

Strategic analysis of fedex



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This report analysis the strategic capability of federal express and suggests ways in which the organisation might use its core competences to create opportunities in new arenas. This work is done to fulfil the requirements for the MSc module International management under the observation of tutor Mr. Robert. First the report explains an outline of the organization including the company performance, vision and mission, values. Then about the key competitors and examines the external and internal business environment of the company (SWOT analysis). Then it analyses FedEx corporation key resources and competences, capabilities for competitive advantage and critical success factors. Then it comes to conclusion about the core competences to create opportunities in new arenas. Finally it identifies the problem faced by FedEx and gives recommendations for the future developments.

FedEx is a multinational company which represents the widest range of supply chain, transportation and business related information services. It provides services to more than 220 countries and territories, including every address in the United States. FORTUNE magazine declared that FedEx has ranked No. 13 among “ World’s Most Admired Companies” 2010. The FedEx brand is based on speed and efficiency.

The research method which I used in this report is qualitative method. For this I focused on management books written by authors like David Boddy, Johnson et al, John R. Schermerhorn and Tim Hannagan. I also reviewed research methods book written by Saunders et al, to understand structure of a scientific article and writing style. Overall I used secondary data to analyze

the strategic capabilities of FedEx to enter new arenas. The secondary data are books, scientific journals and webpages.

According to this analysis FedEx capabilities for competitive advantage are innovation, loyal customers and technology and communication. This report also identifies the company's critical successes factors which are speed and efficiency, innovation and global expansion. Finally this report concludes with FedEx core competences to create opportunities in new arenas. They are innovation, loyalty, technology and communication, speed and efficiency.

Introduction:

This work is done to fulfil the requirements for the MSc module International management under the observation of tutor Mr. Robert. Our tutor gave us five options and asked us to choose one. I was really interested in analysing strategic capabilities and core competences. So I have chosen the topic three that is Analysing the strategic capability of an organisation of my choice and Suggesting ways in which the organisation might use its core competences to create opportunities in new arenas. Since my husband is working in FedEx and it is a multinational company I started doing analysis on this company.

I have chosen this topic because in today's hypercompetitive business world the competition is direct and aggressive. Competitive advantages are often imitative. So firms should analyze their internal resources, capabilities and external environment to expertise core competences. They are the strong points that a firm extremely does well in contrast with competitor. The core competences are the capabilities which should be rare, costly to imitate and

non- substitutable. Strategic capability is the ability of a company to sustain and to achieve long term goals.

“ Strategic capabilities are the abilities to perform at the level required to survive and prosper, and includes resources and competence” (Johnson et al. 2006).

Research questions:

This project report will analyze what are the strategic capabilities Of FedEx and how to use its core competences to create opportunities in new arenas? This question is sub divided as what is strategy? What are capabilities? What is core competence? What is the SWOT analysis for FedEx Corporation?

Research objectives:

This project report will fulfill the following research objectives.

To identify the strategic capabilities of FedEx based on SWOT analysis and to describe how to use its core competence to create opportunities in new arenas.

Company profile:

FedEx is a multinational company which represents the widest range of supply chain, transportation and business related information services.

FedEx was started as Federal Express Corporation in 1971, by 28-year-old Frederick W. Smith. Smith, a former Marine pilot identified tremendous difficulty in getting packages and other airfreight delivered within one to two days while operating his new firm. This problem driven him to do the required research for resolving the ineffective delivery system. Thus, the

idea for Federal Express was born: a company that transformed global business practices and now defines promptness and trustworthiness. The corporation was created in 1998 as FDX Corporation and became FedEx Corporation in January 2000. FedEx motivates its more than 290, 000 employees and contractors to remain unconditionally, absolutely committed on safety, on ethical standards and professional standards for the needs of their customers and communities. It provides services to more than 220 countries and territories, including every address in the United States.

FORTUNE magazine declared that FedEx has ranked No. 13 among “ World’s Most Admired Companies” 2010. This was based on input from executives, directors and financial analysts worldwide.

FedEx Corporation delivers strategic path and combined financial tasks for the operating companies that compete jointly under the FedEx name worldwide: FedEx Express, FedEx Ground, FedEx Freight, FedEx Office, FedEx Custom Critical, FedEx Trade Networks, FedEx Supply Chain and FedEx Services. FedEx Corporation has visibly outlined goals and strategies for the future. Headquarters for FedEx is Memphis, Tennessee, USA (FedEx, n. d)

Vision and mission:

The complete history of FedEx Company is based on a particular vision: to make it possible for people and businesses to connect and collaborate with each other, no matter where they are in the world.

FedEx puts its people first because they are their most important assets through which they achieve their business goals. The Corporate philosophy is briefly stated as people-service-profit. The FedEx brand is based on speed

and efficiency. Customer necessities will be met in the highest quality mode suitable to each market segment served. FedEx will endeavor to develop mutually fulfilling relationships with its employees, allies and suppliers.

Safety will be the first concern in all actions. (FedEx, 2010)

Values:

People: They value their people and promote diversity in their workplace and in their way of thinking.

Service: Their absolutely, positively spirit puts their customers at the heart of everything they do.

Innovation: They invent and inspire the services and technologies that improve the way they work and live.

Integrity: They manage the operations, finances and services with honesty, efficiency and reliability.

Responsibility: They defend safe and healthy environments for the communities in which they live and work.

Loyalty: The firm earns the respect and confidence of their FedEx people, customers and investors every day, in everything they do. (FedEx , 2010).

Corporate performance:

FedEx was started as Federal Express Corporation in 1971. In 1975 it gained \$43.5 million in sales. In 1985 FedEx had chosen an important step to expand its services to Europe by opening a European hub at the Brussels airport. Due to this act Revenue reached \$2 billion in 1985. In 1994 FedEx

was the first international express cargo carrier to receive system-wide ISO 9001 certification. FedEx is holding the assurance of its customers through its logistical capabilities, intensifying the carrying capacity of its fleet of over 675 fuel-efficient aircraft and 70, 000 vehicles.

Revenues have continued its decline that began at the end of 2008. Since 2008, total revenue has decreased by \$3. 2 billion amount due to less consumer demand brought forth by the recession. FedEx has increased their prices based on increase in demand, improving operating margin to 5. 8%, more than the pre-recessionary level of 5. 5%. Revenue for 2010 was \$34. 73 billion, down from 2009's \$35, 497 billion. Revenues decreased 2% during 2010 primarily due to profit decreases at FedEx Express and the FedEx Freight LTL Group as a result of continued competitive pricing environment. (FedEx, 2010)

Key competitors:

The main competitor for FedEx in US- market is UPS. UPS is the first largest package delivery company in “ U. S”. FedEx is the second largest package delivery company in “ U. S”. UPS gives FedEx tough competition locally and globally. Other than UPS in international market DHL also giving tough competition to FedEx. They are also facing lot of competition from local companies in china, Europe and India. In Europe TNT is also one of the key competitors for FedEx.

Research methodology:

The research method which I used in this report is qualitative. For this I focused on management books written by authors like David Boddy, Johnson

et al, John R. Schermerhorn and Tim Hannagan. I also reviewed research methods book written by Saunders et al, to understand structure of a scientific article and writing style. I reviewed scientific journals like “ Emerging markets and innovation: A partnership for global progress”, “ Interconnected firms’ relationships as a source of a competitive advantage”, “ Valuing real options: Insight from competitive strategy” and “ Strategic development”, “ SWOT analysis at the University of Warwick “ and “ Strategic Capability: A Concept and Framework for Analysis”. Overall I used secondary data to analyze the strategic capabilities of FedEx to enter new arenas. The secondary data are books, scientific journals and webpages.

Literature review and application:

SWOT analysis:

SWOT analysis brings together the internal analysis about the strengths and weaknesses of the resources within the organization and the external opportunities and threats. This analysis will help in strategic development of the organization. According to my analysis the FedEx Corporation consists of the following strengths, weaknesses, opportunities and threats.

Organizational strategic capabilities

Strengths

Strong brand image

Strong financial position

Wide range of operations

Global presence

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Innovation

Technology and communication

Strong leadership

Business to business

Weaknesses

Rising prices

Labour disputes

Opportunities

Strategic alliance

Strategic acquisitions

Intensive global expansion

Expansion of e-business

Threats

Intensive global competition

Economic and political conditions

Fuel price fluctuation

Figure 3. 4 SWOT analysis of FedEx in global business environment

Strengths:

Strong Brand Image:

FedEx has a strong reputation by providing time-definite and reliable services from documents and small parcels up to unique freight shipments like panda shipment from US to china. According to BrandZ top 100 brands worldwide FedEx ranked 74th for 2010. The brand value for FedEx is \$9.418millions during 2010, 1% less than 2009. But it is still better than 2008. This dip is due to global recession which affected US very bad and the price rise by the company (BrandZ, 2010).

Strong financial position:

In the financial year 2006 the total assets for FedEx Corporation was \$ 22,690 billion which is 11% more than previous year (FedEx Annual Report 2006). During financial years 2006 to 2010 the growth rate of total assets were 11%, 5%, 7%, -5% and 3% respectively. The dip during 2009 was due to global recession. Due to strong financial position it didn't loss much in global recession. Strong financial position gives confidence and backup for strong business position in the market. They improved very fast from the downturn because they enhanced to deliver even more reliability and value to the customers. This was achieved with the help of the strong financial position (FedEx annual report from 2006 to 2010).

Wide range of operations:

FedEx is the modern air and ground express courier service multinational company with wide range of operations like FedEx Express, FedEx Ground, <https://assignbuster.com/strategic-analysis-of-fedex/>

FedEx Freight, FedEx Office, FedEx Custom Critical, FedEx Trade Networks, FedEx Global Supply Chain and FedEx Services.

FedEx Express uses a global air-and-ground network to speed delivery of time-sensitive shipments, usually in one to two business days with the delivery time guaranteed.

FedEx Ground focuses in cost-effective, small-package shipping, offering reliable business-to-business delivery or suitable residential service through FedEx home delivery and FedEx Smart Post.

FedEx Freight is the provider of next- and second-day regional, less-than-truckload (LTL) freight services. FedEx Freight is known for excellent ability, reliability and on-time performance.

FedEx Custom Critical offers the fastest, door-to-door same-day and next-day delivery of critical freight, valuable items and hazardous goods.

FedEx Trade Networks offers FedEx global customers with end-to-end transportation and customs clearance solutions around the world.

FedEx Services organizes sales, marketing, information technology, customer service, and worldwide supply chain services support for the global FedEx brand.

FedEx Office (formerly FedEx Kinko's) offers access points to printing and shipping services with reliable service when and where you need it.

The above wide range operations help the company to have a strong hold in international market because this kind of wide range of operations will

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satisfy the needs of the customers. This will make customers to be more dependable to the company. (FedEx, 2010)

Global presence:

FedEx is a multinational company with its wide range operations like express, ground, freight, and faster delivery service that deliver over 6.5 million packages to more than 220 countries daily. FedEx also has 684 aircraft and trips to over 375 airports worldwide. It covers US, Europe, Indian Subcontinent and Africa. It works with the theme “ FedEx delivers to a changing world”. Its revenue over 65% is from international operations. The international operations afford FedEx the revenue growth and market position advantage. (FedEx, 2010)

Innovation:

FedEx has strong history of innovation installing computers in delivery vehicles, providing latest automation for mailing services and developing tracking capabilities and software. In the year 1979 it became the first shipping company to use a computer to manage packages when it launched “ COSMOS” (Customers, Operations and Services Master Online System), a centralized computer system to manage people, packages, vehicles and weather scenarios in real time. In 1980 the company implemented “ DADS” (Digitally Assisted Dispatch System) to coordinate on-call pickups for customers; this system allows customers to schedule pickups for the same day. In 1994, they were the first to offer package-status tracing for better customer service via fedex. com. They were Innovative using wireless technology for shipping from past 25 years with the introduction of the Digital Assisted Dispatch System (DADS).(Wikipedia, November 13, 2010).

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To continue this FedEx established the FedEx Innovation Labs, an information technology project designed to create an atmosphere of collective thinking about critical technologies such as advanced optics for scanning, robotics, social networking and more.

Technology and communication:

FedEx continues to explore new technology. That commitment makes the customers loyal to them. They have outstanding communication with their customers. They use tracking devices on all shipments, and customers can find out where their shipment is and at what time they are going to receive it. This is one of their significant strategic capability. FedEx has announced Sense Aware (SM) powered by FedEx, a next generation, first-of-its-kind information service that combines a GPS sensor device and a web-based collaboration platform. Innovation is one of the important aspects for a multinational company to be competitive in the dynamic international business environment. (FedEx, 2010)

Strong leadership:

For over past 30 years the company is being led by Mr. Frederick W. Smith. Because of his strong leadership, dedication and commitment it is one of the top 100 companies in the world. For a successful company good leadership is important.

Business to business:

FedEx main business depends on B to B. They have very good contract with different industries for business. This year they applied for ISO certificate to

transport medical equipments. This shows how they are really focusing on B to B.

Weaknesses:

Rising prices:

FedEx has increased their prices based on increase in demand, improving operating margin to 5.8%, more than the pre-recessionary level of 5.5%. This is not good for markets like China, Africa and India because everybody cannot afford the high price. If they follow economies of scale in markets like Asia and Africa that will have a good impact on growth rate of the company. (FedEx, 2010)

Labour disputes:

FedEx announced drastic cuts in pay for most of its U. S. workforce. They announced permanent 5 percent to 10 percent base salary reductions for all U. S. employees. Because of this labour dispute FedEx workers requested for Teamster representation. The Teamsters Union Founded in 1903 and represents more than 1.4 million working men and women in the United States, Canada and Puerto Rico. This kind of labour disputes will spoil the reputation of the company and also it affects the business which in turn will affect the customer confidence (smallcapwatch, 2010)

Opportunities:

Strategic alliance:

Strategic alliance is a new trend in international business world to achieve success factor. FedEx should look for strong alliance in different geographical locations to have a good market share internationally. FedEx

Trade Networks has established alliance in Israel with leading international freight Fritz Companies Israel. This alliance will help the company to provide shippers with expanded international ocean and air freight services. (FedEx, July 6, 2010). If they can achieve this kind of strategic alliance they will achieve their goals in international market. The strategic alliance will help them to understand the domestic market of that particular location and to act according to that.

Strategic acquisitions:

In global business environment you cannot just go where ever you want and open a business unit. This may lead you to failure. Strategic acquisitions are some of the important factors for international business. FedEx acquired Kinko's Inc. in February 2004. This acquisition helped FedEx in all U. S. locations to offer new or expanded FedEx shipping options for better customer accessibility. If they can do such kind of strategic acquisitions globally, they will be more successful in their business in global environment. If FedEx can acquire in different geographical locations a local transportation company with good reputation background it can be their competitive advantage. (FedEx, 2010)

Intensive global expansion:

If FedEx can do the same wide range of business globally which they are doing in U. S. it will have very good brand value. To achieve this FedEx should undertake intensive global expansion. All the companies which are collectively working under FedEx Corporation should do global expansion collectively for good results.

Expansion of e-business:

Currently FedEx is using internet for most of its business. They should keep finding online shopping companies to contract delivery of their products.

Now the growth of e-commerce is very fast . Federal Express can enjoy both profit and brand name from this kind of expansion.

Threats:**Intensive global competition:**

FedEx is facing a lot of competition from UPS, DHL and from some domestic companies in different geographical locations, for example TNT from Europe. The business which they are doing is easily imitable. Because of this there is a small dip in their total revenues for past two years.

Economic and political conditions:

The major consideration is Economic growth prospects. For past three years due to global recession the economic growth rate is very low. Due to this the growth rate for FedEx came down to -5%. (FedEx, 2010). Next comes the political factors. To achieve competitive advantage UPS is playing “ Brown bailout” a political trick on its key competitor FedEx. If the U. S. congress reauthorizes the Federal Aviation Administration then FedEx will face lot of labour issues which will paralyze their business. (Brownbailout, 2009)

“ United Parcel Service Inc., whose political action committee has given more money to federal lawmakers than any other company over two decades, is a major beneficiary of legislation before the House that would reauthorize the Federal Aviation Administration.” – (Bloomberg, May 21, 2009)

Fuel price fluctuation:

The fuel price fluctuation also disturbs the business. Currently the fuel prices are not stable. If the prices are low then no problem, but if the prices increase then it will be real problem for the company. The fuel price increase will affect the annual revenue growth. Because whenever the fuel prices increase they cannot increase their shipment prices. FedEx is operating 672 aircrafts and 70, 000 motorized vehicles every day; this will consume lot of fuel. If the fuel price fluctuation is too much it will affect the business. (BBC news, 20 march, 2008)

Resources and competences:

Analysis of resources and capabilities are very important to identify strategic capabilities of an organization. Resources are about physical assets and production facilities. Competencies are the performance of the organization in the activities like producing, marketing, delivering and supporting its services. For achieving competence, strategy is important. A strategy deal with what is to be achieved, how it is achieved and for what it is achieved. Strategy should fit between the internal strengths and external opportunities. That means the organization's opportunities should fit between organizations internal resources, capabilities and opportunities in the external environment. Strategy helps to identify the factors that develop sustainable advantage for an organization. This will be the core competence for an organization. Core competences are the activities and processes to organize resources to gain the competitive advantage for an organization. This competitive advantage will be achieved through the strategic capabilities of an organization. (David Boddy)

Figure 3. 7 Identifying the organizations opportunities (Source: Management: David Boddy)

For multinational companies Global strategy is very important. Global strategy is helpful to expand the market of an organization outside its domestic market. The following figure explains the opportunities and outcomes of the Global strategy.

Identifying International opportunities are the important aspects of international strategy. Then you have to discover the resources and capabilities to form international strategies. These can be divided into International business level strategy, Multidomestic strategy, Global strategy and transnational strategy. For the successes of these strategies an organization should look for strong strategic alliances, Acquisitions, New wholly owned subsidiary and Exporting (These are the Modes of Entry for an organization into international market). After successfully managing all these and risks the final outcome will be better performance. (Michael A et, al)

FedEx threshold capabilities:

Threshold capabilities are significant elements for FedEx to be competitive in business environment. These elements can be divided into tangible and intangible resources. The tangible resources of FedEx are wide range of operations, 672 aircrafts, 70, 000 motorized vehicles and 10 main air express hubs. The intangible resources are 275, 000 employees, reputation and intellectual capital.

FedEx has 42, 000 drop boxes, over 9, 000 centers, and 70, 000 vehicles for express, ground, freight, and advanced delivery service that deliver over 6. 5 million packages to more than 220 countries daily. They are planning for <https://assignbuster.com/strategic-analysis-of-fedex/>

global expansion at the rate of 25% every year. This strategy will increase brand value and loyal customers worldwide. (FedEx, 2010)

Intangible resources are difficult to be imitated by competitors. For FedEx as mentioned in their vision and mission employees are their most important assets through which they achieve their business goals. The Corporate philosophy is briefly stated as people-service-profit. They are the important element for FedEx brand value.

FedEx capabilities for competitive advantage:

The unique resources are the capabilities for competitive advantage. Every business will have capabilities to achieve business goals. But the capabilities which give the organization strong market position and which are rare and cannot be imitated by others are the core competencies. The strategic capabilities transfer the core competencies into competitive advantages of an organization. The following are the capabilities for competitive advantage of FedEx.

Innovation:

FedEx has the first mover advantage for past 30 years because of innovation. For an organization innovation will be associated with positive changes in efficiency, productivity, quality and competitive positioning. “ You absolutely, positively have to innovate-if only to survive.”-Fred Smith (entrepreneur, October 9, 2008)

“ Innovation . . . is generally understood as the successful introduction of a new thing or method . . . Innovation is the embodiment, combination, or

synthesis of knowledge in original, relevant, valued new products, processes, or services. (Luecke and Katz 2003)

Innovation is part of the business at FedEx. It can be web services or the development of high-technology, FedEx sees innovation as a strategic business practice that is endlessly improved, developed and encouraged.

Technology and communication:

FedEx continues to search for new technology. This commitment keeps customers not switching to other providers. FedEx also has excellent communication with their customers. They are using latest online tracking system for all shipments, so that customers can find out where their shipment is and at what time it will reach. The FedEx brand is based on speed and efficiency. So they developed IMS tool to ensure that all transactions running on the mainframe are being processed quickly and efficiently. The new features are the result of intensive research into what their customers need and want. They are meeting the needs of customers with the latest user technologies. (IBM, 30 Jun, 2010)

Loyal customers:

Loyalty is created among customers based on A strong brand name, Pricing competitiveness, Product quality and service satisfaction. The building blocks of loyalty for FedEx are strong customer service, fast customs clearance, clear invoicing, reliable tracking information and quick problem handling. A loyal customer is one of the competitive advantages for FedEx who will do business with them again and happily recommend others.

Corporate social responsibility:

FedEx recognizes that their social responsibility is greater than the services they provide. They are dedicated to be a thoughtful representative for the environment and a caring citizen in the communities where they live and work. They are passionate about sustainably connecting people and places and improving the quality of life around the world.

Philanthropy:

FedEx is devoted to energetically supporting the communities they serve, through strategic investment of their people, resources and network. Their corporate resources include financial contributions, charitable shipping services and volunteer services by their team members. They have three core focus areas and meaningful ways: Emergency and Disaster Relief, Child Pedestrian Safety, and Environmental Sustainability. By doing this they will have good image in public which in turn increase the brand value. (FedEx, 2010)

Environment:

FedEx is dedicated to providing global network with minimized environmental impact. FedEx is mainly focusing on Fuel efficiency, using recycling material and reducing noise pollution. As part of its Fuel Sense program, FedEx uses rigorous operations and recent advancements in aircraft technology to significantly reduce emissions and fuel use for their aircrafts. They are working with the International Air Transport Association (IATA) to assess their fuel use and identify potential savings. They started replacing their trucks with hybrid electric trucks and Boeing 727 aircraft with Boeing 757 which will reduce fuel consumption up to 36 percent while

providing 20 percent more capacity. FedEx has started using recycling material for their packaging to minimize the environmental impact. FedEx is concerned with aircraft noise and has taken steps to reduce noise levels for more than 10 years. As part of its global environmental sustainability program, FedEx empowers its team members to make meaningful earth-friendly changes in the communities where they live and work. (CNBC news, Nov 15, 2010)

Employees:

FedEx is much concerned about the culture of service which is absolutely, positively spirit of employees. This builds customer loyalty. FedEx has been honored as one of the Fortune “ 100 Best Companies to Work For” list in 10 of the past 11 years and was named to the Fortune “ 100 Best Companies to Work For” Hall of Fame in 2005. (FedEx, 2010)

Critical success factors analysis:

FedEx critical success factors can be identified as speed and efficiency, innovation and global expansion.

Speed and efficiency

Innovation

Global expansion

Speed and efficiency:

Speed and efficiency is one of the critical success factors for FedEx. For a global transportation company speed and efficiency is very important for competitive advantage. For FedEx this is consistently going on for more than

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30 years. This is happening with the help of reliable and dedicated team work of FedEx employees. For today's changing life style, people want everything to happen very fast. For small businesses time-definite package deliveries are important for their business growth. FedEx is doing this with convenience and reliability. For FedEx speed and efficiency with consistency creating loyal customers. This speed and efficiency helped FedEx to grow globally within a short time. It also added value to the brand.

Innovation:

As I discussed in SWOT analysis innovation is creating first mover advantage for the company. FedEx established the FedEx Innovation Labs, an information technology project de