Call Participants

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President, CEO & Vice Chairman of the Board

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Presentation

Operator

Hello, everyone, and welcome to the Southwest Airlines Second Quarter 2024 Conference Call. I'm Gary, and I'll be moderating today's call, which is being recorded. A replay will be available on southwest.com in the Investor Relations section. [Operator Instructions]

Now Julia Landrum, Vice President of Investor Relations, will begin the discussion. Please go ahead, Julia.

Julia Landrum
Vice President of Investor Relations

Thank you so much. Hello, everyone, and welcome to our Second Quarter 2024 Earnings Call. I am joined today by our President and CEO, Bob Jordan; Chief Operating Officer; Andrew Watterson; and Executive Vice President and CFO, Tammy Romo.

Bob will get us started with an overview of the company performance and strategy and will also provide color on the strategic initiatives announced this morning. Andrew will provide an update on the revenue and Tammy will cover our costs and balance sheet. Brian Green, EVP of Commercial Transformation, is also in the room with us today, as well as other executives, to support Q&A.

A quick reminder that we will make forward-looking statements which are based on our current expectations of future performance, and actual results could differ materially from expectations.

Also, we will reference our non-GAAP results, which exclude special items that are called out, and reconciled to GAAP results on our earnings press release.

Our press release with second quarter 2024 results and a separate press release announcing select strategic initiatives were both issued this morning and are available on our Investor Relations website.

And with that, I'm pleased to turn the call over to you, Bob.

Robert E. Jordan
President, CEO & Vice Chairman of the Board

Thank you, Julia, and thanks, everyone, for joining us this morning. We have a lot to cover today, so let's jump right in.

In my comments today, I will touch briefly on our results for the quarter and then provide detail on the plans we announced earlier this morning to implement meaningful changes to our business and better position Southwest Airlines to produce higher returns in a more competitive, higher-cost environment. As Julia mentioned, Andrew will provide details on our revenue performance, including the work underway to calibrate our revenue management system and processes, and Tammy will discuss our cost, CapEx and balance sheet.

Starting with our overall results, they are not where we need them to be, and they are not reflective of what we are capable of delivering. We will cover where we fell short as well as our action plan in detail later on the call, but I'll hit on a few highlights first.

Our frontline employees executed very well as we continued to improve in nearly every operating and customer metric. Once again, we ran a high-quality operation with a completion factor of 99.5% despite challenging weather. This was further evidenced by our performance following Hurricane Beryl earlier this month. We experienced an 8% cancel rate on July 8 as the storm moved through the Houston area, but had only a 0.3% cancel rate the following day as we recovered quickly with almost no operational hangover from the prior day. I am very proud of our team.

And following the global technology outages, we were able to recover very quickly and experienced a near-0 cancel rate. Investments made to advance core operations and modernize technology meant that we had redundancy in place for key systems that were experiencing issues. Time and time again, the purposeful investments we've made to improve our resilience and ability to recover from disruptions are demonstrating their value, and that investment will continue.

Our exceptional customer service continues to improve as well and was recently recognized by J.D. Power, where we were awarded the Leading Economy Class Customer Satisfaction distinction for the third consecutive year. Reliable operational performance and customer service are and always will be cornerstones of our business model.

Moving on to revenue performance. Unit revenue for the quarter declined 3.8% year-over-year primarily as a result of domestic capacity outpacing demand. The decline was also a result of Southwest-specific challenges as we fully mature our usage of a new O&D-based revenue management system. Andrew will go into more detail later, but bottom line, we sold too many seats for the peak summer travel period too early in the booking curve. It's not unusual to have growing pains with these types of systems.

We are working quickly to action opportunities to drive performance improvement. We're also adding additional leadership expertise and support, including our plan to hire a Chief Revenue Officer to focus on revenue management and pricing. We continue to have confidence that the new revenue management system will be a driver of long-term revenue improvement.

The management team and I, with the support of our Board, are completely aligned on the imperative to produce results and ultimately deliver returns ahead of our cost of capital. Doing so requires an evaluation of all opportunities and a willingness to evolve some long-standing southwest policies while staying true to our values.

With that in mind, I'll discuss some of the changes we are making to further evolve Southwest Airlines. These are part of an ongoing strategic transformation of the business, and we will share more details during our Investor Day, where we will outline a comprehensive plan to deliver transformational commercial initiatives, improved operational efficiency, and capital allocation discipline.

As I shared back in April, our teams have been hard at work evaluating fundamental changes to our seating, cabin and boarding procedures. It's clear that the open seating model that served us well for so many years is no longer optimal for today's customer. I want to stress that this decision was not made lightly. We have been very thorough and deliberate in how we approached the question, conducting multiple sophisticated research studies over many months that evaluated customer preference and looked at different types of cabin layouts and seating methods.

Our research showed that 80% of our customers prefer an assigned seat and 86% of our potential customers prefer an assigned seat. Further, when a customer defects from Southwest to one of our competitors, our open seating policy is cited as the #1 reason why. The answer is clear, there is more demand for Southwest Airlines with an assigned seating model, and there is a significant ability to monetize the cabin more effectively with a premium seating option.

By extension, these changes are expected to drive significant value for our shareholders. We feel confident that the solution we are implementing will retain the positive elements of the Southwest Airlines experience and enable us to evolve in a manner that's consistent with what today's air traveler is seeking.

While specific cabin layouts are still being finalized, we expect roughly 1/3 of seats across the fleet to offer extended legroom. We're also designing a boarding process that retains the organized calm our customers enjoy today, but also complements an assigned seating model. We've been studying this in depth to preserve our operational efficiency and how quickly we turn an aircraft.

We've conducted both live boarding tests to understand passenger movement in a real world environment and also more than 8 million digital simulations to test different boarding options. These digital boarding simulations include data from real flights with real passenger manifest to understand differences in boarding times stemming from passenger mix, things like families traveling together, customers who may need more time to board, experienced versus inexperienced travelers and more. The data clearly indicates that any operational impacts are neutral or an enhancement to current performance.

We're also approaching this change in a capital-efficient manner. New aircraft will be delivered with our improved RECARO seats beginning early next year. For existing aircraft where we must retrofit to a new configuration, we plan to use existing seats within our fleet to avoid a large capital expenditure.

We're working quickly to realize the value of this new model as soon as possible. New seat configurations require FAA certification, which typically takes several months. And only then can we begin the process of retrofitting the fleet. We therefore expect to make bookings available beginning next year. The aircraft downtime should be minimal to complete the cabin changes, but keep in mind that we have a fleet of roughly 800 aircraft to retrofit, and that will take time.

Changing from an open seating model to an assigned seating model will be a complex and transformational change that cuts across almost all aspects of the company, and is one of several commercial initiatives currently underway to be detailed at our Investor Day.

Given the significance of the changes, I've asked our Chief Commercial Officer, Ryan Green, to take on leadership of this initiative on a full-time basis. As EVP of Commercial Transformation, Ryan will lead this effort along with other commercial initiatives already underway. Ryan has led the work to this point and is steeped in knowledge regarding customer trends and previously and successfully led efforts to transform our Rapid Rewards loyalty program and the digital customer experience. And Ryan will report directly to me.

Additionally, today, we are publishing schedule that incorporate red eye flying which will phase in rapidly by summer 2025, and combined with ongoing reductions in turn time through new technologies and procedures, will enable us to fund nearly all new capacity the next 3 years through initiatives rather than additional aircraft CapEx.

These initiatives are part of a comprehensive strategic transformation and reflect a commitment, and my personal commitment, to deliver an implementing plan aimed at driving shareholder value and achieving ROIC well in excess of our cost of capital.

We will provide more details around the timing and value of these initiatives and other tactical and strategic initiatives when we gather for Investor Day in late September, but we wanted to keep you up to speed on some of the decisions that we've made already and the deliberate plans we have in place to implement them.

And before I close, I want to again recognize all the efforts from our incredible employees. Thank you all for the excellence and the dedication that you bring to work every single day.

And with that, I will turn it over to Andrew to provide a full update on our revenue, performance and outlook.

Andrew M. Watterson
Chief Operating Officer

Thank you, Bob. I'm very excited about the strategic initiatives we have coming. I am also very proud of our people for their continued focus on safety, running a quality operation with the lowest year-to-date cancellation rate in the industry, and our strong customer service performance trends.

Moving to revenue performance. We have experienced challenges in managing demand across booking curves as we deployed efforts to address load factor underperformance. As a result, we experienced yield and ultimately revenue dilution from selling too many seats too early in the booking curve.

As you will likely recall, back in the spring of 2023, we transitioned to a new and modernized revenue management system. The system is fundamentally different from and superior to our prior system. The new system manages revenue on an origin and destination basis compared with our prior leg-based system.

The decision to implement this new system followed an extensive review of our options, including a comprehensive 18-month long pilot to evaluate and test two new revenue management systems against our prior system. What we directly observed during the testing period was the system we selected consistently produced superior results.

The goal is to maximize the revenue performance of our flights, especially our best flights. And the new system accomplishes just that by considering what customers are willing to pay at different phases of the booking curve, including taking note of the differentiation between business and leisure customers. However, adapting to a new system is not straightforward, add to that changing schedules from Boeing delivery shifts, and what we got was a complicated rollout.

Regardless, while we estimate about 2 points of year-over-year headwind to the third quarter from bookings already in place, we were taking decisive actions to recalibrate the system. The estimated impact is already built in to our 3Q RASM outlook of flat to down 2% on a year-over-year basis.

The outside experts that Bob mentioned are supporting our employees and getting the most out of the capabilities of this new system. The good news is that we have confidence in the superiority of the new system, as evidenced by the month-long A/B testing that we conducted. As we gain expertise in optimizing the system, we expect to see a noticeable tailwind to performance, likely starting in September of this year. Adopting a new revenue management system is a once in a generation implementation, and we are committed to executing a successful turnaround in our revenue performance.

In addition to the improvement we expect to see in our revenue management performance, our plan includes continued network optimization and capacity moderation moving to the back half of the year. Our summer, fall and recently published winter-based schedules all include actions to target supply to demand across geographies and calendar periods as well as scheduled quality actions to facilitate demand capture.

By the fourth quarter, we expect less capacity oversupply as well as improvements in our revenue management. We are planning for our capacity to decline 4% year-over-year in fourth quarter, with seats and trips down roughly 8%. And therefore, we expect RASM growth to be positive year-over-year by fourth quarter.

We will deliberately and urgently pursue tactical opportunities to improve financial performance, including calibrating our revenue management process and continuing our work to optimize our network. Further, we also have a plan to capitalize on transformational opportunities to generate incremental revenue, some of which Bob shared with you.

Before I close, I want to thank our people again for doing such an amazing job driving operational excellence and providing our legendary hospitality. I am so appreciative of their contributions.

With that, I'll turn it over to Tammy.

Tammy Romo
Executive VP & CFO

Thank you, Andrew, and hello, everyone. As Bob mentioned, I will provide an update on our cost performance before turning to fleet and balance sheet.

Overall, our second quarter CASM-X increased 6% year-over-year, and we continue to expect CASM-X for full year 2024 to increase in the range of 7% to 8% on a year-over-year basis. The higher year-over-year CASM-X growth in the second half of this year is driven primarily by a continuation of market-driven labor cost pressure from our new contracts as well as from the moderation of year-over-year capacity growth.

We are urgently and deliberately pursuing opportunities to mitigate cost pressures, including the drag from overstaffing related to previously reported Boeing delivery delays. As discussed on our first quarter earnings call, we have expanded our voluntary leave and time off programs to further reduce labor expenses and bring staffing levels in line with our current fleet. We have halted all but critical hiring, and we continue to expect to end this year with headcount down roughly 2,000 from year-end 2023. And we continue to plan for headcount to be down again in 2025 as attrition levels exceed our controlled hiring levels.

Our second quarter average fuel price of $2.76 per gallon was in line with our expectations. Our hedge portfolio continues to provide protection against spikes in prices, and we are continuing to opportunistically add protection with no change to our target of a roughly 50% hedge position.

Turning to our fleet. We prudently adjusted our 2024 delivery expectations prior to our April earnings report to mitigate Boeing delivery risk to our internal planning functions. We therefore continue to plan for 20 -8 aircraft deliveries, 31 -700 retirements and 4 -800 lease returns for the year. We remain committed to our fleet modernization benefit, and our planned reduction in aircraft exceeds our planned deliveries.

We also remain committed to longer-term capacity discipline and ROIC production. We expect third quarter capacity to increase approximately 2% and fourth quarter capacity to decrease approximately 4%. Accordingly, our expectation for full year 2024 capacity continues to be up approximately 4% year-over-year.

Looking beyond 2024, we remain committed to earning our right to grow and plan to keep any future growth at or below macroeconomic growth trends until we reach our long-term financial goal of returns on invested capital consistently in excess of our cost of capital.

Our expected capital spending for 2024 is approximately $2.5 billion, which is in line with our prior guidance and well below our expectations of $3.5 billion to $4 billion at the beginning of the year. We are in ongoing discussions with Boeing regarding the financial impact of delivery delays, and as with past compensation, we expect any financial damages to be realized as a reduction in the cost basis of certain aircraft.

Our balance sheet is obviously a critical competitive strength with an investment-grade rating by all three rating agencies. We continue to be in a net cash position as we ended second quarter with cash and short-term investments of $10 billion versus $8 billion of outstanding debt. We expect a modest $29 million in scheduled debt repayments for the full year, and currently, 2024 interest income is still expected to more than offset 2024 interest expense.

Following the pandemic, we have maintained elevated liquidity levels primarily to fund fleet modernization efforts, labor contract ratification bonuses, debt service considerations and to provide insurance against unforeseen business risk. With much of the uncertainty largely behind us, we intend to start normalizing our liquidity levels back towards pre-COVID levels targeting minimum total liquidity, including our undrawn revolver.

Our long-term financial goals remain unchanged: Maintain a strong balance sheet; investment-grade credit ratings and ample liquidity; grow earnings, margins and capital returns. And to this end, we intend to pay off 2025 debt maturities at least partially in cash and specifically plan to repay or refinance the first tranche of the payroll support program loans as the associated interest rates start to ratchet higher for the industry beginning next year.

We also remain committed to our legacy of healthy shareholder returns. We are proud of our history of returning capital to our shareholders. We returned more than $13.5 billion through share repurchases and dividends since 2010, and we returned $215 million to shareholders through dividends in the first half of this year. We paid another dividend just a couple of weeks ago here in third quarter. We are actively reviewing our return of capital policies, and ultimately, our goal is to restore shareholder returns to historic levels.

As I close, I want to reiterate that our financial performance is not reflective of what we can and must deliver. As shareholders, you expect us to lead the industry in financial performance, and we will be satisfied with nothing less. There are areas we need to improve which we are owning and addressing as a management team. Despite these distractions, our employees remain steadfast in their dedication to the mission of the company and to providing our storied and world-class hospitality to our valued customers.

I am both proud and grateful for our employees. I am excited about the plans we have in place to secure a bright future for Southwest and to share more about our tactical and strategic initiatives as well as our capital allocation plan at Investor Day in September. We remain fully committed to executing on a plan to restore returns on invested capital in excess of our cost of capital, as this remains our guiding financial principle.

And with that, I will turn it back over to you, Julia.

Julia Landrum
Vice President of Investor Relations
Thank you, Tammy. This completes our prepared remarks. We will now open the line for analysts' questions. [Operator Instructions] We will now take the first question.

Question and Answer

Operator

[Operator Instructions] The first question comes from Brandon Oglenski with Barclays.

Brandon Robert Oglenski
Barclays Bank PLC, Research Division

Bob, we definitely appreciate the new product changes that you announced today, like extra leg room, red eye flying. But I think you'd agree, these have been offered for decades at your competitors. So I guess can you give us insight into the timing of this? Why now? Why wasn't this looked at maybe even just a few years ago when you did do like a cabin redesign?

Robert E. Jordan
President, CEO & Vice Chairman of the Board

Yes, Brandon, I think a lot of things changed. I mean, you have changing demand patterns, we have customer preference that is always changing. It changed to some extent also coming out of the pandemic.

You can always debate when. At the end of the day, it's the right thing to do right now. Particularly as we, over time, have flown longer and flights are more full, I think that is a large driver of this.

One of the things that's obvious is, if you have a longer flight, customers have a preference to know where they are sitting, just like they have a preference to have seat back power. And I was, I'll admit, a bit surprised. We did extensive research here. Tens of thousands of customers surveyed, a lot of work, conjoint analysis, to understand products, what customers prefer and what they're willing to pay for.

And while I wasn't surprised that the preference ended up coming out for assigned seating and more premium options in the cabin, I was surprised at the level of the preference. 80% in favor of assigned seating amongst our customers, 86% amongst those that fly other carriers. And then of course we reported, it was the #1 reason that customers, when they defect from Southwest Airlines, that they leave us. So it's very clear that there's strong, strong demand.

But you can always pick the time and the place. I'm 100% forward-focused. In other words, we've done the work to ensure that this is the right change. The change is right to do now. We are not quite ready to share the time lines other than that we plan on selling the new seating in 2025, and we'll share all of that at our Investor Day in September. But it's clearly the right thing to do for our customers, for our employees and for our shareholders.

Brandon Robert Oglenski
Barclays Bank PLC, Research Division

Well, I think your investors appreciate the effort here to make changes. But I think some of the public criticism being levied on the company and the Board is that it's been such an insular culture, these things couldn't even have been discussed years ago. I guess, what are you doing from that aspect? Are you looking to fill some of these executive positions externally?

Robert E. Jordan
President, CEO & Vice Chairman of the Board

Yes. I think you could always -- hindsight is always a lot more perfect. And so you can always look back and criticize the timing of a decision. I'm just telling you that we're 100% focused on transformational change here at Southwest Airlines driving forward and driving forward with pace. You heard us today announce not just the assigned seating and the cabin changes. You heard us announce red eye flying, which is not something we are working on, it's something we have worked on, and it's in the schedules published today.

We've been working aggressively on operational systems, which we could talk about. And that work on operational systems allowed us, during the tech outage last week, to have a, I believe, was a 99.8% completion factor on the day of the tech outage. And we had systems, critical systems to the operation affected.

So we are fully focused on transforming the company, driving forward, driving forward at pace and having a plan that addresses comprehensively delivering transformative commercial initiatives, improving our operational efficiency and addressing capital allocation discipline.

Operator

The next question is from Jamie Baker with JPMorgan.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

On assigned seating, do you envision still being able to board an aircraft with just a single agent?

Robert E. Jordan
President, CEO & Vice Chairman of the Board

Yes, absolutely, that would be the intent. We're still working on product design and some of the specifics. But we have a lot of line of sight to the layout of the cabin. We have a lot of line of sight right now to the product design. We're working on the boarding.

One of the things that we get a lot of credit for today, Jamie, is the calm and order of our boarding. We board in an ordinal manner in order and our customers that we survey really like that. So there's a lot of focus on maintaining the boarding in a form that our customers love, but doing it in a manner that it pairs with assigned seating. And again, more to share at our Investor Day. But that would be the goal.

And we want to do this whole thing the Southwest way. And that we're known for, obviously, things that make sense, common sense, not adding complexity. So if you look at the cabin, again, we're not ready to share everything. But we'll have, again, 1/3 of the seats or so across the fleet in this extended leg room. And there will be differentiation. It will be different than the rest of the cabin. But it won't be a different seat and a curtain and meals and ovens. And so we'll do this in Southwest way. And the same exact thing applies to boarding.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

Perfect. And second, and I don't know if you've ever commented on this in the past. But from a Rapid Rewards perspective, how important is Hawaii? Like, for example, could you disclose what percent of overall redemptions choose Hawaii, something like that? I'm just trying to model how important Hawaii is to getting credit cards into people's wallets and driving brand preference, that kind of stuff.

Robert E. Jordan
President, CEO & Vice Chairman of the Board

Jamie, it's very important, particularly as you think about the West Coast and the franchise. But I'll let Andrew take a crack at the details here.

Andrew M. Watterson
Chief Operating Officer

Yes. I can't recall off the top of my head, Jamie, but it is high. It's not as high as Aruba. Aruba is actually our highest redemption, and that goes for kind of our East Coast customers who want a kind of aspirational vacation destination and that allows them to redeem through that.

In the West, we have a very business-centric network in the West with leisure options being Vegas and Phoenix in season. So Hawaii is important to our customer franchise in the Western U.S. who are closer geographically to Hawaii than, say, to Florida for their beach and warm weather destination. So it's important for that customer base who is a repeat purchase customer base.

So Rapid Rewards reflects someone who identifies their brand and wants then the credit cards. So we have to have a multipurpose travel network for them, and Hawaii that for our Western U.S. customers. So there -- that's one of the importance there. And that’s why we spend so much time trying to mature it, doing so many adjustments to it, to make sure it can fit profitably into our network as well as give that kind of customer adhesion point of an aspirational vacation destination.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

That's good detail. I would not have guessed the Aruba nugget. That's a good one.

Operator

The next question is from Savi Syth with Raymond James.

Savanthi Nipunika Prelis-Syth
Raymond James & Associates, Inc., Research Division

Just on the O&D revenue management system, you kind of shared a lot of details. It seems like you've had revenue management changes in the past that have kind of come up with some issues as well. But I was curious, I think, Bob, in your comment on CNBC, you mentioned that you just sold too many seats at too-low prices. And I don't know, Ryan, if you want to kind of talk about you're seeing a lot of fare sales still out there, and that doesn't seem to jive with realizing that you've sold too many seats at too-low prices. I was kind of curious if you could talk about the fare sale activity you're doing today and how we should interpret that.

Robert E. Jordan
President, CEO & Vice Chairman of the Board

Yes. We just talking about revenue management, generally. The O&D systems are by nature more complex, and it's not unusual that they take time to be tuned and adapted. And also, we've had -- not making excuses. But we've also had a lot of noise around the demand with schedule changes, adapting to Boeing delivery issues, and that's not helped.

But clearly, we sold too many seats early for the peak summer travel period, which means you're going to take them in lower booking classes. And it also means, when you get to the summer and you have those strong flights, you have fewer seats to sell later in the booking curve, which obviously comes in higher booking classes.

So we've had a strong diagnostic to understand what's happening. We've had experts -- third-party experts in to help. We have a strong action plan, and that action plan is being put into place right now. We're also adding more expertise, senior leadership, over the area simply because it is more complex.

Maybe tearing that apart a little bit from the fare sale. It's also clear -- in the RM system, it's also clear that there's simply more capacity than -- on the domestic side than demand right now. And so that's got to be a piece of what you're talking about.

I mean, for Southwest Airlines, we're taking actions for ourselves here. Capacity was up about 8.6%, I think, in the second quarter. We're going to moderate that to 2% in the third. It will actually be down roughly 4% in the fourth. And sort of underneath that, trips will actually be down about 8% in the fourth quarter. So we are working down capacity aggressively on our part here.

But yes, Andrew, you want to comment more specifically on RM?

Andrew M. Watterson
Chief Operating Officer

I think I would say just in the fare sale, Bob, that, that can be a red hearing we get often. We distribute directly to consumers, which means you always have to be out there pulling them to your website, and promotional activity is the way that you do that. So the frequency of our sales does not hold a special meaning, it's a depth of a sale that would give you indications about any kind of promotional level of discounts we're giving. In that situation, I don't think anything has really changed if you look at the current sales.

So kind of you always expect us to be out there promoting to customers to pull them to into our website. That often has to have a number attached to it to get them there, but that's a normal course of business. It's been that way through good times and bad over the years.

Savanthi Nipunika Prelis-Syth
Raymond James & Associates, Inc., Research Division

That's helpful clarification. And just if I might on the -- I know there's a lot more information coming at Investor Day, but I was curious on the -- for the changing of the seating on the plane. Once the FAA approves it, just how long is that process generally to kind of doing a whole -- a large fleet like yours?

Robert E. Jordan
President, CEO & Vice Chairman of the Board

Yes, you've got 2, maybe 3 sides here. You've got to finish up the design of the LOPA or the layout, which we're very close to here. And then there's a much-long certification process. And then, of course, we have roughly 800 aircraft that need to be modified.

We're going to do this in a capital-efficient way. We don't -- we're going to utilize, obviously, the new RECARO seat coming off the line with new aircraft beginning early next year or existing seats. But at 800 aircraft, it still takes a while to move all the way through the fleet even if it's a relatively rapid modification. Obviously, it's a complex change. So you have technology, process, training, other work to be done. It will be a pacing item as well.

But -- and again, we'll be revealing the time lines in more detail in September. So the only tidbit we have out there right now is that our plan is to sell in the new form, so in the assigned seating roll, beginning in 2025. But more to come.

And again, the fleet, the mod is not complex, it just has to be approved. And then again, we have to move through 800 aircraft in the fleet.

Savanthi Nipunika Prelis-Syth
Raymond James & Associates, Inc., Research Division

I'm one of those 80% of passengers who like to see the change. So glad to see that.

Operator

The next question is from Conor Cunningham with Melius Research.

Conor T. Cunningham
Melius Research LLC

Maybe just sticking on the premium stuff. So have you secured slots from an MRO perspective? And then you mentioned doing this on all 800 aircraft. I'm just curious on why you're doing the 700s if we're talking about retiring those over the next 10 years?

And sorry for the extra question on top of this. Like when you think about the layout, are you expecting the same amount of seats on each plane? i.e., you not losing any seats by adding premium?

Robert E. Jordan
President, CEO & Vice Chairman of the Board

We're still -- and Ryan can add a lot of detail here. We're still working on specific LOPAs and layouts. We want to do this in a Southwest way and be true to our values here. So in the same manner that our intent is not to change our customer-friendly policies and take anything away from you, we want to have, not just in the extra legroom section, but in the remainder of the cabin, we want to have an attractive pitch. So we're still working through that question.

The 700s, they're going to be in the fleet for, I believe, for a while, for a long while here. And so again, we're going to be sharing the detail on the math as well, just the financial benefit. But it's clear that any modification to the 7s, you want the extra-legroom seats in the 700s as well. Sort of roughly the same, about 1/3. Our desire is to get this into 1/3 of the seats across the entire fleet.

And then just mechanically for our customers, it would make no sense to -- you're just buying a flight, so it would make no sense to buy one flight and there are a lot of extra legroom seats and buy another flight, and simply because it's a different aircraft type, there are none or very few. So we want to do this in a way that it makes sense to our customers and that extra legroom section is available on every single flight.

Ryan C. Green
Executive Vice President of Commercial Transformation

Yes, I think that's the most important part, Conor, is that when you start wrapping seating benefits, premium seating benefits into your overall value proposition, whether you're selling it as an ancillary or a fare. The customer, when they go on to buy their flight from Dallas to Denver, they don't know if we're going to operate it with the 700 or a MAX-8 aircraft. And you want a consistent value proposition across the board to serve the customers' needs. So I think that's the most important piece of that equation, to your question there.

Conor T. Cunningham
Melius Research LLC

Okay. And then on the comment of growing at or below macro trends in 2025, I'm trying to understand why growth is even on the table right now given where returns are at. In that same context, like you're talking about unit revenue down today, but then seats down 6% to 8%, that inflects unit revenue positive. I just try to understand why we should then ramp back up in line with the economic growth. And then in the context of all that, can you just frame up how you view the current demand environment in general?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Yes, Conor, you bet. And we are still working on 2025, so I wouldn't take anything as an exact number. But yes, that was a commitment, obviously, over the next number of years, and obviously, a commitment until we are able to earn our cost of capital here. So we've not picked a number necessarily for 2025, but we are going to be managing, obviously, our capital expenditures aggressively.

Tied to that, and we haven't talked about the red eye flying, but we're also announcing that today, which I'm really proud of. And our customers want it, but what it also does for us is it produces ASMs without having to buy extra aircraft. I mean, the aircraft are available, obviously, overnight. That and the sophisticated technology and processes going into turn management, but that's allowing us to take time out of the turn.

The combination of those two things, the red eye flying and then the turn compression will allow us to fund nearly all, if not all, capacity, '25, '26, '27 through initiatives, and not be buying incremental aircraft and spending incremental CapEx.

Operator

The next question is from Mike Linenberg with Deutsche Bank.

Michael John Linenberg
Deutsche Bank AG, Research Division

Bob, I know you had mentioned earlier you talked about sort of capacity domestically running a bit higher than demand and maybe what was driving the price weakness. But how much of it do you think may also be attributable to just that more price-sensitive consumer who may be pushing back? I mean, we are seeing that in other sectors. And I would think that you tend to carry a healthy amount of that type of segment. Are you seeing it?

Andrew M. Watterson
Chief Operating Officer

Mike, it's Andrew. We're not seeing any specific thing in regards to customer segments that are pulling back, so to speak. I think sometimes because we aspire to have low fares, people assume we're going for a lower affluent passenger, which is not the case. And so we want to have low fares and high quality. As I mentioned earlier, we have large parts of our network which are very high business contribution, which implies a customer that's relatively more affluent.

And so we're seeing, I think, business travel actually grow faster than capacity both in Q1 and Q2. So you do see that part of the economy going well. It's just, I think there's some choppiness with regards to off-peak times and how much leisure spending is going on there. That was a characteristic of COVID, where people would more frequently take off-time trips for leisure reasons, and there's less of that now. And so that does create this kind of period of the year when there's more capacity than demand.

Ryan C. Green
Executive Vice President of Commercial Transformation

Mike, just -- this is Ryan. Just to add a little bit of color to what Andrew said there. When you look at our customer base demographically and how that compares to our peers in the industry, it looks a lot more like -- our customer base looks a lot more like our legacy peers than it does LCCs or ULCCs, the LCC or ULCC peer set. Specifically, when you talk about households with incomes in the $100,000-plus bracket and the $200,000 bracket, that looks much closer to legacy than it does the LCC and ULCC peer set.

Michael John Linenberg
Deutsche Bank AG, Research Division

Great. Very helpful. And then just my last question. This may be for Tammy. When I look at your CASM guide for the year, which you were able to maintain, we come off the third quarter. And at the midpoint, we're looking at, call it, 12% on a couple of percent of capacity. When we get to the fourth quarter, we're up maybe high single digits, but now that's on a capacity reduction of about 4%. So sequentially, there's there is a healthy improvement there.

Is there something in 2023? I know there was a restatement, but is there anything in there, credits or onetimers, that would allow you to see that sort of progression? Or maybe we're just anniversarying some of these various contracts and cost inflationary items?

Tammy Romo
Executive VP & CFO

Yes. No, absolutely, Mike. And no, you -- there really isn't anything unusual to point out. We are anniversarying some of the contracts, so that is certainly contributing to that.

And just to clarify on CASM-X numbers for last year. I know we've had, I think, some questions coming in on that. just to make sure you all have the correct numbers. The specific numbers for the third quarter is $0.1067 and 4Q, it's $0.1097, bringing the full year to $0.1109. So just to make sure you've got all the right numbers in your model. But yes, you got it. It's mostly anniversarying the contracts.

Robert E. Jordan
President, CEO & Vice Chairman of the Board

And just to be -- just to break it down, I'm sure you know this. I mean, sort of our normal -- if you look at our midpoint of our Q3 guide, 12%, kind of normal would be low 4s. We've got close to 5 points of sort of abnormal labor pressure with the new contracts. So as Tammy said, as you begin to anniversary that, it's material.

And then between Boeing direct impacts and then Boeing overstaffing impacts, you've got about 3 points. So as that tails off and the overstaffing begins to tail off -- and we are mitigating a large number of that, we can talk about that later if you want. So as those extraordinary items come off, it's very helpful. Or you anniversary them.

Operator

The next question is from Duane Pfennigwerth with Evercore ISI.

Duane Thomas Pfennigwerth
Evercore ISI Institutional Equities, Research Division

I wanted to ask you about network changes versus product changes, things like assigned seats, and which area you think will be the bigger contributor to your lagging margins here? Do you see a path on margin improvement before these product enhancements come on board? The only reason I ask is there are some carriers out there that have all the premium bells and whistles, but still have lagging margins, which suggests that premium in isolation is not a silver bullet. So is there a network issue and a new markets issue that we can address first?

Andrew M. Watterson
Chief Operating Officer

Duane, it's Andrew. I would say there is obviously a lag with the implementation of the initiatives. So between now and then, we absolutely are aiming towards having margin improvement. I would actually put it on the back of three efforts.

Network changes, many of which we've put in, and we will keep putting more in. You saw some big ones in Q1 and there's still some good modest-sized ones throughout the year this year.

And then when the capacity is set then on the shorter duration, we're focused on yield improvements. You saw through the discussion about revenue management system, both the raising the negative that you saw in Q2, but also getting more out of the system is a positive on top of eliminating the negative. So that's one vector.

And then on the other is some -- we have a load gap. And folks in that load gap in particular, you see our efforts on our new advertising campaigns, our entry into Google Flights, and some of our customer acquisition activities help us to kind of broaden our customer base. It's down a little bit because we find that our road warriors don't travel as much per person as they did pre-pandemic. And so those efforts in the short to medium term will give a tailwind to load.

So those marketing activities, revenue management activities and network changes, they are all three that we intend to work between now and the go-live of the initiatives.

Duane Thomas Pfennigwerth
Evercore ISI Institutional Equities, Research Division

Appreciate that. And we'll be watching for progress on that front. And Bob, in the spirit of your comment about looking at all opportunities, I wanted to ask you about bags. And not from the traditional revenue perspective, but just from a Southwest take rate and cost per bag perspective. Do you have a feel for how much higher your bag take rate is versus the rest of the industry? How many more bags per flight you carry and what you estimate your cost per bag to be?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Yes. We -- I believe, just to get right your question. And check bags, I believe we carry about 2x the industry standard. But then also, you've got bags that come out of the cabin that also has an issue in terms of how you manage the operation.

Just to be real clear on bags fly free as a policy, I mean, we're not looking at this point to change that policy. Our industry-leading set of initiatives of customer-friendly policies, and you know the list, is a big part of what attracts people to Southwest Airlines. And after fare and schedule, bags fly free is cited as the #1 issue in terms of why customers choose Southwest. So it's not something under consideration right now as we rethink our products related to the seating and the cabin.

Andrew M. Watterson
Chief Operating Officer

I would say also, Bob, that as far as the cost, there can be breakpoints at certain volume scales in individual airports. But if you give -- any given flight, having 1 or less bags or 10 or more or less bags doesn't necessarily change the cost profile to handle that as the number of people and equipment required to load and unload the aircraft is static in that range. So there's not a variable cost as far as the handling part. Of course, the weight is variable with the fuel burn, but that would be the true if it was in the cabin instead of in the belly.

Robert E. Jordan
President, CEO & Vice Chairman of the Board

Well, the thing you have to think about, too, is the bags move around. And so we're working to take -- and we'll share a lot about this at our Investor Day. We are working through technology and processes to take time out of the turn because you free time there and basically free aircraft just fall out because you're able to utilize the aircraft more effectively during the day.

And we don't have a large issue today with cabin overhead bags that are then slowing down the operation because the overheads are full and they have to be moved down into the check and moved into the hole, so -- or into the bin. And so you'll just move the issue around.

I mean, I'm sure you've flown on others, and there's a massive last-minute checking of bags from the cabin down into the bin under the aircraft, and that costs you a lot of turn time potentially, which then just burns aircraft time that could be used more effectively. So it's a trade and we do look at the trade.

Ryan C. Green
Executive Vice President of Commercial Transformation

And just to add one other point on that. It's about twice as many check bags. We carry twice as many check bags as legacies, and it gets closer to 3x more check bags than ULCCs. So I think that, that just points to the popularity of the policy and goes to indicate why -- one of the reasons why customers choose Southwest Airlines.

Operator

The next question is from Scott Group with Wolfe Research.

Scott H. Group
Wolfe Research, LLC

So I know you're going to quantify the changes in September, but just directionally, should we be thinking hundreds of millions? Is it more? Any way to help us think about how much CapEx this requires?

And then just more conceptually, like some of the legacies would say, hey, it's not just extra legroom that you need for it to truly be sort of premium. Like are there other changes you're contemplating beyond just extra legroom?

Robert E. Jordan
President, CEO & Vice Chairman of the Board

Yes, Scott, you bet. And again, yes, we're going to share a lot more in September. But just maybe just to put a ballpark figure out there. Our ancillary products today around boarding, like early bird, upgraded boarding, generate just shy of $1 billion for us. And the opportunity in the assigned seating and extra-legroom world is substantially north of that.

So I'm not going to give you a range, but just maybe give you a little directional. And also, hopefully, giving you the stat that roughly 1/3 of the seats in our fleet will be in the extra legroom configuration can give you kind of a ballpark there as well.

There's very little CapEx to invest because we're not buying a whole different seat configuration, that kind of thing. So it's mostly about adjusting the cabin more than it is buying a lot of stuff to change the cabin. We already have a new seat coming from RECARO that customers really like. We're already working on some of the other components of the cabin anyway. So there's actually very little incremental CapEx related to this change.

Then maybe on your last point. We're still defining the products and exactly the detail around what we want to attach to extra legroom. But again, just to be clear, we're not looking at first class where you really have a huge differentiation, and therefore, you really have a huge differentiation in cost. We really took a revenue per square foot view of a way to solve for this. You have so many feet in the cabin that you can deal with, and maximizing that revenue per square foot is how we attack the problem.

Scott H. Group
Wolfe Research, LLC

That's helpful. And just to clarify. When you talk about substantially north of $1 billion, do we -- is that a -- I'm trying to -- is that a gross number or net number? Meaning in theory, we'll lose like the early boarding ancillary that we have today, I would assume.

Robert E. Jordan
President, CEO & Vice Chairman of the Board

That's an incremental. So incremental, too. In other words, obviously, hurdle one, if those products are generating shy of $1 billion, whatever we do has to clear that as a hurdle. And so anything that we talk about will be the net change. But again, we're just not ready to share that in detail. .

But no, we wouldn't be making the change, if number one, it wasn't what our customers wanted; number two, it wasn't what our employees wanted; and number three , it wasn't significantly beneficial financially for our shareholders.

Operator

The next question is from Sheila Kahyaoglu with Jefferies.

Sheila Karin Kahyaoglu
Jefferies LLC, Research Division

I want to maybe ask about 2025 growth in a little different way. When you look at the contractual order book, it has 70 aircraft getting delivered plus ASMs from the red eye aircraft. So how should we think about that in the context of at or below GDP growth? Are we getting to the point maybe where fleet growth needs to be net neutral? Do you accelerate retirement? How do we think about that?

Tammy Romo
Executive VP & CFO

Yes. Sheila. Yes, we have a lot of flexibility with our order book from Boeing. We're not ready yet to lay out all of our plans. We'll do that out at Investor Day. But we have ample flexibility to reflow the order book to ultimately meet our needs. And we'll balance all of that, clearly given all of our objectives and including CapEx spend and also our initiative to renew the fleet. So we'll lay out all those details for you at Investor Day.

Robert E. Jordan
President, CEO & Vice Chairman of the Board

And obviously, we're still working with Boeing on settling up against the issues that we've seen here with delayed deliveries and those late deliveries gets played continuing into 2025. So again, more to share later on that as well.

Sheila Karin Kahyaoglu
Jefferies LLC, Research Division

Okay. And then maybe one on cost, a follow-up item. With the red eye flying, how do we think about additional headcount required for that or any cost impact?

Andrew M. Watterson
Chief Operating Officer

Yes. So Sheila, it's Andrew. The incrementality is quite low on this. Obviously, this is fuel incrementality, but the nature of this is the aircraft depart the West while it's still the operating day for those airports and then it arrives in the East during their operating days. So your staffed on both ends, so it doesn't require your ground operations. We have a situation where we have ample pilots right now. And so does not require us to hire additional pilots to be able to operate the red eye. So it's a way to kind of get more flying out of the current employee base and the current asset base for next year.

Operator

And Sheila was our final analyst question.

Julia Landrum
Vice President of Investor Relations

Thank you. That wraps up the analyst portion of today's call. I appreciate everyone joining, and have a great day.

Operator

Ladies and gentlemen, we now transition to our media portion of today's call. Ms. Whitney Eichinger, Chief Communications Officer, leads us off. Please go ahead, Whitney.

Whitney Eichinger
Senior VP & Chief Communications Officer

Thanks, Gary. Welcome to the media on our call today. Before we begin taking your questions, Gary, can you remind everyone and share instructions on how to queue up for a question?

Operator

[Operator Instructions] Our first question is from Alexandra Skores with The Dallas Morning News.

Alexandra Skores

Can you all hear me?

Robert E. Jordan
President, CEO & Vice Chairman of the Board

We can, Allie.

Alexandra Skores

Yes, this feels like a very historic step for Southwest with regard to the changes in policy today. I wanted to ask, are we entering a new era? Is this a step towards a new era for the company? And how is Southwest going to kind of differentiate itself from other major air carriers, because that's kind of been the history of Southwest? So I'm wondering if you can kind of speak to that.

Robert E. Jordan
President, CEO & Vice Chairman of the Board

We have -- we do it thoughtfully and carefully, but we've always been willing to adapt and change here at Southwest, to the time that I've been here. And we always kind of kid about the plastic boarding passes, but we've made a lot of change.

I will tell you, I do, and I think our team does, view this as a strategic transformation of the company. We are making -- as we talked about, we've made significant and continuing investments in our operational capabilities. And you see it showing up. I mean, we've taken 16 million pieces of paper a year out of the cockpit. The turn is going completely paperless on iPads. If you fly out of Dallas and Baltimore and other stations, you'll see big ramp information displays up that are managing the turn, and much, much more. And the investment in core technology there is allowing us to operate really well.

I talked about it earlier, but we had an 8% cancel rate when the hurricane came through Houston and almost no cancels the following day. So the ability to recover. And you saw that when the global tech outage hit last week, and we ran basically a normal day.

So those investments in the operation are more than tactical. They're really transformational investments to change the way we operate, our resilience and reliability. And the same thing is going on in the commercial space.

We are announcing the seating and the cabin changes today, but it's been a purposeful build that goes back 2 years, to begin to add power and larger bins and WiFi, and we're reworking the cabin, and you have upgraded and different more modern uniforms coming to our crews.

The -- our digital approach is significantly different. If you just go back maybe even 18 months to today, you can track your bags and you can -- these things that manage your same-day standby. And there's much, much more to come, so on the digital front. So we do see this as a fundamental transformation of Southwest Airlines to meet our customers' needs, to be more efficient and to add capabilities.

All that said, we're not going to change the core of what we stand for here, true hospitality, the best employees in the industry, customer policies that make sense, being transparent with our customers. So we're going to adhere to the things that make Southwest the Southwest you love, but we're going to make this an even better Southwest Airlines.

Alexandra Skores

And then my second question, just for some of the Dallas passengers, too, I've been noticing have been pretty vocal about concerns about how this will be implemented. And I know you're not sharing specifics, but one that they are rather interested in is family boarding. And that's like a prime reason why folks come into Love Field and have vocalized that to me. Can you share anything about how family boarding might be implemented with this new policy?

Robert E. Jordan
President, CEO & Vice Chairman of the Board

No. I mean, we're -- and Ryan can talk about this. We're still -- there are, as you could expect, there are 1,000 details to be worked through. But if you just think about that as a family, especially if you're on a long-haul flight, and the uncertainty -- in today's world, the uncertainty of are we going to be able to sit together is a huge question, and it comes up as a stress point for families that we carry.

And so in the new world, in an assigned seating world, you'd have an assurance that you're going to sit together because you have assigned seats that take that stress away. And if you want to sit together in an extra legroom section, even better.

And so I think for -- as we've surveyed, a lot of what the changes are accomplishing, are actually taking stress out of the boarding process and the seating process because most of the stress comes from where am I going to sit? Not just, am I going to get "a good seat?" But where am I going to sit? Am I going to say close to the folks that I want to? For example. So moving to assigned seating takes all of that stress out of the process.

The goals we talked about earlier is to marry the things that folks love about our boarding with that assigned seating change.

But Ryan, don't know if you want to add anything.

Ryan C. Green
Executive Vice President of Commercial Transformation

No, yes. I think moving -- there are friction points in the current customer experience that come along with open seating that we've had to adapt to by creating things like our family boarding section today.

Just to give a little insight into that, almost 60% of customers are checked in within the first 30 seconds of the 24-hour check-in window opening. And that goes up to about 75% of customers checked in within the first hour. So if you're a busy family and you don't hit the check-in window right on the nose, that causes anxiety.

And so like Bob mentioned, this is one of those -- this is a way to solve a lot of those friction points that the current open seating process has introduced and just causes more anxiety than we want. So I think families, at the end of the day, are going to love the change.

Robert E. Jordan
President, CEO & Vice Chairman of the Board

And for employees, I mean our employees end up on the aircraft, if there is an issue, family boards late, there aren't seats together, the open seats together, our flight attendants end up having to manage that situation or police that situation.

And if you are customers that are in the last boarding group and the flight is full, you get on board and it's tough to see the open seats. So you have what we call spinners. People going up and down the aisle spinning and looking for the open seat because it's hard to see since the aircraft is full. So that's obviously stressful and the assigned seating change basically eliminates all of that.

Operator

Next question is from Rajesh Singh with Reuters.

Rajesh Singh

Bob, can you provide an update on your discussions with Elliott Management? And do you expect a compromise with them? They are threatening a proxy fight.

Robert E. Jordan
President, CEO & Vice Chairman of the Board

Rajesh, I can't speak for Elliott or speculating on what Elliott may or may not do. But so far, they've not shown any willingness to engage in any meaningful conversations with us. Most of that has been public personal attacks on leadership and the Board. So like any shareholder, we would love to engage and hear their feedback. And -- but so far, there's been no willingness on their part to do that.

So for our part here as a leadership team, we're focused 100% on moving the company forward on the plans that, some of which we laid out today, and on transforming this company and hitting our desired financial returns.

Rajesh Singh

Bob, my second question is that about premium seating. Have you done any calculation about how much of an investment will require? And what kind of boost it will provide to your revenue and earnings next year?

Ryan C. Green
Executive Vice President of Commercial Transformation

Yes. I think, Rajesh, we'll have more to share on the overall value opportunity of the premium seating and assigned seating initiative at Investor Day this fall.

On the cost side of the equation, we're doing it in a very capital-efficient way. We're using existing seats, so there's a very little capital outlay here. And then on the revenue side, we'll have a value share here later in the fall.

Operator

The next question is from David Koenig with the Associated Press.

David Koenig

Actually, Alexandra asked some of my questions. But just as a follow-up, I'm curious, how much did -- in regard to the open seating demise here. How much did the current gaming of the system factor in your decision?

Robert E. Jordan
President, CEO & Vice Chairman of the Board

Dave, we haven't called it the demise of open seating. It's a shift to assigned seating. But anyways. I would say that it didn't factor in terms of the analysis. So we -- this is all about trying to make the right decision and making it not in emotion, but in data.

So we -- as Ryan can talk about, just extensive surveying of our customers, our non-customers, to understand their preferences. And then also to understand things like, if you have status on Southwest today, you're A-List preferred, what benefits -- how do you value benefits and what would be attached to your status in the assigned seating and extra legroom world? For example.

So just a ton of effort there and then a ton of effort to understand the operational impacts, if any. Because we certainly don't want an assigned seating to turn the aircraft slower, which everything that we worked on proved that it will not. So it was really about the change itself.

We do know, for our employees in particular, managing the boarding process, as you described, can be stressful and it can be for some of our customers. So while that wasn't a direct item that we studied, I think it could be that, that is an indirect benefit that we see.

David Koenig

And I think you kind of -- I have heard from your earlier remarks, Bob, that you were surprised by the degree to which people wanted to see assigned seating. And I don't know what your history, what baseline polling you had or surveys. Is that something that happened very recently? And is it because of the encouraging more passengers to pay extra to move up in the line? What was the timing there?

Ryan C. Green
Executive Vice President of Commercial Transformation

Yes. I think customers' preferences shift over time. And I think it's been clear, I think their preferences shift over time and their travel patterns and travel behavior shift over time. Customers are just taking fewer short-haul trips today. They are flying longer. And when they fly longer, the importance of an assigned seat goes up.

We've talked a lot about our desire and initiatives to grow market share with corporate business travelers in the managed business space, and they -- their preference is for an assigned seat versus an open seat. And so I think that goes into it.

And then when you look at premium, premium, just -- you can see it with in the airline industry ourselves, premium product growth has outpaced the growth in main cabin revenue for some time here. And then in other parts of the economy, consumers are just reducing nonessential retail purchases and spending that on experiences. So it's a combination of travel patterns changing and customer preferences changing over time that we're adapting to here.

Operator

Next question is from Lori Aratani with The Washington Post.

Lori Aratani

Sort of building on what David asked and what you just said, Bob, customers are fickle, right? And their preferences change. So are you worried that this is what everyone wants now? A few years back, the legacies were moving to basic economy, right, because that was the hot concept. Do you worry that you're going to make this change, and then a couple of years from now, people are going to want something different?

Robert E. Jordan
President, CEO & Vice Chairman of the Board

Lori, no, I don't think I said customers are fickle. Just kidding. But no, we...

Lori Aratani

Okay, sorry about that. They have been changing...

Robert E. Jordan
President, CEO & Vice Chairman of the Board

I'm kidding with you. I mean, preferences do change over time, and they change sometimes over long periods of time. And just more philosophically, you can have beliefs, we as a company can have beliefs and hold on to them. But if you don't understand in data, what is happening with your customers, they can move away from you. So you've got to be willing to challenge everything that's not fundamental to you as an airline.

But the -- we do -- we have periodically surveyed assigned seating. This is by far the deepest analysis we have ever done. And it has moved towards assigned seating over decades. I think the last time we looked at it, which was years -- many -- actually several years ago, the preference was more 50-50.

But the -- you've got a different generation -- you've got -- what we're trying to point out, too, is it's very clear that, as different generations emerge and spend more on travel, their preferences are potentially very different than the prior generation. I mean, not making a value call at all, but you've got to aim. Because you're always working, you've got to aim at the customer that you're going to see in 5 years and 10 years.

So I don't worry that -- in fact, this is what I love about the way we're implementing this. We're not doing anything way out on the fringe. We're moving to assigned seating, we're moving to extra legroom, and we're doing it in a way that is consistent with Southwest Airlines, which is we're doing it in a very efficient way.

And we're not putting in seats with -- that have doors and seats that massage you or something like that. We're doing things that make sense for Southwest. So I'm comfortable that we're moving towards the customer, and that those customer desires will not shift on us.

Lori Aratani

Okay. Can I sneak one more in? Because we have readers that are, of course, very engaged in this. Do you guys -- have you worked out yet what this is going to mean for A-List, the folks that have A-List status?

Ryan C. Green
Executive Vice President of Commercial Transformation

That's part of what we are hard at work finalizing. Now I think it's safe to assume that, just like our current A-List, A-List Preferred customers, there is a boarding benefit associated with their status level. I think it's safe to assume that there will be seating benefits that are associated with it. But the exact nature of that and the details there are things that we're defining as we speak.

Operator

The next question is from Alison Sider with The Wall Street Journal.

Alison Sider

I just wanted to ask a safety-related question. Obviously, the FAA review is just starting or hasn't yet started. But as you internally look at some of the incidents that you've had recently, are there any common themes that are emerging? Are there any lessons learned or changes that you're thinking about implementing to training or procedures?

Robert E. Jordan
President, CEO & Vice Chairman of the Board

Yes. And Ali, I'll let, obviously, Andrew talk in detail. But I did want to take time before our call in just to -- just reiterate that there is nothing more than -- important than safety, period.

We have had recent issues. We take them very seriously. Andrew can talk about it, but we've got a team focused on understanding what happened and how we can improve. I did speak to FAA Administrator Whitaker, earlier this week to reinforce our commitment, my personal commitment, to safety and our support and really appreciation for the work that the FAA is doing.

So I just want to preface anything we say about the issues with the fact that there is nothing more important than safety, and we fully support the FAA.

Andrew M. Watterson
Chief Operating Officer

Bob, to add on to that, it's not just the words we say safety is a priority, it's in our actions as well.

So our efforts started actually in April. We noticed some things that caught our eye that merited further involvement from us. So within the construct of our safety management system, we engaged our flight safety personnel within the company with the representatives from our pilots union, their safety committee, as well as the FAA and our certificate management office, to set up a joint team to do some joint analysis and investigation of what are root cause drivers and what are actions we can take in the short term and the medium term.

Some of the short-term actions was about enhanced communication and transparency because aviation safety today is based upon that kind of -- that transparency and collaboration. So that actually led to us communicating proactively to our personnel about what's going on, which then of course, led to these things getting out in the press and getting more media. So there's a little bit of self-reinforcing there.

But we clearly saw issues, and we clearly see things that we need to work on. So we have been, since that time, as we've dug into it, increased our focus and tempo on it. And the FAA now has increased theirs as well.

So this is a carrier -- a certificate-holder evaluation process. It's something that every airline goes through, roughly every 5 years. But it can be invoked off-cycle. The FAA has already done that with one other airline this year. Now they're doing with us. They can either do a kind of broad-based review or kind of audit or focus. They've chosen here a focused effort for us. And so we expect that to begin here in the coming weeks and be a finite duration.

However, the other work we already started will continue. That process should always be ongoing. And so they can -- we can -- both sides can flex in additional resources from inside companies, inside organizations, as well as outside.

So this is a multilayer approach to safety, and I think it makes us better, but also it gives the FAA that more visibility to bring back into the rest of the aviation system, and vice versa, because a lot of the topics we see, other airlines see and vice versa. So we're super happy to have this kind of great relationship and joint investigations.

Alison Sider

And I know a couple of the incidents seems to have evolved sort of less-experienced first officers or people new in their seats. Is that -- is there anything that you're looking at specifically to address that issue?

Andrew M. Watterson
Chief Operating Officer

No. I would say that what we're looking at, and you've seen probably some internal communications, is the human factor. So it's not the experience or airmanship necessarily of any individual, it's the what's called kind of generically in the industry, cockpit resource management. The how you interact between the pilot flying and the pilot monitoring.

There's insights to be gained there, and I think that's what we're focused on. We've brought in external help, the FAA's bringing in external help. And they've told us they've seen some other things elsewhere that would be helpful to us. So this is more about that dynamic than it is about any specific demographic.

Operator

The next question is from Mary Schlangenstein with Bloomberg News.

Mary Schlangenstein

I just wanted to follow up on that. Andrew, what did you see back in April that triggered the Southwest review? Was it some of the specific incidents that have been reported? Or was it something else?

And then the second question is, if this is a focused investigation from the FAA or focus review, is that focused solely on pilot training and -- does it just all focus on pilots? Or what is the focus?

Andrew M. Watterson
Chief Operating Officer

There is a focus on flight operations and flight training, but there's a couple of items as well that will be finalized as they start up. So it's not everything. It's a handful of items.

And with regards to what caught our eyes, we had two flights in particular in April that had some similarities that caught our eye and led us to start this process. So that was one too many, if you will. And that's when we started up ASAP. Really literally within days of us seeing that, we started the joint exercise with the FAA and our pilots union.

Mary Schlangenstein

And can you be more specific on what the similarities were? What problem did you see?

Andrew M. Watterson
Chief Operating Officer

Well, I won't go into too much detail. I mentioned aviation safety is based on transparency and collaboration, and part of that's voluntary disclosure. So since individual actors in the aviation safety system to self-disclose things that they saw that they did in exchange for anonymity from that. And so I'm not at liberty to go into exactly what it is there, but you can see where the programs we've launched, you can see what the FAA has launched, and how these things all fit together.

Operator

This concludes our question-and-answer session for media. So back to Whitney now for some closing thoughts.

Whitney Eichinger
Senior VP & Chief Communications Officer

Thanks, everyone. If you have any further questions, our communications group is standing by. Their contact information, along with today's news release, are all available at swamedia.com. Thank you.

Operator

The conference has concluded. Thank you all for attending. We'll meet again here next quarter.