

Fedex international freight forwarding business strategy analysis research paper

[Business](#), [Company](#)



Introduction

The current paper relates examination of FedEx current strategy in international freight forwarding business. FedEx is a company operating in the transportation market since 1973. The company succeeded to develop a significant competitive advantage due to unique resources available at that time. The strategy used in the past provided FedEx with a leadership position in the transportation market. At the present time FedEx faced the issue of development of corporate strategy that could be explored in future since the company is comparatively new to the international market (Hiriyappa, 2010). Now FedEx is seeking new opportunities for further growth. However, the strategy used by the company in the international market was not successful and the competitive environment has recently become tough. Therefore, the company needs to analyze its current strategy in order to find sources of further development in the international freight market (Kossowski, 2003).

Company Overview

FedEx is the company operating in package delivery industry since 1973. The company provides national and international transportation and e-commerce services. At the present time FedEx occupies four segments, namely: FedEx Ground, FedEx Express, FedEx Services, and FedEx Freight. FedEx Express service specializes in international trade including custom brokerage, global ocean and air freight forwarding, and provides supply chain solutions. This brand provides fast delivery over a globe within 1-3 days. FedEx serves the markets that generate about 90% of global domestic product. The services provided by the company include door-to-door delivery

of products, money-back guarantee, and custom-shared service. It has 58,400 locations, owns 660 aircraft and 52,400 specialized vehicles (FedEx, 2012).

FedEx Ground segment specializes in delivery of business-to-consumer packages cooperating with USPS. It focuses on small-package market weighing up to 150 pounds. It provides services to all population located in the USA for the distance up to 400 miles. FedEx Ground operates a distribution system of 525 facilities with 33 hubs. It conducts its operations using 30,770 owner-operated vehicles and 35,000 own trailers (FedEx, 2012).

FedEx Trade Networks offers international trade services as well as FedEx Express. It also provides custom clearance service for FedEx Express hub facilities and international advisory service. It also involves using Global Trade Data – a tool allowing the customers to trace imports movement. Also, FedEx Trade Networks assists anti-terrorism programs and publishes custom duty information for more than 180 custom areas of the world (FedEx, 2012).

FedEx Supply Chain offers a range of comprehensive supply chain solutions for its customers leveraging FedEx information technology. The company also provides critical logistics information, temperature-control of cargo delivered with the help of the company, and transportation management through a network of own and controlled resources.

FedEx SmartPost specializes in consolidation and delivery of large quantities of low-weighted packages. The company has its own website where tracing cargo service is available.

In this paper FedEx Trade Networks will be considered since this branch of the company offers international freight services.

FedEx Strategic History

FedEx succeeded to maintain strong competitive advantage in the past using its resource-based competitive advantage. Previously, the company used differentiation strategy: it offered fast delivery at a reasonable cost. The competitive advantage developed in the beginning of 21st century still keeps the company in a leadership position relatively to its competitors.

Currently, FedEx is positioned nearly to the middle cost advantage side of the generic strategy matrix. FedEx holds the same position in the target scope. The current strategy can be described as a combination of focus and differentiation strategy. The company emphasizes on unique services offered to the customers, such as warehousing. On-site repairs are also a unique competitive advantage of the company. FedEx derives profits from providing services to a large number of industries while performing a moderate amount of tasks that are divergent. The prices for the services provided by the company are moderate. The company also takes full advantage of economies of scales (David, 2011).

However, FedEx is not focused on the quality of services delivered. UPS constitutes to pose a significant competition to the company. FedEx and UPS

compete in the same field having similar key resources and providing similar services for their customers. FedEx is currently using stuck in the middle strategy (Kossowski, 2003).

FedEx succeeded to expand to the international market. However, the strategy of the company was not very successful. At the late 90's the company entered China emerging market and captured 20% of it in comparison to 35% served by DHL. At the same time international division reported loss because expanding the new market appeared to be costly. In addition, FedEx acquired Flying Tiger; the cost of repair of these aircrafts was high. Another problem was that the company aimed to implement the same strategy it explored in the domestic market. In addition, the company failed to cope with diversity in cultures (David, 2011).

In the European market the situation was even more disappointing: the share of market captured by FedEx in the Europe was about 1% while DHL succeeded to win 14% of the market; UPS - 6%; TNT - 8% (Kossowski, 2003).

FedEx Generic Strategy

According to Porter (1998), the company can utilize generic strategies to obtain competitive advantage. Depending on competitive environment and other factors influencing the company activity the strategies are divided into cost leadership, differentiation, focus, and stuck in the middle strategies.

Analysis of Primary Competitors

In order to evaluate generic strategy used by the company a competitive environment must be taken into account. As well as many other

transportation markets, international freight market is noted for fierce price competition. In order to secure their market share, rivals are cutting prices all the time.

Analysis of competitive framework is shown in the Appendix 1. FedEx has many competitors in the international freight market including freight, ocean, and air transportation services. Among the main competitors are United Parcel Service (UPS), DHL Global Forwarding, Schenker, TNT, Panalpina, and Ceva (David, 2011).

The major competitor of FedEx in the international market is a global leader DHL represented in the researched market by DHL Global Forwarding. Having its headquarters in the Germany, the company offers international transportation and supply chain management solutions worldwide. DHL succeeded to gain a significant market share in China in 1983 when FedEx developed domestic network. DHL main strategy is to expand to emerging markets through continuous acquisition. In 2003 DHL acquired Airborne Express challenging US transportation competitors (David, 2011).

Schenker Internal is the company that competes FedEx mainly in the segment of express delivery offering same day and next flight delivery of packages within the US or second day and ocean services to its international customers (Kossowski, 2003).

As the major competitor in the domestic market that adapts to the new challenges in the market quickly, UPS also poses a serious competition to

FedEx in the international market. In 1985 UPS launched air service serving US and several European countries.

The companies have large service areas, employee base, aircraft and delivery fleet of similar size. Distribution systems of the companies are built according to the same principles. In addition, both FedEx and UPS explore the same IS strategy to establish links with valued customers (Amsler, Cullen, and Erdmenger, 2010).

Other competitors do not represent serious threat because they are small or specialized

Bargaining Power of Buyers

The most severe competition in freight forwarding service is connected with provision of services for large companies. They prefer to sign contracts with diversified transportation companies to deliver their goods worldwide.

Meanwhile, switching to another transportation company does not cost much. Such large corporations have strong bargaining power.

Individual customers are inclined to save on transportation services thus choosing the best price alternative. In addition, they are more attached to certain brands offering loyalty programs. Taking into account that many distribution centers and warehouses cooperate with transportation companies, individual customers have little bargaining power (Porter, 1998).

Bargaining Power of Suppliers

The fluctuating fuel prices make a significant impact on freight forwarding business. The prices are often determined by economy and political issues, thus, oil suppliers have strong bargaining power. Transportation and freight forwarding industries charge their customers with additional price when prices for fuel increase, thus, straining relationships with them.

Thus, bargaining the price of fuel with specialized suppliers can essentially change profit margin. Taking into account that the company currently employs low margin strategy, this issue is a matter of crucial importance for it (Porter, 1998).

Suppliers of packaging equipment are not in a strong bargaining position. Also, aircraft maintenance and catering services are in a strong bargaining position due to high cost of switching.

Threat of New Entrants

Global freight forwarding business is about economy of scale. The key success factors in the international freight forwarding market are access to large network of distribution centers, large distribution fleet of airplanes and ships, efficient hubs equipped for parcel sorting. A new firm has to have all these advantage to succeed in the international market. This is the reason why many large companies aim to acquire smaller companies that may offer certain advantages large companies do not have. The market is divided between several key players and acquisition of large fleet, acquisition of

customers, and building efficient hubs can be very expensive for new entrants.

In order to enter this market new entrants will have to develop effective information systems. Currently, FedEx succeeded to develop a sophisticated information system that cannot be easily developed by new entrants (Porter, 1998).

Threat of Substitute Services

FedEx operates in highly competitive environment where customers do not have many choices. The threat of emergence of substitute products is high since express mail service is characterized by high volume, low differentiation, and low margins. Recently, Internet and e-mail correspondence pose a serious threat for FedEx business. The threat can be mitigated by temporal high market demand. However, the company should employ product differentiation strategy to provide value generation in the long run (Porter, 1998).

Comparative Analysis of FedEx Strategy

Taking into account all said above, a conclusion can be made that FedEx business is negatively affected by the following factors: fierce competition in the market, advancement of e-commerce and free Internet mailing services. Besides, the company is sensitive to such issues as global recession, operational challenges, and fuel price increase (Robinson, n. d.).

Currently, United Parcel Service and Schenker are major competitors offering services that are similar to those offered by FedEx in the field of international

freight service. Each company offers advantages in price, speed, and additional services. Schenker competitive advantage is based on cost advantage when forwarding freight heavy cargo or outsized items.

Deutsche Bahn AG (Schenker) currently emphasizes international activities offering various modes of transportation, building logistics chains, and comprehensive intermodal travel. It mainly offers rail freight transportation within integrated logistics solutions. The company takes advantage of well-known brand name being positioned as an efficient partner for international logistics and transport (Hiriyappa, 2010).

The strategy of Panalpina - one the main competitors of FedEx in the global market - is based on developing cost advantage through optimization of management process with the help of lean manufacturing. The company aims to achieve organic growth through selected acquisition. The strategy of the company is based on the three core opportunities: to further expand to the fast growing Asian market, acquisition of well-known partner companies positioned on strategic markets, and strengthening its position in selected industries of selected geographic areas in logistics and SCM business. The Panalpina strategy does not involve diversification opportunity since it does not have a competence in this field.

CEVA global strategy is centered on improving its international supply chain management, becoming a leader in ocean freight, and expanding to China. CEVA is focused on increasing the market share in China to 5% by leveraging integrated global network. The company emphasize on offering services to automotive sector. It uses the strategy of diversification of business portfolio

to other businesses. CEVA also aims to become the top five leaders in ocean freight forwarding business exploring strategy of organic growth. The company aims to develop a sustainable competitive advantage improving freight management process.

UPS offers fast shipping at an affordable price. Priority Mail ground service for forwarding heavy packages provided by the company is cheaper than Parcel Post of FedEx. Mailing lightweight items or large envelopes is costly. Faster services are available at additional cost. One of the main advantages of the services offered by UPS is affordable insurance of valuable items that costs no more than \$100. It is included free of charge. Detailed online tracking is free. UPS takes advantage from strategic alliance with Goin' Postal: the items can be shipped with the help of Goin' Postal if there is no UPS office in a region. UPS offers faster service at additional price. The company also successfully explores cooperation with hardware stores offering its shipping.

FedEx offers faster shipping at comparatively higher price for international freight forwarding service. The company provides its customers with the most detailed online tracking system. Besides, FedEx offers a large fleet to deliver items using Ground, Freight, and Express shipping services. The main advantages offered by FedEx that differentiates the company in the market are overnight and same-day options. Competing UPS, the company offers optimal solutions for shipping medium to heavyweight items.

Suggestions for Using Differentiation Strategy

Undoubtedly, FedEx is a leader in the market of fast transportation of cargo. However, the company operates in a highly competitive environment demanding constant innovation and service improvement. There are several growth strategies, namely: internal development or organic growth, acquisitions, and joint ventures and alliances. Strategic alliances are seen as the most attractive option in development of differentiation strategy in the current business environment (Conklin, 2010).

Taking into account analysis of the strategies of the competitors, there were several options outlined for the development of successful corporate strategy in future:

- Narrow specialization can be an option too. The strategy utilized by UPS can be also employed by FedEx. Currently, FedEx successfully cooperates with e-commerce organizations. Further expansion in this field is seen as a good perspective aiming to acquire more specialized customers similar to those UPS currently cooperates (hardware stores). An emphasis should be made on multiple online stores that emerge.
- Another option is to offer Priority Class solutions at affordable price. Also, the company may try to offer more attractive price for light packages and large envelopes since many competitors offer better price for medium to large items. However, resource shortage can be an obstacle. In addition, price wars are usually ineffective. In the contemporary competitive environment it is better to emphasize on differentiation (Conklin, 2010).
- One more option for price competition is to make FedEx business less labor

intensive using innovative technologies where possible. It would help cut cost spent on salaries and speed up operational processes. However, this improvement will require additional investment (Robinson, n. d.).

- FedEx can take competitive advantage of the largest data base of customers. In addition, the company has large fleet and takes advantage of well-known brand name. Thus, economies of scale are available.
- The company may offer advantage in insurance entering strategic alliances with insurance companies. Some of the competitors (UPS) offer affordable insurance of valuable items. This goal can be attained by creating strategic alliances with insurance companies (Fleisher and Bensoussan, 2002).

Corporate Strategy Proposed

Resource-based approach key points are to identify valuable, rare, in-imitable, and non-substitutable resource to develop an appropriate strategy. Valuable resource enables the company creates value outperforming competitors or reducing internal weaknesses. The large fleet is valuable resource of FedEx because it helps deliver items faster than any other competitor placing the company to a leadership position in the market. In order to create a competitive advantage, a resource must be rare providing an opportunity for making above-average returns. The air and delivery fleet available to FedEx matches this definition because any other competitor has such a fleet. Currently, this resource is in-imitable. However, in contemporary business environment in-imitable resources can become imitable after some time. At the present time, the fleet can be called temporarily in-imitable till competitors cannot use the same strategy for

growth. The same case with non-substitutable characteristics of the resource: this resource was non-substitutable till Internet emerged. Internet posed a serious threat of substitute service. If competitors can count a company strategy that creates value, they can use substitutes to drive prices down. However, it also offered more opportunities for the company, for example, offering shipping services for online shops. Thus, value-creating resources must be protected to improve organizational performance. Another conclusion from resource-based theory is that the strength of the supply chain is defined by its weakest link. Therefore, a resource must display all four characteristics to be able to represent a competitive advantage (Hiriyappa, 2010).

There are several corporate strategies that can be implemented in order to improve FedEx performance and increase profitability, among them are portfolio management, headquarters advantage, and diversification. Taking into account strategic analysis that was conducted, diversification strategy is seen as the most suitable for FedEx in the current situation (Fleisher and Bensoussan, 2002). Diversification strategy is employed when the company aims increase profitability through expansion to new markets or through introducing new products to existing market. In this case, expansion to new markets will be considered. Diversification is one of the four growth strategies represented in the Appendix 2.

This strategy gives an opportunity to expand outside existing scope of the business. This strategy is the most perspective because it involves acquisition of new techniques, skills, and facilities. Diversification strategies

may include acquisition of other companies, development of new products, expansion to new markets, implementing new technologies, etc. Final strategy may involve several strategies combined for better effect. The combination of strategies can be determined by resources and opportunities available in a particular case and by the objectives set by the company. Consistent with corporate strategy proposed, an opportunity of diversification can be seen as alliance with complementary company in this case (Graham, 2009).

Conclusion

The paper contains a comprehensive analysis of the strategy employed by FedEx company. The company offers logistics and transportation solutions for many industries. In the past, FedEx developed a successful strategy based on resource advantage. Currently, the company is stuck in the middle between focus and differentiation strategy. Taking into account the situation that occurs, a full analysis of the company activity was made (Conklin, 2010).

The current strategy of the company was analyzed. The recommendations regarding possible growth strategy were developed with regard to the resources and opportunities available for the company in this situation. The recommendations were grounded and supported with necessary evidence.

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