

Good fedex business strategy term paper example

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Logistics Industry Overview

The manufacturers are eager to reduce the cost of production, and they are prepared to source the materials from any corner of the world if the costs are contained. The international trade agreements and globalized scenarios make exchange of goods between countries smoother. On the other hand, individual customers too do not hesitate to place orders with far off suppliers. Rise on the internet based services and e-commerce has made overseas suppliers search for ways to supply to remote customers. These changes in the international /domestic trade and commerce practices drive the logistics companies to adapt to the situation. Also, the role of logistics has become very critical (Mazzarino, M. 2012). Globalization brought intense demands on the transportation and supply chain industry. For example, UPS (one of the top logistic company in the US) offers delivery worldwide and has experienced a growth of revenue by 2. 4% in 2013 making their revenue about \$56 billion and a super profit of about \$4 billion.

There is an increase in opportunities and challenges in the current logistics environment such as many business managers and customers prefer to have just-in-time shipments, the documentation requirements are becoming complex in the cross-border trade, the variety of the goods being transported have become enormous. These situations are compelling the logistics companies to change their ways of doing business and become proactive. Innovation and quick response have become the fundamental ingredients in logistic business. However, the biggest challenge in domestic /international logistics is the uncertainty in arrival times. In order to mitigate the effect of ambiguity, the managers have to add safety stocks,

which shoot the inventory costs higher. As a global player in logistics, FedEx has the opportunity and challenge to prepare its business as the best among logistics companies. The major business activity and prime products or services of FedEx are classified as being part of the ' Mail, Package and Freight' handling and delivery industry.

Profile of FedEx

FedEx was founded by Frederick W. Smith in the year 1973 in Memphis, Tennessee. It was started with the aim of delivering packages overnight to the addressee. The company had 14 small aircrafts (which operated from Memphis international airport) to serve 25 cities of North America, but now it has grown to be the largest express transportation company. It is continuing its mission of providing fast and reliable delivery to closely every address and linking any two cities in North America within 24 hours. The company handles about four million packages and documents every day and employs around one hundred and forty thousand people. Currently, it has operations in 220 countries and its cargo touches around 400 airports per day. From a humble beginning, it has grown as fast and safe delivery system for global logistics needs.

. In the year 2013 the company had revenue of \$46 billion with an increase by four percent and it is expecting further growth in the coming years.

Currently, in North America, FedEx has shipping solutions for every logistical need of any business or consumer. FedEx has a broad portfolio of services in transportation, e-commerce and business operations of customer companies.

FedEx Corporation is a cluster of companies and alliances which works with the policy of competing collectively, operating independently and managing

collaboratively, under the super brand ' FedEx'. These companies are included in four business segments called FedEx Express (the largest express transportation wing, offering delivery on time to more than 220 countries and territories), FedEx Ground (providing small-package ground delivery services, which are low cost services to the residential segment), FedEx Freight (provides services of less-than-truckload (" LTL") freight services across North America meeting critical supply chain needs with cost savings to the customer), and FedEx Services is an out sourced service to the business customers for sales, marketing, communications, information technology and back-office support. In 2013, the company was included by Fortune magazine as one of the best companies to work for.

Market share and position of FedEx in the logistics market

Having more than four decades of experience in logistics service to businesses and individuals FedEx has developed competitive advantage in supply chain and delivery business. They altered the nature of logistics business and created new benchmarks in outbound logistics (a primary business activity). It combined information technology and human resource management to achieve competitive advantage for overnight delivery business, thus creating unique value. Foresight of customer needs that they would value not only overnight deliveries, but also the ability to track their bookings has made the FedEx develop a proprietary tracking system. This system was new to the industry, and it forced other competitors also to follow a similar system. The company could alter the nature of competition with innovation and foresight.

One of the website (<http://www.differ.com/>, u. d.) has provided a

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comparison of FedEx and UPS figures. First the website reports that FedEx has a net income of about \$2 billion and revenues of \$42 billion. While the major player UPS has a net income of about \$3 billion and revenues of \$53 billion. With respect to resources and facility, FedEx has more airplanes to serve while UPS uses more ground vehicles. The website also reports that overall the FedEx's delivery services are less costly than the services of UPS. However, the actual price / costs are contingent on distance and urgency of delivery. Another website (<http://mhlnews.com>, 2005) reports that in the FedEx Express segment the company has about 29.8% market share, over all FedEx can be considered as the second largest logistic company in the US.

One of the key differences that distinguish FedEx and UPS is the office services to other businesses which include copying, Internet access, digital printing, computers for hire, and sign boards and graphics. UPS also offers similar services, but the differentiator is FedEx has acquired Kinko's, the printing services company making FedEx strong in that service and larger than UPS.

Corporate strategy of FedEx

The new FedEx was incorporated in the state of Delaware in the year 1997. The primary purpose of this incorporation was to act as the parent holding company and offer strategic guidance to the companies that are in the fold of FedEx portfolio. At corporate level, the intent is to utilize the FedEx brand extensively and provide the customers with helpful, unified services using the entire portfolio. The company believes that the key functions of the management are the sales and marketing activities and the information

systems that support the package delivery services. The top management is very keen to maintain a faultless delivery system using the trained human resources and proprietary IT systems. The company considers integrating timely information with operating entities will provide unique business synergies. For example, the official website, www.fedex.com, gives a single bay for the customers to access all services i. e. FedEx Express, FedEx Ground and FedEx Freight shipping. The customers can track the pick-up time, shipment, invoicing, and other messages through this web site. The customers also can call one point to evaluate surface, or air freight is suitable to their situation. The customer care is well equipped to help the customers to solve their logistic issues. A single point of contact is possible only because of the convergence of human resources, IT and the operating system.

The corporate strategy is to care for the long-term interest of the company, not a particular subsidiary (operating company). Because of this policy, the top management develops an overall strategy for capital investment, expansion of delivery regions, and implementation of information technology and development of retail networks. They service segmentation (adding or enhancing services) also belongs to corporate strategy because the company perceives it as having effect on overall long-term return on capital for the business. Through a corporate strategic decision, each FedEx company shall receive investments for technology and assets acquisition needed to augment long-term earnings and cash flow. As with other corporates FedEx also is focused on fetching increased returns to the investors.

Competitive Strategy of FedEx

The policy of FedEx “ compete collectively, operate independently, and manage collaboratively” guides the development of competitive strategy for the operation regions and associated companies. This one single statement aligns all the stakeholders who are in their respective macro-economic conditions and market demands. Recently the company has retired ten aircrafts and related equipment in response to the economic and market conditions. At the same time new. Though costly the new aircrafts are at least thirty percent fuel efficient and has operating costs lower by 20%. New operating regions are also opened to capture new markets.

The competitive strategy is based on the four trends discovered by the company. According to the company, these are the trends that are driving world commerce and shaping the global market. The strategies are ..

- Globalization: World’s economy is getting integrated (companies are sourcing from anywhere in the world and selling anywhere they have customers). The company focuses on a global reach, delivery services and information capabilities.
- Supply Chain Acceleration: All sizes of companies depend on the delivery of just-in-time inventory to compete with their rivals. FedEx is applying resources to help the customers to achieve zero inventories. The FedEx services are helping to reduce overhead and speed up the economy.
- Increase in High-Tech and High-Value-Added Businesses: The FedEx group companies are developing and offering unique set of services to meet the shipping needs of high-value-adding customers.
- Growth of E-Commerce: E-commerce is fast growing and feeds the growth

of other three trends. The company has realized that volatility and uncertainty is the dynamics of present day businesses. Hence developing solutions to meet those dynamics can help the company to grow its business.

PEST (Political, Economic, Social and Technological environment) Analysis of FedEx

Economic factors: FedEx will be affected by the economic conditions. Though macro-economic factors influence most companies, FedEx is more vulnerable to economic conditions. Right now the economy is growing at least in some parts of the world. The primary business of FedEx is to transport goods, and goods are produced by the manufacturers. When individuals and companies buy FedEx has a business, and when companies produce fewer goods, the need for transportation is reduced. Similarly when business enterprises open new distribution centers, the need for transportation increases, but the distance between the manufacturer and customer is reduced, lowering the value addition of FedEx.

Technological factors: FedEx is required to buy large quantities of fuel to operate their aircrafts and vehicles. Hence, the price and availability of fuel is a prime concern. The company needs to mitigate the risks of volatile fuel costs and the availability. The service prices are based on the costing of fuel. If the company cannot mitigate this risk, it cannot meet the demands of the customer. Technological breakthroughs in fuel efficiency and alternate fuel source will affect the costing and performance of FedEx service.

Economic Factor: Another environmental factor than can affect the business is the market response to the company's services. The company has to make

substantial investments in aircraft, vehicles, package handling equipment, technology, sorting machines, copying devices, and other critical assets to support the kind of service promised to the customer. The volume and timing of investments are contingent on various factors, such as forecast of volume growth. FedEx must predict the volume of business and resource requirements to meet the market demands. Wrong projections can result in reduced or over capacity relative to shipping demands.

Social Factor: There are evidences that transportation infrastructure is an easy target of terrorist activities. Because transportation assets are a target of terrorists, many governments in the FedEx-operated countries are resorting to firmer security requirements that will increase operating costs and affect the speed of delivery. **Political Factor:** FedEx success is due to its extensive air network, but it can be a disadvantage too. Rights to operate flights are given by the respective governments, and the host country government views its bilateral relations with United States before offering permission. Hence political equation of United States with host country is very important.

Five forces analysis

The task of strategic management is to understand and cope with the market and competition. Usually, managers consider the competition too narrowly, i. e. only direct competitors. Michael Porter warns that competition for profits goes beyond established rivals. There are four other lurking competitors around the enterprise. There are five competitors surrounding a business; they are customers, suppliers, potential entrants, substitute products and direct competitors. The interaction of five forces defines an

industry's structure and shapes the nature of competition within the respective industry.

The threat of potential new entrant is reduced for FedEx, because of the capital investment needed are high and the core competency required to operate a huge network of delivery centers. The threat of substitute products is high for FedEx. For a customer, the cost of switching to a competitor's service is very low, and there are at least ten major players in the logistics industry to compete with FedEx. Because there are alternatives available to the customers, their buying power increases. FedEx must satisfy the customer needs, or else it can lose them to the competitors. FedEx must always keep up its brand value so that the customers have a high opinion about their service. The Company does not have direct suppliers, yet the employees and the service providers to the company can be the supplier group. The company does not see a significant threat from the supplier side. The competitive forces indicate the factors of industry competition. A company manager who understands the competitive map of the organization will identify the threats early and will address the issue with pro-activeness. Along with the recognition of the competition, it is possible to identify the opportunities too. Probably that is the reason FedEx has bought Kinko and entered the service business. In a scenario of stiff competition and persistent change, it is important that the FedEx managers keep track of the competition.

Conclusion

FedEx is well-acknowledged service provider in the field of logistics. The company has a name not only in the transportation business, but also for

technological innovation. The company holds millions of customers hooked to its service through its meticulous strategy and preparation. The company is committed to connecting the world in a responsible manner and by applying resources optimally.

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