Airborne express in 2002 essay

[Environment](), [Air]()

Statement of Purpose The group aims to identify the generic strategy Airborne Express is pursuing, whether such strategy is sound in the context of air express industry.

The company's strengths and weaknesses are evaluated with the opportunities and threats to identify the distinctive competency that it can adapt. Statement of the Problem The group endeavors to identify the strategy that Airborne Express can implement to its domestic and international operations. Assessing the strategic alliances the company made and the diversification of its services including logistic services is also part of the group's objective. Alternative Courses of Action Lease Out Airport One solution that is viable to some of Airborne's dilemmas is leasing out a portion of their airport to private aircrafts or to its competitors.

As mentioned in the case, Airborne has seen a decrease in price of its package per customer area. Competition and the new methods of sending packages cause its profits to drop. Such lease can subsidize these falling rates. With the cost of building an airport well above $120 million, this would be an option for other air carriers to consider.

Further, with the revenue brought by the leases, Airborne could build another runway so the leased part of the airport would not affect Airborne's business. However, competitors might be hesitant in giving Airborne additional revenues. Accept DHL company acquisition Since Airborne lacks capital for its expansion in the international scene, the takeover of DHL can be a good approach to achieve global scope. Additional facilities abroad can be accessed as well in such merger. This will provide an opportunity for the merged company to compete with UPS and FedEx and can possibly obtain increased market share especially in the international scene. This might not be good for the ego of the new administration but, as recalled in their history, Airborne has previously experienced mergers that led to quite promising opportunities.

Then again, new culture might be adopted (that of DHL) that will need lots of adjustments and changes. Yet, such predicament can be solved by giving Airborne a grace period to be prepared for the merger. Pursue International Strategic Alliances & Logistics Services The alliance with Mitsui and Tonami is a good mean for extending Airborne's services to the global perspective. Not only does it receive funds for aircraft financing but it can also be a good way for Airborne to penetrate other geographical areas.

Airborne will not need much capital, yet, it will continue to depend on other carriers for space lease. Airborne can remedy this buy starting to fly their own aircrafts and pursue more alliances with other groups to obtain the minimum volume for their operations. They can use the company's Free Trade Zone (FTZ) as their primary service. Caution, however, is taken as the alliance will depend on the stability of the member companies. If the partner companies experience trouble, the domino effect would likely be felt.

Improve GDS and SDS services The trend of shifting from overnight premium express to low margin deferred services implies that people take advantage of cheaper delivery services. Airborne can market this service to have diversified product from its competitors. However, since the service is imitable, benefits from these services can not last long, unless Airborne will decrease its prices further (this can be easily coped with its competitors or can bleed Airborne with osses). Methods of Analysis SWOT Analysis The group facilitated a SWOT analysis to determine the internal and external factors that influenced the company with respect to its industry. Based from this analysis, the company strengths primarily lie with its cost advantage with its economies of scales and good aircraft maintenance and its generic strategy of adopting a cost based focus, giving them big corporate accounts as customers.

The weakness focused on their capital insufficiency that hinders them to explore the opportunities of global expansion. The intense competition of FedEx and UPS threatens the company’s market share, along with the bargaining power of buyers, the rising fuel costs, and the weak volume growth in the industry. Industry Analysis Using Porter’s Five Forces Model of Industry Attractiveness, the group analyzed the condition of the industry where Airborne belongs. Our analysis shows that entry to this air express industry is hindered with high barrier such as large capital outlay, economies of scale, and brand identity. Intensive rivalry between UPS and FedEx creates lots of price war, which can be detrimental for new entrants. A greater bargaining power from customers is present (especially in the case of Airborne that focused on corporate accounts) as well as from their suppliers (higher fuel).

The threats of faxes and emails as substitutes exist, though not that significant with the delivery of original copies. Overall, the air express is an unattractive industry and is just favorable for the existing giants and players in the industry. Financial Ratio AnalysisUsing the data from the company's Income Statement from 1997 – 2001 and in reference with its shipment revenue statistics, shipment volume statistics and workforce and productivity statistics, the group analyzed the operational efficiency of the company. The trend analysis showed that profitability has declined over the years due to increasing operating costs and declining volume growth of shipments. The company is faced with high bargaining power from corporate accounts though it can generate higher revenue per shipment with these accounts compared with other services it offers. Employee productivity increased in 2001.

Total benefits paid to employees continued to increase in 2001 when there was a reduction in the number of employees for the year which suggests that the company may need to examine its compensation plan to boost productivity. The demand for a global air express service challenges the company's market for high-volume accounts. A strategy has to be created to retain their corporate accounts if the company wants to survive in the airline industry. Recommendation Merging with DHL would be the ideal strategy that Airborne will do.

It's a win-win situation for both companies since Airborne does not have international scope which DHL have while DHL has limited access to the US market in which Airborne possesses. The merger can give an opportunity to compete with UPS and FedEx and possibly increase the market share of the company. The opportunities for the global market are just too big to forego, and merging with DHL would give Airborne a good level to commence such activity. Conclusion The transportation industry will definitely take a new turn in the near future.

The world has become a very small place that we are defined more by the time zones rather than the distance. This means that we are most likely to observe some large merges that will divide transportation market on larger shares. It is up to Airborne whether to take the challenge of globalization or continue to battle with the heated domestic market in the US. Extending Competitive Strategy (Strength VS Opportunities) 1. Extend inventory management and logistic services in the global market 2. Find more alliances with foreign countries 3.

Advertise and offer services to other global corporations Building Competitive Strategy (Weakness VS Opportunities) 1. Agree in the merger with DHL. 2. Advertise its newly acquired planes to establish a trademark.

3. Lease the old airplanes & use the proceeds to enhance the new aircrafts. 4. Borrow funds from the bank to proceed with global expansion.

5. Promote more the GDS. 6. Start flying their aircrafts internationally.

Sustaining Competitive Strategy (Strengths VS Threats) 1. Maintain flexible time. 2. Do more research to reduce further fleet repairs. 3.

Obtain more corporate accounts. . Lease out their airports to competitors or other companies. 5. Improve SDS and GDS services.

Avoidance (Weakness Vs Threats) 1. Give in to corporate accounts and continue providing discounts. 2. Sell excess aircrafts INDUSTRY ANALYSIS

Risk of entry by potential competitors A high entry barrier exists in the air express industry.

Huge capital investment is needed to set up a network and supporting infrastructure. As such there is no brand loyalty, however all the major players are know for their reliability and for a new entrant to establish the same will take a lot of time. There won't be any cost advantage factor as the hub-and-spoke model, used in this industry, can be implemented by new entrants. Economies of scale will not be in favor of the new competitor as the initial volume would be low. Switching costs are not high in this industry.

Rivalry among established companies This industry is highly consolidated with only 3 major players – somewhat an oligopoly. The industry is also characterized by numerous price wars between the 2 giants, namely, UPS and FedEx. Airborne and the rest of the companies generally follow the trends set by these two firms or fall out. The exit barriers to this industry are high.

This is due to the investments in hubs, vans, jets and other capital extensive infrastructure. Bargaining power of buyers Businesses and individuals all fall under the customer's category for this industry. For Airborne, big customers do get volume discounts and can negotiate prices with sales representatives. However smaller customers have to take what is being offered to them.

The only say they have is that they can switch between the players, but due to intense competition, the prices offered are generally the same across the service band. Bargaining power of suppliers The inputs to this industry are fuel, planes, vans, customs, permits and others. The companies do liaison with relevant industries to prevent themselves from fuel hikes. Arrangements with various customs departments are also made to facilitate faster clearance of goods and packages. As such there is no threat from supplier side to this industry. Substitute Products Businesses can use fax; telex etc to send important documents.

Emails can also be used for the same purpose. These provide them with low cost alternative to express mail. However the threat of substitution is limited, when it comes to sending originals. Substitutes from other industries are also limited.

The company is adopting a cost-based focus, which enables Airborne to carve a market niche against UPS and FedEx on focusing on large corporate accounts. It improves the value added activities of Airborne and reduced cost of services further. However, UPS and FedEx may catch up with Airborne if they will too enter this kind of niche, giving Airborne another type of competition. The bargaining power of the buyers also reduced its revenues with the discounts demanded by the customers. FINANCIAL STATEMENT ANALYSIS Income Statement Analysis From the above data, it is apparent that profitability of Airborne Express Declined over the last five years. Almost 90% of the revenue generated by the company is from Domestic operations.

Decreases in the profitability are results of weak volume growth, high fuel costs and strong competition from FedEx and UPS. Below are the components of Operating Expenses incurred by the company over the last five years as a percentage of total operating expenses: Major components of the cost of the company over the past five years are transportation purchased at 32. 89% of total cost and station and ground operations at 32. 47% of total cost followed by flight operations and maintenance at a percentage of 17. 09.

The company incurs less labor costs. Shipment Revenue Statistics Analysis The table shows that Airborne Express generates more revenue on a per shipment basis in dealing with large clients. Airborne Express as a niche player, focuses on high-volume corporate accounts which enables it to significantly cut down on its costs. However on a per-pound basis, Airborne could charge only as much as $0. 94 on domestic high-volume transactions and $0.

77 on international freight transactions for 2001 because of the high-bargaining power of these customers. Shipment Volume Statistics Analysis Annual growth for second day service steadily increased from -11. 80% in 1997 to 15. 40% in 2001. The bulk of the shipments may be from overnight services but this has shown negative growth over the past years due to the use of e-mails which decreased the demand for the service.

Shipments from high-volume accounts and international freight are more steady when compared to other services offered by the company although annual growth for these services are slow. Globalization, raises the opportunity for establishing an international service comparable to its domestic service. The company may work on this opportunity to retain its high-volume and international freight clients which generates higher revenue on a per shipment basis for the company. Work Force and Productivity

Statistics AnalysisLabor productivity measured by shipments per employee hour shows plays around 7%-8% over the past five years. Based on statistics, 1999 showed a decrease in productivity. In 2001 it showed an improvement.

In 2001, employee hours decreased by 3. 74% compared with last year. Total compensation continued to increase in 2001 which shows that the increase in productivity may be due to additional incentives given to employees. However total shipments growth rate in 2001 decreased by 1. 60%. The company may need to look into its compensation plan as well in boosting productivity.