

How Southwest's Culture Drives Cost Leadership



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I am honored to be invited to your meeting; I'm excited to be here; and I bring you the warmest regards from the People of Southwest Airlines.

This happens to be the first trip that I've ever taken outside of the United States; and given the present condition of the American economy, some might say I left the country at the right time.

During my flight across the Atlantic, I thought a lot about the sea of economic challenges that many countries now face and the staggering impact it is having on the global marketplace. These are troubling times for many businesses around the world, and we're all looking for ways to help stabilize our companies' financial health in order to get through to better times.

In light of the daunting circumstances before us, the current task for any company is not an easy one. But I am not here to pound the drumbeat of doom. In fact, I'm here to talk about the key ingredients and creative ways that Southwest works to keep the heartbeat of our business pumping in order to maintain financial security and ongoing prosperity.

After reviewing the agenda for your conference and noting the overall themes that OPG is concentrating on, I am optimistic about your company's objectives to focus on

costs, change, innovation, and leadership. At Southwest Airlines, we believe low costs are crucial; change is inevitable; innovation is necessary; and leadership is essential—particularly during troubling economic times.

Though OPG and Southwest Airlines sell different products and our companies are separated by thousands of kilometers, many of our objectives are very similar. And, when I was asked to speak to you about Southwest's Culture and cost leadership, I realized that my participation would not just be a chance to leave my country; but more importantly, it would be an opportunity to exchange helpful ideas that, perhaps, might bring our companies closer together.

To help you better understand Southwest's tactics, you have to know how an exotic mix of daring personalities, outrageous service initiatives, and creative business tactics have formed our Company's successful Culture. Why? Because if I didn't tell you about all of the key ingredients that make up Southwest's Culture, it'd be like trying to explain how the Red Light District works without talking about the "ladies." The point I'm trying to make is, you have to know what the basis of our Culture is in order to understand our principles of cost leadership.

In the time that I've been given to speak with you today, the flight plan for my presentation is to, first, present some fun facts about Southwest so you at least have a snapshot of our Company. Then, I'm going to describe Southwest's affinity for its People, and point out the immediate value this has for our Company (overall and from a cost perspective). Next, I will define Southwest's commitment to our Customers, and identify some common service mistakes that other companies make (because these mistakes directly impact the cost of the service being offered). And, once you have a

better understanding of our People and our service objectives, then I'll introduce our operating principles to demonstrate how we keep our costs in check. My hope is that, by the end of my story, each of you will have gained some beneficial insight about how the elements of Southwest's Culture motivates our People to ensure the Company's success.

There's a saying in Texas that goes like this: "It ain't braggin' if you've done it." So, here are some statistics to give you a better idea of who we are and what Southwest Airlines has accomplished.

- In 1971, Southwest began as a small Texas airline that served three cities with three airplanes.
- In 2008, we operate more than 3,400 flights a day to 64 destinations in the U.S.
- Over the course of 37 years, Southwest has grown to become the largest U.S. carrier in terms of domestic passengers flown (101.9 million in 2007).
- Southwest is a high frequency, low cost, extremely efficient, very productive, Customer-focused U.S. airline.
- Southwest is the United States' most successful low-fare, high frequency, point-to-point carrier.
- Our Company lives by very conservative fiscal policies.
- Southwest is the highest valued airline in the world in terms of market capitalization.
- 2007 Operating Revenue = \$9.9 Billion
- 2007 Net Income = \$10.4 Million
- Our Company has produced an unprecedented 35 years of consecutive profitability.
- Southwest's Culture is built around a hard-working, dedicated, and fun-LUVing work environment.

- Our Company consistently receives the lowest ratio of complaints per passengers boarded of all major U.S. carriers.
- Southwest has been named one of the best companies to work for in America; the most admired U.S. airline; and one of the most admired companies (in the U.S. and around the world).

There is a quote by Margaret Mead, the pioneer in the field of anthropology, that goes, “Never doubt that a small group of thoughtful, committed citizens can change the world.” The great concept that became Southwest Airlines rests on this insight.

Of course, the Southwest that I know is not what it was back in 1971. And, back then, no one could have envisioned that our Company would be as successful as it is today. Through the years, however, there have been two things that haven’t changed: Our fundamental business strategies, and the spirit of our People.

Southwest Airlines was created to provide a better service to an underserved market. But before we could do that, our fledgling Company literally had to fight for its life. The day we were granted our certificate to operate, our competitors joined forces and waged an all out legal war that challenged our right to exist. For ten years thereafter, Southwest had to defend itself against ruthless anticompetitive litigation that was intended to keep us out of the sky and cause us to go bankrupt.

Today, the battles are on a different front. Instead of fighting over rights, our competitors take drastic/short-sighted measures to compete with us on the price level. They launch new “low cost” divisions of themselves. To try to remain competitive on a cost level, they make draconian reductions in their employees’ salaries, wages, benefits, and pensions. In doing so, they ultimately sacrifice their most important assets—their employees and their employees’ goodwill.

As Southwest Employees enter the lobby of our Corporate Headquarters in Dallas, Texas, they are greeted by an inscription that was written by our Company's Co-founder and Chairman Emeritus, Herb Kelleher, that reads, "The People of Southwest Airlines are the creators of what we have become and what we will be. Our People transformed an idea into a legend. That legend will continue to grow only so long as it is nourished by our People's indomitable Spirit, boundless energy, immense goodwill, and burning desire to excel."

The People of Southwest Airlines clearly understand Herb's message that job security is directly linked to victory, and that victory belongs to those who are the most passionate about their cause. The valiant battles that we fought and won back in the 70's have created a corporate personality that we call our "Warrior Spirit." And, that Warrior Spirit ignited a revolution that literally changed the airline industry. Our stand for democracy in the skies tore down economic barriers; revolutionized the way airlines compete; and in the process, liberated air travel for the American public.

In 2007, our Company received over 329,000 resumes, but we only hired 4,200 Employees. While joining Southwest is statistically challenging, our requirements are pretty simple. We hire nice people. We look for people who are Customer Service focused—people who want to contribute to a cause and make a difference in others' lives. And, as you can see by our 1996 recruiting ad ("Color Outside the Lines" ad), we welcome people who are different in their thinking. In fact, aside from safety (which is paramount to everything that we do), security, and Team integrity, we have very few Company rules—mostly guidelines that we use to encourage and empower our Employees to follow. These guidelines are starting points, and if our Employees feel like

they need to break them, they won't be chastised if they are leaning toward a "win/win" solution for the Customer.

Our President Emeritus, Colleen Barrett, describes a Southwest Employee as someone, "who dares to make mistakes; dares to be different; finds a way to utilize people's special talents; and lives a little on the edge."

The People we hire know they are part of something special and that they must protect it. All Employees are informed, trained, and empowered to make decisions that follow The Golden Rule. As Leaders, we know we have to "be there" for our Fellow Teammembers and provide them with an environment that encourages innovative thinking, a free-flowing exchange of ideas, and a lot of open communication.

On this point, our Company understands the complexity of any situation—particularly if it simultaneously affects multiple departments and requires a lot of efficient, timely, and effective communication. In these types of situations, Employees and Customers basically want to know the same thing—what is the Company going to do and when are we going to do it. This is what my Team is responsible for doing everyday—in a nutshell, we make sure our Frontline Employees and Customers are provided with the appropriate information and support about our day-to-day operations.

We want our Employees to be informed so they will act like small business owners—we want them to treat their jobs like they are their own lemonade stands (so to speak). Our Employees are trained to understand that they have to be mindful of the conditions that affect their environment and do their part in order for our Company to be successful. And they are encouraged to contribute in their own personal way—the way they are comfortable doing it. To some, that means being funny to win our Customers

hearts. To others, that means being analytical to keep our costs at a bare minimum. But we all know that our collective contributions make a big difference in our bottomline, and this way of thinking stimulates a do “whatever it takes” mindset to keep our costs low and level of service high. For example, one time, a new Pilot noticed a Flight Attendant picking up trash that was left in one of our gate lounges, and the Pilot jokingly asked the Flight Attendant, “Is that in your job description.” To which the Flight Attendant replied, “No, but it affects my profit sharing.”

We also know that Employee satisfaction drives Customer loyalty. If you feel good about your job; feel like you are making a difference; and feel like you are appreciated, then you will feel good about coming to work. To help our Employees feel good about contributing to the cause, the Company is very deliberate in its efforts to enthusiastically create and preserve an enduring/family-like atmosphere. In fact, Colleen created an entire department called “Culture Activities,” and a working committee named the “Culture Committee,” which is made up of representatives from every department that is dedicated to nurturing our People. Through their efforts, the Company goes to great lengths to embrace our Employees and celebrate the important occasions in their personal and professional lives: birthdays; anniversaries; and individual, Team, and department accomplishments. In this regard, our Corporate Headquarters and other Employee work environments are like life-sized photo albums for our Employees’ memories, Company events, ads, clippings, costumes, and awards. These are memorials to the history of the Company and the People who make it successful. In addition to all of the individual attention that we provide our Employees, the Culture Activities Team organizes six annual company-sponsored celebrations: Heroes of the

Heart (Valentine's Day); Chili Cook-off and Message to the Field (Spring); Spirit Party and the President's Award Banquet (Summer); and Halloween Costume Contests (Fall).

So, what does turning our walls into scrapbooks or dressing up for Halloween have to do with costs? It is the Company's physical embrace of our Employees. We want our Employees to feel appreciated, valued, and part of something special. It is the Company encouraging our Employees to have fun. It is Southwest's way of creating a pleasant/inviting place to work. Southwest wants its Employees to feel good about their jobs and take pride in the Company they work for because we know that dissatisfied/unproductive Employees can cause costs to sky rocket and Customer satisfaction levels to plummet.

When Southwest's first flight took off back in 1971, only 15% of adults in America had flown a commercial flight. Thanks to low fare carriers, today, 85% of Americans have taken a commercial flight. In 1996, the U.S. Department of Transportation reported that low-fare carriers saved consumers \$6.3 billion annually—76% of which (\$4.7 billion) was directly attributed to Southwest Airlines.

Co-founders Herb Kelleher and Rollin King got the idea to start Southwest because they thought that Texas was an underserved market in terms of intrastate service. Herb and Rollin knew the population and types of businesses in the state would support the idea.

At the time Southwest was born, the U.S. airline industry was heavily regulated. The government set the routes and held down prices in short-haul markets to subsidize fares in the long-haul market. As such, our competitors were focused on getting the long-haul dollar and didn't think there was enough price elasticity (*i.e.*, when the price

goes down, demand goes up) in the short-haul market. Basically, they took a very shallow-minded approach to intrastate service. No one really thought intrastate service was necessary in Texas—except Rollin and Herb.

The fact is, our competitors really didn't think many people wanted to fly (at all); and they thought that those who did, only wanted to go longer distances. Because of the government's set prices and the airlines' focus on long-haul service, air travel was essentially reserved for the elite. Most flyers were business men, their families, or women who were visiting a sick/dying loved one on the other side of the country. That's hard to imagine in today's travel environment; but it was true back then.

Though Southwest has expanded the breath of our service across the U.S., when we consider new cities, we still look for underserved markets. There's a fallacy in business that makes leaders think market share is important. What is important to Southwest Airlines is profitability. In the airline industry, there is not a direct correlation between market share and profitability. In fact, Southwest will avoid revenue generating opportunities if it is going to disproportionately increase our costs to provide the service.

Aside from operational service (flight schedules), what's also true about the way the airlines did business in the 70's is that Customer Service was stiff, rigid, and lethargic. As such, the business tone was reserved, antiseptic, and indifferent. Because of the "one size fits all" system that was in place at the time, the airlines took a "take it or leave it" approach when it came to serving their customers. Sure, they were professional; but if there was a problem or if you had a complaint about the service, then you were out of luck. In this regard, Herb and Rollin knew that Texans were starved for better service.

The legendary court battles that we were ensnared and our creative tactics to defend ourselves attracted an audience in the media and with the traveling public. The first year we were in business, we decided we needed to get the most bang for our limited buck. As such, the Company decided to take an absolutely outrageous approach to advertising our cause. Everybody likes a feisty underdog, and the more we promoted our fight, the more the consumer realized we were standing up for their rights. The public quickly took our side, and we welcomed their support with open arms.

When we finally won the right to takeoff, our Company didn't have a lot of money laying around to spend on advertising. Therefore, to squeeze out the most bang for our limited bucks, we turned to clever advertising; we engaged our Customers; welcomed their feedback; responded to their needs; and invited them to celebrate our milestones. Our outrageous antics became reasons to fly Southwest, and they turned our Customers into spokespersons for our Company. Just like the relationship that we fostered with our Employees, we made a personal connection with our Customers that they sincerely appreciated and defended.

I'd like to play a couple of short video clips for two Southwest commercials. The first clip ("Remember what flying used to be like before Southwest?") was made in the 1970's, and though we didn't exactly "spell it out," we were suggestively telling our Customers that we were different by reminding them what it was like before Southwest. The second video ("Coins—No Fees") was made earlier this year, and it speaks to the current dilemma of flying other airlines. In these videos, you'll see that even though the tactics have changed, our strategy is the same—we're different and we're not bashful about pointing out those differences.

When it comes to providing positively outrageous service, there are three Customer Service misconceptions that I think need to be clarified. The first is trying to be everything to everybody. Herb's response to this sums it up nicely: "We don't sell pianos." We focus on what we do best—providing low fares and great service. As such, our Customers understand we don't offer a lot of amenities because bells and whistles increase costs. One of our Customers once wrote to Herb and she said, "As for 'no frills,' I'd much rather have reasonable fares than such things as meals that are usually worse than prison food...the sodas, water, and coffee are enough."

Another misconception in the corporate world is the notion out there that companies cannot or should not admit a mistake. I suspect this is based on a fear of negative publicity rather than confidence in your intentions, product, and services. Because the United States is a very litigious society, and people sue each other over seemingly unreasonable issues, there is an underlying concern about being accused of some wrong doing and the fear of creating a negative impression. At Southwest Airlines, we have always told our Employees that there is no harm in saying "I'm sorry" to a Customer for a bad experience—no matter who is at fault. In fact, acknowledging a bad experience and doing our best to try to make it better as quickly as possible actually saves the Company a lot of money in the long run.

My Team takes saying "I'm sorry" to a new level, and we proactively reach out to our Customers in writing when things don't go according to plan—and our Customers love it. In response to one of our letters, a Customer wrote back, "As a CEO of a retail business, your letter reinforced a valuable lesson that I have too often forgotten...treat

your customers as a valuable asset in the short run and they will become an even more valuable asset in the long run.”

This leads me to the third misunderstood concept that says the Customer is always right. Well, the truth is, Customers aren't always right. Throughout history, humans have treated one another in very inhumane ways. And if our Customers don't conduct themselves in a respectful manner, then we have no problem advising “them” to take their business elsewhere. We don't need the headaches and the extra costs that go along with these personalities.

Even though we don't try to be everything to every one and we're not perfect, we do try to create very realistic, positive, and memorable impressions when our Customers travel with us. Our approach to Customer Service in this regard is to under commit and over deliver. We offer basic/reliable service that is delivered with a sense of warmth, pride, and personal satisfaction. In doing so, we have created a very loyal Customer base. Loyal Customers come back, and typically bring their family and friends with them. As such, loyal Customers will generate thousands of dollars in referral revenue stream, and studies have shown that a 5% increase in Customer loyalty can produce anywhere from a 25% to an 80% profit increase (depending on your size and type of business).

In addition to taking good care of our Employees and providing Positively Outrageous Service to our Customers, another equally important objective for Southwest Airlines is to maintain an operation that ensures profitability and a corporate balance sheet that provides stability. To be profitable, Southwest's operating costs have to be low; our operations have to be efficient; we have to grow our operating service in a

steady/controlled manner; and to whether the storms of operational uncertainty, our balance sheet has to be healthy and secure.

On average, 70 to 75 percent of an airline's costs per flight are fixed—this includes salaries, property, plant, and equipment. Therefore, we have to look for and carefully analyze our options before we make decisions about the remaining 25% of our expenses in order to help increase the profitability gap on the revenue that we receive. In this regard, keeping a close eye on every penny being spent makes a big difference—this is especially true when we think about our jet fuel expenditures.

Southwest buys around \$1 billion, \$400 million in jet fuel each year. So, the slightest change in the price of fuel can have an enormous impact on our bottomline. Though we can't control the market rate for a barrel of oil, we do have a clever way in which we manage the price we pay.

Airlines with good credit are able to enter into contracts (known as hedges) that allow them to buy jet fuel futures at a pre-determined current price. Hedges are like secure bets that the future prices will be higher than current prices. From a budgeting point of view, hedges are secure because you get a set price on contract and that reduces the uncertainty that swirls around one of the largest fluctuating expenses that our Company faces. Thanks to Southwest's pennywise practices, we have an established fuel hedging program that has saved our Company \$4 billion in fuel costs over the last eight years.

To keep generating productive revenue, we have to utilize our assets as efficiently as possible on every flight. Because aircraft are productive when they are in the air (as opposed to being idle at a gate or sitting on a taxiway), we choose to fly to cities that

have uncongested airports. We fly one type of airplane in order to streamline and lower our operating expenses and maintenance costs. Flight routes are chosen and flown in ways that reduce fuel burn. Our fare structures are basic; easy to understand; and not bogged down with a bunch of fees—this simplifies the reservations and sales process (on our end), and benefits business travelers and novice vacationers too.

In this highly competitive industry, changes occur quickly and we can't predict what's going to happen five years from now. Therefore, we can't rest on our laurels because there is no time for complacency or assurances of stability. We have to be constantly aware of what's going on in the outside world so that we are prepared to address threats to our industry and operating environments. As Herb says, "When you're in a business where the capital assets travel at 500 mph, you have to be quick and responsive."

For 37 years, decade after successful decade, Southwest has made some very timely adjustments in our tactics to adapt to changes in industry conditions. We modified our aircraft; broadened our horizons; and stopped flying to unprofitable locations.

Perhaps one of the biggest changes that we all can relate to is embracing the emergence of the Internet. Roughly 15 years ago, the Internet didn't exist insofar as common household or office use. Today, we can't live without it. Southwest Airlines is no exception. Our Company has generated over \$1 billion in revenue via **southwest.com** (that's over 80% of our reservations taken) since it was launched.

Other than sales, the Internet creates transparency to Company information and reduces our communication costs as well. Effective communication is a key ingredient to building a lasting relationship with our Customers. And, we realize that, in an age of

instant gratification, if we don't embrace the latest changes via the net, then we're doomed. Therefore, rather than spending time and money on printing and distribution, we use WebPages to communicate with our Employees and our Customers. We also create Internet applications to generate/log data and share reports.

As a publically traded company, Wall Street likes to fret over our ability to provide continued growth in a domestic arena. To that, we say—the U.S. is a big place; there are a lot of people out there who want and like to fly; and for 33 years, we have demonstrated that there are plenty of growth opportunities from sea to shining sea.

To this point, we evaluate potential markets differently than do our competitors and analysts. We want to stimulate traffic. We want to make a particular market big enough to suit our low cost initiatives and load factor demands. We ask ourselves, "Can we start with 12 flights and end up with 20 in a year from now?" And, if the short-term and long-term costs are too high, or the service to/from a city is too saturated, we won't fly to those locations.

When we started service at Providence, RI in the Northeast (a traditional, popular, and populated U.S. travel corridor), we reduced fares by 70% and increased passenger traffic by 91%. By starting service in this underserved/overpriced market, this had an immediately positive impact on our revenue stream, as well as a dramatic effect on the real value (or savings) for the consumer and community in that part of the country.

In this regard, after we make a decision to "move in," we advise the local government officials to be prepared to handle more people—they will need more parking, more vendors, more hotels, and more space in general. Basically, we look at growth in a way that says, "How much can we stimulate the local economy?" It's a "big

picture” mentality that provides both short-term and long-term advantages for our Company and the city that we serve.

As we evaluate our tactics and consider our opportunities to grow, we never lose sight of the fact that the welfare of our Employees and the health of our organization depends upon having a reliable financial safety net. As such, we avoid risks we don't need to take, and we look for ways to protect ourselves from inevitable economic downturns, uncontrollable disruptions, and some catastrophe that is always lurking around the corner. In every walk of life, bad things happen more often than not. In order to survive operational and financial meltdowns, Southwest Airlines tries to put itself in a position to react swiftly if a disaster strikes.

Southwest Airlines has always been very open and forward thinking when it comes to being ready. From a cost point of view, we believe the best defense is a good offense. As such, we are constantly looking for ways to establish advantages over our controllable costs; stabilize our uncontrollable costs; and initiate new productivity measures in all departments.

By way of example, when we switched from a shared reservation network to an “in-house” reservation system, that saved the Company \$10 million annually. When we entered a ten-year contract with General Electric that leveled our engine maintenance costs and saved us \$20 million a year. We signed agreements with our office supply and ground equipment suppliers, and that saved us another \$20 million annually. When we decided we didn't need our logos on the sides of our aircraft trash bags that saved \$300 thousand a year. And, just by embracing Ticketless technology, that saved our Company \$100 million a year on paper and ticketing equipment expenses.

Southwest is always trying to line up new revenue opportunities too. We trim flight routes if all flights are not productive. We will add flights to squeeze revenue out of productive routes. We will connect the dots on in our system to stimulate revenue. And we will explore “code share” agreements with other carriers. For example, we don’t fly to Hawaii; but we once formed an agreement to share Customers with another carrier that does, and that generated \$50 million for us annually. All of these savings add up, and allow us to keep plenty of cash onhand.

Being prepared for disruptions also means being open and honest about the Company’s position on this matter. To convince our Employees about the seriousness what could happen, Southwest’s Leadership has always been frank about the economic forecast and potential dangers to our livelihood. The objectives and necessity are clearly spelled out. This sets the tone for our conservative approach to cost leadership, and invites participation and visionary thinking about better ways to operate more efficiently and save money.

Southwest Airlines is able to do a lot of things because our Company has excellent credit. If investors and lenders are cautious, then you can be sure that we are too when it comes to our spending habits and debt indulgence. We’ve always kept our balance sheet lean.

Never was the necessity of preparation more apparent then in the days after the terrorist attacks on September 11, 2001. This was one of the worst times in aviation history. Many carriers weren’t prepared for the cataclysmic changes that would take place in terms of security and operational procedures, as well as the immediate impact from shrinking passenger demand. Because Southwest had the lowest seat mile cost,

the strongest balance sheet, and the most liquidity, we were prepared. We did not furlough any Employees, and we did not cancel any of our service. And we were nimble enough to change our tactics in order to remain profitable.

When it comes to managing our day-to-day ops; looking at the future; and preparing for any type of disruption (big or small), our Company takes a scenario-based approach to planning. In other words, we think about our readiness in terms of “what ifs”—If Problem A happens, then we’ll do this. If Problem B occurs, then will do that. And, so on. We don’t get too far “in the weeds” or lock ourselves into a particular strategy because we want to be cat-like in our ability to make moves and allow some wiggle room to negotiate the details should any of the planned scenarios occur.

To maintain an efficient operation, we have to be quick, nimble, and positioned with good credit and plenty of cash onhand. There are no gimmicks, no special equipment, and no secret formulas to our operating principles. Just smart decisions, a commitment to excellence, and a lot of hard work.

The People of Southwest Airlines believe they can do a lot of good for the general public just by the way we do business. We believe we give Americans the freedom to go places, see things, and do stuff that is important to their business and personal lives—which they might not otherwise be able to do if it wasn’t for our Company.

That’s a big responsibility. It’s one we take a lot of pride in and stand up for. We fight for a greater cause—we fight to give Americans the freedom to fly.

Of course, we won’t be freedom fighters very long if we don’t mind the shop, maintain a healthy balance sheet, and prepare for financial disruptions. Thus, we have

to be very cost conscious, pennywise, efficient, and smart with every decision we make in our pursuits.

To keep all of our Employees motivated in our cause and to keep our Customers interested in the service we provide, we have to make emotional connections and create memorable personal experiences. As an Employee, if you believe in what you're doing, then you are more likely to make sacrifices. And, as a Customer, if you feel like the Employees care about you, then you're more likely to buy the product of the Company they work for. While black and white statistics and financial statements are very important, the psychological satisfaction "seals the deal" insofar as the Employees' decisions to serve the Customers and the Customers' willingness to give the Company their business.

Albert Einstein once said, "The simplest things are the hardest to understand." With this in mind, perhaps, the biggest oversight that our competitors make is that they don't do everything we do—they essentially cut corners (internally and externally) to compete with Southwest. Though our concept is simple—hire great People, provide great service, and offer low fares—there is proven difficulty in trying to be like Southwest. As Herb says, "It's easy to offer low fares and low service. It's easy to offer high fares and high service. But it's extremely difficult to provide low fares and high service."

Why?

Well, for one thing, to provide low fares, you have to have low cost. To be a low cost leader, you have to start and keep your costs low. Other airlines try to offer low fares; but they fail because they can't keep their costs in check. Then they turn to short-

sighted cuts that don't really solve the problem—in fact, they just compound their misery and cause employees and customers to lose faith in the company providing the service.

Another area where I believe our competitors really miss the boat is that they don't take the time to build lasting relationships with their employees and customers. Providing great service requires focusing on intangible benefits—which takes a lot of courage for the leaders of any business to commit to doing because you can't put a specific value on intangibles and you don't always see immediate benefits. Think about it. How do you quantify being nice, working hard, caring for each other, and being courteous? What does a pie chart or graph look like for “following through on your word?” There's no formula for treating others the way you want to be treated. And, you can't really say, “If I use common sense and good judgment, then I know it will yield 'x' results.”

But it works. And many companies don't do it or don't dedicate themselves to properly incorporating intangible benefits into their business practices because they don't understand the value of doing it. That said, if you invest in your people; treat them like a precious commodity; provide them with endless information and support; and embrace them like your family, then they, in turn, will invest themselves in your company; mind the shop (so to speak); and reciprocate that respect to your customers.

Southwest Employees' dedication, high productivity, and Teamwork are the key elements to maintaining low costs; giving Americans the Freedom to Fly; building a wonderful Culture; and making this Company a success. Southwest Employees are the Company's most valuable asset and its competitive edge. Other carriers don't have the same mindset and simply can't compete with us in this regard.

The bottomline is: At Southwest Airlines, what we do is a way of life. For us, there is no other alternative, and we wouldn't have it any other way.

Thank you for inviting me to be part of your conference; thank you for your undivided attention this afternoon; and thank you for the time you've given me to impart upon you some of the things that helped form the wonderful mosaic that is Southwest Airlines.

In the remaining time that I've been provided, I'm happy to answer any questions that you might have.