

How is fedex performin business essay



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Timely, accurate and competitively priced services are the key success factors for UPS. Moreover, the ability to provide low cost access to customer's information about the location and contents of packages is an important success factor. The latest success factor is the ability of the customer to intercept and change the direction of a delivery. The risks are that owning trucks and planes may make the operation too costly. Moreover, UPS depends on its workers for deliveries and there are risks that the delivery may be late, wrongly delivered, or simply abandoned. There is a risk of wrong billing, damaged packages or lost packages.

2. How is UPS performing? What factors are driving this performance? Is the current performance likely to be sustained? Why or why not?

UPS is performing well. -Jan. 31, 2013- UPS (NYSE: UPS) today announced record 2012 fourth quarter and full year adjusted diluted earnings per share of \$1.32 and \$4.53 respectively, the company generated annual free cash flow of approximately \$5.4 billion, a testament to operations execution and the emphasis UPS places on capital efficiency. UPS estimates that Hurricane Sandy reduced earnings per share by approximately \$0.05. PS expects full year earnings per share to be within a range of \$4.80 - \$5.06, an increase of 6-to-12% compared to 2012 adjusted results. The company also raised guidance for 2013 share repurchases from \$1.5 billion to \$4.0 billion. This performance has been fuelled by an increase of 9% in global small package volume. This increase amounts to 2.24 million packages every day. This performance is not likely to be sustained because this spurt is faster than the world market growth.

Ref: ATLANTA (BUSINESSWIRE)

3. How is FedEx performing? How, if at all, does its performance and plans affect your assessment of the sustainability of UPS's current performance?

FedEx showed real grit in FY12. Commits a strong performance, and delivered – no small feat, given the year's challenges. The earnings as per share increased 40 percent, and annual revenues exceeded \$42 billion, a 9 percent increase, despite political gridlock in the United States, financial turmoil in Europe, a slowing Asian economy and volatile fuel prices

FedEx's acquisition of RPS will challenge UPS for the ground delivery business and affect the sustainability of UPS's advantage in the ground deliver business. FedEx has been competing well in the higher-end, high-service segment of the package delivery market. Although, digitations of documents and emergence of electronic signatures is threatening the express business which FedEx has the advantage over UPS.

FedEx and UPS are close competitors in almost every way. FedEx offers every service offered by UPS, including freight services. FedEx Corporation provides transportation, e-commerce, and business services in the United States and internationally. It operates in four segments: FedEx Express, FedEx Ground, FedEx Freight, and FedEx Services. The FedEx Express segment offers various shipping services for the delivery of packages and freight. This segment also provides international trade services specializing in customs brokerage, and ocean and air cargo distribution; customs clearance services, as well as global trade data. However, the scale of operation between FedEx and UPS are different.

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Ref: Stock analysis

4. Given your assessment of the company's strategy and the sustainability of its performance, forecast the key factors for UPS's stock value.

Analysis If we use FedEx's multiples as benchmarks we get an average UPS market capitalization of \$17, 520 million. Using FedEx's trailing price to earnings ratio, we come up with UPS's market capitalization of \$13, 911 million. Using FedEx's market to book ratio, UPS's market capitalization becomes \$19, 111 million.

Key Factors

S. W. O. T. Analysis-UPS

Strengths:

Provides both air and ground service

Holds 51% share of market by revenue

Market leader in the \$17 billion ground segment

Consistent financial success

AAA credit rating

Integrated sorting centers

Weaknesses:

Number two to USPS in the deferred segment

Number two to FedEx in the overnight express market

Opportunities:

Growing GDP

Growth of Internet shopping (E-Commerce)

Growth in international delivery (globalization)

Supply chain management

Plenty of resources for expansion

Threats:

Digitization of documents and introduction of electronic signatures

Industry competition

New ground segment competition 5

Labor Issues

Fuel cost issues

IRS issues

5. What is your estimate of UPS's value and its multiples?

UPS has announced that after more than 90 years as a private company, it was planning an initial public offering to become a publicly traded company.

In response to this, we will first analyze UPS's business strategy and its

sustainability of its current performance. Then we will look at key factors to estimate the UPS!| s market capitalization value using FedEx!| s multiples as well as “ best in breed” company premiums. From this, we concluded that UPS!| s IPO should create a market capitalization for UPS 40\$ to 43. 2 \$ billion . The Company delivers packages each business day for 1. 1 million shipping customers to 7. 7 million consignees in over 220 countries and territories. During the year ended December 31, 2011, UPS delivered an average of 15. 8 million pieces per day worldwide, or a total of 4. 01 billion packages. Total revenue in 2011 was \$53. 1 billion. Evaluation UPS is the largest parcel delivery service in the world. They also help their customers its customers with supply chain management, logistics, and financial services.

Ref: Forbes

6. How do your estimates of UPS’s PE and PB multiples compare with those for FedEx? How do they compare with those for the “ best in breed” companies multiples?

Finally using FedEx!| s price to total revenue ratio, UPS!| s market capitalization turn out to be \$19, 538 million. If we benchmark UPS relative to best-of-breed (BOB) industry premium using FedEx as the industrial comparable, then we come up with an average UPS market capitalization of \$ 30, 415 million. Using the 58% average BOB premium for the trailing price to earnings multiple, we come up with UPS market capitalization of \$21, 985 million. If we use the 103% average BOB premium for the market to book multiple, then we come with UPS market capitalization of \$38, 845 million.

UPS doesn't seem like it deserves a BOB premium because its only has 15% higher net income than FedEx where the BOB premium companies average over 200% higher net income than the industrial comparable.