# Example of case study on the sources of competitiveness for fedex corporation

Business, Company

# The sources of competitiveness for FedEx Corporation

Introduction

FedEx Corporation has played an important role in the logistics and transportation market. From its inception in 1971 in Memphis, the company grew from a transportation provider to a large corporation, which develops solutions for all processes along the supply chain. A number of acquisitions by FedEx allowed the company to develop a complex service offering, which aims to satisfy all the needs of their customers, thus enriching customer experience and reducing the need of the clients to switch to other service providers (FedEx, Initials, 2011). The secret of the company's success can be analyzed by looking into the sources of their competitive advantage, which is going to be the focus of the following paper. The paper will also introduce some of the potential threats to FedEx's competitive advantage in the future and the possible strategies to maintain the market leadership.

# Porter analysis

In order to identify the sources of competitive advantage for FedEx, it is first of all important o evaluate the situation in the market, where the company operates. In this paper market analysis will be conducted in terms of the five Porter forces: the threat of competition, new entrants, substitutes, bargaining power of suppliers and consumers. This framework will allow to identify the features of FedEx strategy, which provide the company with a competitive advantage, and to evaluate the effectiveness of these features relative to the existing market conditions (Michael porter's five forces competition theory model, 2011). Although Porter's five forces analysis

possesses a number of limitations, it is nevertheless an important tool for evaluating the current market position of a company. In particular Porter's framework is based on the assumptions that stakeholders do not interact and the forces are not correlated, barriers to entry are considered a structural advantage for the company, while market enjoys little uncertainty and perfect information. Moreover, limiting the scope of analysis to five forces only narrows the assessment and creates the risk of not considering some important aspects. Thus, Porter's model does not take into account complementors, which are essential for market success. However, for the purpose of this paper the general, but comprehensive overview provided by Porter's forces is sufficient to make some conclusions about the market environment for FedEx Corporation.

The bargaining power of suppliers is especially strong if there are only few of them in the market or if their prices constitute the major part of the total cost, associated with the final product. FedEx fuel suppliers have a very strong bargaining power, since there are no substitutes for fuel, which is essential for FedEx operations. The bargaining power of vehicle providers and airports is lower, since there are quite many of them. Moreover, the bargaining power of FedEx in the relationships with its major suppliers, such as airports, is relatively high due to the fact that there are few customers as large as FedEx, therefore damaging relationships with FedEx will lead to tremendous losses for its suppliers (Berger, 2010).

The bargaining power of the customers is also quite significant, since final consumers face little switching cost, choosing the service provider, which offers cheaper and higher quality service. Although business customers are

more loyal than private consumers, they are able to negotiate better deals with shipping companies due to high volumes related to B2B segment. This fact lowers their switching cost, thus strengthening their bargaining power.

The threat of new entrants in the industry is relatively low due to the significant initial investment into the fleet and infrastructure, contracts with airports and other suppliers, developing distribution networks, and establishing a brand image, necessary to operate in the industry. Moreover, FedEx market leadership has allowed the company to reap the benefits of the economies of scale, which are another barrier to entry for potential competitors. With the entry barriers set so high, the current market is not very favourable for the new entrants, thus there is little threat for FedEx from this side (Berger, 2010).

The threat of substitutes for FedEx is quite low due to the highly diversified business portfolio of the corporation. Thus, although parts of its business have been affected by the development of internet, which enabled delivering documents online, rather than sending them via post, this technology also opened new opportunities for FedEx in the online retail business (Crane, 2003).

# Figure 1

The current express delivery market has entered into maturity phase (Figure 1), which is characterized by market saturation, limited availability of production capacity and resources, slowdown in growth and a decline in profitability (Product Life Cycle - Industry Maturity Stages, 2011). Due to the few available opportunities, the rivalry in the industry is quite fierce,

although it mostly takes place between the four largest global players: FedEx, DHL, UPS and TNT. Together they account for almost 90% of the market, thus creating a form of a monopolistic competition. DHL is the major FedEx rival in the international market, while UPS (United Parcel service) is the main rival of FedEx in the U. S. UPS main competitive advantage is the ability to adapt to the fast changing market requirements. Thus, UPS delivers more than 55% of goods ordered from online retailers. Moreover, it was the first company to realize the importance of limiting the extent of vertical integration and to outsource those activities along the value chain, where companies do not have competitive advantage (Value Chain, 2011).

## Sources of Competitive Advantage

Competitive advantage can be defined as the ability of the company to generate greater shareholder value by leveraging on a particular feature, which gives it an advantage over its competitors. Successful competitive advantage needs to be sustainable and hard to duplicate by the rivals. In this case it allows long-term competitiveness, high revenues as well as customer acquisition and retention (Competitive Advantage Definition, 2011).

The key competitive advantage of FedEx was always its focus on innovation. Understanding the fast changing environment, the tight competition in the market and the low switching cost for consumers, FedEx tried to offer the most innovative approaches to business and to leverage technology in order to improve its service quality. Thus, FedEx was the first to launch an overnight delivery, the service, in which the company remains the market leaders even today. It was also the first to introduce Customer Oriented

Services and Management Operating System (COSMOS), which aimed to satisfy customers need for up-to-date information about their packages by communicating the current status of the delivery. Moreover, FedEx is continuously trying to exploit internet technology by giving their customers an opportunity to use their websites for sending shipments through their websites, calculate the associated costs and prepare all the necessary documentation online. One of the most recent developments by FedEx for business customers is their SenseAwareSM solution, which monitors shipments almost real-time, providing information not only about their location, but also their conditions, such as temperature etc. FedEx supply chain solutions are using the latest technology, which enable automated sorting, simplify label identification and storage. This approach allows to decrease shipping costs and to minimize the impact of human errors.

The second source of competitive advantage for FedEx has been the ownership of fixed assets, including infrastructure. Only in 2003 the company has spent over $1. 5 billion for capital expenditures, in order to develop a more extensive hub system. Already in the first years of its existence the company has bought its own fleet, instead of purchasing space from airlines, like it is usually done by competitors, such as UPS or TNT. This strategic choice is directly correlated with the creation of additional barriers for new entrants and for competitors. This fact also gives FedEx flexibility in choosing their prices, therefore in the short-run they are able to lower prices in a way to force most of the competition out of the market. Moreover, own

fleet and extensive infrastructure allowed FedEx to deliver packages to virtually any part of the world.

Even though technological modifications and low operating cost may contribute to the company’s success, they cannot be the sole basis of the competitive strategy. Technological superiority is more a “ hygiene” factor for company development today, rather than a sustainable source of competitive advantage in the future. Thus, the ownership of fixed assets such as planes and trucks can decrease operating cost in the short-run, however in the long-run it hampers company flexibility and prevents it from quickly adapting to the fast-changing market conditions.
Moreover, technology development today is occurring so fast, that it can no longer provide companies with long-lasting competitive advantage. It is much cheaper and easier for the imitators to copy new developments with some incremental improvements, rather than to invest in R&D, thus the benefits of investing in new technology are neutralized. This has already eroded FedEx competitiveness in the past, when UPS entered the overnight delivery business by copying common FedEx practices with some improvements, which allowed them to offer lower prices to the customers, enjoy higher margins, and shatter FedEx quasi-monopolistic position in the express delivery market.
In addition to that, transportation market maturity is closely related to the refocus on price competition between the companies, since consumers become more price-sensitive and have a low switching cost. Thus, if UPS decreases its prices, FedEx will have to follow the pattern; otherwise its

market share will be significantly harmed. Therefore, there is usually little difference in consumer prices for the companies, and margins can only be increased by improving efficiency and innovating to differentiate into new services, which are in a less mature market phase, and through enhancing marketing efforts (Hill and Jones, 2008).

Furthermore, the continuously changing market environment can make some competitive advantage obsolete. Thus, with decline of the need to deliver documentation, FedEx started to lose the market segment, where it traditionally dominated and enjoyed competitive advantage. Therefore, FedEx should seek more sustainable advantage in promoting further its brand, continuously adjusting their product offering to the current market needs, in order to stay competitive even with the loss of documents delivery business, as well as developing closer customer relationships and loyalty.

Moreover, as it has been demonstrated by Porter analysis, the dependence of FedEx on its suppliers is quite high, therefore the company should invest in technology and design practices, which would reduce supplier bargaining power through efficient use of resources, expanding supplier base and insourcing some of the critical activities.

## Possible Threats to the Competitive Advantage

One of the potential threats to FedEx competitiveness is a raise in fuel prices. Since the industry is dependent on fuel, sharp increase in fuel prices could force FedEx to increase prices for their services. According to the basic law of supply and demand, customers are likely to reduce consumption of FedEx services, especially if they have alternatives, provided by other

companies. Therefore, in order to get ready for this situation, FedEx should invest in developing more sustainable technology and optimize their supply chain, thus reducing their fuel consumption. In this way, lower operation cost through process optimization can help to maintain stable prices even with the increasing fuel prices, without the need to squeeze company’s margins.

Another threat to FedEx services is their substitution. Thus, their original core competence was the express delivery of small packages, primarily documentation. However, as internet technology created the possibility to implement electronic documents and use email communication, the practice of physically sending documents is becoming more and more obsolete today. Therefore, the current strategy of FedEx for service diversification and acquisition of smaller subsidiaries with the competencies, different from the FedEx core business, should prepare the company for future challenges and allow more flexibility in developing services, which are most required by the market in a particular moment. Further integration between the subsidiaries will not only give the opportunity to reap the benefits of joint technology development, but also provide a wider spectrum of services to its customers. In this way, FedEx customer loyalty will be enhanced, since there will be less incentive to switch to other service providers, while the cost of switching will be increased by a higher number of contracts.

Lastly, according to the generic strategies by Michael Porter, the worst scenario that a company may face is getting “ stuck in the middle”, with the focus spread over multiple objectives but not concentrating on any, thus losing the leadership on all fronts (Porter's Generic Strategies, 2011). This

situation can be applied to FedEx at the moment, since it has moved from a nearly monopoly on the delivery market, to one of the market leaders followers. It has given up its competitiveness internationally to DHL, while missing on the opportunity to dominate online retail delivery, which was seized by UPS. With the decline of documents shipping FedEx is risking losing its competitiveness and the strong market position (Besanko et al, 2009: 410). The strategy to integrate multiple companies under FedEx Corporation, while maintaining their own operational objectives and allowing internal competition could help the company to pursue the multitude of its objectives, without harming the overall strategic orientation. However, such integration should be carefully monitored, in order to avoid internal competition to hamper the overall company development and to allow the existence of the desired synergies.

## Conclusion

Although FedEx has enjoyed market leadership from the time of the inception, its position has been shattered by the change in market trends, arising competition and a partial loss of a strategic focus. Its traditional competitive advantage, which has been always based on innovative technologies and fixed asset ownership, has proved to be insufficient for sustaining company’s success in the long run. The paper suggests a number of possible future threats for the company, which are derived from the industry analysis. Thus, in order to be ready to face future challenges, FedEx should continue investing in technology, in order to improve efficiency, especially in terms of fuel consumption, thus reducing company dependence

on the suppliers. Secondly, FedEx should address the possibility of substitutes in the market by diversifying their service portfolio, bearing in mind the needs of their customers. This strategy can be achieved by continuing further integration of the already acquired companies, which add value to the overall corporation through their diverse competencies. The customers are likely to benefit from this integration, since they will have a wider range of services at their disposal, which can be all organized by one service provider, thus simplifying the process. Lastly, FedEx should be aware of the current tendency of the company to pursue multiple objectives, without dedicating significant attention to any of them, thus creating a “ stuck in the middle” position. The existing strategy of integrating several companies into one corporation, yet maintaining their operations independently, is one of the solutions to the problem of the unclear focus. However, an overarching business vision should be communicated across the units, in order to derive synergies from the subsidiaries and to avoid excessive internal competition, which could hamper external competitiveness of the company.

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