

Airborne express 1586

[Environment](#), [Air](#)



In a highly competitive industry the structure of a firm is very important to its success. Today firms are moving away from the centralized structure of the past, and adopting a more decentralized structure (Management Challenges in the 21st Century p 315). The air express industry is no exception. FedEx, the leader in the air express industry since the late eighties, is also leading U. P. S. in the race to become decentralized. Airborne Express is not even in the race. In order to compete in today's changing environment, Airborne Express needs to move away from its old fashioned centralized structure and form a more decentralized structure. The old fashioned structure is not the only variable that makes Airborne the follower in the air express industry. The Internet and information systems are transforming the air express market into an electronic commerce market, and Airborne needs to transform its operations to meet this growing market.

This report describes the strengths and weakness of the organizational structure of Airborne Express. Furthermore, it also gives recommendations for future changes in Airborne Express. The first section of this report addresses how the organization of the firm evolved, and what changes are taking place structurally in its industry. The second section discusses labor issues in the air express industry and how they affect Airborne Express. The third section addresses the growing electronic commerce market and how it's affecting the industry and Airborne Express.

1) Structure of Airborne Express

During the eighties many air express companies were formed and many were destroyed. However, three companies came out of this highly competitive period on top. They were FedEx, U. P. S. and Airborne Express. Airborne survived this highly competitive period by adapting to the external forces affecting the industry. One of the external forces affecting Airborne was the size of the competition. U. P. S. and FedEx were just swallowing up competitors. So Airborne decided the best way to compete was to be the low-cost provider of air express service. Robert Cline, CEO of Airborne explains their strategy " When you are up against UPS and Federal Express, those guys are so big and so well capitalized that you have to have a tool to fight with them. It wasn" t going to be size; it wasn" t going to be how well-known we were. So, we decided to be the low-cost operator."(Washington CEO P 33). However, to become the low cost operator Airborne had to make many structural changes. One of those structural changes was that Airborne centralized its organization as much as possible. After all, why pay middle management high salaries when upper management can make all the decisions. Furthermore, what CEO would trust middle management to make decisions during the unstable period of the company" s history?

Another major change Airborne underwent in the eighties, was to differentiate its service. Unlike its two major competitors, FedEx and UPS, Airborne changed its strategy to concentrate on providing services for large corporations (Airborne Express" s 10-K form p5). This strategic change not only gave Airborne product differentiation and market specialization, but also benefited by taking away the need for advertising. Therefore, it could save

the \$35 to \$40 million it was spending a year on advertising, and use it to help become the low-cost operator (Washington CEO p 36).

Airborne made important structural and strategic changes in the eighties, which contributed to its success. However, in the nineties, Airborne is reluctant to change with the environment. As mentioned earlier, many firms are moving towards a more decentralized structure. Airborne seems to be using the same structure that got it through the eighties. Consequently, its decision making is still coming from top management, and no responsibility is being delegated to lower management. FedEx however, has experienced growing success by using a decentralized structure. " Delegation, as demonstrated by FedEx, can lead to a more empowered work force and resulting heightened productivity and quality, reduced costs, more innovation, improved customer service, and greater commitment from employees" (Management Challenges in the 21st Century p 285). Airborne" s centralized structure is also one the reasons its been experiencing labor problems.

2) Labor Issues

The last few years have plagued the air express industry with labor problems that have kept CEO" s of major companies like UPS, FedEx, and Airborne Express on their toes (The New York Times Nov 1998). Since the UPS strike of 1997, air express companies are fighting to keep good relations with their workers. The Teamsters" strike with UPS over part-time and full-time help taught small business not to rely on one express company. UPS is not the only company having labor problems. With the use of lengthy negotiations

and hefty salary promises FedEx has settled a labor dispute with its pilots, and are entering the year 2000 without labor problems (Institute for Technology and Enterprise P 12). Airborne Express, however, is experiencing major labor disputes with its pilots. Although under contract, Airborne pilots are not happy with management. A representative for Airborne claims "Airborne management has failed to implement key provisions in the contract". This failure plus the firing of an Airborne pilot has the pilots angry (Traffic World P 1). Since the pilots are under contract, they can not strike, but they can stop flying volunteer overtime, which makes up 15 percent of Airborne's flights. In November of 1998 the pilots voted to stop flying overtime (Traffic World P 3). Airborne needs to smooth over relations with its pilots soon, because the contract expires May of 2001. Therefore, unless Airborne settles this dispute, it will be facing an imminent strike. Another labor issue affecting Airborne is the Teamsters Union. Airborne signed a five-year contract with the Teamsters Union in 1998. There are three major provisions in this contract (Associated Press online p 2).

1. Provides improved working conditions for Airborne employees.
2. A Bonus for employees the first year, followed by a yearly wage increase for the last four years of the contract.
3. At least 50 percent of the current part-time work force will be changed to full-time by 1999, with the remaining 50 percent offered full-time positions by 2000.

The last provision is could have consequences for Airborne Express. Using part-time help is a way for express companies to cut expenses by not having to pay full-time benefits. How will Airborne be able to keep up its strategy of being the low-cost operator if they lose the efficiency of a part-time workforce? Airborne Express needs to operate as efficiently as possible if they want to have the capital to compete in the growing electronic commerce market.

3) Electronic Commerce Market

Today the air express industry is faced with a technology that will force express companies to change organizational structure and basic operations. This technology is electronic commerce, or better known as the Internet. Presently, Internet sales make up 15 percent of the retail market, and are expected to make up 55 percent of the market by 2005 (Institute for Technology and Enterprise p 1). In order to compete in this growing market, many retail companies are changing their operations and selling products over the Internet. Because of this, there is a need for air express companies that can cater to the needs of online retailers. Express companies need to supply services such as just-in-time inventory or virtual inventory. In order to best describe the importance of this new market to Airborne Express" s future, I" m going to address the way FedEx is changing their structure to compete in this new market. One way FedEx is dealing with this new market is by providing just-in-time inventory services for companies. FedEx provides this service by connecting to an online retailer" s web site, and when a sale is achieved over the Internet, the order is placed directly with FedEx. Once

FedEx receives the order, it picks up the product from the supplier and delivers it to the customer. This all takes place without the online retailer touching the product (Institute for Technology and Enterprise p 4). FedEx supplies this service for a percentage of the online retailer's sales. There are three air express companies competing for control of this electronic market and Airborne is not one of them. The three companies are FedEx, UPS, and DHL. If the express industry is affected as much as predicted, Airborne could lose its ranking as third in the express industry to DHL. Airborne Express might be gambling on the hope that there will be companies who will fight this move to electronic commerce, and will give Airborne enough old fashioned express business for them to succeed. This is a major gamble. " Concepts like just-in-time manufacturing and mass customization were no longer just theory; a number of firms had carved out distinct niches in the market place by focusing on developing these capabilities in manufacturing and production. Tight supply chain integration was no longer perceived as a competitive advantage. It was being seen as a competitive imperative" (The Economic Benefits of Air Transport, 1997 p 23). Airborne needs to connect to the electronic commerce market before it loses the opportunity.

In conclusion, Airborne made some wise changes to its structure in the eighties. These changes differentiated Airborne from its competitors, and allowed it to be the low-cost operator. However, in the last few years with Airborne's failure to change with the environment and with labor disputes in its near future, the future for Airborne Express looks bleak. Unless Airborne wants to go back to transporting flowers it needs to rethink its strategy.

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