Southwest Rewrites Its Playbook

Idea In Short

Southwest Airlines spent five decades proving a no-frills airline could still be the most profitable one in the United States, posting 47 consecutive years in the black on the back of a single aircraft type, quick turnarounds and a refusal to charge for bags or seat assignments. That formula came under direct attack in 2024, when Elliott Investment Management built a stake worth close to $1.9 billion and argued Southwest had fallen behind rivals on revenue per passenger. The airline settled, reshaped its board and, over the following two years, ended open seating, introduced extra-legroom seating and started charging for checked bags. This piece traces how each block of Southwest's business model shifted under that pressure and what still separates the airline from Delta, United and American Airlines.

A Founder's Bet on Simplicity

Southwest Airlines began in 1971 as a plan to connect three Texas cities: Dallas, Houston and San Antonio, an idea Rollin King and Herb Kelleher famously sketched as a triangle on a napkin. Kelleher spent the airline's early years fighting legal challenges from Braniff, American Airlines and Texas regulators before Southwest ever got a plane off the ground. Once flying, the airline built its identity around a single aircraft type, the Boeing 737 and a fare structure with no first class, no assigned seats and no meal service. That stripped-down model helped Southwest post 47 consecutive years of profitability, a run no other U.S. airline matched.

The Efficiency Playbook

The economics behind that profitability run came from operational choices rather than scale. A single aircraft type cut training, maintenance and parts costs, while routes between secondary airports kept landing fees low and let planes turn around in well under an hour. Southwest also skipped the hub-and-spoke networks that rivals relied on, favoring point-to-point routes that reduced the connections and delays tied to routing passengers through a handful of major airports. For decades, that low-cost base came paired with two free checked bags and open boarding, features no full-service competitor matched and that became core to the Southwest brand.

Activist Pressure Builds

That brand loyalty did not stop Southwest's stock from underperforming its low-cost peers through the early 2020s and Elliott Investment Management took notice. Elliott disclosed a stake in Southwest worth close to $1.9 billion in June 2024 and pushed publicly for the removal of CEO Bob Jordan and then-chairman Gary Kelly, arguing the airline's board had let an insular culture resist changes that could raise revenue.1 Southwest avoided a proxy fight by settling with Elliott that October, adding several Elliott-backed directors to its board and agreeing to review pricing practices the airline had defended for decades. Kelly agreed to retire from the chairman role, while Jordan stayed on as CEO under closer board scrutiny.

A New Board, A New Bet

Southwest named six new independent directors in October 2024 as part of the settlement, five of them recommended by Elliott, while Kelly moved up his retirement and the board named a new independent chairman.2 The reshaped board backed a broader review of pricing, network strategy and cost discipline, changes Jordan had resisted on cultural grounds for years. Southwest also slowed aircraft deliveries and trimmed corporate staff to control costs while it rolled out its new revenue initiatives.

Southwest Says Goodbye to Open Seating

Jordan told investors in July 2024 that Southwest would begin selling assigned seats in 2025, ending the open-boarding system that had defined the airline since its first flight. The company introduced extra-legroom seating first, then completed the switch to fully assigned seating on January 27, 2026, when passengers on a flight to Honolulu took pre-selected seats for the first time in company history.3 Jordan called the shift, paired with the airline's other pricing changes, the most remarkable set of changes he had seen any airline make in a single year across his 38 years in the industry.

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do in the course of a year in my 38 years in the industry

Bags No Longer Fly Free

Checked-bag fees followed the same gradual rollout. Starting May 28, 2025, Southwest began charging $35 for a first checked bag and $45 for a second, with a third bag costing $100 and overweight bags carrying additional charges.4 The fees applied only to tickets booked or changed on or after that date, so travelers who booked earlier kept their original two free bags regardless of when they flew. Southwest carved out exemptions for A-List Preferred members, Rapid Rewards credit cardholders, Choice Extra fare buyers and active-duty military, but for most passengers, the bags-fly-free promise that ran for more than 50 years no longer applied.

Elliott Cashes Out

Elliott had banked much of what it wanted less than two years into its campaign. The firm sold more than 4 million Southwest shares between December 2025 and January 2026, cutting its stake from a peak of 16% to about 9%, according to a securities filing.5 The firm said the sales served portfolio management purposes and expressed confidence in Southwest's direction.

> Execution of ongoing strategic initiatives will translate to greater profitability, accretive capital-allocation opportunities and shareholder value creation

Southwest shares had risen more than 55% since late August 2025, giving Elliott room to take profits while still holding a stake worth roughly $1.3 billion.

Key Partners

Southwest depends on Boeing as its sole aircraft manufacturer, a relationship that anchors its single-fleet-type strategy. Airport authorities at secondary and mid-size airports provide the gate access and lower fees that keep operating costs down. Chase Bank co-brands the Rapid Rewards credit card, extending the loyalty program beyond ticket purchases. Global distribution systems and online travel agencies extend Southwest's reach to travelers who do not book directly with the airline.

Key Activities

Southwest's core activity is operating low-cost, point-to-point passenger flights across the United States and nearby international markets. That requires constant fleet maintenance, crew scheduling and rapid gate turnarounds to keep aircraft utilization high. The airline also runs cargo and freight operations alongside passenger service and it now manages an assigned-seating and fare-bundling system introduced in 2025 and 2026. Marketing the Rapid Rewards program and managing airport and technology partnerships round out its daily operations.

Key Resources

The airline's most valuable resource is its fleet of Boeing 737 aircraft, standardized to simplify training and maintenance. Its workforce, including pilots, flight attendants and ground crews, carries a service reputation Southwest treats as a competitive asset. Gate leases and slots at secondary airports give it low-cost access to major metro areas. Its Rapid Rewards database and booking technology support both revenue management and customer retention.

Value Propositions

Southwest's core promise remains low fares built on an efficient cost base, even as it adds new revenue lines. Passengers now get assigned seats and optional extra-legroom seating, features the airline resisted for more than 50 years before adopting them in 2025 and 2026. The airline still offers a wide domestic network with frequent departures and a rewards program that lets frequent flyers offset the new bag fees. Flexible cancellation policies and the absence of change fees continue to separate it from many full-service rivals.

Customer Relationships

Most Southwest customers manage their own bookings through self-service tools on the website and mobile app. Airport and in-flight staff provide personal service during travel, handling rebooking, boarding and in-flight needs directly. Customer support operates through phone, email and social media for post-booking issues. The Rapid Rewards program adds a relationship layer built on points, status tiers and credit card partnerships.

Channels

Southwest.com and its mobile app remain the primary channels for booking and managing travel. Airport ticket counters and gate agents provide a direct sales channel for travelers who prefer in-person service. Global distribution systems such as Sabre now list Southwest fares more broadly than in past years, extending its reach through travel agencies. Social media channels support customer service and brand engagement alongside direct sales.

Customer Segments

Southwest's core segment remains price-sensitive leisure and business travelers booking domestic routes. Budget-focused families value the airline's history of flexible cancellation, even as some past benefits now come with conditions attached. Regional business travelers use Southwest for routes where it offers frequent departures between secondary airports. A smaller freight and cargo segment includes businesses shipping time-sensitive goods.

Cost Structure

Fuel, aircraft ownership and maintenance make up the largest share of Southwest's costs, followed by labor for pilots, flight attendants and ground staff. Airport operations, IT infrastructure and marketing add further fixed and variable costs. The single-aircraft-type strategy keeps maintenance and training costs lower than carriers running mixed fleets. Recent cost discipline, including slower aircraft deliveries and corporate staff reductions, reflects board pressure to improve margins.

Revenue Streams

Passenger ticket sales remain Southwest's dominant revenue source, drawn almost entirely from domestic flights. New fee-based revenue now includes checked-bag fees, extra-legroom seat upgrades and assigned-seat pricing introduced in 2025 and 2026. Cargo and freight services contribute a smaller, steady stream. Rapid Rewards credit card partnerships and other ancillary sales round out the mix, an area Southwest is expanding to close the revenue gap with competitors.

- 1Elliott Disclosed Its Southwest Stake In An SEC Filing
- 2Southwest Detailed The Board Settlement With Elliott
- 3CNBC Covered Southwest's Final Open-Seating Flight
- 4CBS News Reported The New Checked-Bag Fees
- 5Yahoo Finance Reported Elliott's Reduced Stake

Summary

Southwest Airlines still competes on cost, but it no longer competes on simplicity alone. The airline kept its single Boeing 737 fleet, its point-to-point network and its focus on short turnarounds, the sources of the low operating costs that built the company. What changed is the revenue side: assigned seats, extra-legroom pricing and checked-bag fees now sit alongside the fare itself, closing a gap that separated Southwest from every other large U.S. carrier. Elliott Investment Management has already trimmed its stake and taken profits as Southwest's share price recovered, a sign the campaign delivered the financial outcome it sought. Whether loyal customers stay as attached to the airline's new fee structure as they were to its old simplicity will shape Southwest's next decade as much as its cost base does.