



Southwest Airlines and Ryanair: How the Low-Cost Leader Lost its Way

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Abstract: Southwest Airlines (SWA) started in 1971 and was the original low-cost airline. Southwest Airlines focused on reducing costs to reduce prices. The strategy resulted in attracting loyal customers and the airline became the low-cost leader. The success of Southwest Airlines attracted Michael O’Leary from struggling Ryanair. O’Leary came to the US to study Southwest Airlines operations. O’Leary returned to Ireland and implemented the Southwest Airlines low-cost business model for Ryanair. Currently Ryanair under O’Leary’s ruthless implementation of low-cost is the global discount airline leader. Southwest Airlines had lost its way and began to look like legacy carriers. Southwest Airlines was under pressure from active investor Elliot Management to make changes. What will Southwest Airlines management do?

LOW-COST MODEL

Southwest Airline (SWA) started in 1971 with Herb Kelleher. The plan was to disrupt the lower end of the market and open airline travel to the masses. SWA expanded rapidly across the country with airline deregulation. The low-cost model of Southwest Airlines focused on lower costs and thus lower fares. To achieve lower costs Southwest Airline flew to secondary airports with lower landing fees and less competition, operated a single aircraft fleet (Boeing 737) with reduced training cost, maintenance, and part needs, created short turnarounds thus increasing fleet utilization, and flew direct point to point. In addition, Southwest Airlines focused on employee satisfaction, creating a motivated customer service organization. Southwest Airlines paid competitive salaries and introduced profit sharing (Bailey and Garbunzo 2023).

Ryanair was a low-cost airline headquartered in Ireland. Ryanair has become the largest and most profitable airline in Europe and the most profitable discount airline in the world. But in the late 1980’s Ryanair was struggling and facing bankruptcy. Michael O’Leary was CFO of Ryanair. In 1988, under his leadership Ryanair copied the low-cost business model initiated by Southwest Airlines. The new low- cost model coupled with European airline deregulation resulted in rapid expansion of Ryanair. In 1994 Michael O’Leary became CEO (Chief Executive Officer) of Ryanair (Reid 2024).

Under O’Leary’s leadership Ryanair fully embraced the Southwest Airlines low-cost model in every detail but one. While Southwest Airlines focused on customer service as a building block, Ryanair ignored customer service. O’Leary believed that by ruthlessly focusing on low cost and the resulting low fares Ryanair provided the lowest cost and dependable on time service. In his view spending money on customer service would raise

costs. Ryanair was consistently voted the worst airline travel experience in Europe. Nevertheless, millions chose Ryanair, and it became Europe's largest and most profitable airline (Roberts and Griffith 2019).

The Southwest Airlines low-cost approach produced unprecedented profitable performance from 1973 to 2019. In a highly volatile and competitive airline domestic market Southwest Airlines had forty-seven straight profitable quarters. In 2018 SWA moved 132 million passengers and had 20% of the domestic market. The Southwest Airlines model expanded flying capacity, increased demand for flying and produced a business model copied by Jet Blue, Ryanair, and numerous discount airlines worldwide (Bailey and Garbunzo 2023).

PRESENT

However, by 2022 the Southwest Airlines market share had dropped to 16.9% because of the Covid pandemic, increased competition and Southwest Airlines had lost focus in the years following Herb Kelleher's departure. Southwest Airlines was, however, still part of the big four of American, Delta, Southwest Airlines and United and the largest low-cost domestic carrier. Southwest's long-term survival was based on lower costs and lower fares.

On April 25, 2024, Southwest announced that it would cease operations at four airports and cut an additional two thousand jobs after it reported a \$231 million loss in the first quarter of 2024. The losses stemmed from continuing problems with Boeing aircraft deliveries leading to operational difficulties (Higham 2024).

On June 27, 2024, Southwest reduced its revenue outlook for the second quarter of 2024 citing difficulties in adapting to shifts in booking patterns. Delays in Boeing plane deliveries had left Southwest with bloated overhead and complicated growth patterns (Seal and Sider 2024).

The summer of 2024 travel boom failed to improve SWA performance. Wall Street viewed Southwest Airlines and other budget carriers as money printing machines. Being low cost was difficult when costs were not low. The price of oil, shortages of pilots and cabin crews, and air traffic controller shortages had contributed to these rising costs. Problems with engines and plane deliveries increased operating costs and slowed the introduction of fuel-efficient planes. The exception was Ryanair. Ryan hedged fuel costs and limited job cuts. Ryanair continued to grow market share and profits despite these complications (Heard on the Street 2024).

The low-cost pioneer had been under pressure from Elliott Investment Management. The influential hedge fund had taken an 11% stake in Southwest Airlines and demanded changes as expenses ballooned, and profit margins lagged competitors. For decades, Southwest Airlines and its loyal employees and customer base had been the industry profit margin leader. SWA found itself in a difficult position. Share prices were down 24% over the last two years while other airline shares were up 34% (United) and 55% (Delta) (Sider and Gilbertson 2024).

SWA had become a discount carrier but higher fares than the low fare carriers (Spirit, Frontier, and Allegiant) and lower fares than the legacy carriers (American, Delta, and United). Southwest had arrived at this point through price bundling with checked bags

and carry-on bags included in the ticket price. Over the last decade Southwest fares have gradually increased. More recently Ryanair's CEO Michael O'Leary criticized Southwest for its fare increases and rising costs. Southwest was no longer a low fare airline (Kline 2024).

WHAT WENT WRONG

Since the financial meltdown of 2006-2007 SWA had gradually followed strategies that increased costs and raised fares. Southwest acquired AirTran and its hub locations. Southwest Airlines began offering fewer direct flights and more connecting flights. SWA added longer flights to Hawaii, the Caribbean and Central America. Flight originations shifted from secondary airports to primary airports. This increased costs and congestion delays. In addition, Southwest Airlines shifted to more price bundling. These changes increased costs and frustrated Southwest Airlines' loyal customer base. SWA was no longer the lowest fare carrier. Southwest Airlines' planes did not offer the range of cabin amenities of the legacy carriers. SWA's move from secondary markets to hubs increased competition from low-cost competitors as well as the traditional carriers. The gradual switch of Southwest Airlines to the legacy carrier strategies after 2006-2007 placed them in a difficult position (Dinler and Rankin 2018).

Ryanair and Southwest Airlines were the European and American versions of the discount airline. While they operated in different competitive and regulatory environments, none of these differences precluded comparison. Ryanair had consistently implemented the low-cost model pioneered by Southwest Airlines to drive down costs and lower fares (Baldanza 2023). Southwest had gradually changed their low-cost model yielding higher costs and higher fares (Bailey and Pande 2023).

Southwest Airlines transition from the discount carrier strategic group to the legacy carrier strategic group was completed in the summer of 2025. On May 28, 2025, Southwest Airlines implemented charges for first, second, and third checked baggage. The end of the decades old "bags fly free" increased the frustration of loyal customers and threatened on time departures with the expected increase in carry-on baggage (Sider and Gilbertson 2025). This change was followed in Jul 2025 with seat assignment charges on flights booked on or after January 27, 2026. These moves signaled the end of Southwest Airlines as a discount carrier. The baggage fees, seat fees, extra legroom, and other amenities made Southwest Airlines no different than American, Delta and United (Gilbertson 2025).

THE OUTCOME

Clearly Southwest Airlines was pressured and felt a need to change to return to profitability. But this was not what Herb Kellerman and Michael O'Leary expected. Southwest Airlines abandoned its low-cost strategy and began to implement policies concerning baggage fees, seat assignment, and scheduling that mirrored the legacy carriers. With the new strategy and no longer the discount leader will Southwest retain its core customers and survive?

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