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DO THE RIGHT THING



HOW DEDICATED EMPLOYEES CREATE LOYAL CUSTOMERS AND LARGE PROFITS

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Chapter 11

With a Little Help from Our Competitors...

I always thought our competitors did us a huge favor in concluding that the airline industry was a commodity market and that price was all that mattered. Until that time, Southwest Airlines was known primarily for its low fares. Anytime Southwest began service to a new city, fares dropped dramatically and the number of people flying increased tremendously. Thus, many people assumed that low fares were all Southwest had to offer.

In truth, however, Southwest never wavered from its determination to combine quality customer service with low fares. While our competitors crammed more seats into the airplane and reduced passengers' legroom, Southwest was updating seats to increase legroom and adding larger overhead bins for passengers' convenience. While some flight attendants for a competing airline openly referred to passengers as "the enemy," Southwest's employees continued to build bonds with customers by making flying fun.

We knew that low fares alone were not enough. In any business, low prices alone do not form the basis for a sustainable competitive advantage. No doubt, the competitor with the lowest price has a significant competitive advantage. But those low prices must be supported by a low cost structure. A business that sells its products or services below cost will soon go out of business. Having the lowest cost structure in the industry, as Southwest does, creates the basis for offering low fares and making a profit.

But even low prices and a low cost structure do not create the basis for an enduring competitive advantage if the service or product being offered to the public is lousy. Cheap toilet paper is no bargain if it gives you a rash. Cheap airline seats are no bargain if the flights are perpetually late, your bag is lost, or you are treated rudely. This is not value; it is just cheap service. Customers shop for value, and value involves a combination of price and quality. An enduring competitive advantage comes from consistently and reliably offering customers the best value over an extended period of time. In the airline industry, this means consistently and reliably combining low fares with high quality customer service.

Marketing people refer to this as brand value. Customers come to rely on the brand name as a guarantee of value—a quality product or service at a price they are willing to pay. I have been told that the brand value of Southwest Airlines is among the highest in the world. This would seem to be verified by *Fortune* magazine's annual ranking of the most admired companies in the United States. Southwest regularly ranks among the most admired companies in America. That's brand value.

Chapter 12

Leaders Are Everywhere

Let's face it. CEOs are no longer rock stars. These days, they are more likely to be perceived as public enemies.

I recall being on a Southwest flight from Texas to California. I was helping hand out peanuts to our customers. One customer looked up from her book with surprise as this overweight, bespectacled man dressed in a business suit handed her a bag of peanuts. "You don't look like a flight attendant," she exclaimed.

"I'm just helping the flight attendants," I replied. "I work for Southwest, too."

A flight attendant standing nearby felt a little devilish, I guess, and piped up, "Ask him what he does."

The customer looked me over suspiciously. "What do you do?"

I tried to evade the question. "Oh, I work in the headquarters. I'm just a trainee when it comes to handing out peanuts, though."

Her suspicion grew as she scrutinized me further. Unfortunately, I was dressed in a suit that day, unlike

our normal casual attire at Southwest Airlines. This apparently made me look even more suspicious. She warily looked me over, head to toe. "You're not one of those CEO types, are you?"

Her words obviously bespoke the anger of a nation. Her disgust was palpable. I decided to come clean. "Well, I'm afraid I am the CEO," I said. "But I'm actually a lawyer by trade. I hope that will improve my standing in your eyes somewhat." She could only laugh.

It is true that I am a lawyer by trade. I know what you probably think of lawyers. In fact, I spent most of my professional career listening to every lawyer joke in the book, and I think I've heard them all. Know the difference between a dead skunk and a dead lawyer in the middle of the road? (There are skid marks in front of the skunk.) Know why couples can't get a divorce in heaven? (Where are you going to find two lawyers in heaven?)

When I became CEO of Southwest Airlines in June 2001, I thought I had finally stumbled into a respectable profession. After all, as the technology and stock market boom of the 1990s created hordes of wealthy new entrepreneurs, corporate CEOs became the rock stars of the day. Bill Gates transformed the world as no politician possibly could. Herb Kelleher brought about the deregulation of the airline industry and, through emulation, other previously regulated industries. Jack Welch set the cutting-edge agenda for the world's most visible and economically powerful corporation, and his thoughts on any subject were quickly absorbed by the masses, who hoped to duplicate his success. Sam

Walton revolutionized the retail industry throughout the world by selling high quality brand name merchandise at rock bottom prices. All of these giants of commerce were justly hailed as heroes of the free enterprise system and as cultural icons.

The world changed swiftly, and the change was not being driven by politicians, poets, philosophers, or lawyers. Rather, it was being changed by entrepreneurs. It was hardly a wonder that the highest ambition of bright young people everywhere was to become an entrepreneur—or, better yet, a corporate CEO. It wasn't just the money they wanted; it was the action. Just as many of the best and brightest sought to change the world by entering public service during Roosevelt's New Deal or Kennedy's New Frontier, people now saw that the world could be changed, and changed dramatically, through the free enterprise system. And corporate CEOs were perceived as the leaders bringing about change.

But just as I thought I had safely achieved a position that might be held in high public esteem, things went south in a hurry.

Enron. Need I say more?

Few companies had prospered from the booming '90s like the Enron Corporation. As primarily an energy trading company, it essentially produced nothing. Yet by 2001, it had grown into one of America's most highly capitalized and respected companies. Its executives had amassed vast wealth, and its board of directors consisted of an unparalleled collection of business leaders, academics, and politically connected leaders of