

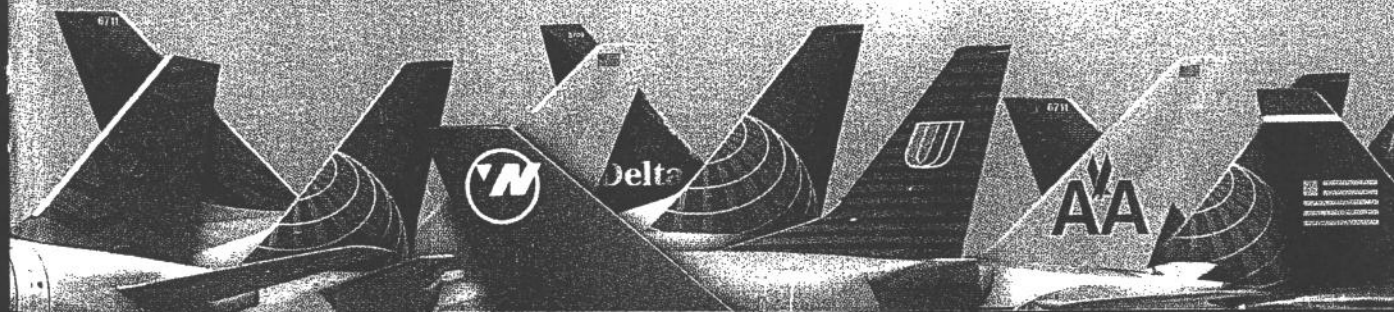
ONE AIRLINE'S MAGIC

How does Southwest soar above its money-losing rivals? Its employees work harder and smarter, in return for job security and a share of the profits

By SALLY B. DONNELLY

MOST FOLKS KNOW BUFFALO, N.Y., FOR ITS chicken wings, but in the airline business it's famous for ferocious winter storms that bring air travel—and sometimes all travel—to a frozen halt. That's what happened last December when Buffalo was buried under a record 7 ft. of snow. Southwest Airlines, with its lean scheduling system, was hit harder than most. One of its planes got stuck so long it came due for a routine maintenance check. Without it, the plane wouldn't be allowed to fly—and that would cost Southwest tens of thousands of dollars in lost revenue. What to do?

Johnny Bomaster, 38, had an idea. A certified maintenance-check mechanic for Southwest, he lived just seven miles from the Buffalo airport but couldn't reach it over roads clogged with snow. So he tossed his





... because its crews work harder and more flexibly

► **PILOTS** fly as many as 83 hours a month, compared with about 53 hours in a busy month at United. Southwest pilots have also been known to pitch in to help ground crews move luggage.

► **FLIGHT ATTENDANTS** work almost twice as many hours as flight attendants at other airlines, and they tidy cabins between flights.

► **MECHANICS** change airplane tires faster than their counterparts at other carriers. Southwest mechanics now boast higher wages than the others too.

ILLUSTRATION FOR TIME BY MICHAEL KLEIN

destinations. On occasion pilots have even pitched in to help ground crews move luggage—a step virtually unheard of at Southwest's bigger rivals.

Flight attendants at Southwest work as many as 150 hours a month, compared with 80 hours at many other airlines, says union president Thom McDaniel. Southwest attendants are required by contract to “make a reasonable effort to tidy the airplane” between flights, a chore that other major airlines pay contractors to do. According to an airline labor expert, senior flight attendants at United get as many as 52 vacation days (compared with 35 days for veterans at Southwest). And they never have to clean up after the passengers.

OPERATING LIKE A NASCAR PIT crew, Southwest's mechanics pride themselves on changing airplane tires faster than their counterparts at other airlines. And mechanics at Southwest don't use the standard \$500 tool to remove the magnetic device that detects metal chips in engine oil, as other mechanics do; they simply and quickly use their hand to pop it out. “Those tools are a waste,” says a mechanic.

Although Southwest has a higher proportion of union members among its employees than any other major airline, the 30-year-old carrier has never suffered a lay-off or strike. Unlike any other CEO in the business, Jim Parker, 55, who joined Southwest in 1986 and took over the top spot from founder Herb Kelleher last year, personally leads most negotiations from Day One. “The biggest complaint in the indus-

try is that management doesn't listen to employees,” observes Southwest pilot Brad Bartholomew. “But you can't say that at Southwest. The top guy is in the room.” After sometimes acrimonious talks with the mechanics union, Parker took both sides out to dinner. He insists, however, that the company must defend the flexibility over work rules and pay that has helped it prosper. “We cannot afford *not* to take a strike if a labor demand threatens Southwest.”

When the union that represents Southwest's pilots told members to reject the company's contract offer, Southwest pilots rebelled. “The industry—and the economy—is going to hell, and I'm supposed to vote against?” scoffed veteran pilot Tracy Price. “The union was out of touch. I took the raise.” Two-thirds of the pilots voted in September to accept management's offer. They voted the union leadership out of office last week, in large part because of its unrealistic stance on wages.

More than other airlines, Southwest compensates its workers in ways other than base pay. It contributes 15% of its pre-tax income to a profit-sharing plan. Immediately after Sept. 11, 2001, Southwest management assured its workers and unions that no one would be laid off.

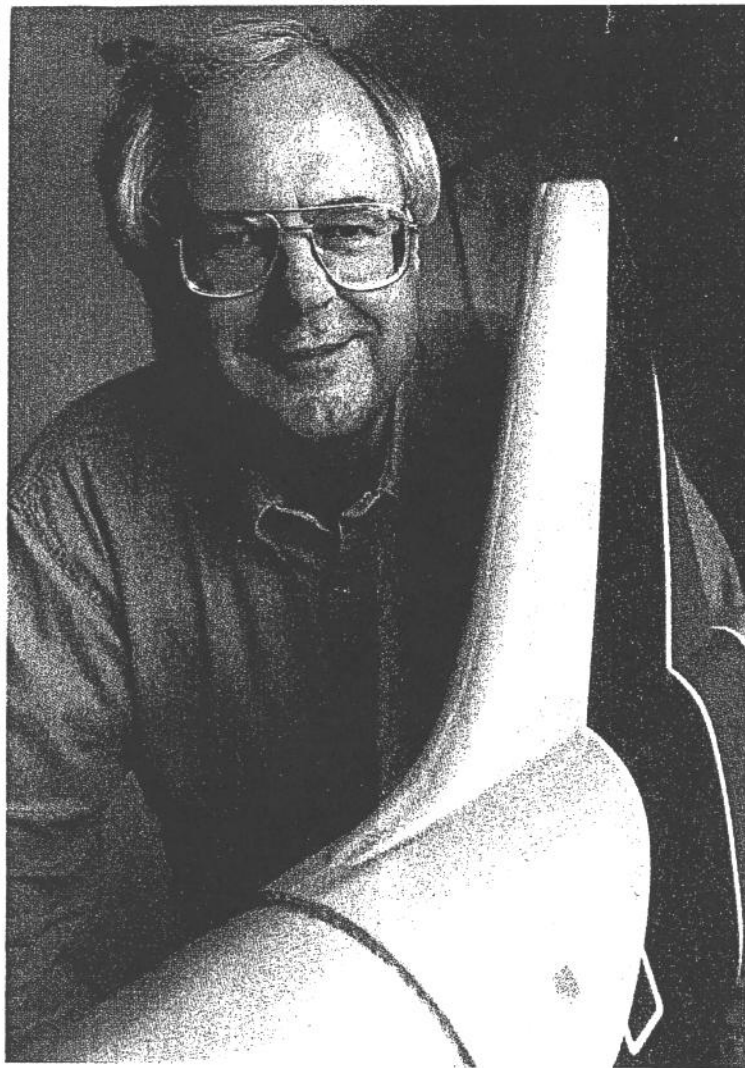
The airline has enjoyed big savings by never having the type of defined-benefit pension plan that is proving so troublesome for other carriers. Pension plans at eight major airlines are underfunded to the tune of \$12 billion. Southwest was, however, the first major airline to establish an employee stock-ownership plan without asking for wage concessions.

Still, some workers at Southwest are demanding a raise. The flight attendants' base

pay of \$23 an hour for a six-year veteran trails the pay at other carriers by as much as \$15. They have just started negotiations on a new contract, which union president McDaniel vows will include “industry leading” wages. Entry-level mechanics at Southwest had long been paid slightly less than the industry average—a factor that moved the mechanics union to force the company before a federal mediator. On Oct. 11, the mechanics accepted the company's second contract offer. But one mechanic warned, “We'll take what we can get now, but we'll come back to the company soon.” Even pilots who support management question whether the culture of Southwest can be sustained. “As we continue to grow,” says a 12-year veteran, “it's going to be increasingly hard to keep the same spirit at Southwest.”

Management is working to maintain the airline's trademark high morale and good customer service, in large part through careful recruitment and training. The airline received 200,000 résumés last year but hired only 6,000 workers—making it more selective than Harvard. “Attitude is critical; skills are not,” says Lorraine Grubbs-West, director at the People Department. (Southwest doesn't use the word employee.) Byron Woods, 22, a customer-service-agent trainee at Southwest, isn't much bothered that he is getting only half the \$18 an hour he once made at United. That airline, he says, “trained me for eight hours on how to use the computer, then just threw me into the job.” At Southwest, Woods is spending several days doing funny skits about government rules and playing games with his peers. Says Woods: “I feel lucky to be here.”

Southwest has other advantages beyond its work force. It flies point-to-point domestic routes, as opposed to the complex and expensive hub-and-spoke international networks operated by other major airlines. There are no meals served onboard, no bulky drinks carts and no entertainment. Where it makes sense, as at Oakland International Airport in California and Midway Airport in Chicago, Southwest uses less expensive, less crowded secondary airports. It flies only one type of aircraft—the Boeing 737—to reduce maintenance costs and turnaround time, and it contracts out its most intensive maintenance work. That allows the airline to employ only 1,478 mechanics for its 366 airplanes, while United needs 12,611 mechanics for 557 planes. That sounds like a lot of extra work for the folks at Southwest. But remember: one of them is Johnny Bomaster. ■



Southwest leads the pack ...

Thanks to enthusiastic workers and the lean scheduling system of CEO Jim Parker, the airline spends far less than its rivals to fly each of its seats 1 mile (the standard industry measure). It also keeps planes in operation for more hours a day.

Cost per Seat Mile

Southwest spends less money to go the same distance

Southwest	7.5¢
America West	8.0
Delta	10.0
Northwest	10.2
Continental	10.4
Alaska	10.5
American	11.2
United	11.4
US Airways	14.2

Aircraft Hours per Day

and its planes spend more time in the air and less at the gate

Southwest	10.9
Alaska	10.0
Continental	9.6
US Airways	9.5
United	9.1
American	9.0
America West	8.9
Delta	8.9
Northwest	8.5

2Q 2002

1Q 2002 Source: Air Transport Association

No. 6, Southwest.

How does Southwest do it? The answer starts with lower costs. The Air Transport Association reports that other major airlines (American, United, Delta, Northwest, Continental, U.S. Airways, America West and Alaska) had

unit costs—measured in cost per seat for each mile flown—nearly 100% higher than Southwest. A study by the consulting arm of Unisys concluded that the other majors would need to cut spending a staggering \$18 billion just to level the playing field with Southwest. The airline “has long-term, systemic advantages the other carriers can likely never match,” says Vaughn Cordle, an airline pilot who heads his own consulting firm, AirlineForecasts.

Although starting pay for some positions at Southwest lags behind that of other carriers, Southwest has

traditionally made up that deficit with generous profit sharing and stock options—based on shares that have dropped 24% so far this year, after almost doubling in value over the past five years. The company is valued at \$10.8 billion, more than the other major U.S. airlines combined. And employees own more than 10% of Southwest’s

outstanding shares. Southwest also offers something even scarcer than a valuable stock: job security. While the other majors are shrinking their service and laying off workers, Southwest is adding routes and flights, accelerating delivery of planes, hiring workers—and scooping up market share from its rivals.

To be sure, Southwest in the third quarter earned only about half as much as it did in the same period in 2001. Its top executives aren’t certain whether the airline will be able to stay profitable for the final three months of 2002. And Southwest’s pay advantage is shrinking. In recent months, as workers at other airlines have been forced to make pay concessions, Southwest unions have been signing new contracts for pay hikes.

But Southwest’s core advantage isn’t that its employees get paid less for their work; rather, it’s that they work more for their pay. They work more productively, more flexibly and more creatively—like Johnny Bomaster. Southwest pilots routinely fly nearly 80 hours a month; United pilots fly just over 50 hours, even in a busy

month. Southwest pilots are paid for each trip, not each hour, so they have a strong interest in keeping flights on schedule. And because a big chunk of their compensation comes in the form of stock options, they tend to watch costs like bean counters. Air-traffic controllers say Southwest pilots are constantly pushing to get quicker routings to their

SOUTHWEST AIRLINES

toolbox onto the back of a snowmobile and zoomed through the drifts to the stranded plane. By next morning, when the runways and roads had been plowed and passengers were streaming through the terminal, Bomaster had thoroughly checked the plane and allowed it to take off fully loaded. (A new storm then stranded him at the airport for an additional 24 hours.)

Bomaster and workers like him are a big part of the reason that amid record losses by its competitors, Southwest last week reported \$75 million in earnings for the third quarter and stands as the only profitable U.S. airline among the top eight. AMR, parent of American Airlines, the world’s largest, just reported a third-quarter loss of \$924 million. U.S. Airways is reorganizing under bankruptcy protection, and industry experts expect it will soon be joined by United Airlines. Delta has announced that “to survive for the long term” it will lay off an additional 7,000 to 8,000 employees, meaning it will have lost nearly a quarter of its work force since Sept. 11. Among major carriers, Alaska Air, ranked ninth by operating revenues, is expected to report that it is in the black, along with

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