Fedex: building a global distribution powerhouse

Health & Medicine, Beauty

Problem: Given that FedEx is doing remarkable in delivering certainty by connecting the global economy . The question is: is it the most cost effective, and where does it lead them with the recession and FedEx being in a kind of Maturation stage. Can they sustain the growth?

Facts and Analysis: FedEx formed in 1971, came into being from an idea Smith had when he bought interests in Arkansas Aviation sales. The company has had remarkable success. From growth to diversification, local to international. Freight to Customs, the company does exceptionally well. There are few areas where the company is not ranking number one. FedEx has made some very smart business decisions, including the deals with the Local Mail system within US and placing the FedEx boxes at every postal office within the country. The Advantage the company has is its diversification within its own sector.

Buying of Caliber systems was one of the most beneficial acquisitions. RPS fleet of delivery trucks and its customer's base helped FedEx grow and compete more effectively with UPS in the nonexpress, ground-delivery business. Advantages were that the company had same sector subsidiaries which could help it achieve economies of scale.

On The flip side it has Huge Operational Costs. FedEx today employees 275000 people, Just the labor costs come up to 37% of revenues. One of the main issues with a company as big as FedEx is rising operational costs and fuel for its massive fleet. Just Fuel has gone up by 30% in the last few years. One major issue that is going to arise in the near future if the Bill is passed is local unionization of employees. This will mean that the Employees can demand better wages and strike at any time just like the great 1997 UPS strike. This could lead to a huge loss in market share and not to forget the union demands will increase every time the new contract is due. Also if we look at the operational costs Vs the profit margin Ratio… It has decreased considerably. So seems like the company really needs to do something about its operational costs. Alternatives

Market opportunities – huge market growth in Europe. Also Buy Fuel Forwards (financial contracts) to hedge the costs. Advantage: save in costs and decrease volatile price situations. Disadvantage: it will require huge amounts of cash to purchase the forwards. Outsource jobs /tasks to cut costs and minimize the number of employees. Market penetration – Get into the European market of door to door service. And capture the Manufacturing supply chain for smaller manufacturing companies. (transport business) Get into the inventory/ Raw material delivery of smaller productions firms under there FedEx freight services. ADV increase market share and revenue. Disadvantage: It will require a huge infrastructure of fleet of trucks and loader for loading and unloading. Market Development –. Approach the smaller companies to set up accounts with Just in time inventory option Product Development-

Develop – Automated sorting systems at the hubs. This will decrease the number of employees.

Decision – Cost efficiency is the initial target. I suggest that the company should cut down on operational costs as there Profit margin has gone down considerably. Concentrate on lower operational costs. Also look into entering the European market for Ground/Door to Door Service.

Implementation Target market – Enter the European market, for door to door services. But for introducing a supply chain concept of Just in time with companies they should target smaller companies as there inventory turnover would be higher due to less storage space or due to less Current assets. Pricing – Introduce low prices in both the door to door market in Europe and the Supply chain management in North America. Since the supply chain concept is new the company can make contracts of competitive prices. Also to bring down the operating cost the company should do contracts with other airlines, which have frequent flights to FedEx hub locations. This will help them save costs on fuel.

Outsource contracts for small area Promotion –Strong market entry is required with very competitive prices. Initially going in as low priced as possible in Europe will help grab some market share Product –Since this is a service provider just concentrate on ways to minimize operational costs. One way is to have extensive partnerships with local and international airlines for common routes to maintain speedy service yet get there cheaper. Distribution –maintain the same distribution style in North America but in Europe try to gain small shares at a time. Since it’s a huge market it will be hard to just go in with a bang, and more risk failing