

The express transportation and logistics industry commerce essay



**ASSIGN
BUSTER**

Using examples from FedEx Corporation and your own research on the Global Transportation and Logistics Industry, critically evaluate the: Strategic Vision and visionary Leadership behind FedEx Corporation

Federal Express is a global express transportation and logistics company that offers customers a single source for global shipping, logistics, and supply chain solutions. It was founded in 1973 by Frederick W. Smith. Since its inception FedEx pioneered the express delivery industry. The company focused on the core business of express delivery and provided overnight delivery services to the customers globally. However, the transformation of businesses and customers from old economy to the new economy forced FedEx to reposition itself from ‘overnight delivery service’ to a ‘one-stop-shop’ for the entire logistics requirement of the business. The company became the logistics service provider of leading organizations, like, General Motors.

Background:

During the late 1960s, Frederick Smith (Smith) chanced upon an idea to start an airline courier company. During this period, it was common practice to send packages as cargo on commercial carriers like American, United or Delta Airlines. This practice had a number of drawbacks because passenger airlines usually operated during the daytime and were grounded at night. In addition, freight forwarders (the company responsible for carrying the packages from the airport to the destination address) usually did not offer home delivery. Smith felt the need to start an airline courier company that would address all these problems. During his college years, he recognized that the United States was becoming a service-oriented economy and

<https://assignbuster.com/the-express-transportation-and-logistics-industry-commerce-essay/>

needed a reliable, overnight delivery service company designed to solely transport packages and documents. He wrote a Yale term paper on this idea, and received 'C' grade. His professor thought it would never work.

Fortunately for Frederick Smith, he didn't take it to heart and ended up building that company he dreamed of. Smith found investors willing to contribute \$40 million, used \$8 million in family money, and received bank financing. He started Federal Express with over \$80 million, making it the largest company of its time ever funded by venture capital.

In the last 36 years, FedEx has expanded horizontally with its five subsidiaries to include FedEx Express (formerly Federal Express), FedEx Ground (formerly Roadway Package System), FedEx Custom Critical (formerly Roberts Express), FedEx Logistics (formerly Caliber Logistics), and Viking Freight. As a result, the FedEx family has been able to compete collectively in the express transportation and logistics industries. FedEx's strategy is to corroborate on selling and synergies for all FedEx companies, but run operations separately and keep each company's strengths and markets separate. Today, services offered by FedEx include worldwide express delivery, ground small-parcel delivery, less-than-truckload freight delivery, and global logistics, supply chain management, and electronic commerce solutions. Federal Express is the world's largest package delivery company today.

FedEx began its' operations with the sole focus of improving customer segmentation, pricing and quality of services for the overnight delivery market in the United States. Since then, it has grown to provide leading

document and freight services for the entire North America and for over 212 countries abroad.

Federal Express Corporation had the visionary leadership to become the first mover in the express transportation and logistics industry leaving FedEx with one source of differentiation: their ability to help in the control of the entire supply chain management.

FedEx Firsts...

Company dedicated to overnight package delivery

Offer next-day delivery by 10h30

Offer Saturday deliveries

Offer a time definitive service for freight

Money-back guarantees and free proof of performance services that now extend to its worldwide network

The company's ability to use technology and create its own supply of resources has made it difficult for competitors to match the company's standards for service. FedEx has been successful mainly because of their technological advancements. Technology has allowed them to have superior customer service and quality that was unparalleled by any company. No company was able to offer overnight delivery of packages with the speed and precision that Federal Express did.

FedEx's modeling capability gave them a competitive advantage as they implemented new methods and technology. They currently have a SuperHub with several regional hubs and packages are managed and tracked by a system called COSMOS. COSMOS - Customers, Operations and Services Master Online System, a centralized computer system to manage people, packages, vehicles and weather scenarios in real time. This system allowed customers to know where their packages are at all times and was later integrated for web use, allowing customers to track packages over the Internet. In addition, the customized delivery service of the company is unique in the market.

Mission Statement

The Mission Statement of FedEx is " to produce superior financial returns for stockholders, by providing high value-added logistics, transportation and related information services through focused operating companies.

Customer requirements will be met in the highest quality manner appropriate to each market segment served. FedEx will strive to develop mutually rewarding relationships with its employees, partners and suppliers. Safety will be the first consideration in all operations. Corporate activities will be conducted to the highest ethical and professional standards".

This mission statement shows that FedEx has a clear focus. (1) The main focus is to bring returns to stockholders. (2) They will emphasize adding value above and beyond just their service of transporting an object from one place to another. (3) Their focus of operations will be logistics, transportation, and related information. This mission statement is focused

enough to keep FedEx from diversifying into for example, food products; yet vague enough to allow growth in all of those areas.

Philosophy

Federal Express holds a People-Service-Profit philosophy. The ‘ People’ goal is the continuous improvement of management’s leadership. The ‘ Service’ standard is 100 percent customer satisfaction. The ‘ Profit’ goal is much like any other company’s goal, and is essential to long-term viability. This philosophy governs how FedEx runs its business, and defines strategies.

Federal Express Five-Point Strategy

Federal Express has five strategies that govern business tactics. These are to improve service levels, lower unit costs, establish international leadership and sustain profitability, get closer to the customer, and maintain the People-Service-Profit Philosophy.

The unique FedEx operating strategy works seamlessly – and simultaneously – on three levels.

Compete collectively by standing as one brand worldwide and speaking with one voice.

Operate independently by focusing on our independent networks to meet distinct customer needs.

Manage collaboratively by working together to sustain loyal relationships with our workforce, customers and investors.

Values

People: We value our people and promote diversity in our workplace and in our thinking.

Service: Our absolutely, positively spirit puts our customers at the heart of everything we do.

Innovation: We invent and inspire the services and technologies that improve the way we work and live.

Integrity: We manage our operations, finances and services with honesty, efficiency and reliability.

Responsibility: We champion safe and healthy environments for the communities in which we live and work.

Loyalty: We earn the respect and confidence of our FedEx people, customers and investors every day, in everything we do

Transportation and logistics infrastructure within FedEx Corporation

FedEx started its operation by sending eight packages on the first night, of which 7 were trial run addresses from one employee to another. The company has since grown to handling an astonishing 9.8 million shipments per day.

An overview of FedEx's Infrastructure:

Handling 9.8 million shipments per day

More than 700 aero planes,

Daily lift capacity of 12 million kilograms

Servicing more than 220 countries through 375 airports

Workforce of more than 140, 000 permanent employees worldwide

500, 000 calls are dealt with professionally

With this Infrastructure and new ones being added over time , the Purple Promise of “ I will make every FedEx experience outstanding” is achieved with the collection and delivery of each shipment.

Physical goods when transported over trucks on a highway usually travel the most frequented routes. But as more vehicles start traversing that highway, and as the trips become longer, packages get delayed, go astray, arrive spoiled, or don't arrive at all. To solve this problem, faster, more attentive carriers with their own hardware and infrastructure came into being: FedEx, UPS, Airborne Express, and so on. These new carriers pay attention to speed, tracking, billing, quality of service and automation. They also devised systems that didn't travel through the middle of town, except for final delivery, and didn't change hands en route. And finally, they offered lots of optional services to make life easier for both shipper and recipient.

Home delivery infrastructure:

As part of Infrastructure expansion plans of its U. S. delivery network, FedEx Corp. will add another 9 distribution hubs, bringing its total number of hubs

to 39. In addition, a new home-delivery facility planned for Florida will be able to process more than 10, 000 packages per hour.

The three hubs that are under construction are in Dallas, Cincinnati and Hagerstown, MD, the fourth hub in Memphis, TN. The hub expansion project will also expand the 30 existing hubs; this will nearly double the company's average daily hub package volume capacity by the end of its 2010 fiscal year.

The expansion project will support a sharp growth in FedEx's shipments to consumers on behalf of online retailers. The new Florida satellite distribution center, in Pompano Beach near Fort Lauderdale, will be three times the size of the two existing facilities combined, and will open with a workforce of approximately 356 employees and independent contractors, an increase from the current combined figure of 200 employees and independent contractors.

FedEx Smart Post's best-of-breed technology ensures swift package processing and delivery. This technology provides shipment visibility throughout the delivery process of the packages while they are en route to their destinations. This enables to know always where the packages are and where they're going next.

Advanced control systems, sophisticated automated sorters, and state-of-the-art data-collection devices enable FedEx to collect detailed information about every package. And the highly proficient logistics team is fully equipped to sort hundreds of thousands of packages each day.

The client tools are housed on a secure Web site, customized to meet the unique needs of each client. These tools provide timely access to package delivery information, logistics analysis, manifest detail, and billing statements, as well as the ability to create necessary reports needed in planning the package delivery strategy.

As a leader in the package delivery industry, FedEx provides with data and reporting needed to examine and enhance logistics operations on an ongoing basis.

Virtual information infrastructure at FedEx Corporation.

Though FedEx began as an express air delivery company in the early 1970s, it has successfully transformed itself into an integrated transportation and logistics service provider. A major part of FedEx's success is directly attributed to its committed use of information technology (IT). IT has not only facilitated its business processes like operations, customer service and employee training but also integrated its information network with that of its clients to provide them with seamless logistic and supply chain solutions.

Dennis Jones, former Chief Information Officer (CIO) of FedEx says -

“ IT (information technology) is a function that has a strategic value because the essence of our business is taking a basic service and adding information technology services to transform into a value added product. And that is very important. Any company can move freight from point A to point B. But the way you make it a valuable product to your customer is to wrap it with intensive information technology capabilities”.

Leveraging Information Technology

In the late 1970s, FedEx saw a great benefit in using IT to simplify its business processes. Smith had very early on understood that speed, reliability and customer service was an essential factor for success in the global transportation industry.

IT in Human Resources

FedEx had in place Interactive Video Instructions (IVI) that allowed employees to take advantage of slack periods to train themselves at any time of the day. The program was used for training and test preparation (Customer service employees at FedEx were tested twice a year on job knowledge).

IT in Customer Service

FedEx also used IT to improve upon its customer service, by monitoring various aspects of a customer's transaction. The goal was to achieve "100% accuracy, quality, and customer satisfaction" on all transactions. One such system that FedEx used was the Service Quality index (SQI) that quantified every part of a transaction like "Was the package undamaged? Was the customer billed correctly?"

Using the Internet

The widespread use of the Internet from the early 1990s threw open significant opportunities for FedEx. Since the company already had an EDI based system on which it had spent a lot of money, FedEx decided to use a combination of Internet and the EDI. One example was the implementation done for the purchasing of products. FedEx purchased a product from a

company called Ariba. Ariba was a requisitioning system that was housed on the FedEx intranet. The system was set up so that suppliers could maintain a database of catalogs that could be accessed by any FedEx employee.

The company website hosts more than 6.3 million unique visitors per month and handles on an average over 2.4 million package tracking requests daily. More than 2 million customers connected with the company electronically every day, and electronic transactions accounted for almost two-thirds of the more than five million shipments FedEx delivered daily. FedEx operates one of the world's largest computer and telecommunications networks- more than 75,000-networked computers and thousands of hand-held computers that recorded and tracked shipments. FedEx's data center processes more than 20 million information management system transactions daily, more than any other US company.

The company is involved in connecting 39 hubs across the globe, operating 677 planes and 90,000 vehicles, monitoring 200,000 employees and delivering six million packages daily in 220 countries where every second was important. This is the 'FEDEX EDGE', for which the company is known for. FedEx transformed both customer and business transportation model with higher speed, reliability, application of information technology, improved material handling system and streamlined logistics network. The company popularized the concepts of 'just-in-time' and 'build-to-order' which reduced customer's lead time and increased productivity. Apart from venturing into 'logistics solution provider' the company was able to maintain its leadership position in small package and light freight market through its unique 'hub and spoke' model.

<https://assignbuster.com/the-express-transportation-and-logistics-industry-commerce-essay/>

The role information technology has played in FedEx's strategy is exciting. By using IT as a major part of its business, FedEx has reached an almost entirely new group of people. It has maintained its reputation and increased its business at the same time. IT has created a greater opportunity for customers in the global market. They can now request service, pay for that service, and track the package online. Customers no longer need to speak to FedEx. They are now free to order as they need, twenty-four hours per day, seven days per week. Because of this, FedEx's strategy has changed. It is now focused on the use of the Internet and other technological advances. Because this is such a critical aspect of the strategy, the implementation of the strategy had to be almost immediate. To compete with other major businesses in the industry, FedEx had to provide a service to customers that could be accessed using technology. They also had to provide a package tracking service. As they developed this service, their reputation and business grew.

FedEx has done several things with its value chain to develop new business. First they have always recognized the need to have technology and IT work to communicate the logistics that they run. They have developed internet technologies that work simply and efficiently to enable customers and sellers to use FedEx as a go between. This has enabled many companies to integrate FedEx technology into their own web sites for customers to use.

Question Two: – Branding and business structure up until 19 January 2000

Using information from the case study and your own research, critically evaluate the benefits and limitations of Merger and Acquisition (M&A) strategies in the Global Transportation and Logistics Industry.

Discuss how FedEx Corporation managed the acquisition of Caliber Systems in 1998, and determine whether or not the acquisition of Caliber Systems was a success or failure?

Mergers & acquisitions in the Transportation & Logistics industry

The Transport and Logistics (T&L) sector is characterized by a significant level of privatisation, finance-raising and merger and acquisition activity. Transactions are often complex and impacted by the regulatory environment, competition issues, or need for contracted subsidies to support operations.

We have witnessed many privatizations of bus companies, ports and airports which have created successful private sector groups that have continued to grow via further acquisitions. In other segments there is ongoing global consolidation within and between operators from the courier, parcel, freight forwarding and contract logistics arenas. Postal organizations and railway companies that have historically been more nationally oriented are now seeking opportunities to expand into cross-border markets driven by a more commercial focus and liberal regulatory regime.

Transportation & Logistics

The Transportation & Logistics (T&L) industry forms the backbone of global supply chains. Postal operators as well as large logistics providers play a dominant role as key stakeholders in the T&L industry. In recent years some former national Posts have undergone an extensive transformation to emerge as multinational providers of complex logistics and financial services. These evolved entities face new competition in their core markets of mail delivery through the liberalization of markets and privatization.

At the same time, former Posts may be able to leverage their years of experience in collecting, processing, transporting and delivering national and international mail in order to develop and provide a broader palette of logistics based services, upstream with direct mail activities and downstream with package delivery and payment services. Further, many existing logistics and express companies have expanded well beyond simple delivery services and are now managing all aspects of the supply chain. These ongoing trends have changed the face of an industry which has become increasingly focused on serving customers in all parts of the world.

Mergers and Acquisitions: Three types

Merger: A transaction where two firms agree to integrate their operations on a relatively coequal basis because they have resources and capabilities that together may create a stronger competitive advantage.

Acquisition: A transaction where one firm buys another firm with the intent of more effectively using a core competence by making the acquired firm a subsidiary within its portfolio of businesses.

<https://assignbuster.com/the-express-transportation-and-logistics-industry-commerce-essay/>

Takeover: An acquisition where the target firm did not solicit the bid of the acquiring firm.

Problems in Achieving Success

Integration

Difficulties/Cultures

Inadequate

evaluation of target

Too much

diversification

Large or

extraordinary debt

Inability to

achieve synergy

Managers overly

focused on acquisitions

Too large

Increased

market power

Overcome ent

entry barriers

Lower risk

compared to developing new products

Cost of new

product development

Increased speed

to market

Increased

diversification

Avoid excessive

competition

Acquisitions

Reasons for

Acquisitions

Benefits of Acquisitions

Increased Market Power: Acquisition intended to reduce the competitive balance of the industry

Overcome Barriers to Entry: Acquisitions overcome costly barriers to entry which may make “ start-ups” economically unattractive

Lower Cost and Risk of New Product Development: Buying established businesses reduces risk of start-up ventures

Increased Speed to Market: Closely related to Barriers to Entry, allows market entry in a more timely fashion

Diversification: Quick way to move into businesses when firm currently lacks experience and depth in industry

Reshaping Competitive Scope: Firms may use acquisitions to restrict its dependence on a single or a few products or markets

Problems with Acquisitions

Only a “ financial team” assembled and they make “ the decision” (should have two teams: one financial and one organizational – where the organizational Team says “ Yes” or “ No”

Integration Difficulties: Differing financial and control systems can make

integration of firms difficult

<https://assignbuster.com/the-express-transportation-and-logistics-industry-commerce-essay/>

Inadequate Evaluation of Target: “Winners Curse” bid causes acquirer to overpay for firm

Large or Extraordinary Debt: Costly debt can create onerous burden on cash outflows

Inability to Achieve Synergy: Justifying acquisitions can increase estimate of expected benefits

Overly Diversified: Acquirer doesn't have expertise required to manage unrelated businesses

Managers Overly Focused on Acquisitions: Managers may fail to objectively assess the value of outcomes achieved through the firm's acquisition strategy

Too Large: Large bureaucracy reduces innovation and flexibility

FedEx Corporation has made 31 acquisitions while taking stakes in 3 companies. FedEx Corporation has 22 divestitures during this period.

FedEx-Caliber Merger:

Reason for Merger: FedEx and Caliber believe that the combination of the two companies will permit their customers to take advantage of a broader portfolio of services and choices at a level of excellence unmatched by any competitor. Stockholders of both companies will become stockholders of a \$15 billion powerhouse in global transportation and logistics.

When FedEx announced in October 1997 that it was buying Caliber System for \$2.4 billion, observers warned that the merger could disrupt FedEx's already profitable express shipping business. Observers were wrong. FedEx finalized its Caliber System merger in January 1998, and by the end of that year, the new company, FDX, was posting a seven percent increase over the same quarter the year before. Domestic income grew 30 percent that period, from \$168 million to \$217 million. The company claimed that its tough cost controls and low fuel prices contributed to this short-term growth. FedEx subsidiaries that came from Caliber Systems also grew. RPS, the largest subsidiary besides FedEx, grew 14 percent for the period, while Viking Freight grew seven percent.

In the long-run, the merger strengthened FedEx's overall health. UPS largely rebounded from a crippling 15-day strike in 1997, and now the two companies compete head-to-head for the express-shipping business in most markets. While FedEx does battle, several smaller companies continue their reliable service for niche markets, such as logistics operations, business-to-business transportation, overseas shipping, and small package delivery.

FedEx has ensured its long-term survival by buying several of these smaller companies. After the Caliber System merger, FedEx included six operating divisions: FedEx; RPS, the second-largest small-package shipping business; Roberts Express, the world's largest express trucking firm; Viking Freight, a leading regional trucking company; Caliber Logistics, a logistics outsourcing firm; and Caliber Technology, an order fulfillment operation.

Question Three: – Events leading up to the January 2000 reorganisation

Using appropriate examples from FedEx Corporation, critically evaluate FedEx's financial and non-financial performance in the context of developments in the "Internet market and e-tailing" up to the January 2000 reorganisation.

Financial Performance Analysis

FedEx has an impressive performance record. In 1998 they had revenues of \$15.9 billion grown 15 percent from 1997. Sales have been growing steadily for the past five years. The net income, though, isn't that impressive. It even declined in 1997, from the rising fuel costs during that year. However, in 1998 it grew from \$200,000 to \$500,000. That could be from reduction in operating costs, or from the acquisition of the subsidiaries which had lower operating costs compared to Federal Express.

FedEx's financial statements shows that its assets have not been utilized as well as other firms in their industry, but their profitability is better than other industry firms. Still they must decrease selling and administrative expenses while increasing sales. Many of their technological advancements have been financed primarily with internal cash, which decreases long-term debt.

Future assets possibly and should be invested in the international market and new businesses, while still investing a decent percentage for technological advancements. Today FedEx has a competitive advantage over other firms and if they continue the practices that they have in the past, while also opening up to new ideas, FedEx will remain a powerhouse in the package delivery industry.

<https://assignbuster.com/the-express-transportation-and-logistics-industry-commerce-essay/>

The financial ratios for FedEx clearly show that it is the market leader in this industry, have outstanding sales, a healthy profit, and a safe amount of debt. These ratios over time show a steady increase, except for year 1997, where fuel costs hurt FedEx deeply.

Company Analysis

In this section we shall discuss FedEx's strengths and weaknesses as a company, opportunities and threats.

S. W. O. T. Analysis

Company Strengths and Resource Capabilities:

Globalism: Federal Express operates on a global scale in 211 countries. They provide services that appeal to most of the world, realize tremendous revenues and also achieve global economies of scale.

Innovation: Federal Express took airplanes and trucks and used them differently than any other company before them. This is innovation. They have first-mover advantage in name recognition because of this innovation. This has helped them to remain the industry leader since 1973.

Technology and Communication: Federal Express uses and continues to search for new technology. They allow spending of \$1billion a year, 10% of total revenues, for information technology. That commitment keeps customers from switching to other providers. Federal Express also has excellent communication with their customers. They use tracking devices on all shipments, and customers can find out where their shipment is through

many different avenues including a user-friendly Web site. Federal Express customers are assured that FedEx will always be on top of technology.

Strategic Vision: Federal Express' will always have competent top managers in charge of strategic direction. Frederick Smith built an industry leader, and kept it in that position since 1973.

First-Mover Advantage: Federal Express has had first-mover advantage in several areas. (1) Being a global express transportation company. (2) Advanced technology and communication throughout the company's operations. (3) Incorporating smaller companies with similar operations under its belt to synergize and control more of the market.

Strong Brand Image: In 1990, Federal Express became the first company awarded the Malcolm Baldrige National Quality Award in the service category. In 1994, Federal Express became the first global express transportation company to obtain simultaneous system-wide ISO 9001 certification in international quality standards. Federal Express has also developed their own quality system that matches their customer's standards.

Company Weaknesses and Resource Deficiencies:

Rising Prices: Federal Express' prices are above their competitors'. This can be a weakness if their customers do not perceive a difference between Federal Express and its competitors' services.

Labor Disputes with Pilots: Federal Express pilots have formed the Fedex

Pilots Association. This organization demanded changes in the pilots' <https://assignbuster.com/the-express-transportation-and-logistics-industry-commerce-essay/>

salaries, retirement benefits, and the fact that Federal Express outsources some foreign flights instead of giving their own pilots the job. The pilots have a Web site where news is posted and feelings are discussed. During the busy Christmas season in 1998, the pilots threatened to strike. Federal Express and the Fedex Pilots Association have developed a tentative agreement, which is published on the pilots' Web site. However, the pilots do not believe this agreement fully meets their expectations. This dispute is definitely an internal weakness for Federal Express, considering they have 3, 500 pilots employed with them. Their operations would suffer if there were strikes. When UPS employees went on strike in 1997, Federal Express took the extra 800, 000 shipments a day. If Federal Express employees went on strike, their competitors could gain an advantage.

Running Subsidiaries Separately: FDX has deliberately chosen to keep their companies separate. In FDX's 1998 Annual Report, CEO Frederick Smith states, " Simply layering the unique resource and operating requirements of a time-definite, global, express-delivery network onto a day-definite, ground small-package network would surely result in diminished service quality and increased costs. Under the FDX umbrella, we will leverage our shared strengths while operating each delivery network independently, with each focused on its respective markets." Frederick Smith is confident this will be a strength, instead of a weakness. Time will tell.

Company Opportunities:

Expansion Globally: Federal Express can continue to expand globally, including the other companies under FedEx.

<https://assignbuster.com/the-express-transportation-and-logistics-industry-commerce-essay/>

Expansion Internally: Federal Express can continue to acquire more companies, and expand into new technologies or areas in their industry.

Run Subsidiaries Together: If FDX doe