

Ups case study

Education



UV0906 UNITED PARCEL SERVICE OF AMERICA, INC. United Parcel Service of America, Inc. (UPS) had grown spectacularly from its humble beginning in 1907, when 19-year-old Jim Casey borrowed \$100 to start a messenger and homedelivery service for Seattle department stores. By 2007, UPS had become a global public company, with a market cap of \$74 billion, more than 428, 000 employees, \$47 billion in revenue, and operations in more than 200 countries. A recognized leader among packagedelivery companies, its growth had been above industry averages and had historically been through geographical expansion.

In 1998, UPS changed its business model to Synchronized Commerce and adopted a new growth strategy it called the Four Quadrant model. UPS had hoped to expand its market space from \$90 billion to \$3. 2 trillion by transforming itself into a logistics-solutions company. But eight years after these changes, UPS was generating only 17% of its revenue from its nonpackage deliveries, with only \$2 million of its operating profit coming from the new businesses. In the company's 2006 Annual Report, UPS Chairman and CEO Mike Eskew acknowledged the disappointing results and realized that these results required a response to the public market.

Growth History Store locations One can look at the growth of UPS over the past 100 years as an iterative geographical expansion. UPS began as an intracity business in Seattle in 1907, and had expanded to Oakland, California, by 1919. Over the next 58 years, UPS established stores across the United States, opening its first one in New York City in 1930. In this manner, UPS extended its service through its new locations just like any

expanding retailer and, in the process, became an intercity package deliverer.

This case was prepared by Edward D. Hess, Professor and Batten Executive-in-Residence. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. It was adapted from Professor Hess's chapter on UPS in *The Search for Organic Growth*, ed. Hess and Kazanjian (New York: Cambridge University Press, 2006). Copyright © 2007 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved.

To order copies, send an e-mail to com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation. Purchased by carlos manuel Garcia Gay (com) on November 12, 2012 -2- UV0906 The company's geographical expansion went international in 1975, when UPS opened a store in Ontario, Canada.

European expansion began in 1976, with a new store in Dusseldorf, Germany. UPS then expanded continually throughout the world: the Asia-Pacific region in 1988, and Latin America in 1989. By 1995, the company had entered China, its last untapped market. Customer evolution From its beginning, in 1907, UPS operated for 46 years as an intracity delivery business, transporting packages from large department stores to customers' homes. Then the company expanded, providing residential deliveries for other types of businesses and later for business deliveries.

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Changes in the American lifestyle and shopping patterns that emerged with the creation of suburbs, regional malls, and an interstate highway system forced the company to go in a new direction. UPS responded to the changes in demographics, transportation, and customer needs by transforming itself, first, into a national delivery company and, ultimately, in the 1990s, into a global delivery company. The company broadened its customer base further by delivering more than 50% of the packages that customers bought over the Internet.

By 2007, the company's customer base included all types and sizes of businesses, from Dell Computer to the individual entrepreneur selling products on the Internet. UPS's 2006 worldwide revenues of \$47 billion were derived primarily from package and document deliveries. From 2002 to 2007, the company expanded the scope of its services under its Synchronized Commerce model to provide freight forwarding, customs clearance, inventory management, pick and pack, export financing, and customer returns and repairs. Company Growth The growth of UPS can be illustrated best by its revenue growth, from \$29. billion in 2000 to more than \$47 billion in 2006. The company's operating model produced operating margins that were the best in the industry. As shown in Tables 1, 2, and 3, UPS averaged 12% annual growth over the past decade and generated an average return on equity in excess of 20%. Purchased by carlos manuel Garcia Gay (com) on November 12, 2012 -3Table 1. UPS operating results. (in billions of dollars)

Year	Revenue	Operating margins	Net income	CFFO
2006	\$47.6	14.0%	\$ 4.2	\$ 5.6
2005	\$42.6	14.4%	\$ 3.0	\$ 5.8
2004	\$36.6	13.6%	\$ 3.3	\$ 5.3
2003	\$33.5	13.3%	\$ 2.9	\$ 4.6

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\$31.3 13.5% \$3.2 \$5.7 Table 2. Revenue in 2006 by segment. U. S. domestic packages International packages Supply chain and freight 64% 19% 17% Table 3. Operating profit (loss). 2006 U. S. domestic packages International packages Supply chain and freight UPS Operations Headquartered in Atlanta, Georgia, UPS had more than 428,000 employees worldwide, of whom more than 248,000 worked under union agreements. UPS was a vertically integrated company.

For example, it operated the world's eighthlargest airline, which employed more than 2,800 pilots and maintained a fleet of 600 jets. Flying more than 1,900 flight segments to more than 800 airports around the world, UPS airplanes moved more than four million packages and documents daily. The company delivered more than 15.6 million packages a day and was the Internet's largest fulfillment source. And it delivered those 15.6 million packages on time 99% of the time—and defect-free. UPS also operated one of the largest truck fleets in the United States, with more than 94,000 vehicles. \$4. B \$1.7B \$2M 2005 \$4.5B \$1.5B \$156M 2004 \$3.7B \$1.1B \$138M 2003 \$3.7B \$.7B \$56M 2002 \$3.9B \$.3B (\$167M) Purchased by carlos manuel Garcia Gay (com) on November 12, 2012 -4-UV0906 In its role as a largetechnologyand telecommunications company, UPS operated the largest DB2 data base in the world, with 412 terabytes of dynamic memory. Its mainframe capacity allowed for the transmission of more than 22,000,000 instructions per second. UPS had more than 4,700 employees in its technology unit. In addition, the company operated the world's largest phone system.

Its mobile radio network transmitted more than three million packets of tracking data each day; one example of the vastness of the scale of its communications was that UPS received more than 145 million hits per business day on its Web site, with 252 million hits on peak days. The enormous size of the company was further illustrated by its Worldport technology and package hub, based in Louisville, Kentucky. This automated "airport" and package-sorting center comprised four million square feet, the equivalent of 80 football fields, and processed some 1, 200, 000 packages a night during a four-hour period.

UPS was expanding its Worldport facility by adding another 1. 1 million square feet to increase its hourly capacity by 20%. Employees The company's 85, 000 drivers held esteemed positions in the company. The average tenure of a driver was 16 years, and driver turnover was less than 2% a year. Union drivers could earn up to \$70, 000 a year. Senior drivers received nine weeks' paid annual leave, and 100% of their health-insurance premiums were paid by the company. With more than one-third of its employees from minority groups, UPS had a diverse workforce. More than 25% of the company's U. S. anagers were also members of minority groups. Women represented 27% of its U. S. management team and 21% of its overall workforce. More than 70% of its full-time managers had been promoted from within. The company's promote-from-within policy and employee-centric culture were further illustrated by the fact that more than 50% of its full-time drivers had started as part-timers. At less than 6%, annual employee turnover at UPS was low. Long tenures and low turnover permeated the company, from its front-line employees to its district

managers to its 12person executive team. The average tenure for district managers was 14 years.

The senior management team averaged 30 years of service. Eleven of the twelve executives, including one woman and one African American, had spent their entire working lives at UPS. Interestingly, 75% of its vice presidents had started at UPS in nonmanagement positions, and nine of the twelve members of the senior management team had only an undergraduate college degree. And no one in management had an MBA from a top-ranked business school. Most had gone to such public colleges as Purdue, Delta State, Portland State, Rutgers, and the University of Illinois. Purchased by carlos manuel Garcia Gay (om) on November 12, 2012 -5-UV0906 Kurt Kuehn, a member of the senior management team and senior vice president of Sales and Marketing, stated, " Most senior managers like me began at UPS as part-timers in college or as package sorters or assistants. We loved it, and we stayed. " UPS became a public company in 1999, in the largest IPO in the history of the New York Stock Exchange. By 2007, about half of UPS stock was owned by its current and former employees and their families. Customer Reach Yes, UPS was big and UPS was global. It made more than 15 million deliveries daily to nearly eight million customers.

Its customer-contact points included 4, 400 UPS stores in the United States, 1, 400 global Mail Boxes Etc. stores, 1, 000 UPS customer centers, 15, 000 UPS authorized outlets, and 40, 000 UPS drop boxes. Measurements UPS was focused on efficiency and productivity measurements and, in 2007, spent more than \$10 billion integrating its processes and technology to make the

company a real-time 24/7, 365-day operation. Behind every driver were the sophisticated technology and operations-support team that tracked the exact location of any package or document “ anywhere, anytime. On a daily basis, UPS organized every part of its logistics chain for maximum efficiency, down to the order in which packages were loaded on vans. Using technology, UPS created routes daily that eliminated left-hand turns, saving driving time, millions of gallons of fuel, and fuel costs annually. In September 2003, UPS unveiled a new technology system designed to improve customer service and provide greater internal efficiency. This new system was expected to reduce mileage by more than 100 million miles and save the company almost 14 million gallons of fuel annually.

In addition, the new system featured advanced tools allowing UPS to analyze and edit dispatch plans in order to optimize delivery routes and times. “ We have a saying at UPS,” said Kurt Kuehn. “ In God we trust; everything else we measure. ” Another important ingredient in the UPS recipe for success was its engineering process and measurement mentality. UPS measured everything: CO2 emissions, the time it took to wash a windshield, the pace a driver needed to walk to a customer’s house, the most efficient way to start a package van’s ignition, the optimal way to load a package van, and the optimal daily delivery routes.

Purchased by carlos manuel Garcia Gay (com) on November 12, 2012 -6- UV0906 In 1921, founder Jim Casey hired the first industrial engineer to do efficiency time and motion studies. Casey started UPS on a path of process engineering that, over the years, developed into a powerful operations-research division. The division spent its first 87 years

internally focused on measuring everything that could be measured, such as studying, modeling, and simulating the movements of people, conveyor belts, and packages.

For example, UPS developed 340 methods for drivers to follow to increase their efficiency and ensure safety. This measurement mentality taught everyone to pay attention to the details and the little things that could threaten safety and impede on-time delivery. Another example of the passion for measurement was the way UPS measured its managers. The company used a balanced scorecard and published 16 UPS key performance indicators for the economics, social, and environmental areas. UPS measured water consumption, ground-network fuel efficiency, and global aircraft emissions.

The purpose of this measure-everything mentality was expressed by Jim Holsen, vice president of Engineering, who said, “ We’re never satisfied with the way things are, if they can be improved. ” This measurement compulsiveness did not mean that UPS was a micromanaged, rigid, robotic workplace where every action was dictated by best practices. UPS overcame that tendency through its performance culture of paying its people well, holding everyone—from the package sorter to the CEO—to the same high standards, and being a predominantly employee-owned company.

In 1942, strong controls were offset by local autonomy from the district manager level when drivers were given the power and authority to do what was needed to serve customers. As Jim Casey said, “ Each local manager is in charge of his district. We want him to look upon it exactly as if it were his own business. We want him to solve his problems in his own way.

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" Culture: The Essence of UPS To understand how UPS had continued to grow its business over a 100-year period while avoiding the common death spiral of corporate arrogance, hubris, and insularity, it was important to understand the UPS culture and the UPS operations-research mentality.

Both were so integrated and intertwined that they were a seamless whole. And both were continually perpetuated at UPS through stories, processes, measurement systems, human-resource policies, and leadership. Jim Casey built UPS over a 50-year period with a distinct and well-defined culture that embraced the values of integrity, quality, dignity, respect, stewardship, partnership, equality, and humility. To understand UPS meant understanding Casey, a man who went to work at the age of 9 because his father was ill, and who founded UPS at 19.

Casey was a self-made success who rose above his humble background but never forgot his roots, treating every individual and employee with the dignity and respect he felt each deserved. Purchased by Carlos Manuel Garcia Gay (com) on November 12, 2012 -7- UV0906 Casey often wrote and spoke about the type of company UPS should be and the values it needed to foster. He left his imprint on UPS through the values that were taught to every new employee.

UPS executives believed it was their duty to make sure those values, those ways of doing business, and those ways of taking care of employees continued. They did not want the UPS culture to change or fail on their watch. The richness of the UPS culture was evidenced by the Employee Policy Manual, which every employee received, and the compendium of Casey's speeches in the company's book Legacy of Leadership. These

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speeches proved that Casey wanted to build a business where employees took pride in working for a company that conducted business as an outstanding corporate citizen.

The UPS culture was multifaceted: • • • A performance culture with “partneural” mutuality of accountability, regardless of position A constant challenge-and-be-critical and be-better culture described as constructive dissatisfaction An employee-centric ownership culture with executives as stewards of the business Mutual accountability Kurt Kuehn described the UPS culture: “ A culture of mutual accountability. Everyone is accountable to everyone else for performance—doing what’s right and doing it well. ” And he added, “ With our measurement system, we try to take personalities and politics out of judging performance. At UPS, the CEO was as accountable to his employees as they were to him. And in response to this, CEO Mike Eskew had a special telephone installed in his office so that any UPS employee could call him directly at any time. This mutual accountability was partneural because employees were viewed as partners. In fact, most were actual owners of the business. This mutual accountability bred a more egalitarian culture that discouraged and devalued arrogance, hubris, or self-aggrandizement. For example, all of the top 12 executives at UPS had offices on the fourth floor instead of the top floor of the headquarters building.

All the executives had offices of the same size, and almost all shared senior administrative assistants. These executives were not provided with limos or drivers. UPS did not own a corporate jet. Executives flew commercial and followed the same travel policies as other employees. There was no executive dining room. It was rare to see Italian suits, French cuffs, or made-

to-order shirts on the fourth floor. For the most part, 11 of the 12 executives had held several different positions as they worked their way up the corporate ladder.

The UPS culture frowned on self-marketing, and the company worked hard every day to continue the values and ideals put in place by Jim Casey. Purchased by carlos manuel Garcia Gay (com) on November 12, 2012 -8- UV0906 When asked to describe the UPS mutual-performance culture, Kuehn's choice of the word "relentless" said it all about the passion at UPS. Relentless improvement UPS was relentless about improving and worked at a problem until it was solved. By emphasizing the details—the blocking and tackling of the business—the company focused on the processes of efficiency and productivity.

This iterative learning culture was illustrated by Casey, who, when he started the business, wrote to more than 100 delivery companies across the United States to ask them how they made a profit. He reported, "We found no singular idea that was really revolutionary. It seemed to be a matter of learning as we went along, and that is about all that we have done." ¹ The UPS culture was about the relentless pursuit of constant, incremental improvement. It was about how the company could be faster, smarter, and more efficient. This led to the rewarding and honoring of constructive dissatisfaction.

Dissent, inquiry, questioning, challenging, and critiquing were all valued and encouraged because they helped UPS improve. The company took the long-term approach. For instance, it took the international-operations division 28 years to become profitable. UPS was like the "little engine that could,"

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working at a problem or a process incrementally and iteratively until it was improved. Stewardship The third strong aspect of the UPS culture was the partnership, employee-centric ownership and leader-stewardship that helped everyone in the company achieve their potential. According to Casey, “ One measure of your success ... will be the degree to which you build up others who work with you. While building up others, you will build up yourself. ” 2 Casey continued: Good management is not just organization. It is an attitude inspired by the will to do right. Good management is taking a sincere interest in the welfare of the people you work with. It is the ability to make people feel that you and they are the company—not merely employees. 3 On the subject of future leaders, Casey said: Who will those leaders be? They will be people who now, today, are forging ahead—not speculating or with fanfare but modestly and quietly.

They are the plain, simple people who are doing their best in their present jobs with us, whatever those jobs may happen to be. Such people will not fail us when called 1 2 UPS archives, 1947. UPS archives, 1945. 3 UPS archives, 1944. Purchased by carlos manuel Garcia Gay (com) on November 12, 2012 -9- UV0906 on for bigger things. It is for them, our successors, to remember that all the glamour, romance, and success we have in our business at any stage of its existence must be the product of years of benefiting from the work of many devoted people.

And there can be no glamour, no romance, and no truly great success unless it is shared by all. 4 The employee-centric culture of UPS was further evidenced by the following: • • • • • Promotion-from-within policies and actions Employee stock-ownership plans Diversity programs

Employee education programs Local employees working in international operations Employee internal free-agent program allowing any UPS employee to move anywhere in the company and advance

Casey believed in and acted on the policy that it was the employees and not the executives who made a company successful, and UPS believed it had an obligation to share its success fairly with those who made it happen. The three aspects of the UPS culture—mutual accountability, constructive dissatisfaction, and employee-centric policies and ownership—were the foundation of the UPS way of doing business. Integrated into these cultural values and policies were operations research and a measurement mentality.

But an important part of UPS was its corporate “ heart. ” Two examples of corporate citizenship at UPS stood out. In 1968, at the height of the civil-rights movement in the United States, the company began a diversity-awareness program that was unique in corporate America. Calling it the Community Internship Program, UPS placed more than 1, 200 senior managers in inner city or Appalachian environments. These employees spent several weeks working in soup kitchens, homeless shelters, and other community-service facilities.

UPS also issued an Annual Corporate Sustainability Report. More than 80 pages long, this report detailed how UPS balanced its economic success with social and environmental objectives and how it measured its performance. To that end, for five years running, UPS and its employees made up the largest segment of contributors to the U. S. United Way Campaign, contributing more than \$57 million in 2005 alone. 4 UPS archives, 1957.

Purchased by carlos manuel Garcia Gay (com) on November 12, 2012 -10Cultural Fit in Hiring UV0906

UPS hired people who fit into its culture and its iterative improvement and measurement workplace. The people who UPS avoided hiring were those who wanted a fast track to the top. Instead, UPS looked for candidates who wanted to be part of a team that was the best at what it did and who loved the blocking and tackling of team business. The payoff for a job well done was the opportunity for a career of professional and experience development. New Business Model and Strategy When UPS ran out of geographical areas in which to grow, at least three things could have happened.

First, it could have hit the growth wall and plateaued. Second, it could have tried to sell new, complementary services to its existing customer base. And third, it could have made a major diversification move through an acquisition. In 1998, the company picked the second option when it announced it would provide Synchronized Commerce solutions for its customer base. Synchronized Commerce expanded UPS's market space, and CEO Mike Eskew declared, " Our new mission is ambitious. It propels us from a \$90-billion market into a \$3. -trillion market. " In effect, Synchronized Commerce allowed UPS to sell more products and services to its existing customers. To effectuate this model, UPS acquired nearly 30 service providers with expertise in such different areas of Synchronized Commerce as freight forwarding, customer clearing, export financing, fulfillment services, and customer returns and repairs. Eskew defined Synchronized Commerce as the coordinated and efficient movement of goods, information, and financing along the supply and distribution chain.

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This change was huge, as it not only challenged the UPS sales force, but also changed the focus of the company's operations-research division. Rather than focusing exclusively on improving efficiency and productivity, the focus shifted to a consulting group that sold those skills to UPS customers. Four Quadrant Model UPS did not stop at its Synchronized Commerce initiative. Eskew also codified and explained UPS's organic-growth strategy to UPS employees and to Wall Street. He named this new strategy the Four Quadrant Model, based on the University of North Carolina basketball team's use of the four-quadrant offense.

He stated, " We will call our offense for innovation ' The Four Quadrants,' which focuses on innovating existing business operations internally and externally and likewise focuses innovation on new entrepreneurial ventures both internally and externally. " Purchased by carlos manuel Garcia Gay (com) on November 12, 2012 -11- UV0906 The Four Quadrant Model reemphasized the long-standing principle at UPS of maintaining the core while seeking to grow new revenue sources. UPS was adamant that it could not fail in servicing its core business and that it had to keep adding services to its existing service model.

Kurt Kuehn explained: " The more value we can add for our customers on top of or within our existing business model, the more value we will create for our customers and for UPS. " He added, " Our organic-growth strategy is simple: it is the business model. " The entrepreneurial activities at UPS were internally and externally driven by its venturecapital fund and alliances with universities and partners. UPS understood that it would have a

high failure rate, but worked to manage the risks so that much could be learned quickly and at a low cost.

Results of New Business Model In the fourth quarter of 2006, UPS initiated a restructuring plan for its forwarding and logistics operations, including a reduction in nonoperating staff of approximately 1,400 people. And how had the new model done? It had produced only \$2 million in operating profit. Eskew knew that these disappointing results required a response to the public market, so he acknowledged the situation: The Supply Chain and Freight segment produced disappointing results ... 2006 brought a sharper focus in our logistics business....

Simply, all supply chain solutions must meet two criteria. One, they must be limited to the transportation network, and two, they must be repeatable, and that is, able to be used by a number of customers simultaneously. 5 Still, the new business model had raised some interesting questions. 5 2006 UPS Annual Report. Purchased by carlos manuel Garcia Gay (com) on November 12, 2012