

Southwest Airlines - Rebuilding the Seat Experience

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Decision scope: Rollout, cabin configuration and commercial design for assigned seating

Case convention: This is an author-created management decision exercise. The leadership review and its alternatives are hypothetical; company announcements and forecasts are historical. No private deliberations are represented.

The decision

Southwest Airlines had spent more than fifty years letting passengers choose any open seat after boarding. On 25 July 2024, the company announced that it would adopt assigned seating and offer premium seats with extra legroom. At its 26 September Investor Day, management laid out an implementation plan: begin selling assigned seats in the second half of 2025 and operate the new system in the first half of 2026. Extra-legroom seats would occupy about one-third of each aircraft's cabin. [S1-S2]

By 28 October, adoption itself was no longer the question. The company was preparing cabin certifications, aircraft retrofits, new software and employee training. Leadership still had to decide how to sequence the rollout and how to balance fare bundles, seat fees, customer choice and operating reliability while meeting the announced timetable.

Assignment: Prepare a recommendation for Southwest's hypothetical October 2024 leadership review. Keep the assigned-seat decision and approximate one-third premium-seat design as the announced plan. Recommend how the company should sequence aircraft and market rollout, structure customer offers and prices during launch, and measure results before scaling. Address the trade-off between timely execution, learning and the customer promise. Use only information available by 28 October 2024.

A product change within a larger strategy

The seating announcement was part of a broader “Southwest. Even Better.” plan. Management said the initiatives were intended to improve customer experience and financial performance while preserving selected features that made Southwest distinctive. The plan included more assigned-seat choices, extra-legroom seats, a redesigned boarding process, red-eye flying, new airline partnerships and a refreshed vacation-package product. [S2]

Southwest continued to include two checked bags in its base offer and to allow ticket changes without a change fee. Management said its research showed that the free-bag policy remained an important source of differentiation. In the Investor Day presentation, it described consultant scenarios in which bag-fee revenue would be offset by customer defection. The underlying survey and model were not included in the public filing. [S3, transcript pp. 12-13]

The company presented assigned seats as a response to changing customer preferences. Its Investor Day release reported that 80% of Southwest customers and 86% of passengers who choose other airlines preferred assigned seats. Management said seat assignments mattered more on longer flights. The release did not disclose the survey sample, question wording, willingness to pay, or how stated preferences translated into bookings. [S2]

Southwest also had commercial reasons to add choice. For decades, it had sold early boarding products that offered a better chance of finding a preferred seat, rather than guaranteeing a particular seat. Under the announced plan, assignment choice at booking would be included in Wanna Get Away Plus. Customers buying the lowest fare would receive an assignment before travel and could buy extended-legroom or preferred seats near the front of the cabin. Management said its tests of new fare bundles showed customers choosing higher-priced bundles, but it did not disclose the test design, offer prices or conversion results. [S3, transcript p. 13]

Cabin design and lost capacity

Southwest expected approximately one-third of seats on each aircraft to be available as extra-legroom seats, with up to five additional inches of pitch. The design differed by aircraft type. On the 175-seat aircraft, the company planned to retain all seats by reducing standard pitch from 32 to 31 inches. On the 737-700, it planned to remove one row, reducing the cabin from 143 to 137 seats while keeping 31-inch standard pitch. Management said its configuration models sought to maximize premium-seat value when an aircraft was full while limiting unsold premium inventory on lower-load-factor flights. [S3, transcript p. 13]

Exhibit 1. Planned cabin and customer offer

Design feature	Announced plan by aircraft or fare
Premium seating	About one-third of seats; up to five additional inches of pitch
175-seat aircraft	Keep 175 seats; standard pitch moves from 32 to 31 inches
737-700	Remove one row; 143 seats become 137; standard pitch remains 31 inches
Wanna Get Away Plus	Seat choice at booking included in the fare bundle
Lowest fare	Seat assigned before travel; extra-legroom or preferred front-cabin seat available for purchase
Boarding	Keep numbered positions and gate stanchions; premium-seat and loyal customers among the first to board

Source: [S2-S3]. All configurations, prices and launch dates are management plans as disclosed by the cutoff, not completed outcomes.

For the 737-700, the retrofit reduces the number of revenue seats by six. The company would need premium-seat purchases, additional bookings, fare upgrades or other benefits to compensate for the contribution those seats could otherwise earn. On the 175-seat aircraft, all seats remain, but the standard-cabin pitch is reduced by one inch. A single fleetwide statement that “one-third of seats are premium” therefore masks different capacity and comfort trade-offs.

The operating plan

Changing the cabin was only one part of the work. Southwest expected to complete engineering and obtain Federal Aviation Administration certification before beginning larger-aircraft retrofits in the first quarter of 2025. The 737-700s would follow. The company planned 50 to 100 retrofits per month, with fewer during the summer peak, and expected the work to finish late in 2025. Assigned-seat sales were planned for the second half of 2025, before the first assigned-seat flights in the first half of 2026. [S3, transcript p. 14]

The change also touched more than 60 customer- and employee-facing applications and back-office systems. About 55,000 frontline employees would need training. Management said it had tested boarding methods live and simulated more than eight million flights using real passenger manifests. It expected the new boarding order to preserve numbered positions and stanchions, give loyal and premium customers early boarding, and improve aircraft turns. The public filing did not provide test protocols, comparison groups or measured effects. [S3, transcript p. 14]

The timetable was unfolding against aircraft supply constraints. Southwest reported that Boeing delivery delays had caused it to re-plan capacity and aircraft deliveries for 2024 and 2025. The retrofit programme would therefore compete with commercial flying for aircraft availability. [S4-S5]

Financial pressure and the forecast

Southwest's third-quarter 2024 operating revenue reached a record \$6.9 billion, up 5.3% from a year earlier. GAAP operating income fell 67.5% to \$38 million and net income fell 65.3% to \$67 million. The company attributed the decline primarily to operating expenses, especially wages and benefits, growing faster than revenue. Available seat miles rose 2.4%; revenue passenger miles rose 3.1%; and load factor was 81.2%, compared with 80.7% a year earlier. These are companywide figures, not data on individual seats or routes. [S4-S5]

Management forecast approximately \$1.5 billion of incremental EBIT in 2027 from assigned and premium seating. It also forecast approximately \$4 billion of cumulative incremental run-rate EBIT from its broader three-year portfolio of initiatives. The two numbers cover different scopes. Neither was a realized result. [S2-S3]

In the Investor Day Q&A, management said the seating business case assumed no customer share shift, no increase in load factor, and no yield increase except customers buying up to higher fare bundles. It described the forecast as monetizing Southwest's existing customer base, with roughly half of revenue upside from fare-family purchases and half from ancillary purchases. The transcript did not provide a detailed bridge from revenue to EBIT or disclose the underlying unit assumptions. [S3, transcript lines 815-817]

Exhibit 2. Selected operating context

Measure	Third quarter 2024	Third quarter 2023	Change
Operating revenue	\$6.9bn	\$6.6bn	+5.3%
GAAP operating income	\$38m	\$117m	−67.5%
GAAP net income	\$67m	\$193m	−65.3%
Available seat miles	45.2bn	44.2bn	+2.4%
Revenue passenger miles	36.7bn	35.6bn	+3.1%
Load factor	81.2%	80.7%	+0.5 percentage points

Source: [S4-S5]. Rounded; operating results are companywide. Load factor is revenue passenger miles divided by available seat miles.

The strategic question is how much confidence leadership should place in the expected economics while the rollout still has design and sequencing choices. A larger premium inventory might create more paid-seat revenue but could sit empty on some flights. A fare bundle may increase revenue per customer but also change the base-fare value customers perceive. Assigned seating may appeal to travelers who avoid Southwest today, even though that share shift is not included in management's stated case. The public data do not show the size of any of these effects.

What other airline evidence can-and cannot-show

Airline research suggests that seat preferences vary by row, travel party, booking timing, price and how many free seats remain. A study using JetBlue seat-map observations found customers more likely to buy extra-legroom seats when free window and aisle seats were unavailable. Its model also showed that seat-fee revenue could vary with booking timing. The study conditioned on customers already choosing JetBlue and used one aircraft configuration; it does not estimate Southwest's demand or prove that blocking free seats would help Southwest. [R1]

A separate study of 485,279 bookings on five intercontinental routes for an anonymized European airline found that passengers avoided middle seats and preferred front seats. Its results underline that seat inventory has heterogeneous value, but route, airline and aircraft differences limit direct application. A boarding simulation study likewise found that some boarding sequences can reduce modeled boarding time under specific baggage-stowage assumptions. It did not measure Southwest's actual turns. [R2-R3]

Leadership's remaining choices

The public commitment leaves several choices open. Southwest can preserve a common product and rollout sequence across aircraft to reduce system, training and customer-service complexity. It can phase the launch by aircraft or route and learn from comparable cohorts before increasing prices or adjusting offers. It can also decide whether launch economics should rely mainly on fare-family upgrades, ancillary seat purchases or a mix that protects an affordable entry fare.

A faster and more uniform launch could capture the planned revenue sooner and make the experience easier to explain. It could also expose the full network to a configuration or pricing

mistake before customer responses are understood. A phased approach may improve learning and protect peak-season capacity, but it can extend the period in which customers, employees and systems encounter two seating models. Variation by route or aircraft may better fit demand, while adding complexity to scheduling, reaccommodation and fare rules.

Recommendation memo

Submit a two-page memo for the hypothetical leadership review that:

1. Recommends a rollout sequence and identifies which variables should be tested or held constant.
2. Specifies the balance between fare-family upgrades and paid seat choices, including how the lowest fare remains useful to customers.
3. Identifies customer, revenue, capacity and operating measures that would trigger scaling, adjustment or a pause.
4. States the strongest argument against the recommendation and the evidence that would cause leadership to change course.

Do not re-decide whether Southwest should adopt assigned seating. Distinguish observed company results, management-reported research, management forecasts and your own hypotheses. Do not infer route-level demand, price elasticity, customer churn or a causal effect from companywide averages.

Sources

Company sources are primary filings and investor materials available by the cutoff.

- **[S1]** Southwest Airlines, 25 July 2024 press release, “Southwest Airlines Launches Enhancements to Transform Customer Experience and Improve Financial Performance.” [Investor Relations](#)
- **[S2]** Southwest Airlines, 26 September 2024, “Southwest Airlines Unveils Its ‘Southwest. Even Better.’ Transformational Plan at Investor Day.” [Investor Relations](#)
- **[S3]** Southwest Airlines, DEFA14A additional proxy materials filed 30 September 2024, accession 0001193125-24-229117, Investor Day presentation and transcript. [SEC filing](#)
- **[S4]** Southwest Airlines, third-quarter 2024 results, released 24 October 2024. [Investor Relations](#)
- **[S5]** Southwest Airlines, Form 10-Q for quarter ended 30 September 2024, filed 28 October 2024, accession 0000092380-24-000147. [SEC filing](#)
- **[R1]** Mumbower, Stacey, Laurie A. Garrow, and Jeffrey P. Newman (2015), “Investigating Airline Customers’ Premium Coach Seat Purchases and Implications for Optimal Pricing Strategies,” *Transportation Research Part A: Policy and Practice* 73, 53-69. [Full article](#)
- **[R2]** Shao, Shuai, Göran Kauermann, and Michael Stanley Smith (2020), “Whether, When and Which: Modelling Advanced Seat Reservations by Airline Passengers,” *Transportation Research Part A: Policy and Practice* 132, 490-514. [Journal record](#)
- **[R3]** Steffen, Jason H. (2008), “Optimal Boarding Method for Airline Passengers,” *Journal of Air Transport Management* 14(3), 146-150. [Full text](#)