

Airborne express case study 1

Business



Executive summary Airborne Express is the third largest and fastest growing international air express delivery company in America. It held roughly 16% of the domestic express mail market by 1997. It provides time-sensitive delivery of documents, letters, small packages, and freight in the United States and internationally. The company has several advantages over its rivals, such as it provides delivery services at a lower cost of up to 20% over FedEx and UPS; it operates the nation's only privately owned foreign trade zone in Wilmington; it is more flexible and provides more customer-tailored services. It charges lower price but still much guarantee delivery dates (not offered by the US Postal Service). A general acceleration in the pace of business and shorter fashion cycles in other industries tended to broaden the customer base and to increase the express volume shipped by each customer for the express industry. However, since prices have fallen, total revenues of the industry have grown less than the increase of volumes it has shipped. The Airborne Express should focus on sale and low-cost strategy in order to achieve its long-time goals.

It should also start its distance-based-pricing strategy and try to expand its business at the time when it is positively affected by the strike. This case study of Airborne Express is an analysis of the company's development, advantages and financial results compared to its two main strong competitors— Federal Express (FedEx) and United Parcel Service of America (UPS). The information provided was happened in 1997. For now, the information and strategic point of the company may be changed. But for the industry may still be the same. The US Express Mail Industry The express

mail industry in the United States is quite concentrated with an economy of scale (marginal cost is very low).

85% of the market is served by the big three providers – Federal Express, United Parcel Service and Airborne Express. Six other second-tier players serve the remaining market. FedEx and UPS lead the industry in service and technology development. The trends of the industry are involved in the following factors. Services: express services have proliferated and kept being innovated in the past decades. Companies started to offer next-afternoon delivery, second-day service, third-day delivery, and same-day or early morning delivery. Major delivery companies make it possible for customers to track shipments en route. Shipment volumes have risen for the past decade. But due to the decrease in price, total revenues have not risen as much as volumes. Customers: virtually every business and many individuals use express delivery services. The items shipped usually have a high ratio of value to weight.

The portion of goods considered perishable or time-sensitive have increased over time. A general acceleration in the pace of business and shorter fashion cycles in more and more industries also tended to broaden the customer base and to increase the express volume shipped by each customer.

Customers have different criteria to decide which carrier to use. Many factors involved in this dynamics. But discounts based on volume encouraged customers to focus on one carrier. Customers are usually not loyal as switching costs are negligible.

The urgency of the shipment and price play dominant roles in influencing a customer's decision to ship by express mail rather than normal mail.

Operations: the big three route more than 5 million packages each day with over 98% arrive on time. The basic infrastructures and activities are similar. Most of the carriers use hub-and-spoke model. Every afternoon the drivers collect packages and scan the barcode into the computer system. Packages are driven to the airport, sorted, and then loaded onto the cargo airplanes, going to different destinations.

Priorities are given the early-next mails. Planes land and take off all the night. Mails for second-day delivery are generally sent by vans. Hub facilities are massive. These hubs are equipped with conveyer belts and vans.

Supporting the physical distribution network of each company was an extensive infrastructure devoted to customer service and information management. Competition: the US domestic express mail market is somewhat in an oligopoly status. The competition among the big three is quite fierce. Yet normally FedEx and UPS lead the market. The six other second-tier players do not have any threats to the three major players.

The US Postal Service served much of the rest of the market. However, it has a limited popularity just among residential customers because it is inefficient in package tracking and has a much worse on-time delivery record. It has a legal monopoly for first-class letters. But the company is prohibited by law from offering volume discounts to customers. DHL and TNT focus on the international market and trans-border shipments. DHL offer hard-to-reach service since it has hubs in many other different places in the world.

It has never invested heavily in domestic market. TNT focuses its effort on Europe. BAX Global focuses on heavy cargo. RPS does not offer overnight delivery. It focused on two-day delivery via a ground network. It is known for its efficient ground transportation and its sophisticated information technology.

The traditional express industry is threatened by facsimile and electronic mails, which have zero cost. Competition between FedEx and UPS has caused a lower price and more innovations. The industry is quite consolidated and has a very high barrier to entry since it requires a huge capital investment to set up the network and supporting infrastructure. The Five Forces Framework Analysis Risk of entry by potential competitors: the barriers to entry for this express industry are very high, since it requires a huge capital investment to set up the network and supporting infrastructure. Even though customers usually do not have loyalty in choosing carriers, all major players are known for their reliability and it would take a long time for a new comer to establish the same.

Since the industry has economy of scale, the marginal cost is very low. Also, each carrier has integrated technological systems that improved operational efficiency. In addition, intensive training programs of employees increase service and delivery efficiency. It would be hard for potential competitors to reach that high initially and thus they would fail in the fierce competition. Power of Input Suppliers: the inputs to this industry are fuels, planes, vans, permits and so on.

Since the inputs are relatively standardize, input markets are not highly concentrated and alternative inputs are available with similar marginal productivities per dollar spent, the supplier power tends to be relatively low in this industry. Power of Buyers: " high-volume" customers do have the power to negotiate for prices with sales representatives. However, smaller customers may only be able to be the price taker. The cost to customers of switching to other carriers is low. But due to the fierce competition, the price offered by each big player are about the same. Industry Rivalry: the US express mail industry is highly concentrated with three main players.

It is kind of in an oligopoly status. The prices are normally set by the result of the competition between FedEx and UPS. The other second-tier players are following the trends. The exit barriers are high due to the large investments in fixed assets. Substitutes products: facsimile and electronic mail were speedier than express mail with a marginal cost of zero.

However, the threat of those substitutes is limited when it comes to requirement of sending original copies. Substitutes from other industries are also limited. The Cost Advantages of Airborne and How It Survived and Prospered Although Airborne is one of the big three, it is never a match for FedEx and UPS, which have a much larger magnitude of operation. Airborne rarely attracted notice. Yet over the past decade, it has grown far faster than either of its rivals and has established a market for itself.

Airborne uses low-cost strategies to survive and gradually becomes more competitive. Its labor costs and delivery cost are lower than FedEx and UPS for several reasons: * It does not maintain retail service centers; * It owns

and operates only a portion of its delivery vans; it owns an airport to serve its major hub so that it does not need to pay landing fees or face any obstacles to tailoring the facility to its needs. It also operates a foreign trade zone with a Community Reinvestment Act zone providing property tax benefits. * The company buys second hand planes and modifies them according to its needs, which saves a lot of money. The company could lease its warehouses to firms, where the retailers could stock up and have goods delivered via Airborne the same day. * An Airborne courier typically picks up and delivers more parcels per stop than a FedEx driver, which makes the efficiency higher per labor.

* Its utilization rate for trucks is far better than the rate of its rivals due to a great portion of afternoon and second-day deliveries; * 30% of its cargo is transported by land, thereby reducing the cost. Those low costs make Airborne known for its low prices. Starting in 1996, incentives have been shifted to encourage sales of higher margin products. In addition, more emphasis has been put into marketing and sales as well as customer service. The company bills itself as “ the flexible, solution-oriented express carrier” with an ability to tailor its services to the needs of particular large business customers. Use of such strategy helped the company get contracts from companies such as Nike, Compaq, Technicolor, and Xerox. Technology also promotes the development of Airborne. Its FOCUS provides many features comparable to FedEx’s COSMOS. Airborne offered high-volume shippers a number of software products and devices, which tied customers directly into FOCUS.

All the above features make Airborne survived and prospered in the cruel competition of the domestic market. Quantify Airborne's sources of advantage. Airborne had a high utilization of asset of up to 80%, where the industry average was around 65%-70%. 80%-85% of its volume was shipped in major metropolitan areas and fell into the category of afternoon and second-day delivery. This helped the company use trucks more often than competitors did.

From the following Table 1 we can see that the operating expenses for Airborne in 1996 were much lower than that of its competitor's. Since the company did not buy as much fixed assets as FedEx and UPS did, its maintenance and depreciation expenses were relatively lower. From Table 2 we can see that no matter it was overnight morning delivery, overnight afternoon delivery or second-day delivery, and no matter how much the weight was, Airborne all had a lower price than the price set by the other two, which was a huge advantage. Table 1: Financial Ratios of The Big Three in Year 1996

Details	FedEx	UPS	Airborne
Profit margin	3.00%	5.12%	1.09%
Operating margin	6.10%	9.10%	3.20%
Return on equity	12.0%	20.70%	6.50%
Depreciation and amortization	7.46%	4.60%	6.82%
Repairs and maintenance	6.40%	4.05%	-
Operating expenses(\$mm)	9,651	20,339	2,406
EQTA	38.45%	39.46%	33.05%

12.0%| 1.09%| Operating margin| 6.10%| 9.10%| 3.20%| Return on equity| 12.0%| 20.

70%| 6.50%| Depreciation and amortization| 7.46%| 4.60%| 6.82%| Repairs and maintenance| 6.40%| 4.

05%| -| Operating expenses(\$mm)| 9,651| 20,339| 2,406| EQTA| 38.45%| 39.46%| 33.05%| Table 2: List Prices of Expre Mail Carriers

Recommendations and Conclusion In order to survive in the fierce competition among the big three, I would recommend Robert Brazier, <https://assignbuster.com/airborne-express-case-study-1/>

Airborne's president and COO, to move towards distance-based-pricing, which will make the price of shorter distance service more competitive with FedEx and UPS since they have already implemented it. As the UPS strike shakes the single-sourcing buzzword and benefits Airborne, the company should grab this opportunity to extend its business to more various customers. In addition, Airborne should tie up its relationship with RPS.

The strong cooperation will make Airborne much more competitive to UPS as RPS has made deep inroads into UPS's traditional customer base. Moreover, Airborne should be prepared to face the steps and strategies taken by The Postal Service, whose ambitions have been reawakened by its admirably performing during the strike, and UPS, who would make some play to recoup its lost volume. The company can also try to invest more on international market. In conclusion, Airborne Express is the fastest growing air express delivery company in American with big cost advantages compared to other main players. Although it only holds a small portion of the market of the big three and may never be a match to FedEx and UPS, it runs efficiently within its own territory and is trying to expand its customer base. Since single-sourcing has been shaken by the strike, it is a good time for the company to review its situation and figure out a way to get a fast development.

Strengths * Ownership of own airport as major hub * Aircraft run at almost 80% full * Meet target market needs * Use more trucks than aircraft (less of an expense) * Low price reputation Weaknesses * Low market share * Do not express residential interest * Rivals overnight deliveries guaranteed earlier * 99% of rivals packages delivered on time (Airborne- 96%) * Technology * Marketing and Sales Opportunities * RPS relationship * Global

expansion/global shipping Threats * Rival distance-based pricing * Future
UPS moves * U. S. Service success