

FedEx in the Global Market

A FedEx Express cargo plane is shown in flight against a blue sky with light clouds. The plane is white with purple and orange accents, and the FedEx logo is visible on the side.

A case study by

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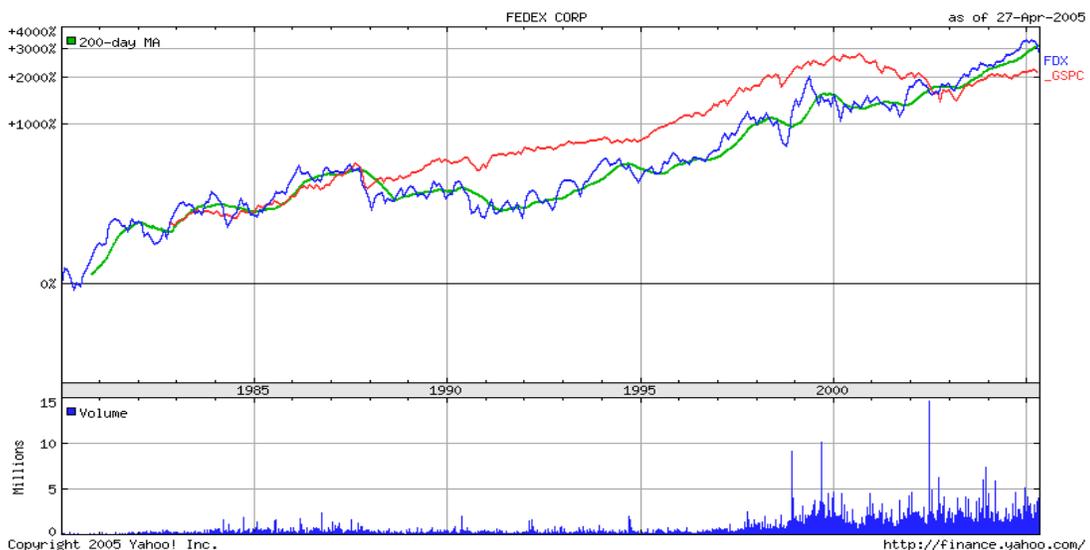
Every generation expects easier access to more of what the world has to offer; more products and services, more information and ideas, more people and places. Today a number of companies, FedEx Express, FedEx Ground, FedEx Freight, FedEx Kinko's Office and Print Services, FedEx Custom Critical, FedEx Trade Networks and FedEx Services, compete collectively under the FedEx umbrella. FedEx offers a vast array of transportation, e-commerce, business and related information services. For FedEx to stay up to date, it is important to feed the demands of the new generation. One main demand is the quality of service, including timely delivery, least amount of misplaced packages, quick customs services, immediate change of delivery address, sophisticated tracking system. Using its great reputation that was built from the foundation, FedEx grew into a \$29-billion company with services in 220 countries and territories, operating 671 aircrafts and 71,000 vehicles, with 250,000 employees and of course it is significantly influencing the global economy. (<http://www.fedex.com>)

To formulate the strategy that FedEx should undertake with respect to the international market, one has to carefully analyze this industry.

The Six Force Industry Analysis:

We study how effective are Porter's five forces and McAfee's sixth force in shaping this industry (Porter, McAfee).

Exhibit 1: A comparison of FDX stock price with the S&P 500 in the stock market.



Rivalry:

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. The major players in the international transportation industry are:

- FedEx (www.fedex.com)

FedEx successfully establishes itself as a leader in the US domestic parcel delivery. Building on that, FedEx aims at becoming a leader in the international market. The first entry of FedEx in the international market was in 1984 when FedEx



acquired Gelco Express International and launched operations in Asia-Pacific. FedEx deployed the strategy of acquiring existing international companies to expand its international business as in its 1989 acquisition of Flying Tigers. However FedEx ran into the challenge of integrating the acquired local companies, providing efficient international routes, establishing trucking solutions in Europe and adapting to the new international environments.

In an analogy to its domestic strategy, FedEx deployed a strategy of subsidizing its international business till it reaches a profitable sales volume. As seen from Exhibit 1, the entry of FedEx in the international market resulted in a large loss for FedEx in the early 1990s.

- DHL (www.dhl.com)

DHL is a worldwide leader in the international transportation business and supply chain management. While FedEx was focusing on the domestic market, DHL was establishing itself in the international market. By 1980, DHL had a large network of international customers the Far East, Europe, Australia, Middle East, Latin America and Africa. In 1983, DHL was the first express transportation company to



enter China. In doing so, DHL allied with international airline and freight companies. In 1999, DHL aggressively invested in developing its air-cargo fleet. DHL is continuously investing in expanding its business in developing markets such as China. By acquiring Airborne Express in 2003, DHL now strategically challenges its rivals in the US transportation market. (As of 2002, DHL is fully acquired by Deutsche Post World Net.)

- United Parcel Service (UPS) (www.ups.com)

UPS is the largest competitor to FedEx in the US domestic market. UPS aggressively adapts itself to the new challenges in the industry. Its competition in the international market was earnest in 1985 when it launched its air service between the US and six European countries. By 1990, its worldwide express service has expanded to deliver packages and documents to more than 175 countries.



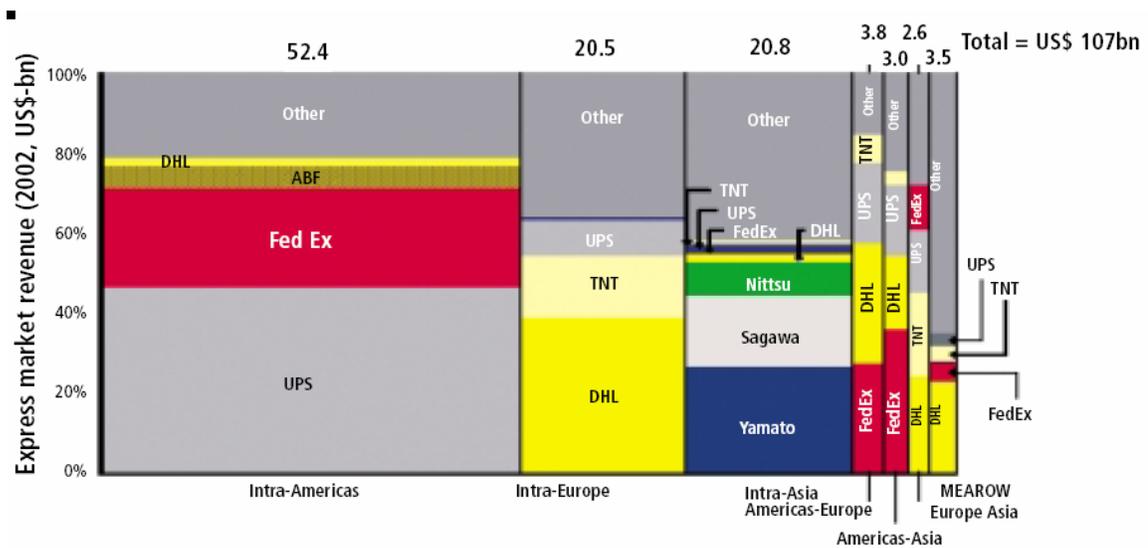
- TNT (www.tnt.com)

TNT is also a major competitor in the international transportation market, offering similar transportation solutions. However, TNT is not a major rival on the global scale since it stepped out of the strategic US market.



As of 2002 (before the merger of DHL and Airborne), the structure of the global express market is shown in the Exhibit 2.

Exhibit 2: (<http://www2.financialreports.dpwn.com>)



Threat of Entry:

A global transportation business is an economy of scale. As observed, one strategy the large firms apply is the acquisition of local freight companies. 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 companies like FedEx are strongest in the overnight delivery market, UPS dominates the ground parcel delivery market. However, all the major rivals diversify their services to offer their costumers 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.

Moreover, companies as FedEx, UPS and DHL 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. Even brand name companies as DHL found that it is hard to conquer the US market where its rivals are the strongest. 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. DHL has a sophisticated international network of red-yellow trucks and signs.

One most relevant issue is the long term contracts and commitments which the major players have with large corporations like Amazon, Home Depot and McDonalds. Moreover, 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 like to face a large retaliation from the existing rivals. More recently, when DHL acquired Airborne to position itself the third in the US market, UPS and FedEx teamed up in a legal war against DHL to hinder its success.

Threat of Substitute:

It does not seem that substitutes produce a potential threat to the transportation industry. While adopting the one-stop shopping technique and offering all possible transportation solutions, the 'three' rivals are ensuring their market share even if the customer decides to substitute his air-freight transaction with a ground or ocean freight transaction. Till the end of days, people will need to transport parcels from one place to another. What is in the parcel, 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.

Supplier Bargaining 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 (WSJ).

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 (WSJ). 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.

Buyer Bargaining 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.

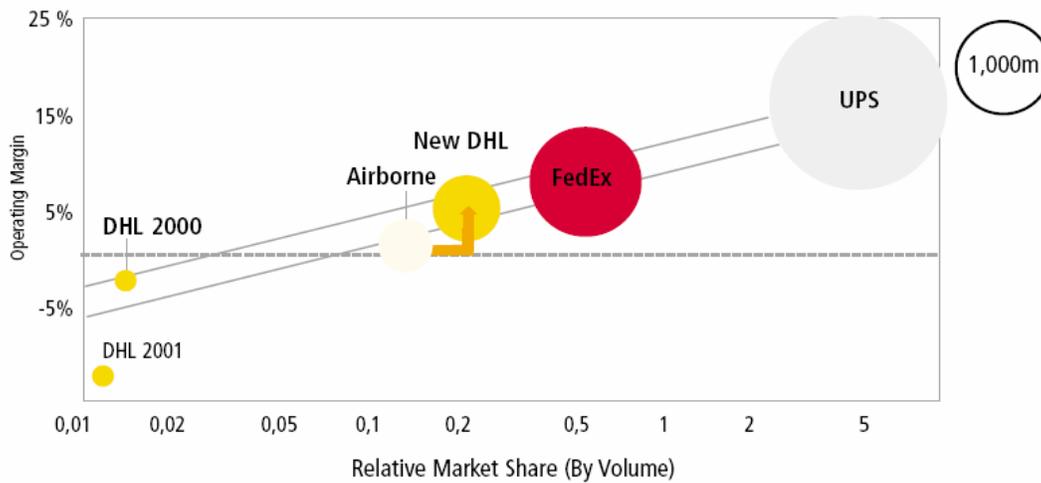
Complements - The Sixth Force:

Complements appear to be a strong force in the transportation business. A large network of distribution lines compliments the transportation service. Not only does the customer care about his convenience and price when he sends his parcel, but the customer is also concerned that the receiver does not experience any hassle in receiving the parcel. If the receiver is also a third party customer and is unsatisfied, (e.g. a buyer from Amazon), then this will result in a loss of business. A larger network results in a larger market share and a larger profitability. This is shown in Exhibit 3 for the US market .

FedEx complemented Kinko’s, a full and self service copy center in the US, by installing counters in it. FedEx also installed drop boxes in Staples locations ([www. Postcom.org](http://www.Postcom.org)). Complementary products such as insurance on the shipped items also have a large effect. Online shipment tracking also complements the service. Every day the transportation firms are becoming more and more diversified with the goal that any subdivision of the firm will complement another in the same firm, e.g. FedEx Express complements FedEx Global Logistics. Organization and service providers, who care that these firms make money, such as air cargo terminals, also compliment the business.

Moreover, the transportation business suffers from a low economy. This motivates the firms to show individual nations how their economy will be enhanced if they lead their transportation business.

Exhibit 3 (<http://www2.financialreports.dpwn.com>).



Source:DPWN

Fedex's Early Mistakes

FedEx initially concentrated on the US market. When FedEx decided to enter the international market, in which DHL had the largest share, FedEx's strategy was not initially very successful. To understand that, let us compare the different strategies that both FedEx and UPS undertook to enter the China market (Mockler). FedEx tried to implement its US strategy abroad. It purchased its own air routes and acquired other companies like Flying Tiger. FedEx expanded its network rapidly to a large number of cities in China and by 1999 it had 20% percent of the market while DHL had 35% percent.

However FedEx reported a large financial loss of its international division. This was due to the unexpected high costs of its expanding network. Other factors are the unpredicted high repair costs of the Flying tiger aircrafts and the costs of adapting the organizational structure, the operational policies and human resource policies of the acquired companies to comply with those of FedEx. FedEx was not very successful in adapting to the regional cultures. Its US headquarters continued to make the major decisions to be followed by the regional offices around the world without much consideration to the diversified environments. (Lewin)

On the other hand UPS understood the challenge by slowly growing its China network. Initially its network only covered three major China cities. It specialized in the more profitable mail and small package delivery sub-market. To reduce its costs, UPS did not invest in owning

its air-fleet but relied on other carriers. Although this hindered the ability of UPS to offer a variety of logistic services, UPS now is aggressively expanding its global operations (Mockler).

Strategy

In this section, we analyze the main elements of the strategy that FedEx is pursuing in the international market.

Technological Superiority

Customers are widely aware that FedEx is the first company that introduced an electronic shipping solution to the market. It was a small computer with black and white screen called "Powership", which had the capability to memorize the address book and produce the airway bill. Also, it was able to track shipments and all of it was working through a telephone line terminal connection.

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 provides the convenience of sending shipments worldwide simply by accessing its websites, which are available in many different languages. FedEx also offers other online services such as registering, preparing airway bills, producing required customs documents, estimating shipping costs and reaching any other resources internationally.

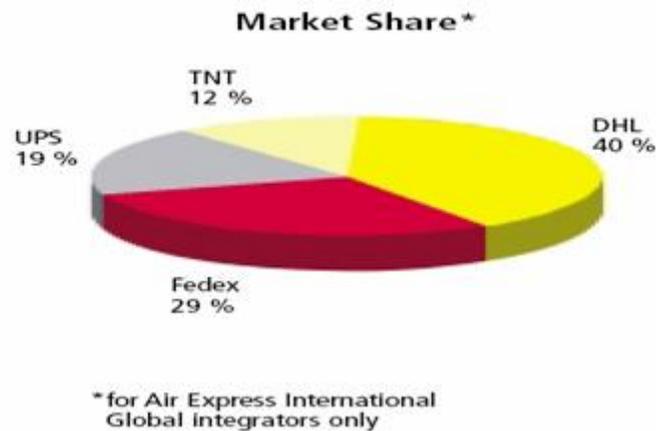
FedEx also adopts the latest technology in automated package sorting including massive label readers and conveyer belts. Such technology increases the speed and efficiency of sorting the packages and reduces the factor of human error.

US style operations abroad

We can clearly see now that FedEx is taking US style operations to overseas markets. It divided the world on five regions: United States, Asia-Pacific, Canada, Europe-Middle East and Africa, Latin America-Caribbean. 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. In

2005, FedEx initiated the first air cargo industry flight from China to Europe and became a first bridge between mainland China and European countries that are political and trade partners of China. In China, FedEx copied its original US marketing strategy to offer money back guarantee for late packages. As of 2003, the Asia-pacific express market share is estimated in Exhibit 4.

Exhibit 4: (<http://www2.financialreports.dpwn.com>).



In spite of being so successful in China, the European FedEx picture doesn't look as bright. In Europe, FedEx weighs only 1% in postal package compared to UPS which is at 6%, TNT at 8% and the leader DHL at 14%. The rest of the market share is divided between governmental postal services and smaller logistic companies. However, FedEx has signed a cooperation agreement with GEOPOST, a French Postal Service and is now increasing the number of flights in Europe and connecting Europe with Asia and Middle Eastern regions.

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.

Recommendations

The new strategy of largest transportation companies like FedEx, DHL, UPS, etc. is to now take over governmental postal services around the world. DHL has already signed agreement with United States Postal Service (USPS) for «International Priority» service that is now offered by USPS. EMS serves as official postal company of the Netherlands. FedEx came up with proposal to Indian government to build a complete postal delivery system in India. Similar proposals were made to Afghanistan and Iraq.

Consulting professionals make very controversial predictions on FedEx future. Of course, FedEx requires major investments to protect its strategy. The time has come for US government to follow European example of subsidizing own legendary companies such as FedEx to assist in the competitive war on market sharing. This would become a great investment in the future of American economic strength. FedEx should aggressively consider acquiring well established, local and international transportation companies to increase its market share and thus improve its operating margin. FedEx has to be quick in adapting to the local cultures in the new markets by carefully studying the needs of each region and hiring local professionals and consultants.

Should any of those giants become partners or merge in competition with others? I believe it's cannot be possible because of many reasons. For example, if FedEx would choose to merge with UPS, it would be a very hard choice which system and strategy to keep, and which to take out, because each company uses absolutely different technologies. On the other hand, UPS has less flexibility because it is unionized. Let's says, DHL and FedEx will merge and compete against others. In addition to the systems and strategic incompatibility, they would produce politically influential disorder in the industry. FedEx traditionally represents United States in the

worlds market vs. DHL traditionally represents Europe and being strongly endorsed by the EU government. In addition to every other, the political barrier between FedEx and DHL will be the strongest. We also should not forget about WTO (World Trade Organization) which controls trade relations between large world corporations and countries in general.

It makes more sense from investment side to finance the acquisition of smaller players. Acquiring logistic or shipping companies such as Exel (UK) or GeoPost (France) or Aramex (Middle East) would ensure the growth of FedEx's network and thus its market share.

It seems that the evolution in the technology will make transportation more cost effective. FedEx should be on the competitive edge in implementing and adopting these new technologies. New economical aircrafts, being built by Boeing, Airbus and other manufacturers will bring a new era to the airfreight industry. Wireless technology changed people's way of approaching their tasks. As we might expect, FedEx again shows its leadership in implementing and testing the new wireless technology to speed up data exchange between drivers and terminals, clients and destinations.

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. Of course, the EMS/TNT, DHL, FedEx and UPS will most likely keep it strong.

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