

Airborne express: economics of strategy and organization essay sample

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Why has the express mail industry been so difficult for smaller players?

Small players like BAX GLOBAL, DHL WORLDWIDE EXPRESS, TNT, etc. lacked resources to expand their base. Fed Ex had huge hub facilities with 2.

4million square feet of floor space. Smaller players focused on segments rather than the whole market on the whole. BAX GLOBAL focused on heavy cargo and was not considered competitive for overnight letters. RPS targeted price-sensitive business customers and focused on two day deliveries via ground network. U. S Postal service was prohibited by law from offering volume discounts to business customers and was also unable to track the packages efficiently. U. S Postal service had poor on time delivery record.

DHL and TNT focused mainly on the international market, maintaining a low profile in U. S market. Competition from substitutes (like facsimile and electronic mail were faster than express mail) was also intense making it hard for small players to compete on margin and also maintain its operations. Whereas large players could offset the price margin loss by depending on overall market instead of a niche segment. Small players were also unable to provide services like- tracking of shipment, schedule a pickup, prepare paperwork, efficiently when compared to the big ones. Finally, small players found it extremely difficult to compete on prices, products and customer support with the large players.

This is an industry with two major players. Why is competition between FedEx and UPS so fierce? Both FedEx and UPS accounted for over 70% of the total market share. They heavily competed on price, products and customer support. The following points validate the major differences between these

two giant firms and why they are close rivals. a Federal Express (Fed Ex), held around 45% of the marketplace and was the first mover of the industry, closely followed by United Parcel Service(UPS). b Both the firms were well established and served almost the same markets. c The customer base was common and expanding rapidly.

Fed Ex was emerging as a fast growing firm in the late 70s, while UPS was an old horse of the early modest America. e Both the firms enjoyed huge backup in terms of financials, technology, infrastructure, etc. f Worldwide recognition of both Fed Ex and UPS was quite high and the eagerness to further reduce logistics cost was in both the firms, although with different strategies. g Both Fed Ex and UPS tried to offer similar features in their services viz.-track a shipment, schedule a pick-up, check rates, etc. h Fed Ex developed highly technological operational systems so that customers could easily place, and track orders, as well as develop quality programs to insure each customer was 100% satisfied. The result of such major capital expenditures and high-quality service (along with massive marketing campaigns) was a price increase to reflect the added value the organization had on the express mail industry. On the opposite end of the spectrum, United Parcel Service and Airborne Express produced a relatively equivalent service that Fed Ex produced, but at a lower cost. This strategy, known as low-cost leadership, focuses on decreasing costs.

3 How has Airborne managed to survive, and even thrive in this tough environment? The reasons due to which Airborne could survive in the express mail market in the US instead of the fierce competition between top

2 market players i. e. FedEx and UPS- a. Airborne did not try to focus in the large portion of the market which was taken by FedEx or UPS. Earlier it targeted only business customers who shipped large volume urgent items to other business locations. b. Also it provided customized services to some important customers like Xerox, Nike, Compaq and Technicolor, which helped to retain customer loyalty in the express mail industry where customer loyalty is hardly found. c. They have own airport, so they save on landing fees and hence cut costs. Also they used old aircrafts to cut costs. d. Another important facility provided by Airborne was warehousing at airport. Retailers could store goods at airport and as soon as they get an order from a customer their goods could be shipped (be it at late night). No other competitors provided this facility. e. Airborne managed to run its aircraft 80% full as compared to its rivals whose utilization was 65-70%. As little extra cost involved of carrying more cargo in a single flight it resulted in good capacity utilization and giving a edge over others. f. It was also able to pick up more parcels per stop compared to its rivals which reduced labour cost. Overall Airborne lowered its cost wherever possible and hence it was able to deliver the service at a lower price. Airborne was known for its low prices. The quoted price of Airborne was mostly lower than its competitors. So Airborne got hold on price sensitive customers. Also when UPS worker was on strike, Airborne used that and encashed that opportunity, which again gave a boost to Airborne's financial reports.

Does Airborne have cost advantages? Quantify if possible. Unlike Federal Express and UPS, Airborne owned the airport that served as its major hub.

Airborne purchased the facility, an abandoned strategic air command base in Wilmington for \$875, 000 in 1980. In its sorting operations, Airborne relied less on automation and more on humans than its competitors did. Part time wages for a starting position in rural Ohio were roughly \$7per hour.

Airborne's fleet consisted primarily of used aircrafts which could be purchased for only \$5mn and refurbished for \$5-10mn. Airborne managed to run its aircraft roughly 80% full whereas competitors attained utilization rate of 65-70%. Airborne used trucks more often than its competitors for the long haul portion of delivery. Around 30% of its volume never saw inside of an airplane in comparison to 15% of FedEx. This gave Airborne huge cost advantages as costs of truck were only one-third the cost of owning and operating a similar amount of aircraft capacity.