

Brief of company of united parcel service commerce essay



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United Parcel Service, Inc. also known as “ UPS” is a courier organisation which is the world’s largest package delivery service provider today. It was founded in 1907 by Jim Casey and their headquarters are based in Georgia, United States. The organisation’s operating activities include logistics, freight forwarding, mail packages and supply chain services. It delivers packages to more than 200 countries and domains worldwide.

Reasons for selecting

The organisation’s revenue escalated from US\$36. 6 billion (2004) to US\$51. 5 billion (2008). Therefore, they have been scaling a tremendous growth rate for several years. A comprehensive analytical study of UPS operations and its corporate strategic implications would enable me to have a firm grasp of globalisation initiatives. With an applied oriented approach, I would garner a more in-depth perspective of strategic management.

Main strategic issues facing the company

Regarding the integration of information technology, infrastructure and its package delivery operations. To adopt a holistic perspective in tackling information systems with implications at a National and International level.

To leverage on its profit-margins by aggressive pricing to rivals and counter escalating overheads in its infrastructure and operating costs, UPS has had to axe 1800 employees.

Company’s contribution to the National Economy

UPS achieved approximately US\$38. 63 billion in revenue from the U. S. market share (75%) in 2008.

UPS contributed 0.36% to the United States GDP of US\$14.2 trillion in 2008.

The organisation holds a 61% (US\$31.28 billion) market share in the U.S. domestic delivery package service.

Company's contribution to the Regional Economy

The organisation has achieved an award on environmental excellence for the conservation of energy and dealing with global warming issues emphasising on corporate social responsibilities.

The organisation recently invested in its corporate branding by sponsoring the Beijing Olympic Games 2008 to gain a foothold in the Chinese market.

Recent strategic dilemma

The recent U.S. economic recession has sent fuel prices increasing therefore incurring high operating costs.

Recent strategic choice

The recent opening of a new air hub in Shanghai that provides the organisation with more value added capacities and greater efficiencies in developing business opportunities.

UPS partnership with DHL by consenting to its rival to outsource their businesses to them generating revenue of US\$1 billion annually across 10 years.

Source of Information on Company

<http://files.shareholder.com/downloads/UPS>

<http://www.reuters.com/finance/stocks/companyProfile>

<http://www.ups.com/content/sg/en/about/index.html>

(349 words)

Executive Summary

United Parcel Service, Inc is an American-based organisation that is a freight and logistics provider globally across 200 countries and domains employing approximately 426, 000 employees. The courier service industry which deals with parcel deliveries is currently in the mid-maturity stage of the Industry life cycle. Critical success factors such as service reliability, efficiency and technological integration into its massive infrastructure are key aspects for a package company to achieve its successful reputation. A substantial amount of initial capital investment is essential for a courier organisation to operate its activities due to purchases and leasing fees of aircrafts, ships and vehicles.

Rivalry among existing firms is high, due to a large number of competitors offering competitive low cost pricing strategies. Stakeholders such as governmental regulations and international legislative authorities in various countries have imposed stringent laws and policies in conducting its operating process and procedures. UPS attributes its success and sustainability in developing a robust technological infrastructure and consistently abiding to corporate social responsibility practices. However, the steep increased in volatile fuel prices and substantial operating costs have led to the organisation's recent restructuring. The substantial allocation of

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the firm's resources diverted into the Chinese and Indian market would elevate the brand equity and turnovers of UPS.

Therefore, it could geographically expand and further capitalise future growth out of the U. S. market dependency. Although UPS needs to address its short duration challenges by monitoring its cash flow activities, it has not compromised its spending in constructing new hub expansions globally in China, America and England primarily. The firm's long term perspective has also focused on rectifying issues such as the improvement of delivery services to leverage on maintaining customer loyalty initiatives. The organization's ROI was 6. 04% for 2008 which demonstrates that the firm was efficient in their management effectiveness.

(298 words)

Industry Life Cycle

Courier Service Industry

Industry Output

Introduction

Growth

Maturity

Decline

o

Time

The courier industry has played a major role to facilitate the evolution of globalisation today. This sector has achieved tremendous growth revenues

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from the 1960s till 2003, before entering into the early maturity stage of the industry life cycle. The industry is looking at expansion opportunities, for example, setting up of new air hubs in other countries to leverage on its international branding. Some organisations have also gone onto diversification of its resources, for example additional services like warehousing and supply chain management solutions. With the implications of global market uncertainty that's happening throughout the world, it has made an impact on slow sales growths.

In addition, escalating fuel prices and high operating costs like leasing fees have resulted on a decline or flat profit margin. Currently, I believe that this industry is at its mid- maturity stage of the life cycle. This industry has also experienced peak sales and their revenue is maintained or goes up slightly yearly. Large players in this industry have experienced low cost per customer due to economies of scale, for e. g. expanding their infrastructure and delivery operations on a wider scale in order to achieve lower costs and increased in output. The courier industry has existed for more than a century ago and there are many competitors in the market but some are recently exiting from this industry.

The industry targets the mass market for e. g. household consumers, corporations and government agencies whereby all these segments require package deliveries for industrial growth. Price cuts policies are used to encourage customers to switch brand to cement its consistent revenues.

There is low research and development needed because the industry has stabilised and systems and policies are already in place. Moreover, firms

may result to cost reductions, e. g. axing of employees to reduce
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expenditure. Major firms might need to consider dropping a few subsidiaries and harvest the more profitable strategies and resources in order to sustain the business.

Key Factors of Success

Key Success Factors

Weight

United Parcel Service

FedEx

Deutsche Post DHL

Rating

Weighted Score

Rating

Weighted Score

Rating

Weighted Score

1

Corporate Branding

0.02

5.00

0.10

5.00

0. 10

4. 50

0. 09

2

Technological

Integration

0. 10

5. 00

0. 50

4. 50

0. 45

4. 50

0. 45

3

Location & Accessibility

0. 14

5. 00

0. 70

4. 50

0. 63

4. 00

0. 56

4

Service Reliability

0. 20

4. 00

0. 80

4. 50

0. 90

5. 00

1. 00

5

Low Operating Costs

0. 15

4. 50

0. 68

4. 00

0. 60

3. 50

0. 53

6

Skills & Expertise

0. 17

5. 00

0. 85

4. 50

0. 77

4. 50

0. 77

7

Low Pricing Policies

0. 03

4. 50

0. 14

4. 50

0. 14

5. 00

0. 15

8

Speed & Efficiency

0. 19

4. 00

0. 76

5. 00

0. 95

5. 00

0. 95

Total Scores

1. 00

4. 53

4. 54

4. 50

Trust, commitment, speed and efficiency are the most important factors to consider in this industry. That's because customers using the service must rest assured that their packages arrive to their desired destinations on time and accurately to the appropriate address. Firms must deliver a high level of accountability and responsibility to their customers to uphold its reputation. That is why courier insurance policies offered to customers must be affordable and deliver value to ensure firms offers quality assurances. Pilots, drivers and shipmen have to acquire the appropriate expertise to be relied upon for safe deliveries to avoid damages and losses. Training and development programmes for operating aircrafts and vehicles are essential for smooth transit of packages and to ensure an accident-free dispatch.

Hub location must also be conveniently and accessibly situated so that firms can deliver a faster and more responsive delivery at lower transportation time and costs. In this way, firms will achieve just-in-time (JIT) delivery system principle for storage costs to be kept at the lowest possible level. The advancement of information management systems integration leads to efficient operations to transact or track the progress of packages for customers and a more systematic process in handling business activities. Firms must also deliver low cost operations to achieve economies of scale by

expansion for e. g. bulk purchases for their raw materials like cart boxes, papers, bubble bags and envelopes to attain a lower overall unit cost reduction.

In addition, firms must also strategise affordable pricing policies to entice customers to use their services. Branding and advertising is crucial for a firm to defend its market share as this leads to awareness and quality emphasis for customers to develop brand positioning perceptions of various organisations. UPS has performed well by aggressively advertising its brand for e. g. sponsorship for the recent Beijing Olympics 2008 to leverage its recognition in the flourishing Chinese market. In addition, in terms of net income, UPS is the strongest in its financial stability (US\$3 billion in 2008) but has to better its reliability, speed and customer service quality compared to its competitors.

Porter's Five Forces

Potential Entrants

High Initial Capital Outlay

Loyal Customer Relationships

Strong Brand Recognition

International Legislations

Economies of Scale

Other Stakeholders

Governmental Intervention

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Environmental Laws

Labour Unions

Shareholders Wealth

Employee Demands

Community Pressure (e. g. Terrorism Threats)

Rivalry among Existing Firms

Large Number of Competitors

Pricing Competition

Service Differentiation

High Exit Barriers

Mergers & Acquisitions

Substitutes

E-mail & Fax Services

Customer Satisfaction

Complex & Unreliable Technologies

Important Documents

Secure Facility

Suppliers

Aircrafts (e. g. Boeing & Airbus)

Leasing Contractual Fees

Logistic Vehicles & Cargo Ships Manufacturers

Fuel Prices Increments

Airport Authorities

Buyers

Consumer Preferences

Backward Integration (e. g. Vehicles)

Service Reliability & On-time Deliveries

Low Switching Cost

Discounts & Incentives

Rivalry among Existing Firms: (High)

There's a high rivalry among firms to compete in low pricing for players as the industry is very saturated. Firms globally offer similar courier services, but have to innovate and offer differentiation to provide an array of services for variety at low costs. There's a high fixed costs because firms need to purchase vehicles, aircrafts, ships and infrastructure to facilitate its delivery operations. Therefore, there's high exit barrier as players who enter the

business needs to purchase or lease fixed assets and employ workers in order to conduct their activities.

Threat of New Entrants: (Low)

There's high barrier on entry to new entrants as competitors are aggressively protected of their market share. Furthermore, besides a high initial investment required, established major players have already developed multiple distribution channels. In addition, customers have already committed to their preferred firms for repetitive services due to branding and reliability. Stringent trade barriers, heightened tariffs and governmental regulations to obtaining courier licensing are difficult. Overcoming these factors takes a long time.

Bargaining Power of Buyers: (High)

The bargaining power of buyers is high because competitors provide undifferentiated services and large commercial firms may use courier providers to transport a massive volume of deliveries. Customers are spoilt for choices as they could conveniently compare various prices firms offer. Buyers may also choose to practice backward integration, for e. g. producing their own supply chain activities and delivery vehicles. In addition, firms offer discounts for high volume freight forwarding and which focuses on high customer retention.

Threat of Substitutes: (Low)

It is not possible to find a substitute for freight services to deliver packages as this is the only source. However, in terms of mail deliveries, substitution such as emailing and fax pose a threat as alternatives. While these

technologies weaken revenues, they won't overwrite it entirely, as customers prefer manual deliveries for a safer medium. In addition, the complexity and substantial costs for its extensive network communication systems will not be able to replace the human element of guaranteed deliveries.

Bargaining Power of Suppliers: (High)

The bargaining power of vehicles, ships and aircraft manufacturers is high because courier providers require large fleet of vehicles and periodic maintenance. Manufacturers still has power to exercise their preferred choice of buyers from various industries or decide to raise their fees and prices for vehicles. Furthermore, the supplier for aircrafts affects the operating costs for the companies in terms of fuel consumption. Secondly, supplier dependency on vehicles (e. g. Ford) is vital as the organisation needs an extensive medium for an effective mode of logistics distribution.

Relative Power of Other Stakeholders: (High)

Environmental laws and regulations are enforced in the U. S. under the environmental protection agency (EPA) act whereby the absolute compliance of legislations regarding air pollution and waste materials must be minimised to protect its green environment. Secondly, employees who join unions add pressure to the industry whereby organisations may be prone to strikes and work stoppages because of a large workforce. In addition, shareholders have added pressure for the company to reduce its operating costs by forcing to lay off employees just to maintain its share prices.

Internal Factor Analysis Summary (IFAS)

Internal Factors

Weight

Rating

Weighted Score

Comments

Strengths

S1 Reputable Branding

0. 10

4. 80

0. 48

Market Dominance

S2 Broad Service Variety

0. 05

4. 50

0. 23

Diversified Resources

S3 Technology Expertise

0. 10

4. 70

0. 47

E-commerce Competencies

S4 Financial Growth

0. 15

4. 20

0. 63

High Profit Margins & Success

S5 Merger & Acquisition

0. 08

4. 00

0. 32

Reduce Competitors

Weaknesses

W1 Low Employee Output

0. 05

3. 00

0. 15

Low Productivity Revenue Per Employee

W2 Domestic Market Dependency

0. 12

3. 50

0. 42

High Reliance on U. S. Market

W3 High Operating

Costs

0. 15

3. 20

0. 48

Increased in Fuel Prices & Labour Costs

W4 Poor Delivery Service

0. 10

2. 00

0. 20

Slow Delivery & Missing Parcels

W5 High Reliance on Information Systems

0. 10

2. 50

0. 25

Massive Database Information Processing Vulnerability

Total Scores

1. 00

3. 63

Strengths:

In 2008, the firm was listed in the top prong for the world's most admired companies by the Reputation Institute. In terms of service variety, the firm offers customised denouements (e. g. UPS CampusShip) to enable employees across other countries to ship documents and parcels from any computer with internet access. UPS was the first company to allow delivery transactions online and provide technological tracking services. In 2008, UPS had an operating and net profit margin of 10. 4% and 5. 8% respectively, higher than its rivals. Lastly, UPS has made 52 acquisitions to date, and the most recent includes the acquiring of Korea Express' (KEC) which accords UPS full authority of its partner's operations.

Weaknesses:

In 2008, UPS revenue per personnel stood approximately at US\$120, 859. 1 which was much lower than its rival FedEx at US\$130, 872. 4. UPS is also highly dependent on the U. S. market for revenue and is susceptible to volatility of the economic and governmental unstable situations domestically. Thirdly, the rapid increase of fuel prices, (average fuel surcharge in 2008 on U. S air deliveries was 25. 17% compared to 12. 17% in 2007) has increased its operating costs forcing UPS to cut jobs at the same time heightening their packaging rates. UPS also needs to improve on its delivery service as it fairs below average compared to its rivals. In addition, the high reliance on its database information systems processing has made the firm susceptible to data omissions.

External Factor Analysis Summary (EFAS)**External Factors****Weight****Rating****Weighted****Score****Comments****Opportunities**

O1 Geographical Expansions

0. 15

4. 20

0. 63

Booming Chinese Market

O2 Joint Ventures

0. 12

4. 30

0. 52

Oil & Gas Market

O3 Online Retailing

0. 08

4. 00

0. 32

E-commerce Trends

O4 Growth in Globalisation

0. 10

4. 50

0. 45

Import & Export Sectors

O5 Strategic Alliances

0. 12

3. 50

0. 42

Booming Indian Market

Threats

T1 Governmental Regulations

0. 06

3. 90

0. 23

Government Intervention

T2 Labour Union Pressure

0. 05

4. 00

0. 20

Strikes & Work Stoppage

T3 Foreign Currency Fluctuations

0. 05

3. 80

0. 19

International Markets

T4 Volatile Oil Prices

0. 15

2. 30

0. 35

Increased Transport Cost

T5 Terrorism & Natural Disasters

0. 12

1. 90

0. 23

Operations are Disrupted

Total Scores

1. 00

3. 54

Opportunities:

UPS formed a joint venture in Dubai to tap into growth opportunities in the oil and gas industry. The firm therefore acquired Unsped Paket Servisi San ve Ticaret A. S., in 2009. UPS has also penetrated the Chinese market by opening new air hubs in Shenzhen and Shanghai to focus on the air speed cargo sectors which is expected to grow at an average of 11. 2% per year till 2020. UPS has been a main facilitator for online shopping, for e. g. Nike, Amazon. com and E-bay. The emphasis of international trade in today's world economy has impacted UPS to be a leading global courier provider. UPS has also formed strategic alliance with AFL Pte Ltd, India to leverage on the Indian market.

Threats:

The unions would affect UPS to provide undisrupted service to its customers if the firm does not satisfy demands of their employees. The transportation, aviation, security and environmental authorities have enforced stringent governmental laws and regulations for UPS to comply in the course of their operations to ensure systematic work ethics are practiced. In addition, currency exchange rates which fluctuate seasonally will implicate the organisation's revenue. Furthermore, due to the oil embargo in 2008, it has led to the increase for oil prices. Finally, due to terrorism and natural disasters, its daily flight operations would be greatly affected.

Strategic Factor Analysis Summary (SFAS)

Duration

I

N

T

E

R

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E

S

D

H

I

L

O

A

O

Strategic Factors

Weight

Rating

Weighted

Score

R

T

N

Comments

T

E

G

S1 Reputable Branding

0. 12

4. 80

0. 58

X

Market Dominance

S4 Financial Growth

0. 10

4. 20

0. 42

X

X

Escalated Revenues

W2 Domestic Market Dependency

0. 07

3. 50

0. 25

X

X

High Reliance on U. S. Market

W3 High Operating Costs

0. 10

3. 20

0. 32

X

X

High Fuel Prices & Labour Costs

O1 Geographical Expansions

0. 16

4. 20

0. 67

X

X

Booming Chinese Market

O2 Joint Ventures

0. 15

4. 30

0. 65

X

X

Oil & Gas Market

T4 Volatile Oil Prices

0. 12

2. 30

0. 28

X

X

High Transport Costs

T5 Terrorism & Natural Disasters

0. 18

1. 90

0. 34

X

Operations are Disrupted

Total Scores

1. 00

3. 51

Short Term:

UPS has to ensure that they can maintain financial stability and has done this by achieving an increase of 3.6% in revenue for 2008. UPS has to address issues on achieving yearly financial growth because it affects their annual reports and share prices. Secondly, UPS needs to address high oil prices and has cut labour costs by employing more part time contract workers to manage volume capacities on an ad hoc basis. In addition, UPS recently purchased hydraulic hybrid vehicles which emphasises on fuel reduction expenses. They have also discontinued its night sorting operations in Columbia, shutting down smaller facilities and froze management salaries.

Intermediate Term:

UPS and its union-Independent Pilots Association (IPA) have come up with a mutual agreement on cost reduction measures totaling up to approximately \$131 million over the next 3 years. Secondly, UPS was awarded a 3 year partnership contract with the U. S. Postal Service by agreeing to transport mail nationally in U. S. cities. UPS would have to undertake an environmental

scanning analysis in order to embark on geographical expansions and joint ventures. Furthermore, UPS needs to address the issue on human resource planning, demand forecasting that are useful in sales planning, production planning, capacity planning, budgeting and analysing various operating plans.

Long Term:

UPS has to address its branding strategy to build their reputation for public awareness. Therefore, it has done this by changing its 4th logo in 2003 to a more robust and distinctive image. UPS has also been moving out of the U. S. market by geographically expanding in China, India and the Middle East. The recent failed Nigerian terrorism plane attack has led to the U. S. authorities to impose heightened stringent checks and changing security procedures. In addition, the recent Haiti earthquake has led to disruptions in services and operations. UPS needs to address these factors which implicate the financial health of the organisation.

TOWS Matrix

Internal Factors

(IFAS)

External Factors

(EFAS)

WT Strategies

Forward integrate a training college in-house

Reduce more overnight flight operations across countries

Petrol bulk discounts

ST Strategies

Seismic monitoring efficiencies to track down potential earthquakes

Divest from unpredictable fuel market

Financial stability and branding to combat rivals

Threats (T)

T1 Governmental Regulations

T2 Labour Union Pressure

T3 Foreign Currency Fluctuations

T4 Volatile Oil Prices

T5 Terrorism and Natural Disasters

Opportunities (O)

O1 Geographic Expansions

O2 Joint Ventures

O3 Online Retailing

O4 Growth in Globalisation

O5 Strategic Alliances

SO Strategies

Diversify by tie ups with 3M & Faber-Castell

Telco postal concessions (e. g. Singtel)

Strategic alliance with the Chinese market to boost regional branding

WO Strategies

Geographically expand UPS by focusing on its resources & capabilities

Leveraging on E-commerce growth

Joint venture with Oracle Corporation

Weaknesses (W)

W1 Low Employee Output

W2 Domestic Market Dependency

W3 High Operating Costs

W4 Poor Delivery Service

W5 High Reliance on Information Systems

Strengths (S)

S1 Reputable Branding

S2 Broad Service Variety

S3 Technology Expertise

S4 Financial Growth

S5 Merger & Acquisition

SO Strategies:

UPS could diversify its resources and collaborate with reputable stationary companies like 3M and Faber-Castell to manufacture stationary that would embody the UPS brand. The firm could also move into a joint venture to offer postal concessions to Singtel and attain guaranteed high volume businesses in a long-termed contract. In addition, UPS could penetrate deeper into the Chinese market, by a strategic alliance with Air China Cargo Co., Limited to share valuable resources and boost its regional standing. Finally, they should advertise aggressively by sponsoring more global events to gain a higher level of presence recognition especially from the Asian market.

ST Strategies:

UPS could work closely with the seismic monitoring governmental department agency (USGS) for vigilant signals and warnings for earthquakes. The firm could also divest more from the fuel segment and use solar energy panels instilled into vehicles during the day to reduce fuel prices. In addition, they could invest extensively in research and development to enhance fuel efficiency alternatives for its current fleet of vehicles. Finally, the firm could utilise its reputable branding to propose to EPA in implementing harsher fines to new competitors that does not comply environmental legislations.

WO Strategies:

UPS could add more and deeper distribution channels into several regions to cement its efficient operations. It could also utilise its telematics expertise on other countries, to leverage on its core competencies. In addition, collaborate with Amazon. com and E-bay to acquire delivery orders on a long-termed basis. Oracle and UPS could have a joint venture to provide database management systems solutions towards its supple chain management operations. At the same time, UPS could be designated as the sole distributor for Oracle's packaging and hardware components delivery interdependently.

WT Strategies:

UPS could invest by forward integrating a training arm subsidiary to offer aeronautical, logistics, supply chain and automotive courses to groom outstanding performing employees by bonding them and fully sponsoring their educational fees to encourage them to stay in the organisation for a long-termed basis. This would avoid labour issues, improve customer service and reduce hiring costs. UPS could also reduce significantly its overnight flights in different countries to reduce expenditure. Lastly, the firm could source for a wider range of suppliers internationally to achieve greater fuel bulk discounts.

Assessment of Performance of Company**Efficiency:**

China's export business has commercially grown by 10% in the export business. Shanghai's air cargo hub operates at a 24/7 customs inspection

capacity to deliver services from China connecting into international markets like U. S. and Europe faster. UPS also collaborated with the Shanghai customs to implement a risk management system to allow lower level of redundant packaging checks and an efficient clearance to recipients. DHL outsourcing would be an advantage for UPS as this move reduces competitors. Furthermore, UPS has an extensive excess flight capacity to accommodate more package volume to achieve a higher capacity utilisation level.

Effectiveness:

With the growth of e-commerce and export initiatives from the booming Chinese market, UPS's new air hub expansion in Shanghai would facilitate the Yangtze River Delta area international trade revenue driver as it contributes approximately 40% of total country's business