

Rollin On

The airline that has spent 35 years LUVing you wasn't just a lark. It was a carefully planned business that knew the path to airline success began with customer service. Just ask Rollin King, the *other* founder of SWA, who tells the tale of how this dynamic company began.

BY JOSEPH GUINTO

The Mansion on Turtle Creek in Dallas is always stuffed with the elite. Visiting celebrities, local TV personalities, socialites, old money, new money, millionaires, billionaires, oillionaires — they're all here. So it comes as some surprise that, just minutes into our power breakfast in The Mansion's tony dining room, Rollin King drops a word on me that I would not say in front of my mother. And King not only says it. He says it loudly.

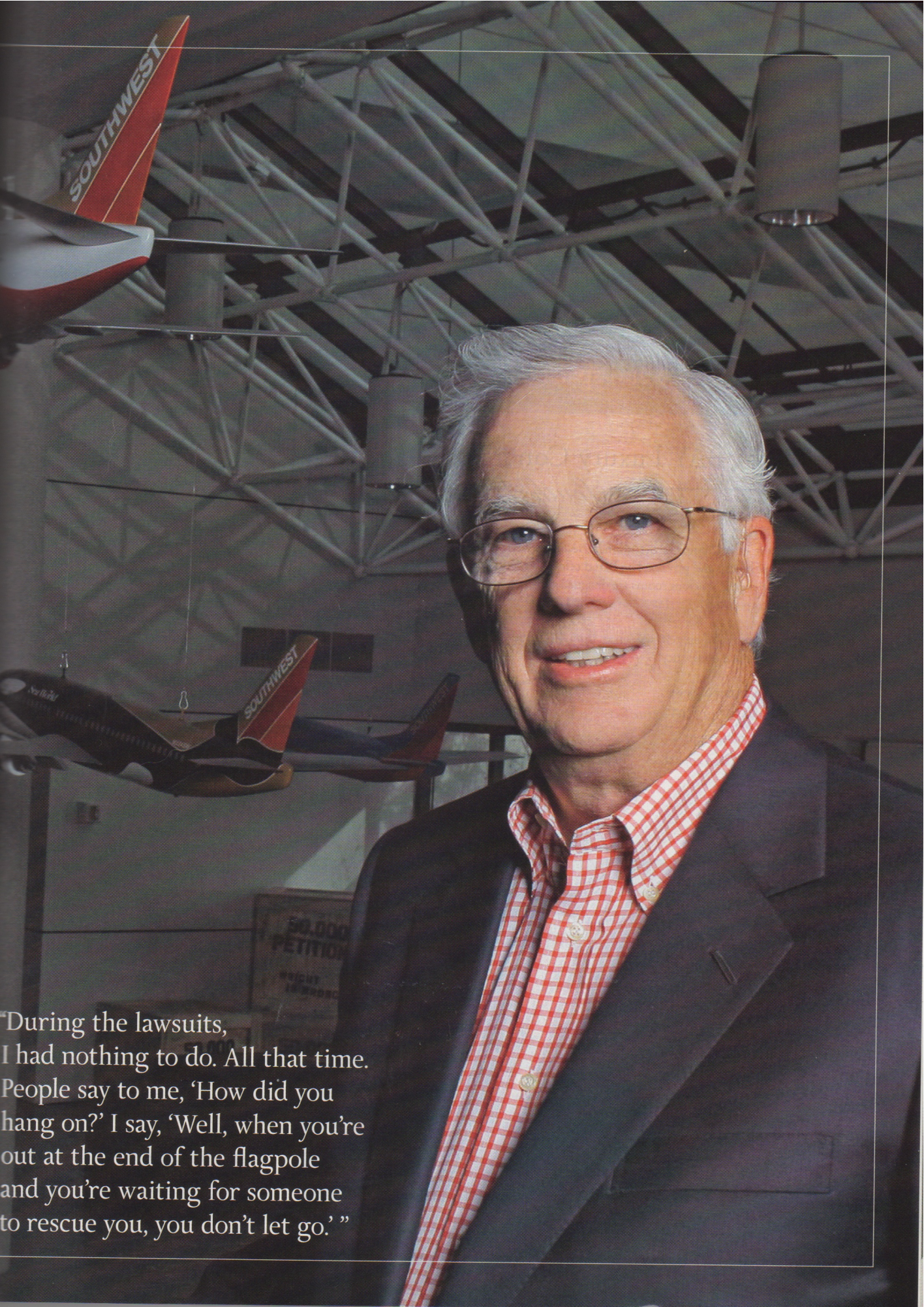
After a few minutes, and a slight amount of difficulty with my huevos rancheros, I realize that this is, in fact, no surprise. King is the co-founder of Southwest Airlines. And it turns out that, like that other founder — the wacky, chain-smoking, Wild Turkey-swilling guy named Herb Kelleher — Rollin King is also an unpredictable maverick. Consider: King's original idea for Southwest Airlines was so unconventional that he had to talk Kelleher — you know, the wild and crazy one — into going along with it.

So it's understandable that the 75-year-old King might choose some colorful language to explain that, as he marks his retirement from the board of directors at Southwest Airlines this year, he is proud of his role in the company's accomplishments. "The company started with my original business plan," King says, dipping a knife into some marmalade, "and, as the years went by, they did a good job to not mess that up."

OK, he does not say "mess." He says something else entirely. A tad more earthy, as it were. Nevertheless, King's point is well taken. True, Southwest Airlines is a vastly different company today than it was on June 18, 1971, when its first flight left Dallas' Love Field. The company is more than 100 times bigger by nearly every measure, from employees to planes in the fleet. Some measures are even bigger than that. This year Southwest Airlines will carry 800 times more passengers than it did in 1971. Clearly the company has changed. But some things haven't. Thirty-five years have erased none of the simple objectives in King's original business plan (crafted along with Kelleher), which called for one class of aircraft, point-to-point service, consistently low fares, exceptional customer service, and profit sharing for employees. "That's the thing I'm proudest of," King says. "I wrote the original business plan before we ever started, and the principles there are still in place today. And that's something nobody has talked about."

OK, so let's talk about it. Let's talk about the other founder, the "forgotten man," as King calls himself, the guy who made the sales pitches to raise the money that got the company going. Let's talk about the story of Southwest Airlines before there was a story.

Rollin King had a newly minted Harvard MBA and an entrepreneurial bent when he moved to Texas in 1962. He had no desire to go to work for someone else, so he teamed with his father-in-law to form King, Pitman and Co., an investment-counseling firm in San Antonio. It was a struggle from the start. "Investment counseling was very new in Texas in 1962, and a lot of



"During the lawsuits, I had nothing to do. All that time. People say to me, 'How did you hang on?' I say, 'Well, when you're out at the end of the flagpole and you're waiting for someone to rescue you, you don't let go.' "

people didn't understand it," King says. "They'd say, 'Why should I pay you for that when my broker does it for free?'" Still, King managed to carve out a good living, in part because he invested in a stream of outside ventures. In his spare time, he got a pilot's license and flew prop planes around Texas' Hill Country.

Work and play converged in 1964 when King bought Wild Goose Flying Service, a company that used small Beechcraft planes to shuttle San Antonio's businessmen around the state, mostly on hunting trips. Wild Goose's planes flew under the more professional-sounding name of "Southwest Airlines."

"We would fly into such well-known localities as Kerrville, Del Rio, Eagle Pass, and Laredo," King says sarcastically. "We were not making any money."

The investment might have been a poor one, but King hung onto it. In 1966, John Parker, who was King's banker in San Antonio — at, what else but Alamo National Bank? — gave him an idea. King recalls Parker telling him, "I have the hardest time getting from Dallas to Houston. Half the time the flight gets canceled, and when it doesn't, they lose my bag. You should fly between those cities."

King knew his twin-engine Beechcrafts didn't have enough seats (some had just three) to compete with jets, but he promised Parker that he'd look into the idea. "That seemed like the smartest thing to say to someone who would have lent me all the money," King says, proving the value of his Harvard education.

Turned out that Parker was onto something. The airlines that operated most of the flights between Dallas, Houston, and San Antonio — the long-defunct Braniff and Trans-Texas — had left customers in need. "Braniff was serving the Dallas to San Antonio route and the Dallas to Houston route with long-haul service from other places," King says. "Their flights would originate in Los Angeles or New York. One of their so-called commuter flights even originated in Frankfurt, Germany. And, since the long-haul service was much more profitable, they were selling most of their seats to people flying Los Angeles to San Antonio, and so forth, and not leaving many seats for sale for people who just wanted to go from San Antonio to Dallas."

So, in the late winter of 1967, King met with his attorney, Herb Kelleher. Kelleher had also moved to San Antonio for business and family reasons, leaving New

Jersey after graduating from NYU's law school. He was 36. King was the same age. Both were tall and athletic. Both had deep, authoritative voices. Both smoked, although King preferred cigars to Kelleher's cigarettes.

Imagine then, if you will, the scene, a moment of true business history. In a haze of smoke, King lays out his idea. He tells Kelleher he wants to form a corporation called Air Southwest, and plans to start raising the needed funds to begin air service between the triangle formed by Dallas, Houston, and San Antonio. Further, he wants Kelleher's help in raising the money. King says he can make a sales pitch, sure. But Kelleher is the one who, after just six years in the state, had a vast network of contacts.

Herb's response to the concept of Southwest Airlines?

"He said, 'Well, that's a lousy idea,'" King recalls. He smiles wryly and laughs over the clinking of plates in The Mansion's dining room. "So I said, 'Well, just do it.'"

Kelleher puts his reaction more diplomatically. "I was very skeptical at first," he says. "But the more I considered it, the more it did appear there might be a real opportunity to form an intrastate operation in Texas, and I understood it was going to be a political battle as well as an economic battle."

And clearly Kelleher believed Air Southwest, which later was reincorporated as Southwest Airlines Co., would win that battle. King was the largest shareholder in the original company, but Kelleher was its first investor, putting in \$20,000 of his own money to back King's business plan.

Now, just a second. Before we go further, something needs clearing up. When we say "business plan" here, we're referring to the business plan written in 1967. This plan was a formal document that included detailed financial projections and warnings about all the commensurate risks that come with investing in a company conceptualized by a 36-year-old Harvard MBA grad with no serious commercial aviation experience — oh, and his banker. What we are not referring to is the more legendary business plan: a triangle connecting Dallas, Houston, and San Antonio that King supposedly doodled on the back of a cocktail napkin at San Antonio's St. Anthony's Club for the benefit of his skeptical attorney. Just so you know.

Business plan (the big one) in hand, King had to raise funds to get his airline literally off the ground. The original target: \$150,000,

much of which was King's own cash. Factor in inflation, and that's about \$850,000 in today's money, a tiny sum considering that today a 737 jet sells for something like \$60 million. But the \$150,000 was just "walking-around money," King says. It was in part to pay for a feasibility study. King believed a no-frills airline offering cheap fares and point-to-point service would work. But if he was going to raise serious cash, he had to prove there was a market for the idea Kelleher at first dismissed as "lousy."

The study concluded (duh) that there was merit to King's idea. And there was even some precedent for it. A California carrier called Air California was already offering short-haul, point-to-point service in that state and had been effective in competing with larger airlines. In fact, Air California's executives were involved with the early stages of King's fund raising. In the second round of money raising, King leaned more heavily on Kelleher's connections, drawing the attorney deeper into the business.

"Kelleher was able to introduce me to a lot of important people in Houston and Dallas who I didn't really know," King says. "So I went and made pitches to these people. We called them our white hats because these were people who would make other investors take notice."

It would have been hard to ignore these "white hats." Among them: Robert Strauss, a founding partner in the noted law firm Akin, Gump, Strauss, Hauer & Feld, and a man who would later chair both the Democratic Party and President Jimmy Carter's 1976 election campaign before going on to serve as U.S. ambassador in Russia; Dolph Briscoe, who was elected governor of Texas in 1973; and oilman John Murchison, the older brother of former Dallas Cowboys owner Clint Murchison, and a man who, with his brother, had once graced the cover of *Time* magazine.

The white hats did the trick. King quickly raised nearly \$2 million and named the company's first board of directors, a panel that included himself, Kelleher, Strauss, and Murchison. A public stock offering was planned, and King approached Sears & Roebuck's venture-capital fund to back the offering. Sears, in turn, asked Wilbur Morrison, who had been instrumental in Pan Am's South American expansion, for advice on King's proposal.

"Wilbur came down to take a look at us, and we became friends," King says. "So I asked him to come on the board and he said, 'No, not now.' He said, 'Let's get the

money first, and if those guys don't give it to us, we'll get it from somebody else.'"

Actually, he didn't say "guys." But, still, Morrison did eventually join Southwest's board, even though those Sears guys didn't back the airline's stock issue.

A funny thing happens at this point in the story. Rollin King fades away. Though he has raised millions of dollars and his company has aligned itself with some of the biggest names in Texas business, all King really has is that business plan. Yeah, there are some bank accounts and other miscellany. But there's no business. The airline owns no planes, leases no airport gates, has no pilots. There's just a board and the big business plan. That's because, as Kelleher expected, the incumbent carriers have launched legal challenges to stop Southwest Airlines from becoming anything more than an air taxi ferrying hunters down to Laredo.

Any Southwest Airlines employee could probably tell you about all that. Well, that is, if they remember their lessons from Southwest Airlines University. Like kids in Oklahoma learn about the state's land rush of 1889, Southwest workers are taught the stories of the company's early days. They're schooled in the basics: 51 months of litigation before the first plane flew; competitors at every turn trying not to put Southwest out of business by aggressively competing with it, but to put Southwest out of business by *never* competing with it; one of the various legal actions getting all the way to the U.S. Supreme Court; et al. For a 22-year-old newbie flight attendant, these are interesting and compelling stories. For Rollin King, it was torture.

"We got our authority to fly in 1968, and the next day we ended up in court and stayed there for years," King says, adjusting the cuff on his tweed sports coat. He looks dapper and relaxed in his retirement, comforted, no doubt, by a full head of gray hair or by the home he owns next door to The Mansion. Maybe both. "During the lawsuits, I had nothing to do. All that time. People say to me, 'How did you hang on?' I say, 'Well, when you're out at the end of the flagpole and you're waiting for someone to rescue you, you don't let go.'"

In late 1970, help arrived in the form of landmark legal rulings, both from the Texas Supreme Court, which threw out rulings from lower courts that would have prohibited Southwest from flying, and then from the U.S. Supreme Court, which refused to

hear an appeal of that Texas Supreme Court decision.

It's hard to comprehend today, but prior to deregulation of the industry in 1978, the federal government heavily controlled airlines. An agency in Washington called the Civil Aeronautics Board set prices and routes for all carriers. It even told airlines what they could and could not charge for a mixed drink or a soda. Southwest had only managed to get a certificate to fly by exploiting a regulatory loophole — the federal government could restrict new airlines from providing interstate travel but had no authority over carriers who flew only within a single state. And Kelleher had managed to persuade the Texas Aeronautics Commission to certify Southwest Airlines for intrastate travel way back in February 1968.

It's also hard to understand in today's business environment why Kelleher would have gone on fighting the dozens of legal challenges offered up by Braniff, Trans-Texas, and others, when Southwest ran out of money to pay him for doing so more than a year before the Supreme Court ruling. After all, Kelleher wasn't an employee. He was just the attorney. He wasn't at the end of the flagpole. "I'm kind of an idealist by nature," Kelleher explains, "and I got to the point where I said what are we trying to do? We are trying to offer the people of Texas superior air transportation and a low price, and who is frustrating us in our attempts to do this? It's our competitors. And what mechanisms are they using? Administrative agencies, the courts, and legislatures. And I thought that if they get away with this, it's a perversion of what America is supposed to be about. If they were successful, it meant that my vision of America was wrong."

They weren't successful, of course. But the court victory that Kelleher had won left King with a huge problem. He was rescued from the flagpole, sure, but he still had no company. And Southwest Airlines was out of cash. Well, almost. There was exactly \$148 in the bank, he says, and tens of thousands in bills. The airline needed revenue, fast.

"So between January 1971 and June we put the airline together," King says matter-of-factly. King gives much credit for that amazing transition — 120 days to buy planes, configure them, paint them, lease airport gates, buy jet fuel, hire pilots, mechanics, flight attendants, *everyone* — to Lamar Muse, whom the board hired

as chief executive officer as its first order of business after the court cases seemed at an end. (Among the litany of things that are hard to comprehend about Southwest Airlines' history, Muse was actually the man who, working at Universal Airlines in the 1960s, invented the hub-and-spoke system that Southwest has always rejected. Another difficult-to-grasp piece of company history: Muse's starting salary was \$30,000.)

But why not Rollin King for CEO? Maybe there's a little idealism at work there, too. "I didn't lobby for the job because that was the right thing to do, even if it was the worst thing for me in the long run," King says. "I had never run a large airline, and I felt, as did the board, that we needed someone with experience. Also, I was by far the largest shareholder. So it was much more important to me what happened to the stock than what my title was."

For the record, his title was executive vice president, and King held that position until 1976, when he stepped away from day-to-day duties with the airline he'd first given life to some nine years before.

There were times when he wanted to take a more active role, when he'd even considered trying his hand at that CEO post he'd opted against years before. But things didn't work out. There are dozens of reasons why, some simple, some complex. Business, even when it's good, can be messy. Rollin King might tell you about that over breakfast at The Mansion sometime. But he will also tell you that he's exceptionally pleased at how Southwest has been run all these years.

"There has been nothing in the 35 years that I've been on the board that I even felt close to being necessary to go to the mat over with management," King says. "And it would have been so easy to mess up. All it would have taken is a little idea of grandeur somewhere along the way, and the company would have been in trouble. It's a completely different airline than when I ran it, but all the steps have been natural progression."

And doubting Herb?

"I don't know if I could have done as good a job as he did," King says. "He's really done a heck of a job."

Except, he does not say "heck." ☺