Good example of the evolution of the small package express delivery industry 1973...

Business, Company

Introduction

The Small Package Express Delivery Industry is one of the industries where transportation and logistics giant, FedEx, is heavily involved in. Small Package Delivery pertains to a service wherein a company, which in this case would be FedEx, would accept payment from customers and other business owners in exchange of guaranteeing that their small packages would be delivered on or within a specified amount of time or a given schedule to their specified destination. Door to door small package delivery services have been a common service offering in this industry. During the early 70s, at a time when electronic methods of sending and receiving packages and other things such as information were not yet discovered or at least popularized, people had to rely on something to get their messages and packages across. It turned out that that something was the package delivery industry. The objective of this paper is to discuss how the Small Package Express Delivery Industry evolved, focusing on how the American company Federal Express participated in its growth and evolution, and how it survived a decades-long battle with its competitors such as the United States Postal Service (USPS), the United Parcel Service (UPS), and the already dormant company in the small package delivery industry, DHL.

Analysis of the Federal Express' Value Creation Frontier

The United States-based Company Federal Express is a package delivery and logistics company that has been one of the biggest players in the local and international industry for almost three decades. Reports and evidences suggest that FedEx's strategic competitiveness, resilience, and large-scale and continuous growth in the industry have been largely fueled by its obsession with, and its effective nurturing of the speed and reliability of its delivery services as its core competencies and the two centers of its value creation frontier. During the early days of FedEx, its founder, Frederick Smith, had the vision that the continuously increasing size, interconnection, and sophistication of the global economy would have to depend on a speedy and reliable delivery service or suffer the consequences of being bottlenecked. This prompted him to create a business that is centered on the speed and reliability of delivery. During the early 70s, Smith unconsciously created his own value creation strategy by establishing FedEx and introducing a fast and reliable, albeit pricey, delivery services. The small package delivery industry is a business environment filled with highly competitive players which includes key company names such as FedEx, DHL (at least in the past), UPS, and USPS. After DHL’s voluntary decision to wind down its involvement in the small package delivery industry, the only remaining key industry players would be FedEx, UPS, and USPS. Each of these three companies have shown their dedication in performing business activities and creating new and innovative services that add value to what the customers are paying them. In the case of Federal Express, for example, it is the first company to discover and actually implement a Hub and Spoke System. This is a system often used in the airline or in the package delivery industry wherein a system of delivery connections is arranged like a chariot wheel. At the center of the wheel is the hub where all the delivery items and their respective destinations would be consolidated and at the outer surface of it would be the spokes where the delivery items would be brought for distribution, often on a door to door basis, at least in FedEx’s case .

The Four Building Blocks of Competitive Advantage

The four building blocks mainly refer to the efficiency, quality, and innovation of service, and the company’s responsiveness to the customers’ expectations and demands. In the case of FedEx, it can be said that their focus, at least during their early years in the industry and that would be during the early 70s, were the quality of service followed closely by its efficiency. In the small package express delivery industry, quality of service may also pertain to the speed of delivery which may be considered as a subcomponent of customer responsiveness . This means that as early as its first few years in the industry, Federal Express has been striving to get ahead of its then current and future competitors in terms of at least three of the four blocks of competitive advantage. However, this does not mean that FedEx completely lacks the drive, the initiative, or the ability to offer new and innovative delivery services to its clients because in its over thirty years in the business, FedEx has actually created a wide variety of delivery services, although their main objective in creating them most of the time was to get ahead of their competitors such as the UPS, and the USPS, in terms of market share.

Main Aspects of Product Differentiation and Capacity Control that Federal Express Could Use

Product Differentiation and Capacity Control that Federal Express Could Use

Product Differentiation is something that Federal Express may be considered as an expert. It can be remembered that during the price wars that existed between the different small package delivery companies during the 90s and the 21st centuries, Federal Express emerged as one of the leading companies in terms of market share. That means whatever price differentiation strategies they used it worked for the customers leading to their continuous market dominance. In today’s market, this strategy can be effective too. However, for a change, FedEx can initiate the creation of a product differentiation strategy because in the past, it can be argued that it simply went with the product differentiation flow that its competitors were making.

In terms of capacity control, Federal Express should make it a point to closely match the current demand levels for their services to the capacity that they are planning to build. The company has to consider that with today’s sophisticated information sharing mechanisms, less and less people are starting to discover a decreased need for their services. And so they have to take that into consideration in their future capacity plans. Unfortunately, they cannot simply buy new and larger capacity planes and land vehicle fleets just like what they did before to raise sales and earnings because it is already the level of demand that is playing a huge role in their present problem.

The Efficiency of Federal Express’ Current Business Model and Recommended Business Strategy Changes

In the small package or parcel delivery industry, customers basically ask the industry players (e. g. FedEx) to have their parcel (which can be anything from shipping containers, high value mails, and other commodities) delivered to a certain location within a specified time frame. Package delivery and logistics companies such as FedEx originated in the United States in the 70s. Their first years as package delivery companies did not turn out to be quite good or rosy as the transportation and package delivery industries during that time were heavily regulated by the government . Shipping and delivery companies, for example, were not allowed to purchase large and high-powered modern jets—something which severely limited their capacity to deliver products and be more engaged in their respective fields of business. The United States government, upon noticing the almost uncontrollable growth in demand for package delivery and shipping services, changed its stance regarding heavy regulation of the concerned industries and started to deregulate them. This highly significant event in the package delivery industry gave companies such as FedEx and other industry players the chance to expand their businesses to whole new levels. FedEx was one of the companies who immediately grabbed the opportunity to expand. It started to purchase larger air jets to start a fleet of its own—although it already had a fleet of smaller executive-type jets that were converted into package delivery ones before the government's move towards deregulation. It also started to increase the number of its container vans and to hire larger numbers of employees to support its plans to expand.

It was during the 1980s when FedEx started to use strict packaging standards with regards to the size and weight of the parcels that their customers could ship using their services. For instance, one of their packaging standards imposed an upper weight limit of 70 lbs. and a maximum length plus girth limit of 108 inches. The effect on the company's processes’ level of efficiency were almost immediately felt since standardized parcel sizes and weights enabled them to plan and make earlier provisions to every batch of parcels the company would be tasked to deliver. The use of packaging and delivery standards further helped FedEx improve its company-wide level of efficiency when the mechanized way of sorting and packaging small packages were introduced and implemented in their delivery nodes.

Overall, it can be argued that the company has deeply and continuously strived to increase the level of cost-effectiveness and efficiency of its every business operations. In an industry where space, weight, and time matters, the FedEx management has undeniably done a good job. Now, when it comes to the question what steps the company could do to further increase their levels of efficiency, FedEx can make more use of their electronic business processing solutions to better integrate their delivery practices. The sheer volume of small package delivery requests that the company gets every day makes it impossible for them to manage their business using a traditional pen and paper environment. In fact, the company has started to show heavy dependence on computer systems in integrating their services. We have reason to believe that by continuously improving their computer systems and making sure that no interruptions in the operation of such systems would occur, the company can assure that there will also be a reciprocal improvement in their efficiency levels. It is worth noting that during the 90s, some of the major reasons why FedEx competitors got thrown out of business due to continuous losses had something to do with problematic computer systems .

The Impact of Global Competition on Federal Express' Business Strategies

The global economy can either benefit or suffer from the phenomenon we call globalism. The global economy can benefit from it because it actually increases the level of interconnection among nations. This increased level of interconnection, in turn, enables companies such as Federal Express to be exposed to larger, more sophisticated, and even higher-paying markets, which in turn can easily lead to higher earnings. The global economy, as well as companies such as FedEx can suffer from it because a highly globalized economy is also an economy with stiff competition. With larger industry players gaining easier access to emerging markets, smaller companies in various business industries would be forced to climb an uphill road to the top. This increased level of global competition is, in fact, a double-edged sword because big companies like FedEx can actually suffer from the same consequences. Smaller companies in the small package delivery industry would be able to easily steal signification portions of FedEx and other major players' share in the market, thanks to the easier access to various markets that a highly globalized world economy brings. What FedEx can do to prevent things from spiraling down as a result of stiff global competition is to take a look at the strategies it used in the past. This would lead us to significant price cuts on their services and the introduction of more practical and higher value delivery services to their customers . These strategies have so far yielded FedEx improved company outcomes at least over the long run and so there should be no reason why the company should not try to use such strategies again.

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