

Fedex vs ups case

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



The competition between FedEx and UPS started when Fred Smith came up with the idea, in his undergraduate term paper, to buy planes to ship more cargo to foreign countries and China. Fred Smith, the founder of FedEx, invested \$4 million of his inheritance and raised \$91 million in venture capital to create FedEx. He founded FedEx in 1971 and in 1973 started the first night of continuous operation. UPS realized that FedEx was on the rise and would soon start outperforming them if they did not find a way to compete with FedEx's overnight delivery service.

Therefore, in 1981 UPS decided they too would follow Smith's innovative idea and buy their own planes, so they too could be a part of the overnight shipping market. They also tried to gain an advantage over FedEx by lowering their letter price to half of FedEx's. However, FedEx's overwhelming market control in the overnight delivery service in China made it seem that UPS would never gain the competitive advantage. China decided to make an agreement with FedEx and UPS which allowed them fly cargo between the U. S. and China.

The agreement also allowed the institution of air-cargo hubs in China and landing right at any Chinese airport. These two postal services shared the entire market in China. China could only allocate so many flights between the two firms. This spawned a competition and an even greater rivalry between these two firms, since China was a huge source of income for the two. The question being asked here is which of these two firms should China pick and how should they allocate their cargo routes among these two, given their brief history and statistical evidence.

Also, which company was better positioned to attract the capital necessary to win this competitive battle? In order to find this out, China would need an understanding of the two firms' competitive strategies and some financial historical evidence. Alternatives, including the analysis of these alternatives. These two firms history give a good picture of where they lack and where they are strong financially. Since, FedEx innovated the overnight delivery service with their purchase of a group of Boeing 747's, they gained a huge competitive advantage over UPS and China was aware of this.

Once the overnight delivery service by air information was leaked, both of their stock price rapidly increased and FedEx's share price nearly doubled UPS's. FedEx's share prices rose this fast due to their well-known competitive advantage in the overnight delivery service field. FedEx also gained the upper hand in China and were flying eleven cargo planes to china a wee; almost twice as many flights as UPS. This is one strength and reason FedEx's growth increased so rapidly, due to its large foreign presence in China.

Although UPS did not have the competitive advantage in the overnight delivery service, they were still the most dominant delivery service in America and they were the first to offer nonstop delivery service to China. They had their foot in the door first in China, however, they lacked the innovative idea that smith came up with. Although they did not have the competitive advantage in the overnight delivery service they still had the advantage in America and they were still the leading provider of logistics and supply-chain management.

Their biggest strength was America and on ground services, but what they lacked was a greater foreign presence in China. There are a couple of <https://assignbuster.com/fedex-vs-ups-case/>

strategies UPS could use that may increase their presence in China. In order to come up with strategies, we need to find what UPS was lacking over FedEx throughout history. What UPS needed in China was their own air service. FedEx had already established their own air service there which allowed them to be more logistically versatile. UPS also had less brand awareness in China, since they did not have many “brown” trucks shipping their cargo off of the planes.

Since, UPS was already well advertised in America, it made sense to focus on strategies that will help their foreign presence. One way to gain a competitive advantage over FedEx would be to try and come up with a contractual agreement to place a UPS trucking facility in Beijing or one of their most popular cities. Then start spreading the “Brown” name and advertise more in China. Also, if UPS could set up their own air service it would allow them to be more versatile and they could ship more. This solution would allow UPS to catch up with FedEx’s rapid growth, however, this would take a lot of time and resources to put together.

With the rise in fuel prices, government regulation and FedEx’s already well established brand name in China, it may seem impossible to ever catch up with FedEx. The strike on UPS in 1997, where 190, 000 employees went on strike, caused an incredible downfall not only to their financial status but to their reputation as well. Although UPS had shaped their financial status back to normal, their respect as a well-managed firm had dwindled. To solve this problem, they could alter their advertising by showing how they respect and treat their employees and show some employee testimonials on UPS’ management.

FedEx dominated the overnight shipping market in China. They had been continuously expanding in foreign countries and are still increasing rapidly in growth. In fact, FedEx had experienced an 11.53% Compounded Annual Growth Rate (CAGR) to UPS's 7.32%. Although, UPS' slower growth rate depended greatly on their strike, FedEx's growth rate is still far superior. This is mostly due to their large market share in China. However, what success FedEx had in China they lacked in America compared to UPS. For instance, UPS's ground service was established far before FedEx's ground services and UPS would say they owned the ground in the United States.

UPS also had the advantage in marketing and advertising. They had far more billboards and television commercials than FedEx and almost everyone knows the slogan, "what can brown do for you." UPS had established themselves as the best American ground delivery service. They are also known for shipping their products on time. As seen in Exhibit 1, the economic value statistic (EVA) of UPS had been greater than FedEx every year since 1993, in fact FedEx's only positive EVA came during 2003. This shows that UPS was bringing more to the economy. This makes sense since UPS owned the market in the U. S. , while FedEx is more reliant in China, which doesn't help the U. S. economy.

Also, UPS had a higher weighted average cost of capital (WACC) which would way them higher than FedEx as a more successful firm according to the stock market. UPS owned the ground market in the U. S. with help from their recognized brand name. FedEx already owned the overnight delivery service market in China. What FedEx needed to establish was a better brand name

familiarization to the United States. Some strategies to attain this would be to spend more capital advertising and spreading their brand name.

FedEx could also come up with a new innovative idea to compete in ground delivery service. If FedEx could prove that they were a more loyal company than UPS and express their emphasis on faster ground delivery service in the U. S. , they might be able to compete with UPS and gain ownership of the U. S. delivery service market as well. Recommendations and implementations FedEx's solution to its limitations are more easily resolvable than UPS's and less expensive. Some opportunities FedEx could implement to gain a competitive advantage on the ground service in the U. S.

would be to familiarize their brand name and prove that they were the best in the business at shipping on time and customer service. They could start implementing this idea through television commercials, billboards, computer ads, and by creating a slogan that expressed their shipping speed and customer serviceability. These are the two key factors that customers want to see from their delivery service company. Another way FedEx could gain even greater overnight competitive advantage would be to upgrade the size of their planes and cargo space so they can ship more to China.

Because of the small amount of cargo space that their planes have, FedEx relied on shipping smaller items and if they had any big items they would lose a lot of storage space. They make little profit by flying items over to China due to their small amount of cargo space and the rising price of fuel. If they increased the size of their plane they could ship more for nearly the same price. After a couple of years, their new plane investments would be paid off and they would be earning a lot more international profit. This

strategy could make their competitive advantage in overnight delivery service to China so much greater.

UPS needed to get their name more familiarized in the world. They owned the ground in the U. S. but they didn't have the competitive advantage in foreign overnight shipping to China. One way they could increase their popularity in China would be to take small steps in advertising and after every year take some side pocket money and invest in overnight delivery services. The first few years they could strengthen their name in China by driving around UPS trucks and creating UPS billboards. After familiarizing their name and customer service they could add their own air service in China which would allow them to get on FedEx's level in speed.

Although this could take many years to prove that UPS is more trustworthy than FedEx in China, it would still be smart to implement these ideas so they could at least start on their gain to competitive advantage. Another solution for UPS would be to take over the markets in other large countries. They could start branching out and create surveys to see if any other countries are in need of overnight delivery service. If they found a way to gain the competitive advantage in other countries, they might be able to gain popularity over FedEx in China.

Although this idea could be risky and cost them a lot of money to implement, this may be the only way to gain a competitive advantage over FedEx's dominance in China. Both of these firms are dominate in their field of business, but they both work in opposite ways. UPS rules the U. S. and the ground service industry, while FedEx owns the overnight air delivery service and the market in China. It sounds easy to implement these solutions,

however, maybe there is a reason why UPS and FedEx refused to make these changes or why it was taking them so long to do so.

Maybe if FedEx were to change their focus away from China and more towards the U. S. ground service and advertising, they may lose their competitive advantage in China. If UPS were to focus more in the overnight flight delivery service maybe they would lose their ground control in the U. S. to FedEx. Either way these strategies may seem difficult or even impossible for these companies to implement, however, hopefully these strategies may propose an idea as to where their firms lack in strength. It wouldn't hurt either of these firms to at least apply these ideas and see if they are benefited from them in anyways.