

Southwest's strong 2022 rebound soured by holiday debacle

January 7 2023, by DAVID KOENIG and MICHELLE CHAPMAN



A woman walks through unclaimed bags at Southwest Airlines baggage claim at Salt Lake City International Airport Thursday, Dec. 29, 2022, in Salt Lake City. With its flights now running on a roughly normal schedule, Southwest Airlines is turning its attention to luring back customers and repairing damage to a reputation for service after canceling 15,000 flights around Christmas. The disruptions started with a winter storm and snowballed when Southwest's ancient crew-scheduling technology failed. Credit: AP Photo/Rick Bowmer, File

Southwest Airlines is anticipating a money-losing fourth quarter after a winter storm and technology meltdown led to nearly 17,000 canceled flights and stranded hundreds of thousands of holiday travelers.

The cancellations will result in a pretax hit of \$725 million to \$825 million from lost revenue, plus extra costs, including reimbursements for travelers and premium pay for employees, Southwest said Friday in a regulatory filing.

The storm and slow recovery was a devastating turn financially and [reputationally](#) for the Dallas-based carrier, which led all U.S. airlines in profit during the first nine months of 2022, a year of recovery for the pandemic-battered airline industry.

The massive disruptions started with a winter storm that hit much of the country before Christmas. They snowballed when Southwest's outdated crew-scheduling technology was overwhelmed, leaving crews and planes out of position to operate flights. Managers and a cadre of volunteer employees at company headquarters were forced to manually reassign pilots and [flight attendants](#) to flights.

It took Southwest eight days to recover just before the New Year's Day weekend, while other major airlines were up and running quickly after the storm passed.

Southwest said in the filing with the U.S. Securities and Exchange Commission that it canceled more than 16,700 flights between Dec. 21 and Dec. 31, causing a loss of \$400 million to \$425 million in revenue. In early December, before the meltdown, Southwest projected fourth-quarter revenue would rise by up to 17% over the same period in 2019, before the pandemic.

The airline said that expenses increased due to reimbursements to

customers for out-of-pocket costs—the company has promised to cover "reasonable" bills for hotel rooms, meals and alternate transportation—along with the estimated value of frequent-flyer points it offered to customers, and premium pay and additional compensation for employees.

Analysts generally said Southwest's estimate was toward the high end of their expectations but not shocking. Southwest's shares gained 4.6%, and other U.S. airlines rose too, on a strong day for the [stock market](#).

Since it resumed a normal schedule on Dec. 30, Southwest's cancellations and flight delays have dropped sharply, roughly in line with other major U.S. airlines. The company is working on [repairing its damaged reputation](#).

"I don't know how many times I have, and can, apologize to our customers, but it's not enough because we messed up," CEO Robert Jordan said in an interview Thursday. "But the storm was historic in the number of places it hit, the length of time it stayed, the temperatures."

Jordan said the airline has processed 75% of refund requests, is shipping lost bags to customers at no cost, and has hired an outside company to vet reimbursement requests.

Plenty of customers are complaining about the pace of reimbursements, which Southwest admits could take several weeks.



A Southwest Airlines jet arrives at Sky Harbor International Airport, Dec. 28, 2022, in Phoenix. With its flights now running on a roughly normal schedule, Southwest Airlines is turning its attention to luring back customers and repairing damage to a reputation for service after canceling 15,000 flights around Christmas. The disruptions started with a winter storm and snowballed when Southwest's ancient crew-scheduling technology failed. Credit: AP Photo/Matt York, File

Bryce Burger said three of his family's six bags were finally returned Friday, and they got refunds, \$1,500 in vouchers for future flights, and 25,000 frequent-flyer points apiece. He is still waiting to hear if Southwest will cover the \$7,500 cost of a cruise that they missed.

Burger, who owns a dental-implant company in Denver, said he will still

fly on Southwest because he has a pass that lets a companion fly free, "but they will not be my first choice, no."

Jordan said Southwest spends about \$1 billion a year on technology and is reviewing how systems performed before making decisions on IT spending priorities.

Company officials have disputed union leaders' claims that the company hasn't invested enough to update technology, although they concede that the crew-scheduling systems did not get as much attention as other IT spending including aircraft-maintenance operations.

"One could criticize us for prioritizing ground operations and technical operations over crew operations when we started, but at the time that seemed like a proper sequence. Obviously it bit us in retrospect," Chief Operating Officer Andrew Watterson said last week, "but there was significant modernization work going on."

Southwest has not indicated whether the disaster will cause it to increase spending on technology, although analysts said that was likely. JP Morgan Chase analyst Jamie Baker said a "modest" increase seemed reasonable.

"We have no expertise in crew scheduling software, but if an airline can't feasibly operate red-eyes (overnight flights) or tell you if your bag has been loaded, our base assumption is that systems aren't state of the art," Baker wrote in a note to clients. He said the level of Southwest's technology was not surprising, given that it is a low-cost airline that likes to keep things simple.

Southwest is now on Washington's radar screen. Transportation Secretary Pete Buttigieg has vowed to hold the airline accountable, although he has been vague on specific actions he might take. A Senate

committee has promised hearings, and more than two dozen House Democrats wrote a letter to Buttigieg on Thursday urging him to strengthen [consumer protection](#) for airline travelers "and help prevent these types of mass cancellations from occurring in the future."

Just last month, Southwest announced that it would revive dividends for shareholders, which were suspended after the pandemic devastated the airline industry in early 2020. The airline estimates it could pay out \$428 million in dividends per year.

U.S. airlines were barred from paying dividends or buying back their own stock until October as a condition of taking \$54 billion in federal pandemic aid. Southwest received more than \$7 billion in aid.

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Citation: Southwest's strong 2022 rebound soured by holiday debacle (2023, January 7) retrieved 18 April 2024 from

<https://techxplore.com/news/2023-01-southwest-strong-rebound-soured-holiday.html>

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