

communication service in 2005, which allowed buyers and sellers to communicate over voice or video free and generated additional ad revenue for eBay. However, in 2009 eBay sold a majority stake in Skype to focus more on its e-commerce and payments businesses, leading the company to acquire Shopping.com, StubHub, Bill Me Later, and others. eBay now has a presence in 39 markets around the world.

Although eBay was a darling in the dot-com boom and has achieved tremendous success since then, it is not without challenges. These include a worldwide re-

cession, increased competition from Google, and difficulties as it expands globally into tough markets such as China. Its CEO, Meg Whitman, retired in 2008 after leading the company for 10 years and was replaced by John Donahue. Under its new leadership, the company continues to focus on one of its founding beliefs: a strong commitment to and investment in technologies that help people connect. Recent efforts to adopt mobile applications, integrate with iPhones, and become more green

have helped take the company to the top of such lists such as *Newsweek's* Greenest Companies in America and *Fortunes* 100 Best Companies to Work For in back-to-back years.

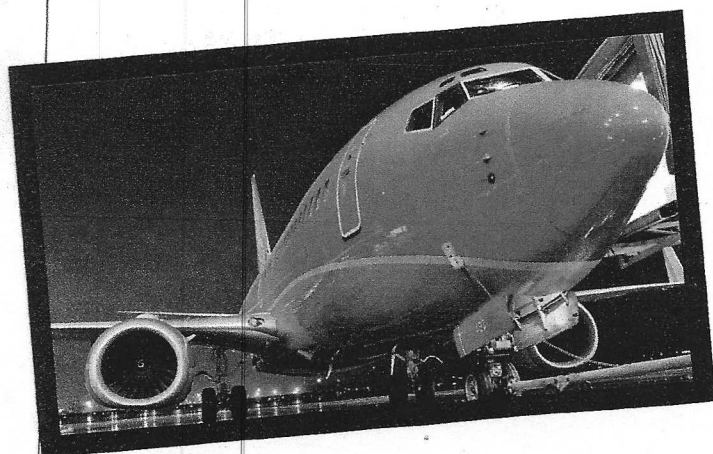
Questions

1. Why has eBay succeeded as an online auction marketplace while so many others have failed?
2. Evaluate eBay's fee structure. Is it optimal or could it be improved? Why? How?
3. What's next for eBay? How does it continue to grow when it needs both buyers and sellers? Where will this growth come from?

Sources: Douglas MacMillan, "Can eBay Get Its Tech Savvy Back?" *BusinessWeek*, June 22, 2008, pp. 48–49; Catherine Holahan, "eBay's New Tough Love CEO," *BusinessWeek*, February 4, 2008, pp. 58–59; Adam Lashinsky, "Building eBay 2.0," *Fortune*, October 16, 2006, pp. 161–64; Matthew Creamer, "A Million Marketers," *Advertising Age*, June 26, 2006, pp. 1, 71; Clive Thompson, "eBay Heads East," *Fast Company* (July–August 2006): 87–89; Glen L. Urban, "The Emerging Era of Customer Advocacy," *MIT Sloan Management Review* (Winter 2004): 77–82; www.ebay.com.

Marketing Excellence

>>Southwest Airlines



Southwest Airlines entered the airline industry in 1971 with little money but lots of personality. Marketing itself as the LUV airline, the company featured a bright red heart as its first logo and relied on outrageous antics to generate word of mouth and new business. Flight attendants in red-orange hot pants served Love Bites (peanuts) and Love Potions (drinks).

As Southwest grew, its advertising showcased its focus on low fares, frequent flights, on-time arrivals, top safety record, and how bags fly free. Throughout all its

communication efforts, Southwest uses humor to poke fun at itself and convey its warm, friendly personality. One TV spot showed a small bag of peanuts with the words, "This is what our meals look like at Southwest Airlines. . . . It's also what our fares look like." Its ongoing "Wanna Get Away?" campaign uses embarrassing situations to hit a funny bone with consumers. And its tagline: "Ding! You are now free to move around the country" is a self-parody of its in-flight announcements. This lighthearted attitude carries over to the entertaining on-board announcements, crews that burst into song in the terminal, and several personalized aircrafts, including three painted as flying killer whales, "Lone Star One" painted like the Texas flag, and "Slam Dunk One," symbolizing the airline's partnership with the NBA.

Southwest's business model is based on streamlining its operations, which results in low fares and satisfied consumers. The airline takes several steps to save money and passes the savings to customers through low fares. It flies over 3,100 short, "point-to-point" trips in a day—shuttling more passengers per plane than any other airline. Each aircraft makes an average of 6.25 flights a day, or almost 12 hours each day. Southwest can accomplish such a feat because it avoids the traditional hub-and-spoke system and has extremely fast turnaround service. In its early years, it turned planes around in less than 10 minutes. Today, its turnaround averages 20 to 30 minutes—still the best in the industry and half the industry average. Southwest's unique boarding process helps. Instead of assigned seating, passengers are assigned to one of three

groups (A, B, C) and a number when they check in. The number refers to where they stand in line at the gate. Group A boards first, and once on board, passengers may sit anywhere they like.

Southwest grows by entering new markets other airlines overprice and underserve. The company believes it can bring fares down by one-third to one-half whenever it enters a new market, and it expands every market it serves by making flying affordable to people who could not afford it before. Southwest currently serves 68 cities in 35 states, usually secondary cities with smaller airports that have lower gate fees and less congestion—another factor that leads to faster turnaround and lower fares.

Another unique cost savings strategy is Southwest's decision to operate Boeing 737s for all its flights. This simplifies the training process for pilots, flight attendants, and mechanics, and management can substitute aircraft, reschedule flight crews, or transfer mechanics quickly.

Jet fuel is an airline's biggest expense. According to the industry's trade group, Air Transport Association, jet fuel now accounts for 40 percent of an airplane ticket versus 15 percent just eight years ago. Southwest's biggest cost savings technique and competitive advantage has long been its program to hedge fuel prices by purchasing options years in advance. Many of its long-term contracts allow the airline to purchase fuel at \$51 per barrel, a significant savings especially during the oil shocks of the 2000s that drove oil past \$100 per barrel. Analysts estimate that Southwest has saved more than \$2 billion with fuel hedging.

Because lighter planes use less fuel, Southwest makes its planes lighter by, for instance, power-washing their jet engines to remove dirt each night. It carries less water for bathrooms and has replaced its seats with lighter models. Southwest consumes approximately 1.5 billion gallons of jet fuel each year so every minor change adds up. The airline estimates that these changes saved \$1.6 million in fuel costs over just three months.

Southwest has pioneered services and programs such as same-day freight service, senior discounts, Fun Fares, and Ticketless Travel. It was the first airline with a Web site, the first to deliver live updates on ticket deals, and the first to post a blog. Despite its reputation for low fares and no-frills service, Southwest wins the hearts of customers. It consistently ranks at the top of lists of

customer service for airlines and receives the lowest ratio of complaints per passenger.

Southwest has been ranked by *Fortune* magazine as the United States' most admired airline since 1997, the fifth-most admired corporation in 2007, and one of the top five best places to work. Its financial results also shine: the company has been profitable for 37 straight years. It has been the only airline to report profits every quarter since September 11, 2001, and one of the few with no layoffs amid a travel slump created by the slow economy and the threat of terrorism.

Although the hot pants are long gone, the LUVing spirit remains at the heart of Southwest. The company's stock symbol on the NYSE is LUV, and red hearts can be found across the company. These symbols embody the Southwest spirit of employees "caring about themselves, each other, and Southwest's customers." "Our fares can be matched; our airplanes and routes can be copied. But we pride ourselves on our customer service," said Sherry Phelps, director of corporate employment. That's why Southwest looks for and hires people who generate enthusiasm. In fact, having a sense of humor is a selection criterion it uses for hiring. As one employee explained, "We can train you to do any job, but we can't give you the right spirit." And the feeling is reciprocated. When Southwest needed to close reservation centers in three cities in 2004, it didn't fire a single employee but rather paid for relocation and commuting expenses.

Questions

1. Southwest has mastered the low-price model and has the financial results to prove it. Why don't the other airlines copy Southwest's model?
2. What risks does Southwest face? Can it continue to thrive as a low-cost airline when tough economic times hit?

Sources: Barney Gimbel, "Southwest's New Flight Plan," *Fortune*, May 16, 2005, pp. 93–98; Melanie Trottman, "Destination: Philadelphia," *Wall Street Journal*, May 4, 2004; Andy Serwer, "Southwest Airlines: The Hottest Thing in the Sky," *Fortune*, March 8, 2004; Colleen Barrett, "Fasten Your Seat Belts," *Adweek*, January 26, 2004, p. 17; Jeff Bailey, "Southwest Airlines Gains Advantage by Hedging on Long-Term Oil Contracts," *New York Times*, November 28, 2007; Michelle Maynard, "To Save Fuel, Airlines Find No Speck Too Small," *New York Times*, June 11, 2008; Daniel B. Honigan, "Fred Taylor Leads Southwest Airlines' Customers to New Heights of Customer Satisfaction," *Marketing News*, May 1, 2008, pp. 24–26; Matthew Malone, "In for a Landing," *Condé Nast Portfolio*, August 2008, pp. 91–93; www.southwest.com.