stood at 80 percent, an increase from 2014's figure. AirTran Airways operations are fully integrated into Southwest, and the combined merger is poised for growth (Hitt et al., 2016).

2. Strategic Posture:

- Mission – AirTran's new mission under Southwest Airlines reads Dedication to the highest quality of Customer Service delivered with a sense of friendliness, warmth, self-pride, and Company Spirit.
    - To Our Employees – We are committed to providing our Employees a stable work environment with equal opportunity for learning and personal growth. Creativity and innovation are encouraged for improving the effectiveness of Southwest Airlines. 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 Southwest Customer.
- Objectives – According to top leadership, the main objectives of the amalgamated carrier – Southwest Airlines – are: exploring high-quality growth opportunities, maintain low-cost leader, sustained revenue momentum and expanding the financial position. The airline projected available seat mile increase in 2015 was as a result of greater efficiency in fleet management, achieved through expanding gauge and stage length with a staggering increase in trips. The current slump in oil prices has stabilized the carrier's revenue momentum which is still expected to improve in the short term.
- Strategies – AirTran gained a distinct advantage over competitors, after the merger with Southwest. The company was able to execute an efficient and effective operational strategy by focusing on the following:
    - Operational Costs and Efficiency – The airline industry is labor-intensive, and the related costs account for nearly 40 percent of the operating expenses. AirTran is traditionally a low-fare airline, and its business model aims at maximizing labor productivity. The parent company is heavily unionized with about 80 percent of employees belonging to a union, with their salary rates

above the industry average. Southwest maintains its labor advantage through implementing more flexible working guidelines which allow for cross-utilization of a large number of employees.

Low-cost carriers ensure their labor force generates a higher output per employee. An earlier study on employee productivity at Southwest, found it to be 45 percent higher than the close competition, and this relentless pursuit for low labor costs has had a positive impact on bottom-line revenues.

Fuel costs account for the second-highest expenses in the airline industry, and to preempt huge fluctuations in operating costs; fuel hedging is used. Controlling fuel costs allows airlines to accurately estimate budgets and predict earnings. Southwest has effectively implemented a long-term fuel hedging strategy to offset any future fluctuations.

- Customer Service – The words of the airline’s mission define customer service. According to Herb Kelleher, the founder of Southwest, the company is involved in Customer service business, and airline transportation is a basic provision. All organizational structures are obliged to satisfy customer needs.
- The carrier continues to adopt technology to maintain efficient operations and fulfill its business objectives. In this regard, the carrier is implementing a single reservation system which will have the following benefits: eliminate the complexities related to operating multiple reservation systems; provide the company with a dependable foundation for easy and efficient adaptation, and enhanced response to industry demands; enable the airline to offer product development which will improve customer experiences.

3. Corporate Governance and Top Management – The airline is headed by Gary C. Kelly, who is the chairman of the board and additionally serves as Chief Executive Officer. He has

served the carrier in various capacities including, Chief Financial Officer, and joined the parent company in 1986 as Financial Controller (SOUTHWEST, 2015).

- Robert E. Jordan – Executive Vice President & Chief Commercial Officer. He was formerly the President of AirTran Airways and had served as Vice President Strategy, Planning & Technology. Mr. Jordan had joined AirTran in 1988 as a programmer.
- Jeff Lamb – Executive Vice President of Corporate Services. Has served in various capacities such as leadership development, Chief People Officer, and Administrative Officer.
- Thomas M. Nealon – Executive Vice President of Strategy & Innovation. He previously worked as the Group Executive Vice President at J.C. Penny, the giant retailer. Prior to J.C. Penny, Mr. Nealon served as Chief Information Officer at Feld Group, an information technology consulting firm. He has extensive experience in software engineering, systems engineering, and leadership positions in Frito-Lay.
- Tammy Romo – Executive Vice President & Chief Financial Officer. Ms. Romo has served in various financial leadership positions, Investor Relations and, Manager of Financial Reporting.
- Michael G. Van de Ven – Executive Vice President & Chief Operating Officer. He joined the company as Director Internal Audit, and later became Director of Financial Planning & Analysis, and eventually Vice President Aircraft Operations.
- Mark R. Shaw – Senior Vice President, General Counsel & Corporate Secretary. He joined the company as an Attorney in the General Counsel Department and later served as Associate General Counsel.

Part B. External Analysis.

1. Porter’s Analysis

The airline industry in the U.S remains highly competitive and increasingly volatile. It is also capital and technologically intensive, overly regulated and highly taxed, punctuated by low-profit margins in domestic travel. Low-cost carriers are focused on profitable point-to-point routes and improved customer experiences and normally operate fewer long-haul routes while avoiding crowded airports. The ability of companies to identify and respond to environmental changes is the basis of competitive advantage (Wheelen & Hunger, 2004).

The pressing issues for carriers can be found in the levels of competition within the airline industry. The competitive forces in the airline industry define the level of intensity, while the strength of these forces are indicators of potential profits. The U.S. airline industry has experienced favorable outcomes as a result of a significant drop in oil prices and modest economic growth, all recorded in 2015. Airlines resorted to increasing capacity – available seat miles – and using larger aircraft.

Developing an effective decision-making strategy using Porter's approach for AirTran will involve the following steps:

- Threat of New Entrants (LOW) – Profits margins in the airline industry have been relatively low particularly for low-cost carriers. Nonetheless, new firms have attempted to enter the market in the recent past. Lean profits and numerous barriers have led to failure for a majority of the new entrants. The outstanding exception is JetBlue, which started operations at the turn of the millennium and has recorded considerable profit margins and a high load factor. Other fledgling carriers have closed shop or merged with seasoned operators, as the barriers to entry remain a formidable challenge.

  A prevalent barrier is the high costs involved in setting up operations. Before the economic downturn, it was easy to secure loans for aircraft leasing for entry into the market, but in recent years lending has declined, and it is becoming increasingly difficult for airline startups to obtain financing. The intense regulation rules are also a logistical barrier as the airlines are forced to navigate through multiple agencies seeking approval to set up ground crews and personnel at the preferred hub.

Another notable barrier to entry is access to routes as the existing airlines have maximized their capacities, leading to an intense post-entry competition scenario, which is favorable to the current airlines.

As an established industry player with a loyal customer base, new entrants have to be highly innovative for customers to switch their preferences to the new carriers. Additionally, the AirTran and Southwest merger has granted the two firms a key advantage as they have earned sufficient market share, and the brands are now synonymous as bargain airlines.

- Bargaining Power of Buyers (LOW) – Customers have the ability to force down prices, through bargains, push for quality services and products, and they remain a powerful force in each industry. However, as things stand for low-cost carriers – AirTran – buyers have limited power, as there is no attractive substitute for distant travel. The competitive nature of the industry has ensured airline tickets generate low-profit margins, and buyers have no power to push for lower prices. The notable lack of buyer power has led to additions to existing fees, with minimum consumer dissatisfaction.

- Bargaining Power of Suppliers (HIGH) – As indicated earlier, the primary inputs which account for the largest operational costs are fuel and labor, with airplane acquisition being another capital intensive asset. The energy sector is ever vulnerable to unpredictable economic ‘shocks’ and Jet fuel suppliers retain heightened power in recent times. Fuel prices have fallen to unforeseen lows, and this has dramatically reduced the power of energy suppliers, but prices are bound to bounce back tilting the stakes in favor of the Jett-fuel suppliers.

AirTran, now Southwest, has implemented an effective hedging strategy that allows the carrier to put a cap on future increased prices. The airline uses financial derivative instruments for both short term and long term, and as a form of protection for significant increases in the cost of fuel.

Fleet manufacturers retain a high bargaining power as the switching costs of changing airplanes remain relatively high. The dominant players in airplane manufacturing are Boeing and Airbus, and the two can increase their prices and face little resistance from carriers as the industry is not perfectly competitive. AirTran and Southwest have consistently relied on Boeing, and the depressed nature of the industry may erode the bargaining power of the manufacturer as it seeks to sell more aircraft.

Labor costs remain prohibitive and account for substantial spending for the airline. More than 80 percent of employees working for the airline are represented by labor unions, and these are ever garnering for increased wages. Nonetheless, recent industry trends marked by reports of bankruptcy have supplier power for unions as they seek to retain jobs amid dwindling revenues.

- Rivalry Among Competing Firms (HIGH) – After the Airline Deregulation Act of 1978, the U.S. market experienced an influx of new entrants, but competition forced companies to consolidate, and by 2004, the ten leading carriers controlled 90 percent of the market. Market concentration is the vital factor influencing rivalry, and consolidation has led to higher concentration, with firms aiming to take advantage of the economies of scale. Southwest's acquisition of AirTran is a pointer of consolidation, including the merger between United Airlines and Continental Airlines (Wheelen & Hunger, 2004).

Intense competition among the major carriers and the availability of products with little differentiation has reduced the revenue earnings within the industry, with pricing becoming the basic mode of rivalry.

AirTran's low-cost operating structure has enabled it to maintain a competitive advantage by continually charging low fares. Nonetheless, the airlines differentiating advantage of removing levies on first and second checked bags, seat selection, flight changes, snacks, and other services, are not entirely unique and are subject to imitation by the other carriers. Additionally, the available incentives for the frequent flyer program have been replicated across the industry and cannot be relied upon to motivate customer loyalty.

- Threat of Substitute Products and Services (LOW) – Personal cars, commercial buses, and train transport are the main substitutes for air travel. Automobile travel is the preferred mode of travel over a short distance as it is impractical to fly short distances. The length and breadth of the U.S. support air travel, but intercity railroad transportation is gaining popularity. However, rail transport increases the time over long distance, but the cost is relatively low compared to air travel.

  Air travel is vulnerable to the fluctuations in fuel prices, and increased levies on baggage, as such, rail transport offers a viable substitute. The U.S. government has in recent years pushed for the upgrading of the rail system, with emphasis on a high-speed system, but these developments are yet to be implemented, and rail transport is not an immediate threat to air travel.

The airline industry is also faced with competition from alternatives to travel, which have emerged as a result of technology innovations – the Internet and video conferencing have increased as travel becomes inconvenient and the effects of economic downturns. Furthermore, air travel in the U.S. is predominantly seasonal, while other natural factors – extreme weather – and general economic conditions often impact on the competitive environment.

2. Other Industry Characteristics

Several key competitive factors affect performance in the airline industry, and this includes pricing and cost structures; frequent flyer programs, routes, and schedules, comfort, customer service, and amenities.

- Cost and Pricing Structure – Pricing in the Airline industry is a noteworthy competitive factor, with the easy access to fare information on the Internet, allowing travelers to readily compare fares and recognize competitor discounts and promotions.
- Frequent Flyer Programs, Routes, and Schedules – The airline also subject to competition based on frequent flyer opportunities, market served, and flight schedules. Airlines with more extensive routes have a competitive advantage, while others capitalize on commercial relationships – code-sharing, global alliances, and capacity purchase agreements to remain competitive.
- Customer Service, Comfort, and Amenities – Airlines equally compete in areas of on-time performance, customer service, performance passenger amenities, flight equipment type, and comfort. As a low-cost carrier, AirTran invests in modernizing its fleet to improve passenger experiences.

3. Industry Analysis.

Opportunities:

- Expansion in Domestic Market – AirTran's merger with Southwest has enabled the new carrier to expand into key markets, as well as diversifying to routes that were previously not served. The enhanced capacity grants airlines access to other slot-controlled markets.
- Expansion in International Market – The acquisition has supported its expansion plans to include operations in international destinations – Cuba and the Caribbean.
- Enhanced Amenities – The airline can generate additional revenues through enhanced in-flight services – WiFi and live football and baseball games.
- Partnerships – Developing partnerships with other low-cost carriers to diversify operations.
- Ancillary Revenue – availability of new sources of ancillary revenue, specifically in airport transfer facilities.

4. Threats

- Fuel Price Instability – The airline industry is vulnerable to the fluctuating prices of jet fuel, which account for a large portion of operating expenses. Though the firm has adopted efficient hedging measures the volatility often impacts negatively on operations.
- Weakening Advantage of Low-cost Carriers – The air travel market is getting busier and becoming congested, with new carriers offering superior services and this will subject established low-cost carriers to diminishing growth.
- Regulation – The airline industry is highly regulated mainly by the federal government, with multiple agencies and legislative organizations retaining the ability to affect the operations of a carrier.

- The U.S. Economic Conditions – Economic downturns may impact on traveler's behavior, as they may opt for alternative modes of transportation or even choose electronic communication.
- Security Threats – The events of 9/11 have impacted negatively on airlines as travelers now feel vulnerable. The fear of terror attacks is also bound to affect air travel.

5. External Factors Analysis Summary: AirTran Airways

EXTERNAL FACTORS	Weight	Rating	Weighted Score	COMMENTS
Opportunities: ➢ Expansion in Domestic Market – AirTran's merger with Southwest has enabled the new carrier to expand into key markets, as well as diversifying to routes that were previously not served. The enhanced capacity grants airlines access to other slot-controlled markets.	.15	5.0	.75	Southwest Airlines' acquisition of AirTran has increased the capacities of the two carriers.

➢ Expansion in International Market – The acquisition has supported its expansion plans to include operations in international destinations – Cuba and the Caribbean	.05	4.2	.21	Increased capacity allows the new airline the opportunity to explore new markets.
➢ Enhanced Amenities – The airline can generate additional revenues through enhanced in-flight services – WiFi and live football and baseball games.	.10	3.9	.39	Consumers have become more demanding for enhanced traveling experiences.

➢ Developing partnerships with other low-cost carriers to diversify operations.	.05	3.0	.15	An airline with a larger capacity attracts partnerships.
➢ Availability of new sources of ancillary revenue, specifically in airport transfer facilities.	.15	2.8	.42	Ancillary services are a means of expanding revenues.
Threats: ➢ Fuel Price Instability – The airline industry is vulnerable to the fluctuating prices of jet fuel, which account for a large portion of operating expenses. Though the firm has	.05	2.2	.11	Though current fuel prices have fallen, they are projected to stabilize.

adopted efficient hedging measures the volatility often impacts negatively on operations.				
➢ Weakening Advantage of Low-cost Carriers – The air travel market is getting busier and becoming congested, with new carriers offering superior services and this will subject established low-cost carriers to diminishing growth.	.05	2.0	.10	New entrants are bound to disrupt the market with innovative offers.
➢ Regulation – The airline industry is highly regulated particularly by the federal government, with multiple agencies	.15	2.0	.30	Security and Safety threats have contributed to a rise in regulatory measures.

and legislative organizations retaining the ability to affect the operations of a carrier. ➢ The U.S. Economic Conditions – Economic downturns may impact on traveler's behavior, as they may opt for alternative modes of transportation or even choose electronic communication.	.20	2.1	.42	The Airline industry is capital intensive, and any economic changes have a direct impact on operations.
➢ The events of 9/11 have impacted negatively on airlines as travelers now feel vulnerable.	.05	4.0	.20	The threat of terrorism looms large and travelers may opt for perceived safer alternatives.

TOTAL SCORES	1.00		3.05	

Part C. Internal Analysis.

1. Core Competencies.

   a. Since its inception, AirTran's vision has been to provide affordable, safe and enjoyable air travel. Similarly, Southwest Airlines had based its vision on providing air travelers with the lowest possible fares and making sure they genuinely enjoy the flying experience. The key competencies of the combined airline are: Providing Low Fares and Maintaining good customer relations.

   - Low-Cost Structure – AirTran/Southwest business strategy is focused on low-cost structures, which are designed to generate profits from charging low fares. Compared to other domestic carriers, AirTran has lower unit costs, when adjusted according to stage length. Achieving low-cost structure is the result of, the prevalent use of single aircraft type, primarily Boeing 737, and these are managed by highly productive employees. The use of a single aircraft type also has simplified maintenance, scheduling, flight operations, and training programs.
   - Good Customer Relations – The airline has consistently been rated highly in regards to customer satisfaction, with low records of customer complaints. Good customer service also involves passenger amenities, on-time performance, flight equipment type, and passenger comfort, factors that provide the carrier with a competitive advantage. The airline has also enhanced the flying experience through the removal of levies on flight changes, seat selection, curb-side-check-in, and even snacks.

b. Distinctiveness of Competencies – The airline's core competencies – Low-cost structure and Good customer relations – are not unique, and other competing airlines have also implemented similar strategies.

2. Competitive Advantage.

   a. Current Position – The Southwest and AirTran merger had a combined worth of $1.4 billion, and is the most significant involving Low-cost carriers in the U.S. domestic market. The airline's primary competitors are the other domestic airlines, including regional and new entrants, surface transportation, and technology-enabled communication alternatives – the Internet and video conferencing. The airline's revenue is reactive to any actions by other carriers in regards to pricing, scheduling, routes, frequent flyer programs, customer service, code-sharing, cost structure, and other similar activities.

      According to 2015 data, compiled by the United States Department of Transportation, the AirTran, and Southwest merger led to the creation of the largest air carrier in the country; this is according to a number of domestic passengers using the airline. The company provides point-to-point service, in preference to the "hub-and-spoke" service, the latter is common in most U.S. airlines. The point-to-point route approach allows for more direct non-stop routing and also enables the airline to provide its customers with frequent conveniently timed flights with low fares.

   b. Competitive Advantage – The carrier's distinct competitive advantage lies in its provision of low fares, which are supported by the low-cost structure approach. This low-cost concept dedicatedly follows Porter's cost focus approach for realization of competitive advantage. AirTran/Southwest's use of a single aircraft type has ensured operational efficiencies, simplified scheduling, maintenance, training programs, and flight operations. Additionally, the airline is the only leading U.S. carrier that does not levy passengers for changing flight reservations. The point-to-point route structure consists of services to and from downtown airports, and their convenient location with less congestion allows for high asset utilization.

c. Sustainability of Competitive Advantage – The airline company has limited control over labor and fuel costs, including costs related to regulatory compliance. Its limitation on labor costs is due to the contractual terms of collective-bargaining agreements and seasonal increases in labor costs. Furthermore, the regulatory compliance costs are subject to periodic increases based on the various policies governing the agencies. The airline is also dependent on third-party service providers and vendors, and its low-cost competitive advantage is equally reliant on its ability to maintain and obtain commercially reasonable terms with these parties. As a result of the above limitations, the airline cannot guarantee the sustainability of its competitive advantage in the long-term.

3. Strengths

- Point-to-point Routing – This approach has allowed the airline more direct non-stop routing, with over 70 percent of travelers flying non-stop in 2015. Additionally, this approach has enabled the airline to provide travelers with regular, conveniently scheduled flights with low fares.
- Good Customer Service – The competitive nature of the airline industry requires firms to implement effective, efficient, and accommodative customer services. AirTran/Southwest has an outstanding customer service policy, which differentiates it from the competition.

- Pricing and Cost Structure – The carrier's low-cost structure continues to give it an advantage over the competition while allowing it to maintain low fares. Additionally, the airline has removed levies on listed passenger items and services.
- Single Aircraft Strategy – The Company has consistently used Boeing 737 jets, and this has considerably simplified operations, scheduling, and maintenance. Furthermore, the strategy also lowers the cost of personnel training and maximizes aircraft usage.
- High Labor Productivity – Labor costs account for about 40 percent of the airline's operating costs. The defining element of a successful low-fare regime relies on maximizing labor productivity. Though the airline is highly unionized, it has implemented a cross-utilization strategy, with an established culture of cooperation between the various teams within the company.

4. Weaknesses.

Growth into Congested Markets – The rapid growth and consolidation of services is overwhelming, and the carrier is finding it difficult to maintain its reliable services. The merger brought with it various congested markets such as Atlanta and this portends challenges and limit opportunities for growth.

- Overdependence on Single Aircraft and Suppliers – The dependence on Boeing makes it vulnerable to the powers of its suppliers. The airline's operations may be adversely affected if Boeing were to fail in making timely deliveries.
- Customer Information Risk – Customers log onto the airline's online portal to make and pay for services. The company has shifted most of its operations online, and this information is transmitted across public networks, including

credit card payment. These systems may be compromised putting customers' information at risk.

- Labor Risks – The airline business thrives on good labor relations, and operations may negatively affect if relations fail. The company has to hire, retain and adequately compensate competent personnel to sustain the desired organizational objectives.
- Industry Security Concerns – The airline industry was adversely affected by the 9/11 attacks, while renewed terrorist threats have caused airlines to increase spending on safety and security. Fear of attack or redirection of flights due to threats of terrorism may negatively impact the company's operations.

5. Internal Factors Analysis Summary: AirTran Airways

INTERNAL FACTORS	Weight	Rating	Weighted Score	COMMENTS
Strengths:				
➢ Point-to-point Routing	.15	5.0	.75	Airline provides regular, conveniently scheduled flights with low fares.
➢ Good Customer Service.	.05	4.2	.21	Customer service policy differentiates it from the competition.

➢ Pricing and Cost Structure	.10	3.9	.39	Allows it to maintain low fares.
➢ Single Aircraft Strategy.	.05	3.0	.15	Strategy also lowers costs.
➢ High Labor Productivity	.15	2.8	.42	Successful low-fare regime relies on maximizing labor productivity.
Weaknesses:				
➢ Growth into Congested Markets	.05	4.2	.11	Challenges and limits opportunities for growth.
➢ Overdependence on Single Aircraft and Suppliers	.10	4.0	.10	Makes it vulnerable to the powers of its suppliers.

➢ Vulnerability of Customer Information	.15	2.0	.30	Compromised systems risk customers' information.
➢ Labor Risks.	.20	2.1	.22	Hire, retain and compensate competent personnel.
➢ Industry Security Concerns	.20		.20	Threats of terrorism may negatively impact on the company's operations.
TOTAL SCORES	1.00		3.05	

Part D. Analysis of Strategic Factors (SWOT)

1. Strengths:

   - Pricing and Cost Structure – This strategy has through the years provided the airline with a competitive advantage enabling it to grow the market, offer low fares, and drive traffic volume. Nonetheless, the company has limited control of the factors which are a major influence on pricing and cost structures – fuel and labor costs. Regulatory compliance costs may arbitrarily increase in situations where other airlines reduce capacity, prompting airport costs to be spread out among fewer carriers – increased landing fees and other additions. The company needs to consistently maintain and improve its existing levels of low-cost advantages to remaining relevant in an evolving competitive environment.

- Single Aircraft Strategy – The Company's dependence on Boeing 737 aircraft for its entire operations, exposes it to any related risks facing the aircraft manufacturer. However, the airline has a long favorable history with the Boeing 737 aircraft type and has achieved unprecedented efficiencies, and this outweighs the associated risks.
- High Labor Productivity – This has been achieved by attracting and attracting skilled workers. Nonetheless, the industry may experience competition for skilled personnel whenever new firms enter the market, or the existing pool is nearing retirement age. Additionally, the airline may be compelled to pay higher wages for retention or to attract new talent.

Weaknesses:

- Customer Information Risk – Customers log onto the airline's online portal to make and pay for services. The company has shifted most of its operations online, and this information is transmitted across public networks, including credit card payment. These systems may be compromised putting customers' information at risk.
- Labor Risks – The airline business thrives on good labor relations and operations may negatively affect if relations fail. The company has to hire,

retain, and adequately compensate competent personnel to sustain the desired organizational objectives.

- Industry Security Concerns – The airline industry was adversely affected by the 9/11 attacks, while renewed terrorist threats have caused airlines to increase spending on safety and security. Fear of attack or redirection of flights due to threats of terrorism may negatively impact the company's operations.

Opportunities:

- Expansion in Domestic Market – AirTran's merger with Southwest has enabled the new carrier to expand into key markets, as well as diversifying to routes that were previously not served. The enhanced capacity grants airlines access to other slot-controlled markets.
- Expansion in International Market – The acquisition has supported its expansion plans to include operations in international destinations – Cuba and the Caribbean.
- Improved Flying Experiences – The airline can generate additional revenues through enhanced in-flight services – WiFi and live football and baseball games.

Threats:

- Fuel Price Instability – The airline industry is vulnerable to the fluctuating prices of jet fuel, which account for a large portion of operating expenses. Though the firm has adopted efficient hedging measures, the volatility often impacts negatively on operations.

- Weakening Advantage of Low-cost Carriers – The air travel market is getting busier and becoming congested, with new carriers offering superior services, and this will subject established low-cost carriers to diminishing growth.
- Regulation – The airline industry is highly regulated particularly by the federal government, with multiple agencies and legislative organizations retaining the ability to affect the operations of a carrier.

2. Strategic Factor Analysis Summary (SFAS) Matrix.

STRATEGIC FACTORS	Weight	Rating	Weighted Score	Duration			COMMENTS
				SHORT	INTERMEDIAT	LONG	

					E		
S1: Pricing and Cost Structure	0.20	4.1	0.82			X	Provides the airline with a competitive advantage
S2: Single Aircraft Strategy.	0.10	5.0	0.50		X		Achieved efficiencies and this outweigh the associated risks.
S3: High Labor Productivity .	0.15	3.0	0.45	X			Achieved from attracting and attracting skilled workers.

W1: Customer Information Risk	0.05	1.2	0.06			X	Systems may be compromised putting customers information at risk.
W2: Labor Risks.	0.15	5.0	0.75	X			Adequate compensation ensures retention.
W3: Industry Security concerns.	0.05	4.2	0.21			X	Threats of terrorism.
O1: Expansion in Domestic Market	0.05	2.0	0.10			X	Diversifying into unexplored markets.

02: Expansion in International Market	0.10	2.1	0.42	X			Enhanced capacity supports international expansion.
O3: Improved flying experiences.	0.05	4.0	0.20		X		Retains and attracts customers.
T1: Fuel Price Instability	1.00	3.2	3.01			X	Market volatility is unpredictable.
T2: Weakening Advantage of Low-cost Carriers	0.05	2.0	0.20			X	New entrants are coming up with innovative services to replace the familiar.
	0.05	4.0	3.0			X	

T3: Regulations.							New rules are emerging to address the changing environment.
TOTALS	1.00		3.50				

3. Review of Mission and Objectives –

- AirTran’s new mission under Southwest Airlines reads Dedication to the highest quality of Customer Service delivered with a sense of friendliness, warmth, self-pride, and Company Spirit. The airline through its various strategies has managed to achieve its mission and objectives towards stakeholders. The main objectives of the airline are: exploring high-quality growth opportunities, maintain low-cost leaders, sustained revenue momentum, and expanding the financial position. The airline projected available seat mile increase in 2015 was as a result of greater efficiency in fleet management, achieved through expanding gauge and stage length with a staggering increase in trips. The current slump in oil prices has stabilized the carrier's revenue momentum which is still expected to improve in the short term.

4. TOWS Matrix and Strategies.

EXTERNAL FACTORS (EFAS)	INTERNAL FACTORS (IFAS)	STRENGTHS(Internal) ➢ Point-to-point Routing ➢ Good Customer Service. ➢ Pricing and Cost Structure ➢ Single Aircraft Strategy. ➢ High Labor Productivity	WEAKNESSES(Internal) ➢ Growth into Congested Markets ➢ Overdependence on Single Aircraft and Suppliers. ➢ Vulnerability of Customer Information. ➢ Labor Risks. ➢ Industry Security Concerns
OPPORTUNITIES(External)		SO Strategies.	WO Strategies

➢ Expansion in Domestic Market. ➢ Expansion in International Market. ➢ Improved flying experiences. ➢ Developing partnerships. ➢ Investing in ancillary services	Good customer service enables improved flying experiences.	Partnerships can be used for training and skills transfer
THREATS(External) ➢ Fuel Price Instability. ➢ Weakening Advantage of Low-cost Carriers. ➢ Regulations. ➢ Economic downturns ➢ Post 9/11 terrorist threats.	ST Strategies Point-to-point routing lowers operational costs And sustains competitive advantage	WT Strategies Overdependence on one type aircraft cuts on maintenance costs, ensures competitive advantage

Part E. Strategic Alternatives and Recommended Strategies.

1. Strategic Alternatives: AirTran/Southwest has managed to achieve low unit costs as a result of the following: simplified operations; point-to-point routing; a highly

productive labor force; high-density seating aircraft configuration; resourcefully outsourcing operating functions; utilization a single fleet type; digitally supported reservations; and efficient flight scheduling with reduced ground between flights.

The airline has successfully navigated the U.S. competitive industry by pursuing a cost focus strategy. According to Porter(), companies with a focus strategy are exposed to various risks: probability of other firms replicating the focus strategy, possibility of target segment becoming unattractive, and new entrants opting for a narrow focus and splitting the target market. For the airline to maintain a competitive advantage, it can adopt the following alternative strategies:

- Increase Carrying Capacity – The merger has increased the operational capacity of the airline, but it is also operating in more expensive and congested airports. To sustain the airline’s distinctly low operating costs, the company may either charge more or maximize returns from the flights. The company can invest in aircraft with enhanced carrying capacity, as the congested and expensive airports charge a fixed fee regardless of the size of the plane. Larger planes can generate higher revenues if demand can be sustained.
- Increase Near-International Flights – The larger planes with enhanced capacity can also cover longer distances, and the airline can add flights to the Caribbean or recently to Cuba. Serving the near-international destinations offers the airline significant growth opportunities, particularly if the low-cost structures can be replicated in these markets. Canadian markets if accessible can also be as the domestic markets, while Mexico is equally an attractive opportunity that portends serious growth.
- Expand to Fuel-Efficient Aircraft – Improving the airline's Cost per Available Seat Mile (CASM) can be achieved through reducing fuel dependency, as it is

the most vital element determining operational costs. Aircraft manufacturer Boeing is in the process of developing energy-efficient planes – 737 MAX – and these will provide the airline with an improvement the CASM.

- Develop Ancillary Fee – The airline offers ancillary services: pet transportation; and minors traveling alone; services that must adhere to the company's safety policies. Other services include automatic check-in, which improves Customer seat selection option; and A-list tier membership, under the Rapid Rewards Frequent Flyer Program. The airline can further explore optional ticket add-ons, which will not impact negatively on its reputable customer relations image. This expanded source of revenue will allow the airline to maintain a low ticket strategy.

2. Recommended Strategies.

The ideal strategies which will ensure the airline maintains its competitive advantage are: Increasing Carrying Capacity; and Expanding to Fuel-Efficient Aircraft.

- Increased Carrying Capacity – The U.S. domestic airline market has matured, and carriers need to explore opportunities in the international market. Aircraft with a larger carrying capacity can adequately serve the international routes, and the additional travelers translate to higher revenues.
- Expanding to Fuel-Efficient Aircraft – The key differentiating strategy of the airline, lies in its low-cost structure, and this has been facilitated by the airline's use of a single aircraft model. As the company invests in increasing its carrying capacity, it can extend this initiative to invest in fuel-efficient planes, which will ultimately improve the company's revenue.

3. Justification of Recommended Strategies.

The two recommendations – increasing carrying capacity and investing in fuel-efficient aircraft – are complementing strategies as both are focused on modernization. The strategies are appropriate as most airlines are replacing their traditional fleets to acquire modern planes that support their operational strategy.

Additionally, these strategies are equally effective for the short term and long term sustainability of the airline.

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