

Fedex vs ups assignment



**ASSIGN
BUSTER**

QUESTIONS 1. If you had to identify one of those companies as excellent, which company would you choose? On what basis did you make your decision? More generally, what is excellence in business? 2. Prepare to describe in class the competition in the overnight package delivery industry, and the strategies by which those two firms are meeting the competition. What are the enabling and inhibiting factors facing the two firms as they pursue their goals? Do you think that either firm can attain a sustainable competitive advantage in this business? Competition in the express delivery Market

The \$45billion US domestic delivery market could be categorized into 2 segments. These consisted of letters weighing 0 to 2 pounds, packages weighing 2. 0 to 70 pounds, and freight weighing over 70 pounds. The mode of transit categories were air and ground with the time categories being overnight, deferred delivery, three day delivery and regular delivery which occurred 4 or more days after pickup. The air express segment was a \$25bn portion of the US package-delivert industry, and was concentrated in letters and packages, overnight and deferred, and air or air and ground.

Virtually all FedEx business activities were in the air express segment of the package delivery industry, only 22% of UPS's revenues were derived from its next day air business. FedEx and UPS's competition for the dominance of the \$25bn domestic air express delivery market foreshadowed in an unusually challenging future Background of the 2 companies FedEx Fedex was formed in 1971, as the brain child of Fred Smith who started the idea of the business as a undergraduate term paper for a Yale economic class.

Smith's strategy dictated that FedEx would purchase the planes that it required to transport packages, whereas all other competitors used the cargo space available on passenger airlines. In addition to using his own planes, Smith's key innovation was a hub and spoke distribution pattern, which permitted cheaper and faster service to more locations than his competitors could offer. In 1973 on the first night of continuous operation, 389 FedEx employees delivered 186 packages overnight to 25 US cities.

FedEx saw a modest profit of \$3.6m in 1976 and an average daily volume of 19,000 packages. Through the rest of the 1970s, FedEx continued to grow by expanding services, acquiring more trucks and aircraft, and raising capital. The formula was successful. In 1981 FedEx generated more revenue than any other US air delivery company. By 1981, competition in the industry had started to rise. Emery Air Freight began to imitate FedEx's hub system and to acquire airplanes, and UPS began to move into the overnight air market.

The United States Postal Service (USPS) positioned its overnight letter at half the price of FedEx, but quality problems and FedEx's "absolutely positively overnight" ad campaign quelled that potential threat. In 1983 FedEx reached \$1bn in revenues and seemed to own the market for express delivery. During the 1990's FedEx:

- * Proved itself to be an operational leader;
- * Philosophy of "People Services Profit" with emphasis on customer focus, total quality management, and employee participation.

Extensive attitude surveying, a promote from within policy, effective grievance procedures that sometimes resulted in a chat with Fred Smith himself, emphasis on personal responsibility and initiative not only earned

FedEx a reputation as a great place to work, but also helped to keep the firm largely free of unions (Best Employer to Work for Strategy, War for talent); FedEx benefited significantly from: * Deregulation of the domestic airline industry which permitted larger planes to replace the smaller ones, thereby permitting FedEx to purchase several Boeing 727s which helped reduce its unit costs. Trucking industry deregulation also permitted FedEx to establish and integrated regional trucking system that lowered its unit costs on short haul, enabling the company to compete more effectively with UPS. * Just In Time supply programs created heightened demand for FedEx's rapid and carefully monitored movement packages; * Technological innovations enabled FedEx to achieve important advances in customer ordering, package tracking, and process monitoring. By the end of 2003, FedEx had nearly \$15. bn in assets and net income of \$830million. The company has 50000 ground vehicles, 625 aircraft, 216500 full and part time employees, and shipped more than 5. 4 million packages daily UPS Found in 1907 Consolidated parcel delivery, both on the ground and through the air, was the primary business of the company In 1975 UPS reached a milestone in that it could promise to deliver a package to every address in the US. The same year the company expanded outside the US with its first delivery to Ontario Canada.

The following UPS began service in West Germany with 120 of its trademark delivery brown vans. The key success to UPS was efficiency. Every route is time down to the traffic light. Each vehicle was engineered to exacting specifications. The drivers endured a daily routine calibrated down to the minute. This demand for machinelike precision met with resistance by UPS heavily unionized labor force. In its quest for efficiency, UPS experienced

several major strikes resulting from changes in labour practices and driver requirements.

In August 1997, the 190 000 teamsters employed at UPS went on strike for 15 days before agreeing to a new five year contract. The strike cost UPS \$700million in lost revenue, resulting in less than 1% sales growth for the year and a decline in profits to \$909million from \$1. 15bn. For most of the company's history the stock was owned solely by UPS managers, their families, former employees, or charitable foundations owned by UPS. The company acted as a market maker in its own shares, buying or selling shares at fair market value determined by the board of directors each quarter.

In November 1999 UPS initiated a 2 for 1 stock split, whereby the company exchanged each existing UPS share for two Class A shares. The company then sold 109. 4 million newly created Class B shares on the NYSE in an IPO. Class shares were convertible to Class B and could be traded or sold accordingly. Both shares has the same economic interest, however class A shares had 10 votes per shares while class B shares were entitled to one. Until the stock split and IPO in 1999, the financially and operationally conservative company had been perceived as slow and plodding. Although larger than FedEx UPS had not chosen to compete directly in the overnight delivery. After going public UPS initiated an aggressive series of acquisitions, beginning with a Miami based freight carrier operating in Latin America and franchise based chain of stores providing packing, shipping and mail services called Mail boxes with more than 4300 domestic and international locations. The UPS of the new millennium was the product of extensive re-engineering efforts and revitalized business focus.

While the company had traditionally been the industry's low-cost provider, in recent years the company had been investing heavily in information technology, aircraft, and facilities to support service innovations, maintain quality, and reduce costs. The small-package market in the US is about \$60bn market. The worldwide supply chain market is about \$3. 2 trillion. By 2003, UPS offered package delivery services throughout the US and in more than 200 countries and territories, and moved 13 million packages and documents throughout its network everyday.

Domestic package operations accounted for 76% of revenues in 2002; international(15%); non package (9%). In the U, it was estimated that the company's delivery system carried goods having a value in excess of 6% of the US Gross domestic product. The company employs 360 000 people (of whom 64% is unionized) and owned 88000 ground vehicles and 583 aircraft. At the end of 2003 UPS reported assets, revenues and profits of \$28. 9bn, \$33bn and \$2. 9bn. 1.

Why did FedEx's stock price outstrip UPS's during the initiation(Feb to June 2004) of talks over liberalized air cargo routes between the U. S. and China? Assuming a perfectly efficient stock market, how might one interpret a 14% increase in FedEx's market value of equity? On June 18 2004 the US and China reached a landmark air transportation agreement that quintupled the number of commercial cargo flights between the two countries. At that time Fedex and UPS were the only 2 carriers then permitted to serve the vast Chinese market.

News of the agreement did not come as a major surprise to most observers as the negotiations had been in place since February. The stock prices of both companies had been rising steadily since these talks but FedEx's share price had rocketed at a rate nearly 5 times faster than UPS. Why? FedEx had the largest foreign presence in China, with 11 weekly flights, almost twice as many as UPS. They served 220 Chinese cities and flew directly Beijing, Shenshen and Shanghai. FedEx's volumes in China had grown by more than 50% between 2003 and 2004.

UPS lagged behind FedEx in China but was still the largest package delivery company and the dominant parcel carrier in the US. UPS had been active in China since 1988 and was the first carrier in the industry to offer non stop service from the US. By 2003 UPS had six weekly Boeing 747 Flights to China with Direct flights to Beijing and Shanghai, serving nearly 200 cities. UPS reported a 60% growth in traffic on its principal UA Shanghai route since initiating the service in 2001, and it predicted that peak season demand would exceed its capacity.

As the US package delivery segment matured, the international markets and especially China became a battleground for the two package delivery giants. FedEx virtually invented customer logistically management and was widely perceived as innovative, entrepreneurial and operational leader. Historically UPS has a reputation for big bureaucratic, and an industry follower, but "Big Brown" was aggressively shedding its plodding image, as it too became an innovative and tenacious adversary. In 2004 more than 100 additional new weekly cargo flights were up for grabs.

The eventual assignment of other carriers would test each company's ability to fend off emerging competitive threats. Against this backdrop, industry observers wondered how the titanic struggle between Fedex and UPS would develop, particularly for investors in the two firms. Was the performance of the companies in recent years predictive of the future? Success in China was widely seen as the litmus test for corporate survival in the new millennium.

1. How have FedEx and UPS performed since the early 1990s? Which firm is doing better?

In class, prepare to discuss the insights you derived from the two firms' financial statements, financial ratios, stock-price performance, and economic profit (economic value added or EVA). Also, prepare to describe how EVA is estimated, and its strengths and weaknesses as a measure of performance. Five forces analysis: New entrants: Economies of scale are paramount to success in the global transportation business. One strategy the large firms apply is the acquisition of local freight companies; this is evident by the significant amount of acquisitions made by FedEx and UPS from 1982 to 2003.

To be successful in the global transportation business, a firm should have a large network of distribution centers, highly efficient hubs for parcel sorting around the globe as well as having access to a reasonably large fleet of airplanes, trucks, trains and ships. Whereas FedEx is strongest in the overnight delivery market, UPS dominates the ground parcel delivery market. However, all the major rivals diversify their services to offer their customers the convenience of one-stop shopping. A new entrant at this

point, who is likely to enter the market by specializing in one of the delivery sub-markets, will not be in a competitive position

In addition, companies like FedEx and UPS have developed a strong brand name over the last 30+ years with a history of milestones and successes. An entrant who has the required market capitalization will still struggle in building the brand image. By educating the customers about the benefits of package delivery, customers in the US now associate overnight delivery with the purple FedEx and heavy weight delivery with the brown UPS. One most relevant issue is the long term contracts and commitments which the major players have with large corporations.

In addition, governmental agencies have confidence in these firms in handling sensitive and often hazardous packages. With the elevating global security concerns, a new entrant will experience a hard time establishing such a confidence. With their brand name, experience and relations, these companies also positioned themselves to take advantage of international trade agreements between countries and world trade regulations. An entrant to the market at a significant scale is also likely to face a large retaliation from the existing rivals. Substitutes: Substitutes do not produce a potential threat to the transportation industry.

While adopting the one-stop shopping technique and offering all possible transportation solutions, the rivals are ensuring their market share even if the customer decides to substitute his air-freight transaction with a ground or ocean freight transaction. People will always need to transport parcels from one place to another. Whether it is the raw material or the final product

does not matter as long as the companies are continuing to make money. However, one sub-market, the overnight document delivery market is facing a significant threat of substitute by facsimiles and emails in the dot-com age.

Internet service providers are educating more people about the benefits of emails, digitization of documents and online forms. Organizations and firms are more welcoming than ever to accept online digital signatures to save money and time. Banks are deploying online checking accounts and more people are substituting their paper statements with online statements.

Competitors: There is a fierce competition between the transportation firms on price. The firms are constantly cutting prices, often with the goal of securing their market share. Buyer's power:

The transportation firms are in a fierce competition to provide delivery services for large corporations and firms. They are in a race to reach warehouses, spare-parts and storage houses. With the booming of e-commerce, one could order a product online to be delivered to any part of the world. Most such corporations do not provide their customers the flexibility to choose their transportation provider. Instead they have a contract with a diversified transportation company to provide the shipping solutions. Moreover, switching to another transportation firm is cheap. This puts such corporations in a very strong bargaining position.

Individuals are likely to choose the firm with the least price. However, by advertising and brand-name images, individuals are more attached to certain firms. Moreover, the firms have adopted the “ Open an account” program to lock their customers. Such accounts will give its loyal users more

benefits. Also the fact that most distribution centers and warehouses have teamed up with a certain transportation firm gives the individual customer little bargaining power. Supplier's power: The fluctuating prices of fuel severely affect the profitability of the transportation business.

These prices are determined based on the economy and political issues which puts the oil suppliers in a strong bargaining position. However, the transportation industry combats this problem by collecting fuel surcharges in case of high fuel prices. However, this could result in straining the relationship with the customers. Some companies, like UPS, have a cap on the amount of surcharge recovered from the customers and thus may be appealing to more customers. Suppliers of packaging equipment, such as boxes and plastics, are not in a position to have high bargaining power.

Due to the rivalry of the vehicle manufacture industry, a truck supplier will not be in a strong bargaining position. However, operators of transportation vehicles with limited capacity such as trains do have some bargaining power. Service suppliers, especially aircraft maintenance and catering, airport services and truck maintenance have strong bargaining power. This partially due to the high switching costs involved. Moreover, the transportation firms are committed to deliver in time. Some companies offer a full refund of the shipping costs if the delivery is not on time.

To reduce the bargaining power of service providers, the transportation firms are investing aggressively in developing technology that automates the package sorting process. These systems are more time and price efficient and it is a big advantage that they are run by the firm itself. With the entry

of these firms into the e-business industry, other suppliers appear in the horizon, the providers of Information Technology services. These suppliers do not have significant bargaining power due to relatively easy switching costs and the fact that the firms are in the direction of having their own IT division and proprietary software

SWOT analysis: Strengths: FedEx| UPS| Right products, quality and reliability. Superior product performance vs competitors. Direct delivery capability. Product innovations ongoing. Can serve from existing sites. Products have required accreditations. Management is committed and confident
 Strong brand equity| Cost advantage Asset leverage Effective communication High R&D Innovation Online growth Loyal customers Market share leadership Strong management team Strong brand equity Strong financial position | Weaknesses:

FedEx| UPS| Limited budget. No pilot or trial done yet. Don't have a detailed plan yet. Delivery-staff need training. Customer service staff needs training. Processes and systems, etc. Management cover insufficient. | Bad communication Diseconomies to scale Over leveraged financial position Low R No online presence Not innovative Unionised personnel| Opportunities: FedEx| UPS| Local competitors have poor products. Profit margins will be good. Continental expansion Challenge competitors. Support core business economies. Acquisitions Asset leverage Financial markets (raise money through debt, etc) Emerging markets and expansion abroad Innovation Online Product and services expansion Takeovers| Threats: FedEx| UPS| Economic slowdown Start up small competing against big companies (FedEx) Vulnerable to reactive attack by major competitors. Oil price fluctuations| <https://assignbuster.com/fedex-vs-ups-assignment/>

Competition Cheaper technology Economic slowdown External changes (government, politics, taxes, etc) Exchange rate fluctuations Lower cost competitors or imports Maturing categories, products, or services Price wars

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Strategy In this section, we analyze the main elements of the strategy that FedEx and UPS is pursuing in the international market. Technological Customers are widely aware that FedEx is the first company that introduced an electronic shipping solution to the market; however UPS followed in a similar manner. Both companies are able to track shipments from pick up to delivery. FedEx quickly adapted to the new Internet era by offering wide variety of automated shipping solutions. Such solutions are also well interfaced with corporate intranet and business software.

FedEx and UPS provide the convenience of sending shipments worldwide simply by accessing its websites, which are available in many different languages. They both offer other online services such as registering, preparing airway bills, producing required customs documents, estimating shipping costs and reaching any other resources internationally. Both companies adopt the latest technology in automated package sorting including massive label readers and conveyer belts. Such technology increases the speed and efficiency of sorting the packages and reduces the factor of human error.

US style operations abroad US style operations are being imported to overseas markets. The Asia market was always more receptive to the US style of doing business and FedEx was able to explore the Asian hospitality

successfully. China is a developing market with a large capacity and is a great example of FedEx's international expansion. Since 1984, when FedEx was introduced in China, FedEx has expanded to over 200 cities with an additional expansion plan to more than 100 cities within the next few years.

FedEx was able to accomplish the US service quality in China such as on-time pickups and deliveries, no delays in customs clearance, as well as implemented automated shipping solutions. It operates 23 flights a week from China including Shanghai, Beijing, and Shenzhen flights. Partnership versus Acquisitions While DHL is acquiring companies around the world, such as Airborne Express in the USA and Blue Dart in India, FedEx is following a conservative strategy to work through partnerships with limited amount of acquisitions.

For example, the RPX Group is the exclusive licensee of FedEx in Indonesia which is also the same strategy FedEx is following in most of countries. In terms of acquisitions, FedEx is careful in making decisions toward acquiring other companies. However, FedEx made large acquisitions in the US territories, such as FedEx Ground, formerly RPS. The latest acquisition was Kinko's establishing FedEx Kinko's subsidiary gaining 1200 new locations around the world, as well as adding additional business services to FedEx's clients.

FedEx Kinko's strategic plan is to continue expanding around-the-world offices. Today, it already has a strong presence in Australia, Asia, Middle East, Latin America and Europe. Similarly, FedEx Kinko's is offering US style corporate solutions to large world-wide companies. Specialization versus

One-Stop Shopping While FedEx has developed a good reputation in the overnight delivery market, FedEx is now catching up with other carriers and now offering international freight services such as ocean freight and heavy cargo by air.

In tune with its competitors, FedEx now offers a supply chain solution for its international clients to manage all locations, outbound and inbound shipping as well as warehousing services. Today, FedEx proved itself as a one-stop-solution for every company around-the-globe offering everything from shipping to business services. 1. Prepare to describe in class the competition in the overnight package delivery industry, and the strategies by which those two firms are meeting the competition. i) What are the enabling and inhibiting factors facing the two firms as they pursue their goals? i) Do you think that either firm can attain a sustainable competitive advantage in this business? Business excellence is the systematic use of quality management principles and tools in business management, with the goal of improving performance based on the principles of customer focus, stakeholder value, and process management. Key practices in business excellence applied across functional areas in an enterprise include continuous and breakthrough improvement, preventative management and management by facts. Some of the tools used are the balanced scorecard, Lean, the Six Sigma statistical tools, process management, and project management.

Business excellence, as described by the European Foundation for Quality Management (EFQM), refers to “ outstanding practices in managing the organization and achieving results, all based on a set of eight fundamental concepts. ” These concepts are “ results orientation, customer focus,

leadership and constancy of purpose, management by processes and facts, people development and involvement, continuous learning, innovation and improvement; partnership development, and public responsibility. ” In general, business excellence models have been developed by national bodies as a basis for award programs.

For most of these bodies, the awards themselves are secondary in importance to the widespread adoption of the concepts of business excellence, which ultimately leads to improved national economic performance. By far the majority of organizations that use these models do so for self-assessment, through which they may identify improvement opportunities, areas of strength, and ideas for future organizational development. Users of the EFQM Excellence Model, for instance, do so for the following purposes: self-assessment, strategy formulation, visioning, project management, supplier management, and mergers.

The most popular and influential model in the western world is the Malcolm Baldrige Award Model (also known as the Baldrige model, the Baldrige criteria, or the criteria for performance excellence), launched by the US government. More than 60 national and state/regional awards base their frameworks upon the Baldrige criteria. When used as a basis for an organization’s improvement culture, the business excellence criteria within the models broadly channel and encourage the use of best practices into areas where their effect will be most beneficial to performance.

When used simply for self-assessment, the criteria can clearly identify strong and weak areas of management practice so that tools such as benchmarking

can be used to identify best-practice to enable the gaps to be closed. These critical links between business excellence models, best practice, and benchmarking are fundamental to the success of the models as tools of continuous improvement. The essence of the Methodology is to concentrate in a perfect blend of Focus between Processes, Technologies and Resources (Human, Financial, etc. The main idea is that neither of those elements can be improved by itself and it needs to be balanced and improved in a blend with the other two. Process Phases – Because of the blend of different methodologies that have specific phases within their processes Business Excellence drives results through four well defined phases: Discover/Define, Measure/Analyze, Create/Optimize, Monitor/Control. Those phases evolve continuously within the ever-growing organization, driving constant monitoring, optimization and re-evaluation.