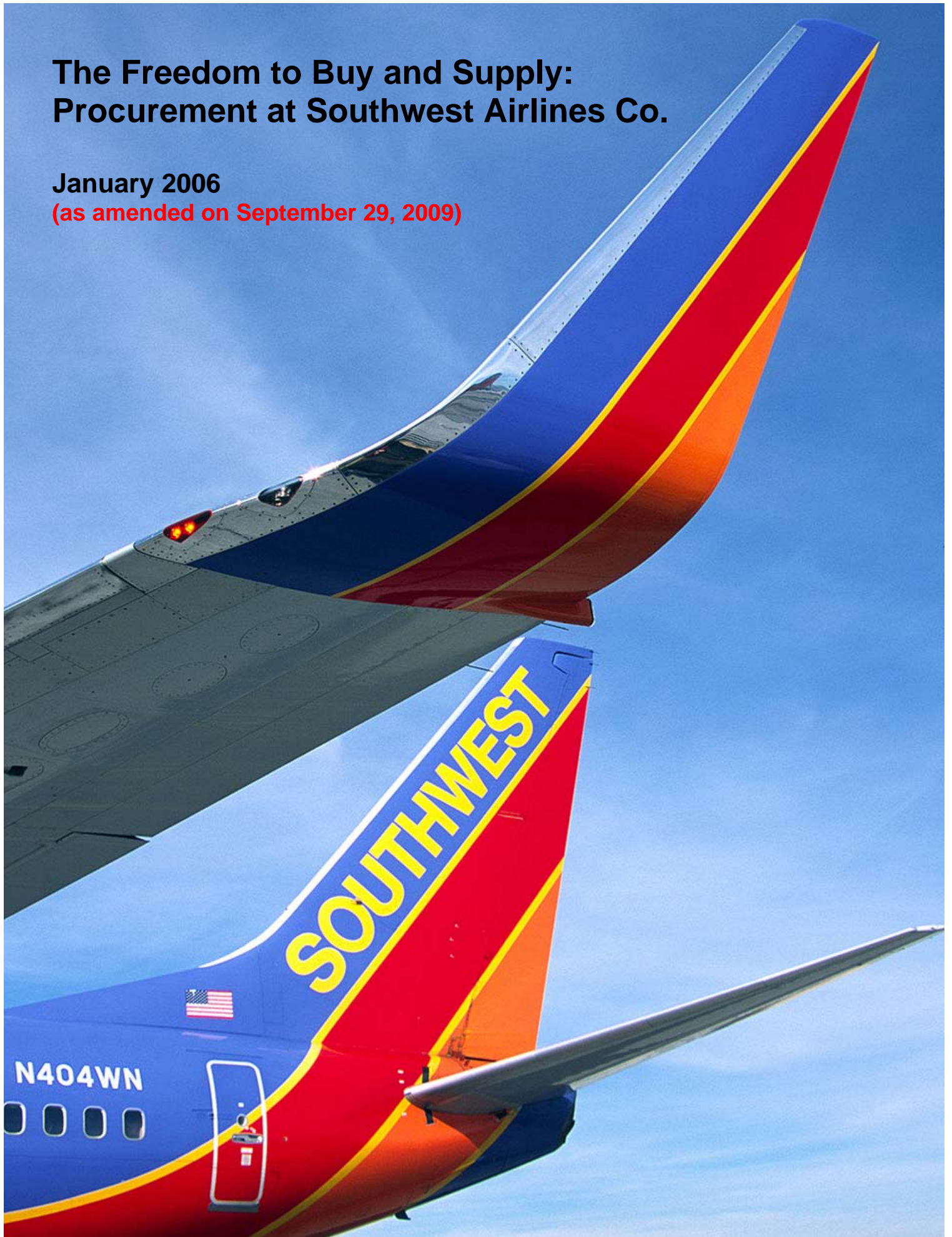


# The Freedom to Buy and Supply: Procurement at Southwest Airlines Co.

January 2006

(as amended on September 29, 2009)





## **1. Our Mission**

### **The Mission of Southwest Airlines**

Southwest Airlines Co. is dedicated to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride and Company Spirit.

#### **To Our Employees**

We are committed to provide our Employees a stable work environment with equal opportunity for learning and personal growth. Creativity and innovation are encouraged for improving the effectiveness of Southwest Airlines. Above all, Employees will be provided the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Southwest Customer.

#### **Key Values**

A key component of providing the highest quality of Customer Service and a stable work environment is low fares. In order to keep our fares low we must keep our costs low. We are, therefore, dedicated to finding ways to lower our costs and increase our productivity and quality. We value suppliers who have the same focus and look internally for ways to improve their processes and service, and willingly pass on cost savings to Southwest Airlines.

Southwest is also dedicated to creating an environment of trust and respect for its Customers, Employees, and suppliers. Employees are expected to maintain the highest ethical standards and conduct business with integrity, and in a manner that excludes consideration of personal gain. We require the same ethical standards and conduct from our suppliers.

We value diversity and seek to create an environment that encourages it, both in the workplace and among our supplier base.

### **The Mission of the Purchasing Department**

While adhering to the Company Mission Statement, we are committed to maintaining Southwest Airlines' low-cost Leadership through effective and efficient procurement, fuel management, facilities construction, and project management practices - ensuring that we spend our valuable capital wisely.

## **2. The Way We Do Business**

It is important that everyone involved in the procurement process: the Purchasing Department, their Internal Customers, and our suppliers and potential suppliers, all have



a common understanding of the way procurement happens at Southwest Airlines. This understanding helps ensure that our goal of maintaining low-cost Leadership and high Customer Service is maintained. At Southwest Airlines:

- All suppliers are treated fairly and impartially during the evaluation and selection process. We use more than one selection process depending on Company requirements and supply market conditions. Each selection process, however, is focused on the most efficient way to achieve the same result - the best value combination of quality, reliability, and cost for Southwest Airlines at the lowest total cost.
- We use a proven strategic sourcing methodology that includes cross-functional Teams, identification of total cost drivers and detailed requirements, market research, competitive bidding where appropriate, and continuous improvement in quality and processes. We expect our suppliers to initiate cost reduction projects that will allow them to pass on savings in the form of price reductions, quality improvements, or process efficiencies. We consistently make our supplier selections and conduct our ongoing performance evaluations based on, but not limited to: best value, delivery capability, integrity, financial strength, supplier diversity, and commitment to continuous improvement of products, service, and processes.
- All projects with supplier spend of \$500,000 or greater, and all spend categories or supplier relationships with annual spend of \$500,000 or greater must be evaluated utilizing the Company's strategic sourcing process, unless granted exemption by the Chairman of the Board, Chief Executive Officer, & President; Executive Vice President Strategy & Planning; Executive Vice President Corporate Services; Executive Vice President & Chief Operating Officer; or the Senior Vice President Administration & Chief People Officer. If a contract currently exists, this process will begin in conjunction with the approaching expiration date of the contract.
- During formal sourcing events, only invited suppliers are allowed to participate. Invited suppliers must follow the sourcing process as outlined at the beginning of the sourcing event. Additionally, suppliers must follow all established procurement procedures when doing business with Southwest Airlines. Failure to adhere to these processes will result in the supplier being ineligible to bid for Southwest Airlines' business.
- We believe that electronic commerce is a key component of efficient processing and are committed to expanding the use of e-procurement technology.
- Our goal is to measure the effectiveness of each supplier program. We regularly re-evaluate programs, and are willing to consider new suppliers that



provide improved value to Southwest Airlines. We value longterm relationships with our suppliers when their loyalty is evidenced by competitive, proactive service to Southwest Airlines.

- We expect our suppliers to cooperate in regularly providing accurate metrics and reporting that allow us to measure performance and address any deficiencies.
- We support disadvantaged, small, minority-owned, and women-owned businesses when we can meet our quality and cost objectives. We have an active Supplier Diversity Program at Southwest Airlines.
- We require that all information obtained regarding Southwest Airlines' business, that is not readily available to the public, be considered confidential and not for disclosure to others.
- We prohibit suppliers' use of Southwest Airlines' name or logo for any purpose without specific written authorization from Public Relations and Purchasing. This includes the publication of photographs of Company aircraft or other property in supplier advertising, endorsements, customer or client listings, and press releases.
- We pay suppliers ontime and in accordance with our contractual agreements when products or services have been received and we are presented with an accurate invoice. An accurate invoice bears the appropriate purchase order number and must match the purchase order in all material respects.

### **3. Collaborative Procurement – Roles and Responsibilities**

In order to make the best possible purchasing decision for Southwest Airlines, we utilize a strategic sourcing process that includes cross-functional Teams led by a designate of the Vice President Purchasing. The Customer Leader may be asked to provide a designate in certain circumstances. The Leader of the cross-functional Team is responsible for the coordination of the strategic sourcing process and for assuring that all applicable steps have been executed. Approvals for supplier selection and awarding business are made jointly by Purchasing and Internal Customer Leaders. The primary role of each group is described below.

#### **The Role of the Purchasing Department**

With regard to the procurement of goods and services for Southwest Airlines:

- To work with Internal Customers to develop requirements for spending.



- To maintain expert knowledge of the supply markets and develop the best strategy for procuring goods and services.
- To communicate requirements to suppliers and make commitments.
- To negotiate contracts with suppliers and ensure that proper metrics are in place to measure contract performance.
- To work with Customer Departments and Planning to coordinate agreement on negotiated savings attributed to strategic sourcing activities.
- To coordinate the creation of the contract, and its review and approval, by all key stakeholders.
- To monitor supplier performance and resolve issues that arise.
- To establish and maintain Company procurement policies and procedures.
- To communicate and train Employees on Company procurement policies and procedures.
- To decrease transaction costs related to procuring goods and services, while maintaining excellent Customer Service.
- To monitor contract expiration timing and coordinate evaluation activity.
- To work with Customer Departments to identify savings opportunities, and with the Finance Department to set annual savings targets through a Category Planning process.
- To develop controls and reporting to detect and reduce off-contract spend.

### The Role of Internal Customers

In cooperation with the Purchasing Department:

- To ensure that all eligible spend follows the strategic sourcing process.
- To define spending requirements through the development of the Annual Operating Plan.
- To define the functional requirements necessary for sourcing.
- To create the business case and secure approval for Capital Asset or Project Authorization Requests.



- In cooperation with the Planning Department, incorporate agreed upon negotiated savings from sourcing events into the Annual Operating Plan.
- To work with suppliers to resolve day-to-day operational issues.
- To report persistent supplier performance issues to the Purchasing Department.
- To reduce off-contract spend by utilizing only approved suppliers, and to provide monthly reporting on progress in achieving contract compliance.
- To work with the Purchasing Team to gain procurement transaction efficiencies and improve controls.

#### **4. The Approval Process**

In addition to understanding the roles surrounding procurement at Southwest Airlines, it is important for everyone involved to understand the approval process for supplier selection, commitment, and payment. The Southwest Airlines Authorities for the Procurement Process are as follows:

- Only the Chairman of the Board, Chief Executive Officer, & President; Executive Vice President Strategy & Planning; Executive Vice President Corporate Services; Executive Vice President & Chief Operating Officer; or the Senior Vice President Administration & Chief People Officer or their designates, can make a commitment to a supplier or execute a contract.
- Southwest Airlines does not authorize oral commitments to suppliers unless those commitments are approved by the Chairman of the Board, Chief Executive Officer, & President; Executive Vice President Strategy & Planning; Executive Vice President Corporate Services; Executive Vice President & Chief Operating Officer; or the Senior Vice President Administration & Chief People Officer.
- Department ordering is authorized through the appropriate Department Head and his or her designates.
- Ordering must be authorized in accordance with Company guidelines for the Annual Operating Plan, Project Authorization Request, and Capital Asset Request approvals, as defined in the Corporate Schedule of Authorities (includes authorizations for POs, invoices, disbursements, etc.).



- Cash payments to suppliers can only be made through the Accounts Payable Department.

## 5. Our Procurement Ethics

Southwest Airlines expects all internal and external participants in the procurement process to observe the highest standards of ethical conduct. We expect business to be conducted in accordance with the Southwest Airlines Code of Ethics (presented in a separate document) and with our Company Procurement Ethics as stated below.

- We expect all Southwest Airlines Employees involved in the procurement process to maintain the highest level of integrity and objectivity in the decision-making process; therefore, we discourage Employees and suppliers from doing anything to compromise or appear to compromise objectivity. Below are guidelines for maintaining objectivity.

### We do not allow the following:

- Acceptance by an Employee of any cash or cash equivalent (such as loans, gift certificates, stock, etc.) from a supplier or anyone affiliated with a supplier.
- Acceptance of any gift as part of an agreement to do anything in return for the gift.
- Investment or business dealings between an Employee and a supplier which could influence an Employee to make decisions resulting in personal enrichment or financial advantage for the Employee or close relatives and friends, unless approved in writing by the Chairman of the Board, Chief Executive Officer, & President; Executive Vice President Strategy & Planning; Executive Vice President Corporate Services; Executive Vice President & Chief Operating Officer; or the Senior Vice President Administration & Chief People Officer. Suppliers are required to disclose investment or business dealings in writing for any stakeholders, contractors, and/or current Employees of Southwest. Customary commercial relationships available to the public or to all Employees (such as banking, credit card, or stock brokerage accounts) are not considered incidents of personal enrichment.
- Solicitation by a supplier of Southwest Employees for employment and/or investment while bidding and/or working on a Southwest contract.
- Acceptance of any gifts having a value which would create a perception of impropriety or which would comprise the Employee's duty of loyalty to Southwest Airlines. All questions regarding the appropriateness of any supplier gift should be directed to the Chairman of the Board, Chief Executive



Officer, & President; Executive Vice President Strategy & Planning; Executive Vice President Corporate Services; Executive Vice President & Chief Operating Officer; or the Senior Vice President Administration & Chief People Officer.

- Any activity that would create an actual conflict, or even the appearance of conflict, in decision-making between the personal interests of the Employee and the best interests of the Company.

We allow the following (except during sourcing activity with the supplier involved):

- Customary small gifts, such as promotional items, as long as the market value of the gifts, individually or in the aggregate, is not such as to create a perception of impropriety or affect the Employee's duty of loyalty to Southwest Airlines. All questions regarding the appropriateness of any supplier gift should be directed to the Chairman of the Board, Chief Executive Officer, & President; Executive Vice President Strategy & Planning; Executive Vice President Corporate Services; Executive Vice President & Chief Operating Officer; or the Senior Vice President Administration & Chief People Officer.
- Occasional supplier-sponsored business meals or outings that provide team building or business development opportunities, provided that the expense is reasonable and not more than Employees could have justified had they incurred the expense directly. All other meals or outings must be specifically approved by the Chairman of the Board, Chief Executive Officer, & President; Executive Vice President Strategy & Planning; Executive Vice President Corporate Services; Executive Vice President & Chief Operating Officer; or the Senior Vice President Administration & Chief People Officer.
- Solicitation of promotional items only for giveaway or raffle at Company-sponsored charitable or Employee events.

## **Compliance Procedures**

Suppliers are responsible for their employee's compliance with the Southwest Airlines Code of Ethics and Procurement Ethics. Questions of interpretation should be directed to the supplier's Southwest Airlines category contact. Southwest Airlines Employees are responsible for their own compliance with the Southwest Airlines Code of Ethics and Procurement Ethics and should direct questions to the Chairman of the Board, Chief Executive Officer, & President; Executive Vice President Strategy & Planning; Executive Vice President Corporate Services; Executive Vice President & Chief Operating Officer; or the Senior Vice President Administration & Chief People Officer.



Reports of suspected violations and disclosure of any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest should be directed to the Chairman of the Board, Chief Executive Officer, & President; any Officer of the Company, or the Vice President of Internal Audit.

We do not allow retaliation against those who, in good faith, report misconduct by suppliers or Employees. Suppliers and Employees are expected to cooperate in internal investigations of violations of this Code. Suppliers who violate our ethics standards will be barred from doing business with Southwest Airlines. Employees who violate our ethics standards will be subject to disciplinary action, up to and including termination.

## **6. Contacting Southwest Representatives**

### New suppliers

To ensure information is reviewed, suppliers are requested to make initial contact in writing by e-mail or postal service with a company information package to:

E-mail address: [procurement@wnco.com](mailto:procurement@wnco.com)

Postal Service address:  
Category Leader, (Specific category)  
Southwest Airlines  
P.O. Box 36611, HDQ 7PD  
Dallas, Texas 75235

Southwest Airlines Purchasing Department representatives will review the information provided and respond within 20 business days as to the status of your submission.

### Existing suppliers

Price or contract related - Please contact your designated Southwest Airlines Purchasing Department representative.

Day-to-day operational issues – Please contact your designated Southwest Airlines Business Unit representative.



## 7. Structure of the Purchasing Department

