E-business high on the agenda for UPS and FedEx

Picking up the pace in package delivery

United Parcel Service was formed in 1907 and from humble beginnings as a messenger service in Seattle has transformed itself into a $31 billion industry of 360,000 employees spanning 200 countries. The world's largest package distribution company delivers over 13 million packages and documents daily.

Impressive statistics for sure. But behind the eye-opening figures a storm is brewing, led by a company written off by many as a serious rival only a handful of years ago. This rival – Federal Express (FedEx) – is about to, according to *Business Week*, transform a mere $1 million of profits in 2001 into a projected $811 million this year. UPS has a fight on its hands.

FedEx makes a stand

But three years ago, things were very different for the Memphis-based firm. Rival UPS was about to give the green light on one of the largest IPOs in US history – raising $5 billion in the process – and both profit forecasts and share prices were falling. Heavy investment in technology to help customers track deliveries online was eating away at already fragile margins and whilst FedEx deliberated over its predicament, a UPS awash with cash was able to invest in new aircraft and equipment.

A return to growth

Not one to dwell on its problems, FedEx continued to differentiate itself from UPS by concentrating its energies on the high-speed, high-demand overnight package delivery service. And whilst UPS still controls the majority of domestic ground shipments, the FedEx service is growing much more quickly. *Business Week* highlights one of the primary reasons for this – a shrewd move by founder Fred Smith who saved around $2 billion by developing a delivery service not from the ground up, but through the meshing together of numerous pre-existing trucking companies. This group of non-unionized truckers also means that FedEx is unlikely to suffer the kind of fate that befell UPS in the summer of 1997. The first national strike in UPS's history cost the firm over half a billion dollars – an episode highlighted in a *Harvard Business Review* article by Julia Kirby as being likened to "the end of the world" for many UPS employees.

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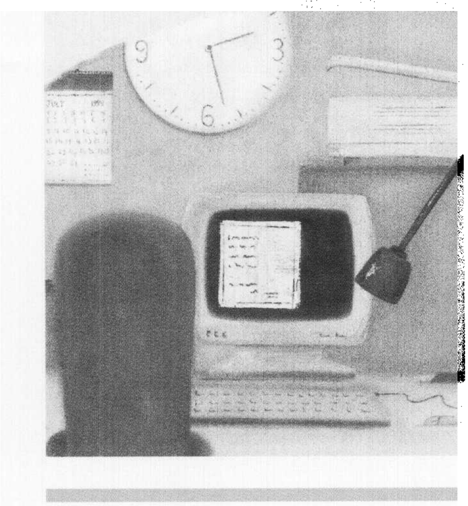
Web sense

In addition to its clever ground delivery service, FedEx has also won respect for its forward-thinking approach to information technology. According to e-business news site line56.com, FedEx developed package tracking systems that would become influential on the Web long before the Web was even invented. And a sustained commitment to its vision through thick and thin has paid off. Since introducing the very first online tracking service in 1994, FedEx can now offer customers the most advanced tracking service available – providing information on possible clearance delays and even whether shipping recipients were at home or not! The system supports over 2 million package tracking requests every day through 100,000 active accounts.

But when it comes to e-business, UPS can hardly be accused of standing still. In *Thunderbird International Business Review*, William P. Wan's interview with director of electronic commerce Alan Amling, explains how UPS's tracking system has plenty of innovations of its own – including the ability to access information via wireless phones and PDAs. And the importance of technology to UPS is strikingly confirmed by Amling's revelation that of the 13 million packages delivered every day, 12 million come from customers who are electronically connected to UPS.



Wise commentators on the e-business world often proclaim that the high-profile dotcom disasters we have witnessed are tarnishing the revolutionary – and often unnoticed – work being done behind the scenes in businesses whose models have embraced the technological revolution with foresight and wisdom. The package delivery business is a classic example, with technology impacting virtually every aspect of operations and driving business forward. And as far as the future is concerned, little is set to change.

Cost savings

Dramatic cost savings from e-business applications have often been promised but how many have actually been achieved? Julia Kirby's interview highlights how tracking requests made to UPS prior to the arrival of hi-tech solutions cost the company around $2 each. But through the automated system this cost has been slashed to less than a dime. At FedEx time and money is saved through an entirely automated system at hub warehouses through which digital technology is employed from pickup to drop-off. Having survived a nervous spell, investment in technology is finally coming into its own.

An astute awareness of the potential of technology has helped FedEx and UPS save millions of dollars. Whilst others have squandered funds through a myopic attempt to "jump on the technology bandwagon", UPS and FedEx are commendable examples of how to do it right. Perhaps a clue to the success achieved so far is the recognition that e-business is a fundamental part of tomorrow's commerce and not an issue that should remain separate to everything else going on in an organization. In the words of Alan Amling, ". . . we don't view e-commerce as a separate category. E-commerce is just the transition to twenty-first century commerce".

However, whilst pushing the boundaries of technology can certainly help to differentiate a company, it is unlikely to facilitate sustainable competitive advantage on its own. The primary reason for this is a simple issue of replication – systems and processes that on launch are revolutionary soon become ordinary once your competitors set out to match them. That is why Amling also recognizes the importance of people and culture in creating unique advantage.

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In an industry defined by change, technology and global influence, UPS and FedEx have thrived. What are their secrets to success?

- **A culture of commitment** – when UPS endured the catastrophic national strike in 1997 its traditional cultural values helped pull it out of the mire. According to ex-CEO Jim Kelly, many employees were extremely upset by proceedings and the damage that was being done to the company's reputation. A collective drive to restore pride meant that only four months later service levels were the highest they had ever been.
- **Never be afraid of re-invention** – resting on laurels is a strategy for failure. Although UPS achieved its aim of becoming the biggest package delivery firm in the world, this has not stopped it reaching for new heights. New CEO Mike Eskew is leading the company's push into the $3 trillion worldwide supply chain and logistics market. And FedEx was not afraid to sidestep into the ground delivery business despite some predictions that the company would eventually be taken over.
- **Master the communication element** – managing hundreds of thousands of employees all over the world and making sure they are in tune with strategy is a monumental undertaking. FedEx has installed a "people-service-profit" credo that enables front-line employees to operate successfully in a highly empowered atmosphere. UPS wants its people to have more than just a few hollow mission statements to look at and strives to communicate strategy clearly whilst recognizing in order to do this patience and time is needed;

Looking to the future

As only the ninth CEO in UPS's century-long history, Mike Eskew is on record as saying that UPS management does not need to change much as "the company keeps changing for us". Eskew's primary growth driver is a push into supply-chain management – a direction also followed by FedEx. According to *Wired Magazine* the reason for this digression is that "neither company is content to survive merely as a high-speed alternative to the US Postal Service". Instead they are aiming to become full logistics service providers, assisting in the flow of information as well as goods between organizations. FedEx declares that it is "still innovating, still looking ahead to anticipate the next business challenge".

Perhaps even more ambitious is UPS's quest to become a "leading enabler of global commerce", This bold declaration typifies the mentality needed to survive and evolve, and first steps are already being taken in a deal with Nike for which UPS provides logistics and support in addition to standard transportation and delivery.

Whether UPS and FedEx can continue to progress remains to be seen. But we can be certain about one fact at least: delivering in this industry is becoming much more than making sure packages get there on time.

Keywords:

UPS, FedEx, Business growth

Comment

This review is based upon "FedEx: gaining on the ground" by Charles Haddad, "United Parcel Service's Director of Electronic Commerce, Alan Amling, on the opportunities and challenges of global electronic commerce" by William P. Wan and "Reinvention with respect" by Julia Kirby.

The Haddad article takes a look at the turnaround of FedEx, particularly between 2001 and 2003 when profits are projected to increase by over $800 million. Full of handy statistics, this article provides a very useful analysis of the key points on which FedEx has based its remarkable recovery.

William Wan's interview with Alan Amling is a detailed, open and highly informative article in which Amling is drawn on UPS's e-commerce philosophy, critical success factors in this field and UPS's core strengths. The article also discusses UPS's view of e-commerce as the bridge to twenty-first century commerce, as a means of improving customer communications and relationships, and as consisting of three flows of information, goods and funds.

The Kirby article from HBR presents a discussion with now ex-CEO of UPS Jim Kelly (who continues to serve on UPS's Board of Directors). Although things have changed since this article was written, it remains a good source of information on UPS's history and development. The article considers the company's record of growth and the strong sense of company loyalty held by employees.

References

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