FedEx vs UPS: Competing with Contrasting Strategies in China

MKTG069 – Sample Questions and Answers

This case was written by Vivek Gupta, ICFAI Center for Management Research (ICMR). It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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Sample Questions and Answers

Question 1. FedEx entered into China in 1984 through a joint venture, while UPS entered China in 1988 through an agent partnership relationship. Critically examine the contrasting strategies adopted by both the companies, while entering and expanding their services network in China.

Ans 1. Legal regulations in China stipulate that a foreign logistics management company can enter into a partnership or joint venture with a Chinese company, but not enter on its own, to do business in China. Foreign companies are also disallowed from handling cargo business within Chinese cities, but they can operate in the international express cargo business.

FedEx’s Strategy
FedEx entered China in 1984 by acquiring Gelco Express International, a UK-based courier company, whose operations spread across Europe and the Asia Pacific. During the first decade of its Chinese operations, FedEx focused on building the necessary infrastructure and distribution network to deliver express freight and documentation services. FedEx followed a focused approach. It targeted Chinese entrepreneurs and its existing customers (in the US and other countries), who had operations in China. In 1989, FedEx acquired Flying Tiger Line Inc. for a sum of $880 million and gained access to high traffic routes between Japan and China.

FedEx began its freight operations in 1995 by hiring EAS International Transportation Ltd (EAS) as an international Chinese service participant for transporting goods and packages within China. EAS had a wide network spread over 34 major cities, serving nearly half the Chinese population. In mid-1995, FedEx acquired Evergreen International Airlines, the only cargo carrier with flying rights in China, for $67.5 million. This helped it gain access to all cargo routes in China. By 1996, FedEx became the only all-cargo carrier approved by the Civil Aviation Administration of China, with aviation rights to China.

With a view to expand its operations to all parts of Asia, FedEx introduced the ‘hub-and-spoke’ system. China served as the hub and other major Asian cities as the spokes. The system enabled the company to introduce the FedEx AsiaOne network, which linked 13 top commercial cities in Asia. This network enabled FedEx to supply any goods within these cities in just 24 hours.

UPS’s Strategy
UPS entered China in 1988 through an agent-partner relationship with China’s largest freight forwarder, China National Foreign Trade Transportation Group. This group was popularly known as Sinotrans. UPS followed a contrasting strategy to that of FedEx. Initially, UPS offered only express delivery of small packages and documents. It adopted a ‘low investment strategy’ by leasing aircraft instead of buying them. During the first decade of its operations in China, UPS collaborated with Hong Kong Dragon Airlines Limited and China Eastern Airlines Corporation to deliver packages to China. It started operating own flights to China in 1995 through its two hubs, located in Hong Kong and Singapore. The collaboration with Sinotrans enabled UPS to spread its network to 21 cities by late 1995.
UPS formed a 50:50 joint venture with ‘Sinotrans Beijing Airfreight Forwarding Company’ in 1996, to increase its market share in the Chinese airfreight market. Through this joint venture, UPS gained access to 12 aircraft, 74 Chinese cities and 65 employees. UPS introduced a $2 million air hub facility at Hong Kong’s express handling centre in June 1998 to expand its presence in China. In this facility, UPS employed its own personnel and infrastructure network to load and unload goods from cargo carriers.

In late 1998, UPS inaugurated two spin-off centres in Hong Kong to provide quicker package delivery. By early 1999, the UPS network spread across 130 cities compared to FedEx’s 140 cities. To further expand its operations and reach, UPS formed a strategic alliance with 7-eleven in Hong Kong in April 1999. This alliance enabled UPS access to 350 locations in Hong Kong.

**Question 2.** FedEx had followed an aggressive, high investments strategy, while UPS followed a conservative, low investments approach. Critically examine the contrasting elements in both the companies’ strategies with a focus on advertising and promotion, target customers and the investments made till the late 1990s.

**Ans 2.** While FedEx followed an aggressive investment strategy, UPS adopted a conservative and low investment strategy. We can examine the contrasting nature of their strategies with respect to advertising & promotion, targeting customers and investments.

**Advertising & Promotion**

Neither FedEx nor UPS focussed much on advertising & promotion till the mid-1990s. When the competition became intense in China in the late 1990s, both companies were quick to respond. FedEx adopted an approach of extensive advertisement of its various services. In one of its advertisements in 1997, FedEx depicted the rear part of its aircraft parked in front of The Forbidden City in the Chinese capital, Beijing. The caption read: “Call FedEx. It’s almost forbidden not to.” To promote its service offerings and increase brand awareness among Chinese customers, FedEx also hired a popular Hong Kong-based media company, OMD.

In contrast, UPS opted for minimal advertising and positioned itself as a local Chinese company. In a TV campaign in 1997, UPS portrayed a motorized three-wheeler, a larger van, a brown UPS truck and a Boeing 747 aircraft moving side by side on a runway, representing its global image. This was aimed at minimising its image as an American company. To target Chinese customers in other countries, UPS funded Chinese New Year celebrations in the Canadian cities of Toronto and Vancouver, which had a large Chinese immigrant population. In addition, it was one of the sponsors of the Chinese Olympic Games in 1996 and 2000.

**Targeting Customers**

While targeting Chinese customers, FedEx offered standardized logistics services, similar to those in other foreign countries. However, this approach was disliked by some Chinese companies, which sought a customized approach from FedEx. The target customers (Chinese businesses) valued a tightly regulated distribution system and expected continuous information of shipment status. But, FedEx focused on solving logistics problems and on offering innovative and value added services.

UPS was different in its strategy. It targeted local Chinese customers by adopting a customized approach. The company enjoyed close rapport with its Chinese customers. It adapted its services to Chinese customs and traditions. Observing that Chinese customers gave more importance to interpersonal relationships, UPS sales personnel approached customers in a friendly manner and explained the services to them before seeking a deal. Even the parcel collection personnel of UPS gained appreciation for their customer-friendly attitude, which in turn earned the company more goodwill.
Investments

FedEx invested a large amount of money on developing its services network in China. It suffered huge losses during the 1997-98 South East Asian currency crisis as a result of currency devaluations in the South East Asian countries. FedEx suffered its first quarterly loss in February 1998 owing to its high investments in establishing an extensive air network in Asia, in addition to its dwindling cargo volume and revenues from troubled Asian countries. FedEx believed its high investment strategy would enable it to capture a bigger market share in China. By mid-1998, FedEx had captured 13% of the express market in China (excluding Hong Kong), while the market share of UPS was 5%.

UPS, on the other hand, invested according to Chinese market conditions. Until 1997, UPS invested significantly less compared to FedEx. UPS followed a ‘minimal risk strategy’ and expanded its operations only according to the increase in demand. This resulted in some market share loss to the company, but it was a low risk strategy. UPS was unable to offer Chinese customers the range of logistic services that FedEx did as it did not have its own air service. The UPS management believed that the company could fly its own aircraft within and outside China on improvement of business prospects in the future. The company’s low investment strategy in China guarded it from heavy losses during the South East Asian currency crisis. Besides, as the freight volumes decreased because of the crisis, UPS reduced the space it leased on other companies’ planes.

Question 3. How significant is China in the Asian strategy of UPS and FedEx? Which of the two companies got the maximum leverage out of its Chinese operations? Justify your answer.

Ans 3. China is one of the fastest growing economies in the world. Its logistics industry was also growing at a fast pace. Its air-cargo market was ranked fifth in terms of volume and its express market was pegged at $400 million (1998). China’s ‘time-defined express freight’ was growing at 20% per annum till 2002, which was faster than the global rate. These numbers indicated that China was a major market for both FedEx and UPS.

FedEx adopted a high-risk strategy. This certainly helped it to secure higher market share than UPS. However, it also exposed the company to risk. The currency crisis in 1997 did more damage to FedEx than UPS. On the other hand, UPS’s low investment strategy paid off in the short-run. It was able to minimize its exposure to risk. Also, from early 2000, UPS was successful in increasing its market share among existing customers and attracted new customers because of its in-depth knowledge of local conditions. Its investment strategy also became more aggressive. These efforts in China yielded good results with revenues rising sharply by 56% in 2001. In the fourth quarter ending December, UPS witnessed 60% growth in revenues 2002 as a result of exports from China rising by 40%.

Market reports indicated an increase in the market share of both FedEx and UPS in China for 2003. However, if UPS is able to leverage its knowledge of the customer with improved infrastructure it can surely better its performance.

Question 4. In the early years of the new millennium, the rivalry between FedEx and UPS in the Chinese logistics market had intensified further. Examine the moves and countermoves followed by both companies during the period.

Ans 4. Till the new millennium, FedEx and UPS adopted contrasting strategies with regard to entry in the Chinese market, advertising and promotions, targeting customers and investments ETC. By 2003, the competition between the two companies intensified with both aggressively wanting to retain their hold on the market and increase it by regular introduction of new and improved services, agreements and alliances.

FedEx collaborated with Kodak in January 2003 by offering self-delivery services in 28 Kodak Express shops in Shanghai. It became the first company to offer express shipment delivery
FedEx also entered into agreements with two Chinese companies – Trade Port and Sun Logistics - in June 2003 to improve its services and offer quicker delivery of urgent packages to locations near the airport, thus helping customers save money and time. The same month, FedEx announced plans to expand its business to 100 more Chinese cities by late 2003.

UPS partnered with Yangtze River Express Airlines Company (Yangtze), a Chinese cargo airline, in January 2003 for Yangtze to provide regular flights linking the UPS hub in Shanghai with four major Chinese cities – Beijing, Qingdao, Xiamen and Guangzhou. As part of the agreement, UPS could use six Boeing 737 flights each week on the Shanghai-Xiamen-Guangzhou-Shanghai route. UPS later changed the route to Shanghai-Beijing-Qingdao-Shanghai in March 2003. This enabled UPS to offer faster service (reduce delivery time by one day) and highly reliable global shipments. UPS also entered into an agreement with Lucent Technologies to manage its logistics operations in the Asia-Pacific region. It planned to expand its network from 21 to 40 cities in the Asia-Pacific region by late 2003. UPS also announced plans to introduce 20 additional offices in 2003.

**Question 5.** According to you, what strategies should both companies adopt to improve their market share in China?

**Ans 5.** In the initial years, UPS adopted a low investment strategy. It concentrated on understanding the customer’s needs and designed its offering to suit those needs. However, now that it has a better understanding of the Chinese market it can afford to adopt an aggressive marketing and advertising strategy like FedEx. UPS should be willing to take more risks and further develop its services network. It should offer more innovative and value-added logistics services and solutions to win more customers and retain them.

On the other hand, FedEx should offer customized solutions instead of ‘one size fits all’ type of standardized solutions. It should adapt its offering to suit the requirements and sensibilities of the Chinese customer. It should be able to capitalize on its superior infrastructure to provide better services.