

Focus On People and Deliver Proactive Results



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Opening Remarks

It's good to be here with you—thanks for having me participate in the conference. Given my schedule, I had planned to just slip in and out as a passive observer; but Ken called last week and asked if I would be interested in taking a more active role in the Thinkubator discussion.

Happy to oblige Ken's request, I put together my presentation to shed some light on Southwest Airlines business philosophies hoping that it will help you be more proactive with your Customer Service initiatives. These aren't trade secrets—as such, what happens in here today, is not something that has to necessarily stay in Vegas!

About Fred

Before we get started, since we haven't met prior to this conference, I thought it might be a good idea to share a few things with you about me:

- I'm a big-picture, "can do" guy who believes in the good of people; but I'm also a realist who knows you have to work hard and practice what you preach to earn your keep.

- I enjoy challenges—to me, a problem is like a puzzle or in some ways a sport; and I get satisfaction in finding win/win solutions.
- I've worked for Southwest Airlines for 13 years: I started off as a Customer Service Agent at the Louisville airport, and I worked my way up to a Manager's position before I was invited by the Company President, Colleen Barrett, to take on a couple of her "pet projects"—one of which was proactive communications.
- Prior to Southwest, I worked for two insurance companies and two law firms.
- I'm married; we have four children (who provide me with lots of practice on being proactive); and a calico cat.
- We're from Louisville, KY (I graduated from the University of Louisville—Go Cards!). I was born surrounded by three things: horseracing, bourbon, and college basketball—and I love them all dearly.
- I also dig jazz music (Duke Ellington, Miles Davis, Ella Fitzgerald); everything by the Rolling Stones; and Grunge music (Nirvana, Pearl Jam, Temple of the Dog, Alice In Chains...)

Today's Objectives

So, enough about me; let's talk about what I have in store for you. As I mentioned, I put together three objectives:

- Share with you some fun facts about Southwest Airlines, and more importantly, introduce you to our philosophies and guiding principles.
- Talk about providing Proactive Customer Service.
- Discuss the benefits of being proactive.

Throughout the presentation, I'll show several videos, provide some specific examples, and we'll work a few exercises too.

The overall goal, today, is to explain how the focus on People will produce proactive results.

Objective 1: Southwest Facts, Philosophies, and Guiding Principles

Our first objective is to learn about Southwest Airlines, our culture, and what makes us tick.

If you have condense all of the things that we do into a nutshell, Colleen Barrett sums it up the best: "We're a great Customer Service organization that happens to be in the airline business." That's so true. We don't pretend to be everything to everyone, or as the co-Founder and Chairman Emeritus, Herb Kelleher, is known to say: "We don't sell pianos."

Southwest Fun Facts

What we do—well—is provide safe, affordable flights and positively outrageous service.

Here are some fun facts about our Company:

- 544 LUV jets
- Service to/from 69 cities (72 sometime next year)
- Over 3,300 flights per day (domestic only)
- 35,000 Employees

- We received 90,000 resumes in 2009, and hired 831 new Employees—so, statistically, it's easier to get “in” to Harvard
- Southwest was the first airline to offer a profit sharing plan (1973); and the Board did it the first year we made a profit because they felt it was the right thing to do to reward the Employees for their efforts (and have as incentive to keep up the great work). It's worked—we've been profitable every year since.
- Southwest was the first airline to establish an Internet homepage
- **southwest.com**, like the Company itself, has since become a “darling” in the industry; and Nielsen ranked it the largest airline website in terms of unique visitors.
- Southwest was named the 7th most admired company on FORTUNE magazine's 50 most admired; the only airline named; and the 13th consecutive year to be named.

Next Slide—Air Travel Basics

Now that you know a bit about Southwest, let's talk about a few air travel basics.

For better or for worse, people fly on airplanes because it gets them to where they want to go faster than they can drive—that's the bottomline.

So, let me ask you:

- How many people (annually) do you think took a domestic flight before Southwest started service in 1971? (156 Million Total—source: ATA)
- How many people take domestic flights (annually) today? (618 Million Total—source: ATA)

- How many people boarded Southwest Airlines last year? (86 Million—SWA Annual Report)

Shortly after Southwest Airlines established itself in the 70's, Deregulation came along and offered new frontiers for airlines, and our business model fit right in with the changes brewing in the industry. Two decades later, a couple guys at the U.S. Department of Transportation would write a case study about "The Southwest Effect" which, in summary, goes like this:

Because of Southwest's low cost structure and frequency, it allows the company to compete (with lower fares); be profitable; and stand up to the business practices of the legacy carriers. In return, the market gets better service and demand instantly goes up.

By example:

- In 1974, 123,000 people flew to/from the Harlingen Valley (South Texas); and, in 1975, 325,000 people flew to/from HRL after Southwest initiated service.
- In 1992, prices between Oakland and cities in the Los Angeles Basin declined 60%; and boardings tripled, quadrupled, and, at certain airports, increased sixfold as a result of Southwest's entry into the market.
- In 2004, Southwest launched service to/from Providence, RI, and soon after traffic increased from 100,000 flyers to 800,000 flyers.
- In 2009, Minnesota Public Radio ran a midday poll, and asked their listeners, do you intend to fly Southwest Airlines out of the Twin Cities (now that Southwest offers service) or will you stick with Northwest? 71% said they are going to switch and 9% said they would stick.

Why is all of this relevant to the Thinkubator discussion? The fundamental belief at Southwest Airlines is that these kinds of results (year after year), are directly attributed to the People who take responsibility for the company's success and have a warrior spirit.

Warrior Spirit

Colleen will attest: "The warrior mentality, the very fight to survive, is truly what created our culture."

These days, all businesses have to operate like amoebas to meet the rapidly changing conditions in the global market place. And, in the airline industry, we have to be resilient to overcome the uncontrollable external variables that directly affect the way we conduct our business. For example: On one hand, the way we generate revenue is directly related demand (which ebs and flows with the major economic trends); and, on the other hand, one of our biggest expenses (jet fuel) also hinges on commodity trading/futures prices—both of these things are out of our control.

If that isn't enough to make you think twice about starting an airline, then consider this: The first ten years in the history of Southwest Airlines were spent fighting off numerous (and ruthless) attempts to litigate, legislate, and blackball us out of business. Before our first airplane could takeoff, our fledgling Company spent three years in hearings and trials defending our right to start service—these litigation battles went all the way to the U.S. Supreme Court. After surviving the rigorous legal proceedings, our cross-town rival persuaded the Speaker of the U.S. House of Representatives to attach an amendment (a.k.a. "The Wright Amendment") to the

International Transportation Act that restricted passenger traffic out of Dallas Love Field—Southwest’s home base. In the long run the restriction backfired, and what was intended to debilitate us, actually motivated our People to create a very successful point-to-point service to/from other destinations that we served.

We emerged from the 70’s with a sense of purpose to keep the dream alive. We embraced an unconventional approach to providing air transportation. And, the 80’s and 90’s were good for Southwest Airlines. We expanded our idealism and service across the country—which made air travel affordable and literally giving all Americans the Freedom to Fly.

The start of the 21st Century, however, has been beset by unprecedented challenges. The angst surrounding Y2K at the dawn of the new Millennium was, perhaps, a foreshadow of what has become one of the most tumultuous decades ever. Not since the Great Depression has such drastic and dire circumstances flooded the world like a massive tsunami: The .com bust; the terrorist attacks on 9/11; annual natural disasters (hurricanes, fires, blizzards); enormous increases in energy (oil) prices; and the collapse of the housing market, banking institutions, and auto industry culminated in what’s now known as the Great Recession. All of these things have directly affected the airline industry. Let’s face it, any one of these things would be enough to last a lifetime—to have them all happen in the same decade would have been hard to comprehend in 1999.

When faced with extinction, survival, today, just as it was 40 years ago, is the best option; and it is contingent upon our Employees being resilient enough to rise above these harrowing circumstances and setbacks.

Herb Video

The value that we place on our Employees; the empowerment we bestow upon them; and the tools we provide to help them become warriors is paramount to our Company's ongoing success.

To these points, I'd like to share a video with you. It's a three-minute clip from a speech by Herb Kelleher talking about the most important aspect of any business...

Video: Herb Kelleher "The Business of Business is People"

Providing Better Service

Every time I watch that video, I feel good about what we are doing for our People at Southwest Airlines.

To be successful warriors, we also have know what it takes to provide better service—not just good service; but great service on our worst day. And, to help figure that out, we need to understand what works against us.

People will decide not to fly when they have a better transportation option (that makes sense); they won't fly if they are scared; and they won't fly if it's too much of a hassle.

People will chose to fly another airline if it's cheaper; if the other carrier provides more convenient service to the traveler's intended destination; *and*, if the Customer Experience is consistently poor.

So, what makes the Customer Experience better or worse? Frankly, the attitude of our Frontline Employees. As Herb said, if the Employees feel valued and are happy, then they will make our Customers happy.

Colleen Video

Let's carry this thought one step further, and consider the guiding principles that can deliver consistent success for any business.

To illustrate this point, I'd like to show you a short clip of Colleen Barrett talking about how the simple things that matter the most....

Video: Colleen Barrett "Principles of Success"

Hard Work, Determination, and Fun

Of course, I'm sure you realize that simple success comes with a caveat...Hard work, determination, and, for us, fun. This has been Southwest's formula for success for almost 40 years. And, our results speak for themselves:

- 37 consecutive years of profitability
- \$99 Million Net Income in 2009
- \$10.4 Billion Operating Revenues
- 81% of our revenues are generated via online bookings these days
- This year, our 2nd Quarter revenues are up 21% (best in the industry)
- For the last eight months, we've been experiencing record load factors

- We have \$2.6 Billion cash onhand, and a \$600 Million fully available line of credit to help keep everyone comfortable with our position.

Together, we've worked very hard this decade to keep our heads above water and secure our wellbeing. And, barring another national disaster, we're positioned to move forward.

The Road Ahead

Moving forward doesn't mean one step up, and two steps back, nor am I suggesting it's "high times" in Dallas, Texas again.

The fact of the matter is, the road ahead is lined with uncertainty; but, with careful navigation, we can see that it leads to prosperity.

We also know there will be some trolls lurking underneath the bridges along the way. Rising fuel prices and a staggering economy will make it seem like the road to the top is getting steeper.

To avoid breaking down, we continue to focus on our controllable expenses; look for more efficient processes; develop new revenue products; serve profitable routes; and keep delivering superior services.

Together, we survived the first decade of the 21st Century, and we are positioning our Company for the expressway of growth.

Objective 2: Proactive Customer Service

Today's second objective is intended to drill down and introduce you to Southwest Airlines Proactive Customer Service initiatives.

I've been blessed to have the opportunity to create, as Colleen says, a small, but mighty team of four—the Proactive Customer Service (PCS) Team. We are responsible for coordinating timely information, guidance, and support during disruptions of Southwest's scheduled service.

Working with 14 other departments, the PCS Team explores new ways to deliver more-effective communications and implement better Customer accommodations. Overall, we want to increase our Internal and External Customers' experience.

On average, the PCS Team directly contacts 50,000 External Customers a year who have had a very bad flight experience. We keep our collective fingers on the pulse of Southwest's operation 24/7/365. And, when something happens, we usually know or find out about it, then get involved in some way, shape, or form.

So, how do we do it, and what do we do?

What You Need To Be Proactive

To be proactive (especially in our line of work), you have to have support, trust, intuition, information, and an infrastructure to make it all happen.

Leaders have to be fully committed and willing to provide the necessary resources to support the cause.

Wins don't come easy—there's a lot of work that has to be done every day to generate positive results. But if your Team believes in its mission and trusts that victory

will happen (eventually), then they will pursue it like mad men (or mad women—as is the case on my Team).

Teammembers have to be able to foresee issues; be clever enough to address them at the right time; and know they may have to postpone their personal activities at a moment's notice in order to quickly respond to a work-related event.

The public's insatiable appetite for instant information and prompt gratification are the driving forces of service level demands. Along with getting in the right frame of mind, you have to know (or figure out) what your Customers want, and you have to create an infrastructure to get/send information lightning fast. In the current digital culture of blogs, Twitter, instant messaging, and RSS feeds, every business must explore new ways to live up to the Customers' service expectations.

Understanding Psychology to Satisfy Customers

Consistency, relevance, and the time of the information being provided are key factors insofar as keeping Customers satisfied when things don't go according to plan. For my Team, we believe proactively reaching out to our Customers is the right thing to do; and we try to "keep it real" when we do it. We have to figure out a way to make sure the information being delivered is useful—because if it doesn't make sense, comes across as stilted and "formish," or just isn't helpful, then there's no point in delivering it.

To be effective, we have to know what the Customers want and we have to understand the psychology of the situation. That starts with figuring out the main issue(s) by gathering objective information about the incident as quickly as possible and sorting out what's relevant.

Then once we've figured out what's important, then we determine the impact on the Customer and prepare to address it as if we are explaining the situation to a friend or family member. We'll include some details (when necessary, we'll explain the more technical problems by using analogies with common household appliance and cars) to validate our awareness of what happened.

No matter how common or silly the issue may seem, we take the Customers' inconvenience seriously and talk to them as if we were seated beside them on the flight. When considering the Customer's point of view, we've learned that there are three things that are always well received: A humble acknowledgment of the disruption's affect on the Customer's Experience, a heartfelt apology for the circumstances, and a small gesture of goodwill (when appropriate). Customers want to know that we are taking the appropriate level of responsibility for what's being addressed.

When considering what to do and say, we have confidence in knowing that an apology is not an admission of guilt. Just because we acknowledge someone's inconvenience, that doesn't mean we are admitting cause or assigning blame.

One last thought on this—we are constantly mindful of the way we say things. If the issue is one that carries an emotional element, a few words can change a Customer's opinion about our sincerity and intent. Even when talking about the gesture of goodwill, we keep in mind the circumstances and adjust our tone and style accordingly.

Thus, when communicating with Customers, we have to make sure we're clear about the facts, identify our intentions, and make the message meaningful.

PCS Areas

An informed workforce, is more engaged, productive, and willing to serve. One of the biggest challenges that we face is gathering information in a timely manner. For my Team, there are three areas that we operate in order to deliver proactive info: internal, external, and project initiatives.

By developing new reporting tools, processes, and internal communication channels, we've created pipelines of information to keep our Frontline Employees and Leaders "in the loop" with relevant operational and Customer accommodation updates. With helpful information at their disposal, our Employees work together and are in a better position to meet the needs of the Customers.

Customers who receive information quickly, consistently, and with accuracy develop trust in the Employees and an allegiance to the Company. The challenge becomes keeping pace with the Customers' preferred method to receive information. Like our internal efforts, we also utilize the latest distribution channels to contact our Customers and, when service disruptions are eminent, we will post Travel Alert on **southwest.com** about our operational gameplan.

To help tell our story, we make ourselves available to the media and give presentations (such as this) so the public has an opportunity to better understand our communication initiatives.

Of course, providing Proactive Customer Service (internally and externally) requires building a reliable infrastructure and accommodation services. To do so, we partner with in-house technology, as well as outside organizations to help us develop our ideas.

By building a solid communication network, offering timely information, and providing services that are meaningful, we are letting our internal and external Customers know that they are appreciated and valued.

PCS Correspondence Examples

To be more specific about my Team's proactive initiatives, I'd like to share with you a couple different examples of correspondence that we recently sent to Customers who were involved in flight disruptions.

Example 1: Weather Disruption

Example 2: Cat in the Cockpit

Group Scenarios

Now, it's your turn!

Let's break into groups and work a few actual scenarios together to see how you would handle a particular situation. I'll set the stage with the relevant facts about each incident. Then I'd like your group is to decide if you would proactively contact the Customers; what would you tell them (in general); and would you include a gesture of goodwill (if so, in what amount)? After discussing your ideas, I'll tell you what the PCS Team did.

Are you ready?

Scenario 1: Employee Injury and Flight Delay [Facts and PCS Letter]

Scenario 2: High Speed Rejected Takeoff [Facts and PCS Letter/[Video](#)]

Scenario 3: Engine Shutdown Inflight [Facts and PCS Letter/[Video](#)]

Objective 3: The Benefits of Being Proactive

Now that we've discussed why we are proactive and how to be proactive, I'd like to share with you the tangible benefits of being proactive.

Repeat Business, ROI, and Brand Protection

Trying to calculate the financial impact of, or create a score for, a positive Customer experience is difficult to do (because of the emotional variables that affect a person's opinion). That said, we know that providing our Customers with exceptional service is worth something, and we believe it's worth a lot on many different levels.

Our conscientious efforts to get our Customers to give us another try have proven to be successful in terms of repeat business, return on investment, and protection of our brand. Being proactive also empowers Employees, diffuses difficult situations, and provides unique services that our Customers like.

By tracking our Customers' redemption of the gestures of goodwill that we send, we know that over 65% will fly us again in 12 months or less—in fact, half of the people we contact will return in six months. In 2009, we issued \$4.2 Million in gestures of goodwill. Even though two thirds of the Customers actually redeemed the vouchers that we sent, we got back 100% of what was issued, plus an additional \$1.7 Million on top of that. This translates into a 15% return on investment—which is a consistent result that we've seen since we started tracking redemption (three years ago).

Along with the ROI, our proactive efforts evoke lots of positive Customer feedback and media attention/recognition—all of which go toward upholding the integrity of Southwest Airlines and our brand.

To illustrate the positive impression “being proactive” creates, I’d like to share with you what our Customers have to say about the PCS Team’s communication initiatives:

Customer Feedback

David J, VP Retail Sales & Marketing said: “In a company as large as yours, to understand how a passenger feels on a single flight out of hundreds a day...and to react on it, is clearly unbelievable.”

Mark H replied to the electronic correspondence that we sent: “I’m in a meeting with 20 other people and shared your e-mail with all of them. Two weeks ago, I had to fly another carrier...I won’t bore you with the details; but there’s no way I got a note from them—believe me, I’ve shared that story with others also.”

Terry B of TrueSimple Consulting posted an story on his company’s blog: “...The next day I get this e-mail from Southwest Airlines Proactive Communications. This e-mail explained in detail and in plain English, what happened and included facts only someone on the plane would have known. Clearly, it was more than a form letter.”

And, an anonymous blogger posted a comment about our Automated Outbound Messaging service on the popular airline blog FlyerTalk: “For the second time in less than a week, I’ve gotten an automated phone call from Southwest giving me flight status updates. Unlike other carriers, these actually work since I get them before I depart. Southwest really made my night last night. They called; told me my flight (the next day) was cancelled; and offered to ‘press 1’ to speak with a Representative. Within 30 seconds the Rep said, ‘Mr. X, we’re sorry about this cancellation. We can put you on

the 9:30 a.m. departure. Would that be okay?’ She even checked me in! I was able to sleep in an extra hour this morning because of that phone call!!”

Media Attention and Awards

Of course, we’re very proud of the results that stem from the fruits of our labor, and we appreciate every opportunity to talk about our proactive efforts. To date, the PCS Team story has been featured in over 50 print, television, and Internet media including: *The New York Times*, *Business Week*, *The Wall Street Journal*, *Chicago Tribune*, *Dallas Morning News*, on NBC, CBS, and FOX.

In addition to the news coverage, Southwest’s proactive initiatives have been published in one of the most recognized business communication textbooks by Mary Ellen Guffey, as well as the popular business book by Jeanne Bliss: “I Love You More Than My Dog”—for which Colleen Barrett wrote the Foreword. I highly recommend Jeanne’s book because it’s written the way we like it—in a genuine, down-to-earth style, and it includes lots of practical lessons as well.

We have also received two awards recently: 2009 InfoWorld 100 (the only airline to make the list) and 2010 1to1 Media Customer Champions.

Closing Remarks

Finally, I’d like to thank you for giving me your time and undivided attention. It’s a privilege to speak to you today, and I welcome any thoughts and questions that you have about Southwest Airlines and/or our proactive initiatives.