Benchmarking Essay, Research Paper

Benchmarking:

A Quantitative and Qualitative Look at

Southwest Airlines

In today’s competitive marketplace, all firms are seeking ways to improve their overall performance. One such method of improvement, recently adopted by many firms, is benchmarking. Benchmarking is a technique used to evaluate internal business processes. “In this analysis, managers determine the firm’s critical processes and outputs, baseline those processes, then compare the performance of each process against a standard outside the industry” (Bounds, Yorks, Adams, & Ranney 1994). To effectively improve a business process to world-class quality, managers must find a firm that is recognized as a global leader, not just the industry standard. Successful benchmarking requires tailor-made solutions, not just blind copying of another organization. Measurement and interpretation of data collected is the key to creating business process solutions.

“Benchmarking’s real role has to be seen in the context of the organization that is continuously implementing improvement” (Bendell, Boulter, & Goodstadt 1998). Organizations implementing the benchmarking process are continuously looking to improve, and planning improvement. Improvements can be made by looking at the firm both internally and externally. Internal improvements are implemented by analyzing processes and setting targets for performance. However, output performance measures are not able to help management understand why a practice is effective. This understanding is a result of personal interpretation of the process. Organizations must look to other firms for ideas to borrow from global leaders, regardless of the scope of the necessary improvement. Equally important as data collection is the actual implementation of the newly acquired business practice.

The most important aspect of benchmarking is to enable companies to employ the best business practices. This fundamental theory cannot be overstated. Global competition is growing due to the technological boom. The expansion of the Internet and digital communication has forced once domestic firms to consider foreign competitors. To remain ahead, companies are realizing they must match or exceed the business practices of the best in the world. “The only way that we can drive our organizations to excellence is to ensure that we keep our eyes on our competitors and world best practice in all aspects of business” (Bendell, Boulter, & Goodstadt 1998).

Benchmarking should not be considered simply a tool of management, but rather an integral part of the business strategy of a firm. When implementing benchmarking, management must consider the overall issues of performance and process re-engineering. It should be seen as part of the management practice with an organization pursuing excellence. In addition to influencing management’s practices, benchmarking should become part of the organizational strategy. Essentially, benchmarking effects all aspects of management, as well as the business. The goal is to establish benchmarking as a dynamic process with full integration into the organizational structure. Commitment to the best practices eventually will become the natural way of doing things.

There are five keys to successful benchmarking: emphasis on quality, business processes, limitations of Total Quality Management, external benchmarking, and benchmarking for survival. Benchmarking emphasizes quality in all areas and functions of the organization. It is not limited to the major services or products used by the external end consumer. Organizations should approach their processes with a preventative mentality, rather than a reactionary approach. This will ensure quality in all steps of the process.

The second key to successful benchmarking is understanding the importance of business processes. An organization can be seen as a series of major and minor business processes. Major processes contribute to the delivery of products or services to the end consumer, while minor processes make more subtle contributions. These processes are not performed in isolation. The end result relies heavily on the satisfactory completion of all processes and the communication of all functional areas involved. By viewing these processes as a whole, management can identify process inefficiencies. These inefficiencies may include delays or queuing at process bottlenecks, lack of control or checking, or places responsibility for process activities is not clear.

The Total Quality Management model is limited in its scope of improvement. Total Quality Management establishes targets for performance rather than focusing on continuous improvement. This perspective is to narrow because it fails to consider the overall improvement process. To be effective, management must incorporate all aspects of the business into a dynamic improvement process.

The fourth key to benchmarking is systematic external benchmarking. Once management has realized the importance of internal business processes and world-best practices, it is their responsibility to combine these two themes. Management must systematically examine its internal practices and performance in comparison to external benchmarks. The last key is benchmarking as a survival technique. It may effectively save a business from declaring bankruptcy. However, benchmarking should be used in organizations regardless of financial or economic status.

Internal benchmarking is one of the most important aspects of benchmarking. This involves making comparisons with other parts of the same organization. Comparisons can be made between departments, satellite locations, and subsidiaries. This will ensure familiarity with internal business processes. A major part of this is understanding the companies critical success factors. If management does not know which processes are most critical, it will not know which processes to benchmark. This form of benchmarking is fairly common and easy to perform. However, this type of benchmarking is unlikely to produce world-best practices. The ability to critique oneself is the first step in being able to realize organizational shortcomings.

External benchmarking is complimentary to internal benchmarking. Despite the difficulty in admitting deficiencies, it is critical that companies look to fellow organizations for necessary assistance. Competition has reached a global level and the only sensible goals are world-best practices. The ability to use the practices of others to a firm’s own competitive advantage is key in realizing a firm’s full potential. Information obtained from competitors is likely to be very relevant, but it will be impossible to get a picture of how a direct competitor operates due to corporate confidentiality. To effectively use this data, management must interpret the information and formulate their own conclusions.

The remainder of this paper will look at two companies who can use benchmarking to gain competitive advantage. We will look at Southwest Airlines and their practices. We will also consider potential areas of improvement, and how each company can benchmark the other to gain their own advantage in the industry.

Southwest Airlines:

Overview:

Southwest Airlines is a Dallas, Texas based, low-fare carrier serving destinations in more than fifty cities in twenty-eight states. Southwest currently offers more than twenty-four hundred daily flights, and is expanding eastward. The company has devised a strategy that has produced profits for twenty-six consecutive years. Short-haul flights compose eighty percent of the company’s entire flight load. However, Southwest is offering more long-haul flights and expanding its fleet to compete with larger domestic carriers.

History:

Southwest Airlines was founded in 1967 by two Texas businessman, Rollin King and Herb Kelleher. It was founded as an intrastate airline serving Dallas, Houston, and San Antonio. In 1971, the company made its first scheduled flight from its home airfield, Love Field in Dallas, Texas. In accordance with the Wright Amendment of 1979, Southwest’s market was restricted to Arkansas, Louisiana, New Mexico, and Oklahoma. Passengers were not permitted to travel to any other destinations from Love Field. This was an effort by Congress to protect Dallas/Fort Worth Airport.

In 1986, Kelleher introduced advance-purchase Fun Fares. He also introduced a new type of frequent flyer program a year later. Frequent flyer credits were based on number of flights taken, rather than mileage.

Southwest first expanded to the East Coast in 1993, with service to Baltimore-Washington International Airport. In 1994, the company acquired Morris Air, a Salt Lake City, Utah based airline. That same year, Southwest launched several programs to cut costs. A ticketless system reduced travel agents’ commissions, and Southwest began to use an in-house reservation system.

By 1997, Southwest Airlines served cities in all parts of the continental United States. This same year, Southwest formed an alliance with Icelandair. This agreement enabled Southwest passengers to connect from several United States’ cities to Europe through Icelandair’s Baltimore hub. The company completed its first non-stop transcontinental flight in 1998, thus establishing Southwest as a formidable domestic competitor.

Areas to be Benchmarked:

“Southwest ranked number one in on-time performance for the last seven consecutive years according to [The Department of Transportation's Air Travel Consumer Report]” (Southwest Fact Sheet, 1999). This punctuality can be attributed the company’s ticketless system and no-frills approach to air travel. The ticketless system reduces costs for both consumers and Southwest. Travel agents and ticket brokers are eliminated from the ticketing process. This also minimizes the lengthy check-in processes by eliminating physical transactions between customer service representatives and the consumer. All that is a reservation number and a form of identification to receive a reusable boarding pass, which enables the customer to board quickly.

Southwest’s no-frill approach reduces preparation time by eliminating the time required for three optional services. The first service to be bypassed is the meal distribution by flight attendants. Southwest does not serve meals on any flight regardless of duration. This severely reduces the time required of planes while sitting at the terminal. Second, Southwest does not offer reserve seating on any of its flights. Passengers are asked to select the first available seat. This reduces boarding time by allowing all customers to board in an orderly fashion, but not mandating a seat. The last technique used by Southwest to enhance on-time departure is a single class, seating array. Associated with the last service, this does not give any passenger special boarding privileges, delaying the departure.

Southwest Airlines has increased its profitability through a strategic alliance with Icelandair. This agreement has expanded Southwest’s service to Europe. This new international capability of the airline has allowed the company to enter a new market. Although they are not yet fully competitive in the international market, their steady growth will likely produce an increase in market share in the years to come. This is a huge step considering the youth of the company.

Southwest has consistently offered airfares that are substantially cheaper than its competitors. Larger competitors are unable to meet the prices of Southwest without incurring substantial losses. “For example, in the first quarter of 1991, Southwest’s operating costs per available seat mile were fifteen percent lower than America West’s costs, twenty-nine percent lower than Delta’s, thirty-two percent lower than United’s, and thirty-nine percent lower than USAir’s” (Hartley, 2000).

Many aspects of Southwest’s strategy have contributed to lower costs. Southwest uses only type of aircraft, Boeing 737’s. Using a single type of carrier reduces training, maintenance, and inventory costs. Pilots and ground crew need only be skilled in operations and maintenance of a single type of plane. Therefore, training can be tailored specifically to reduce duration of training and the variety of skills taught. Inventory and storage costs can be reduced due to the Southwest’s need to carry supplies for only one type of aircraft.

Southwest has the fastest turnaround time on the ground, which results in higher revenues, due to the company’s ability to offer more flights daily. “While competitors take more than an hour to load an unload passengers, and to clean and service the planes, about seventy percent of Southwest’s flights have a turnaround time of fifteen minutes, and ten percent have even pared a turnaround time to ten minutes” (Hartley, 2000). As previously mentioned, the no-frills approach offered by Southwest Airlines, also greatly reduces costs.

“In [Fortune Magazine's] January 11, 1999 issue, Southwest was ranked as the number four company to work for in America. Southwest topped the list in 1998″ (Southwest Airlines Fact Sheet, 1999). Southwest is eighty-five percent unionized yet has world-best management-employee relations. Unlike the adversarial relationships experienced by other airlines, Southwest is able to maintain a healthy and productive working arrangement. Southwest has flexible work rules. These work rules empower employees, resulting in higher levels of employee productivity and commitment. High employee productivity has allowed the company to carry minimal staff. Southwest maintains the same staffing level, regardless of revenues. This practice has contributed to employee feelings of job security and loyalty.

“Southwest Airlines has been named a charter member of the International Airline Passenger Association’s Honor Roll of Airlines among the World’s Safest Airlines” (Southwest Press Office, 1999). The company has achieved this status by employing the most highly skilled pilots in the world. Southwest has state-of-the-art training facilities across the United States. On April 6, 1998, Southwest opened its new ten million dollars flight operations training center. This facility is the key to Southwest’s flight training for more than twenty-six hundred pilots. It is well equipped to handle the flight training needs of this airline, well into the twenty-first century. Pilots must spend at least one thousand hours training for Southwest during their careers. Their focus and commitment to safety is supported by this training, and has earned them distinction among their competitors.

Rather than invest all revenues into exploring new markets, Herb Kelleher preferred an approach, which expanded the company only when enough resources could be committed to do so. As leader, his company would only reach new markets when enough flights would be able to fly into a city ten to twelve times a day. Kelleher’s strategy was to establish as a major competitor in one location before disbursing his resources to a larger region. This philosophy of conservative growth has reduced losses due to rash investment choices.

Southwest Airlines has consistently had fewest customer complaints in the airline industry. “Southwest has ranked number one in fewest customer complaints for the last eight consecutive years, as published in the Department of Transportation’s Air Travel Consumer Report” (Southwest Fact Sheet, 1999). Several factors contribute to this high customer satisfaction. Southwest offers the lowest airline fares in the industry, due to cost containment factors previously discussed. Second, the company’s baggage handling practices have been recognized as world-best. It earned the “Triple Crown Award” five consecutive years for on-time performance, baggage handling, and customer complaints. This obviously leads to a very satisfied customer.

Third, Southwest Airlines boasts the best on-time statistics among its domestic competitors. This is due to the factors mentioned earlier. Finally, Southwest does not disappoint its customers. Many large airlines’ disappoint customers when they do not provide the services promised. High prices and advertising promoting high quality, luxury accommodations, and dependable service heighten customers’ expectations. When large airlines cannot provide these services, customer satisfaction dramatically decreases. However, Southwest does not advertise these services. Therefore, customers are not disappointed because their expectations are not as high.

Similar Wold-Best Practices:

Southwest Airlines is a leader in their respective market due to their innovation and use of world-best practices. Southwest has some of the most productive employees in the world. It has achieved these results through slightly different employee relations’ techniques. Southwest Airlines, on the other hand, is more concerned with employee commitment and loyalty. Southwest has instilled feelings of job security, through practicing sound human resource and management techniques.

Southwest Airlines have formed strategic alliances with foreign competitors in order to operate more effectively in an international capacity. . Southwest, however, has only recently entered the international market through its alliance with Icelandair.

Punctuality is a critical success factor for each of these airline companies. Southwest is highly recognized for their commitment to on-time flight departures and arrivals. Southwest maintains the lowest percentage of delayed flights. Southwest prides themselves on their quick turnaround.

All companies must require customer service in order to remain competitive in the global marketplace; Southwest Airlines has achieved extraordinary levels of customer satisfaction. While Southwest achieves this satisfaction through a no-frills, cheap airfare approach, These high levels of customer satisfaction have resulted in profitable, market leader.

Practices to be Benchmarked:

Southwest offers different services, serve different customers, and use different strategies to achieve their goals. Although they differ in these areas compared to the industry, these companies can learn from one another. The most effective way to learn each other is by benchmarking world-best practices.

Practices Southwest Airlines May Benchmark:

Southwest Airlines is a United States domestic carrier seeking to expand into the global market. This strategy necessitates a benchmarking process. Southwest must look to establish global airline industry leaders such as British Airways, for effective techniques. Fuel efficiency and international experience are two areas in which Southwest may benchmark.

Fuel efficiency is key to cost reduction in a global marketplace. Global carriers often travel much longer distances, and, therefore, must minimize fuel costs. British Airways has set specific targets for fuel efficiency, designed to minimize the costs. With Southwest’s competitive advantage being its low price fares, the company cannot afford to increase prices due to inefficient fuel management. Southwest should also set targets to maintain their fuel costs, as British Airways has done. By exploring how British Airways maintains their fuel costs, Southwest Airlines can learn a lot and continues to remain competitive.

International experience is also critical to competing in a global marketplace. Founded in 1916, British Airways is one of the oldest airlines in the world. British Airways currently serves nearly ninety countries, with satisfied customers around the world. As Southwest Airlines attempts to expand beyond the borders of the United States, it can learn a lot from its foreign counterpart. Operating on a global level is very different than operating in a domestic market. Southwest should take from British Airways international experience, and learn from the best.

Conclusion:

Benchmarking partnerships can be very beneficial for companies looking to succeed. Southwest Airlines lead their markets due to slightly different world-best practices. Each of these companies can adapt the other’s world-best practices to fit their organization. By doing so, these companies can improve their performance with slightly modified techniques. Information sharing will ultimately lead to increased success and expansion. In an industry as competitive as that of the airline, Southwest Airlines must remain flexible and able to respond to changing market demand.