

Federal express essay sample



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BUSTER**

Q: Do you think Courier Pak is a good fit or a bad fit for Federal Express?

Why?

The Courier Pak was a good fit for Federal Express (FEC) from an environmental, company, cost, and competitive standpoint.

The business environment of the mid 1970s airfreight industry played almost directly into the relative strengths of a small-package air service like FEC. As stated in the case study, " Bulk products and commodity goods were rarely sent by air. Indeed, most air shipments were rather small." This type of environment, combined with FEC's unique flight routes and reliable pick-up/delivery system created an opportunity that the company wisely seized with Courier Pak.

In 1975 and 1976, a majority of FEC's shipments were for next day delivery (Exhibit 4). So from a company perspective, Courier Pak fit perfectly into FEC's product mix. On the one hand you had Priority One package delivery (price based on weight and distance. Average price in 1976=\$23. 56), which guaranteed overnight delivery anywhere in the FEC system, and on the other hand you had Courier Pak (a special 12 in. x 15 1/2 in. waterproof, tearproof envelope), which guaranteed overnight delivery of documents or other items up to two pounds anywhere in the FEC system—all for a fixed price of \$12. 50. Rounding out FEC's product line you had Standard Air Service (price based on weight and distance. Average price in 1976=\$12. 62), which guaranteed two-day package delivery and Economy Air, which guaranteed three-day package delivery.

From a cost perspective, the size of the Courier Pak as well as the manner in which consumers “ underutilized” this product in terms of weight also fit FEC. As stated in the case study, “ the variable costs associated with the average Priority One package totaled \$10. 61; for the average Standard Air Service package they were \$9. 21; and for Courier Pak \$4. 25.” Combine this with the fact that consumers were only sending (on average) a pound of goods through the Courier Pak, while they were being charged for a maximum of two pounds, and you can see how profits could easily start to build up for FEC.

The size of the Courier Pack was also advantageous to FEC. Since the carrying capacity of FEC’s Falcon jet fleet usually “ cubed out” (filled the aircraft interior) before they “ grossed out” (reached maximum loaded weight allowable) shipment of packages with high volume-to-weight ratios–the average Priority One package weighted 14 pounds–weren’t as profitable, from a price to volume perspective. Just like commercial airlines are unable to recoup the cost of an empty seat after a plane takes off, FEC could not recoup the cost of “ empty space,” which larger packages occupied on every trip. Courier Pack allowed the FEC to efficiently use every inch of cargo space available on their Falcon jet fleet.

In surveying the competitive environment, FEC knew that it had to differentiate itself from competitors, if it wanted to succeed. Courier Pack allowed them to do this. When going head-to-head with competitors such as Express Mail (USPS), Courier Pak didn’t compete on price (because it was almost double that of a 2-lb Express Mail package and price sensitivity was pretty low in this market anyway) instead it competed on convenience and

value. The consumer pre-purchases five or more Courier Paks, and when he/she is ready to send something, all they have to do is call FEC. They don't have to run to the post office and wait on line, which was a drawback of Express Mail. From a packaging standpoint, Courier Pak's waterproof, tearproof envelope offered a unique physical shipping method.