FedEx vs UPS: Competing with Contrasting Strategies in China

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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FedEx vs. UPS: Competing with Contrasting Strategies in China

“I don’t know that I agree that there’s a sort of Chinese way and an American way. I think there is clearly more of an entrepreneurial and establishment way … and China at the moment is a country that is very entrepreneurial in nature. We are more consonant with the new China.”

- Frederick W. Smith, Chairman and CEO, FedEx Corporation.

“UPS expects continued strong and robust growth in China. We take a long-term approach to any expansion and believe the opportunity in China is great enough to overcome any business cycle.”

- Jim Kelly, Chairman and CEO, UPS.

INTRODUCTION

The US based FedEx Corporation (FedEx), one of the world’s largest logistics solutions provider, announced a money-back guarantee scheme in September 2002 for its customers in China. Under the scheme, FedEx offered full refund of customers’ money in case of late delivery of shipments. By introducing this scheme, FedEx became the first international logistics company to offer money-back guarantee in China.

Analysts were quick to comment that this measure was taken by FedEx to counter attack the move announced by its global competitor, the US based United Parcel Service (UPS). UPS had opened two representative offices in the Chinese cities – Shenzhen and Qingdao in early September 2002. UPS had also announced its plans to open four more offices in Xiamen, Dongguan, Hangzhou and Tianjin by early 2003.

For a long time, FedEx and UPS had been archrivals in China competing each other for more market share in the Chinese logistics market (Refer Exhibit I). According to the analysts, FedEx had adopted an aggressive approach to increase its market share in China. The company invested heavily in procuring air routes and in deploying its own aircrafts within and

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3 FedEx is one of the world’s largest logistics solutions services. For the financial year ending May 2003, the company generated revenues of $22.5 billion and net income of $1.47 billion.

4 UPS is one of the world’s largest express carrier and package delivery company. It is also a leading global provider of specialized transportation and logistics services. For the financial year ended December 2002, UPS generated revenues of $31.3 billion and a net income of $3.18 billion.
outside China for shipping goods. FedEx had also developed a vast distribution network with pickup outlets across China. Till 2001, the company used global advertising campaigns to advertise in China.

On the other hand, UPS followed a more conservative and cautious approach while making inroads into the Chinese market. The company made efforts to position itself as a local company, rather than building an image of a global player. Instead of investing on building its own logistics infrastructure, the company decided to depend on leased facilities. Despite acquiring rights to fly its own plane in 2000, UPS was mostly dependent on its joint venture relationships to ship goods within and outside China. Analysts felt that UPS’ advertising was old-fashioned, even as per the prevalent standards in China.

Till the late 1990s, UPS followed a cautious approach making limited investments in China compared to that of FedEx. However, with improving business prospects in China following its entry into the World Trade Organization (WTO) in 2001, the company started pursuing the Chinese market aggressively. This helped it in increasing its market presence in China.

ESTABLISHING PRESENCE IN CHINA

According to the Chinese legal regulations, foreign logistics management companies including FedEx and UPS could do business in China only through a partnership or joint venture with a local company (Refer Exhibit I). The foreign companies were not allowed to run businesses independently in China. Further, they were required to handle only international express cargo business (they were not permitted to do cargo handling business within the Chinese cities).

FEDEX – DEVELOPING THE SERVICES NETWORK

FedEx commenced its operations in April 1973 in Memphis, US. In 1984, FedEx entered China after acquiring Gelco Express International, a UK-based courier company which had operations in Europe and Asia Pacific. During the first decade of its operations in China, FedEx focused on establishing the required infrastructure and distribution network to provide reliable express freight and documentation services.

Rather than targeting leading Chinese companies, FedEx focused on those multinational companies which had Chinese operations and were already FedEx’s customers in the US or elsewhere. FedEx also targeted those Chinese entrepreneurs who were expanding their business and whom the company believed would readily adopt FedEx’s fast and accurate delivery techniques.

To compete effectively with the established local competitors in China, FedEx in its initial years invested heavily on building its own distribution network. In 1989, FedEx invested $880 million to acquire Flying Tiger Line Inc (Tiger). The acquisition helped FedEx to get a ready access to Tiger’s Asian routes, including a high traffic route between Japan and China.

By 1995, FedEx had started freight operations in China. The company appointed EAS International Transportation Limited (EAS) as a global service participant for China to ship the goods and packages within China. EAS acted as the carrier of the goods and packages of FedEx within China through its network spread across 34 major commercial cities covering nearly 50% of the Chinese population. By mid 1995, FedEx invested another $67.5 million to acquire Evergreen International Airlines, the only cargo carrier with flying rights into China. This allowed FedEx to get a ready access to an all-cargo route to serve the Chinese customers directly.

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5 Founded in 1945 in the US as a coast-coast freight carrier, Tiger was one of the largest air cargo airlines in the country. By the time of its acquisition by FedEx, it became reputed as an all-cargo airline with flying rights to 21 countries.

6 Headquartered at Oregon, US, EIA owned one of the largest all-cargo fleets in the cargo business, with operations across the world.
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Following the receipt of the permit from the Civil Aviation Administration of China (CAAC) in January 1996, FedEx earned the distinction of being the only US-based all-cargo carrier with aviation rights to China. Having secured the aviation rights in China and several other Asian countries, FedEx introduced the ‘hub and spoke system’ in Asia. FedEx had already launched the Asia Pacific hub at Subic Bay, Philippines in September 1995 in order to expand its operations in other Asian countries. This enabled the company to launch an organized distribution system in Asia, called the FedEx AsiaOne network through which 13 major commercial and financial cities in Asia (spokes) were connected. This network enabled FedEx to provide an overnight delivery of goods shipped within the Asian countries. The Asian shipments could be further routed to the FedEx’s global network through the Asia Pacific hub.

In March 1996, FedEx launched its first scheduled air service in China using its own aircraft in and out of China with bi-weekly flights to Beijing and Shanghai. In September 1996, the two cities were integrated into the FedEx AsiaOne network. These enabled the customers in Shanghai and Beijing to ship and receive packages between China and the US and the rest of Asia.

In April 1998, FedEx launched the Express Distribution Centers (EDCs) in Beijing and Hong Kong by entering into an agreement with U-Freight Holdings Limited. The EDCs, which were connected to the AsiaOne network, enabled FedEx to ship the goods to the destination, through the fastest possible route within 24 hours of the receipt of the order. The EDCs were capable of handling huge volumes of inventory and providing distribution services for fast-moving, high turnover goods. The primary target customers for the EDCs were those customers who did not possess warehouses and required express transportation facilities to sell their products.

In 1999, FedEx launched the Chinese version of the “FedEx Internet Ship” software. The software permitted shippers to prepare shipment documentation for consignments to more than 60 countries using their own internet-linked computers and laser printers. It also allowed online tracking of shipment status through FedEx’s website. In February 1999, the tracking application was enhanced to allow FedEx customers to query and receive package status information for up to 25 shipments simultaneously.

By the late 1990s, FedEx had gained a strong hold in the Chinese market. The company had developed a huge network of purple and orange trucks and express distribution centers. FedEx had built a customer friendly image since the company provided its customers’ quicker customs clearance and reliable pick-up & delivery services using its own aircraft linking China to extensive regional and global networks.

UPS – DEVELOPING THE SERVICES NETWORK

In 1907, Jim Casey (Jim), a 19-year-old messenger boy, started American Messenger Company (AMC) below a Seattle sidewalk in the US to offer bicycle messenger service with an initial investment of $100. His intention was to offer messenger service of the highest quality at the lowest price to the customers. In 1913, Jim and Evert McCabe, who led rival Motorcycle Delivery Company, agreed to merge with AMC and a new company was formed. It was named as Merchants Parcel Delivery Company (MPDC). In 1919, MPDC was renamed as United Parcel Service (UPS).

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7 According to the system, on a particular day, packages from various cities were sent to a central location called hub where they would be sorted out and then sent across to their ultimate destinations, called spokes through planes by early morning next day.

8 A global transportation service provider that provides customs clearance, warehousing, domestic distribution and other value added services.
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UPS commenced its operations in China in 1988 through an agent partnership relationship with China’s biggest freight forwarder, China National Foreign Trade Transportation Group, popularly known as Sinotrans. In its first move, UPS started offering express delivery of small packages and documents. As per the agreement, UPS delivered the packages/documents to China while Sinotrans was responsible for delivering the packages in China.

Unlike FedEx, rather than using its own aircraft, UPS followed a low investment strategy for almost a decade after its entry into China. During that period, the company entered into alliances with airline companies – Hong Kong Dragon Airlines Limited and China Eastern Airlines Corp that delivered the packages to China.

By 1995, UPS sent its first flight to China from its two hubs located in Hong Kong and Singapore. By the end of 1995, the company had established its presence in 21 cities in China leveraging on its partnership with Sinotrans. In 1996, UPS entered into a 50-50 joint venture with Sinotrans Beijing Airfreight Forwarding Company (Pekair) in China. Through the joint venture, UPS aimed at improving its market share in the growing air freight market in China. The venture had an initial fleet of 12 vehicles, employee strength of 65 and covered 74 Chinese cities. It planned to offer international shipping of documents and parcels and international cargo transport.

During the late 1990s, UPS stepped up its investments in infrastructural facilities and acquisitions in order to expand its presence in China. In June 1998, UPS inaugurated a $2 million air hub facility at the express handling center at the Hong Kong airport. The facility enabled UPS to employ its own people and use its own infrastructure for loading and unloading of goods from its cargo carriers. Through this, the customers could be ensured that their baggage was handled carefully, thus further enhancing the reliability of UPS services.

The launch of the hub facility enabled UPS to launch its international shipping processing system in China. The facility was equipped with an electronic data access system, which was interlinked to the Electronic Data Interface (EDI) of the Customs & Excise Department at the airport Express Centre. Through this, UPS could get its packages cleared by the customs authorities even before their arrival into the airport, thereby saving a lot of time required for the customs clearance process.

In order to offer quicker delivery of the packages, UPS opened two spin-off centers in Hong Kong to sort and deliver packages during late 1998. As a result, UPS could increase the productivity of its baggage handling by 100%. Commenting on the launch of the facility, Perry Chao, UPS’ Managing Director of Hong Kong operations, said, “Our strategy is to build a flexible, high-tech, reliable and fully integrated operations network. As a result, our customers will continue to enjoy late cut-off time and speedy delivery even with the airport further away.” UPS also launched a new web-based delivery service, UPS document exchange service, which permitted reliable delivery of documents online through the website www.exchange.ups.com

By 1999, UPS had spread its network across 108 cities in China, making it one of the largest networks by an international logistics company in China. In January 1999, UPS announced an agreement with Sinotrans, to expand its operations to 22 more cities in China. Through this agreement, UPS expanded its network to 130 cities in China, competing directly with FedEx, which had operations in 144 cities at that time. UPS and Sinotrans also signed a memorandum of understanding (MOU) stating that UPS would make additional investments to improve its operations, train its own staff by getting the help of Sinotrans. The company also aimed at enhancing its brand identity in China. By signing the MOU, UPS intended to make its uniformed drivers and brown trucks a common site on the streets of major business centers in China.

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9 A relationship between two companies in which the agent company acts on behalf of the principal company, on the basis of mutually agreed terms.

10 Founded in 1985, Dragon air served 27 passenger destinations across Asia with one of the most advanced aircraft fleets in the region.

11 China’s second largest air carrier, located in Shanghai.

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In April 1999, UPS entered into a strategic alliance with 7-eleven, a leading convenience store in Hong Kong that operated round-the-clock. Through this agreement, UPS was able to expand its network by 350 locations in Hong Kong. At the stores, express envelopes were accepted, which were charged, depending upon the location to be shipped, irrespective of the weight of the package. In order to encourage the customers to try this service, UPS launched a limited period promotion campaign in which the customers who used the service were given a phone card having three visuals of the Sydney Olympics.

In November 1999, UPS began five-times-weekly scheduled express service to Shenzhen. By opening up an express-handling facility at Shenzhen airport, UPS became the first US carrier to be permitted to handle its own express traffic in Shenzhen. During the period 1996-99, according to reports, UPS had made investments of an estimated $400 million in China.

THE CONTRASTING STRATEGIES

Analysts felt that FedEx and UPS established themselves in China till the late 1990s following different corporate styles. Both the companies followed a significantly different approach, providing different alternatives for companies that are planning to globalize. While FedEx believed in tackling foreign competition head-on, UPS believed in partnering with them. While FedEx followed a high risk approach, putting heavy investments to build its own manufacturing and distribution systems, UPS was happy to enter into lease agreements with companies already having presence in China. While FedEx’s main thrust was on capturing the accounts of its multinational customers operating in China, UPS focused on the local customers. To promote its services, FedEx adopted Western-style advertising, while UPS tried to build an image of a local company.

ADVERTISING AND PROMOTION

Till the mid 1990s, the focus on advertising and promotion by both FedEx and UPS was relatively less. However, during the late 1990s, as the competition in the logistics business in China intensified, both FedEx and UPS started emphasizing on promotion to attract the Chinese customers. However, till the late 1990s, there was a marked distinction in the approach of FedEx and UPS towards advertising and promotion of their services in China.

FedEx followed an approach which emphasized on heavily publicizing its service offerings in China. It launched intimidating ad campaigns to attract customers. For example, one of its advertisements in 1997 showed the tail of a FedEx plane parked in front of a forbidden city saying “Call FedEx. It’s almost forbidden not to.” FedEx stressed on promoting its service offerings and enhancing brand awareness among the customers in China. For this purpose, it hired a popular media company, OMD13 based in Hong Kong.

In contrast to FedEx’s approach, UPS emphasized less on advertising. It preferred to project itself as a local Chinese company. In a six-week TV campaign in 1997, the company displayed a motorized three wheeler, a larger van, a brown UPS truck and Boeing 747 moving together in a line on a runway representing its global image rather than showing it as an American company. To target Chinese customers outside China, UPS sponsored Chinese New Year celebrations in Toronto and Vancouver, where many Chinese immigrants resided. UPS also sponsored Olympic Games in China in 1996 and 2000.

13 Founded in 1996, OMD is the global media partner of three leading advertising agencies in the world – BBDO, DDB and TBWA. It is a unit of Omnicom Group, the largest marketing and corporate communications company in the world.
TARGETING CUSTOMERS

While targeting customers in China, FedEx offered standardized logistics services as it offered to customers in other foreign countries. However, FedEx seemed to have annoyed few companies in China that expected personalized approach from the company. Li Ping, an executive at Chinatex Cotton Yarns & Fabrics Import & Export Corporation in Beijing commented, “I know they’re (FedEx) one of the biggest companies in the US, but that doesn’t matter here (in China). The personal relationship matters most here. You have to talk to customers and make them feel good.... They haven’t sent anyone here; so, we don’t do business with them.”

FedEx targeted those customers who valued a highly controlled distribution system and wanted constant information about the status of shipments. The company focused on providing solutions to all logistics related problems of its customers. For instance, in the mid-1990s, FedEx noticed that Chinese exporters who shipped goods to the US faced problems due to their ignorance of the US customs clearance procedures. This caused unnecessary cost and time overruns since their shipments were held up with the US customs department. FedEx realized that it could cash in on this opportunity to market its pre-clearance service to the Chinese exporters.

During July and August 1996, the company conducted seminars in two major Chinese cities – Shanghai and Hong Kong explaining to the customers, the customs clearance procedure in the US and how FedEx’s service could solve their problems. This induced tremendous response and increase in the shipments from China to the US.

FedEx’s main focus was on providing its customers innovative and value added services. For instance, in September 2000, FedEx pioneered the launch of two new services for Chinese customers – The Asia One and the North American Next Day Delivery. The new services enabled customers in Beijing, Shanghai, Guangzhou, Shenzhen and other neighboring cities to deliver their packages to 15 Asian cities (through Asia One) and major US and Canadian cities (through North American Next Day Delivery) on the next working day. As a result, FedEx became the only company in China to offer such services. Commenting on the FedEx’s focus on providing best services to the customers, Marco Lee, Managing Director (Regional Sales – China & Mid-Pacific) of FedEx said, “FedEx always wants to add value to our customers’ businesses. We are here not only to provide solutions to our customers; we are also committed to help them increase efficiency.”

On the contrary, UPS targeted local Chinese customers following a personalized approach. The company attempted to adapt its services according to the customs and traditions of Chinese customers. For instance, the company noticed that Chinese customers attached a lot of importance to inter-personal relationships. Accordingly, UPS sales personnel cordially approached the customers, explained to them about the services and only then struck deals. Even the courier persons of UPS were recognized for their customer-friendly attitude. This approach enabled the company develop a very good rapport with the Chinese customers and encouraged those who patronized other companies to shift to UPS. For instance, an advertising executive from a Chinese company shifted his account from a government-owned mail service company to UPS when a UPS executive approached him and explained the utility (both in terms of convenience as well as cost) of using UPS services for their business operations.

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15 Through this service, the details regarding goods shipped into a country were intimated in advance to the customs authorities of that country prior to landing of the flight. This enabled faster customs clearance.
THE INVESTMENTS MADE

Since its entry into China, FedEx had invested heavily on building its services network in China with a long-term approach. Wilson Chung, general manager of FedEx China said, “China is one of the most important markets for FedEx. We are dedicated to continually investing in this market.” However, the company faced a major setback due to South East Asian currency crisis during 1997-98. Due to the significant currency devaluations in the Southeast Asian countries, FedEx reported its first quarterly loss (quarter ended February 1998) on international operations since 1996. This was largely attributable to the high investments made in its extensive air network in Asia, coupled with declining cargo volume and revenues from troubled Asian countries. Joseph M. Pyne (Vice-President – Marketing) of UPS, was quick to comment, “Because of the investment (FedEx) made, they’re almost stuck in that market. That’s the plan they have to live with. We’re looking at the market and moving with it in China.”

In contrast to the FedEx approach, UPS decided to make investments according to the market conditions in China. Till 1997, UPS had invested significantly less compared to that FedEx did in China. UPS had stepped up its operations as the demand increased, sacrificing some market share due to its limited risk strategy. Due to the lack of its own air service, UPS was unable to offer customers in China the range of logistical services that FedEx could. The management of UPS always felt that if the business prospects in China improved later, the company could fly its own aircraft in and out of China. The company’s low investment strategy in China saved it from any major losses due to the South East Asian currency crisis. As the freight volumes reduced in China, UPS had to just reduce the space it leased on other companies’ planes.

FedEx felt that its high investment strategy had helped in gaining more market share in China. According to Air Cargo Management Group, a Seattle based consultancy, by mid-1998, FedEx had captured 13% of the express market in China, excluding Hong Kong, while UPS had less than 5% share. Alan B. Graf, FedEx’s chief financial officer commented, “We knew it was risky when we built so much capacity, but we’re staying. And that has just got to have a long-term payoff.”

LOGISTICS INDUSTRY IN CHINA – IMPROVING PROSPECTS

China was viewed as the logistics industry’s most important emerging market. According to an industry analyst at Merge Global Incorporated, an Arlington, US-based research company, China’s air-cargo market was the world’s fifth-largest and its emerging express market was valued at $400 million in 1998. According to studies conducted during the late 1990s, China’s demand for time-definite express freight was projected to grow by 20% per year till 2002, much faster compared to the global air-freight market.

By 2000, competition in the logistics industry in China had intensified. Both FedEx and UPS were facing competition from MNCs like DHL, and China’s state-owned enterprises like China Post. Following the decision of the Chinese government to enter into the World Trade Organization in 2001, the competition in the industry intensified further. With the removal of several rules and regulations which had protected China’s government-owned logistics companies, the business prospects for multinational logistics companies improved significantly.

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17 As quoted in the article, “FedEx to expand services in China”, in Xinhua, dated September 22, 2000.
20 A specialized strategy consulting firm, which focuses exclusively on developing competitive strategy for firms in the freight transportation and logistics industries. Its clients include many of the world's largest producers of transportation and logistics services.
With the improved business prospects, UPS decided to follow a more aggressive approach to expand its market presence in China. The company lobbied intensively in the US to secure a right to operate its own flight directly into China. The company also decided to invest significantly in infrastructural facilities in the new millennium.

In November 2000, the US Department of Transportation (DOT) granted UPS air rights to operate direct flights from the US to China. UPS was allowed six flights between US and China in a week. In December 2000, following DOT’s decision to designate UPS as the fourth US air-carrier to service China market, FedEx appealed to US DOT to allow it one more flight per week to China.

RISING COMPETITION

Analysts felt that granting of air rights to UPS would further intensify the competition in China and enable major US freight service carriers to access the Chinese market by offering low cost and better service. Though, FedEx had not questioned DOT’s decision to permit six flights to UPS, the company objected to the awarding of three flights to United Airlines and Northwest Airlines, its other competitors in China. FedEx called DOT’s decision “fundamentally unfair” under the pretext that its contribution to the export growth in the US was significantly high when compared with that of Northwest Airlines or United Airlines.

In March 2001, UPS announced the launch of six weekly flights between China and the US using Boeing 747 aircraft, directly servicing Beijing and Shanghai. Four weekly flights were to start from Ontario International airport, California and other two at Newark, New Jersey. On April 1, 2001, the first flight landed in China. Commenting on the event, Jim Kelly, Chairman and CEO of UPS said, “This is the first time ever that a US cargo carrier will fly directly from the US to China. We believe this designation is a sign of the growing importance of global trade and UPS place in the new global marketplace. With these new flights, UPS will offer the broadest portfolio of services to customers shipping to and from China.”

The launch of the service turned out to be a successful move by UPS as its business in the US-China region grew by an estimated 40% soon after the launch.

Reacting to the move of UPS, FedEx announced an additional flight to its existing fleet of 11 aircrafts. In April 2001, FedEx also launched the Shanghai Express Freighter service. The newly launched flight service enabled FedEx to improve its services in the express segment between eastern China and the US by reducing the shipment time by three to four hours. FedEx also stated its plans to inaugurate new infrastructure facilities in four Chinese states – Nanjing, Hangzhou, Dongguan and Ningbo.

UPS further intensified its promotion activities following the launch of its direct flight to China. In May 2001, UPS launched an advertising campaign developed by reputed advertising agency, McCann-Erickson. In the campaign titled “Brown Survey,” a lady was asked to identify, as to what immediately struck her mind when a series of colors were flashed at her. When the color brown flashed, she instantly related it to reliability, and then to UPS. The campaign focused on creating a unique brand identity of UPS, as UPS was traditionally recognized for its fleet of brown trucks, which offered reliable service to the customers, through its customer-friendly employees and courier persons.

In an attempt to sell B2B e-commerce solutions to the cost-conscious Chinese businesses, UPS launched the “Customer Automation Program” in June 2001. Under the program, UPS offered to computerize the business units of its customers by providing the required PCs and software and by

22 Based in the US, it is one of the world’s leading integrated brands communications company with operations spread across the world.
linking them to the UPS shipping systems free of cost. The customers could print their own shipping labels. By doing this, UPS enabled its customers to understand the cost benefits of purchasing UPS B2B e-commerce solutions.

To further promote its business and compete effectively with UPS, FedEx implemented few innovative ideas. For instance, in association with OMD, FedEx started sponsoring popular TV shows in China during mid 2001. It first sponsored popular television game show – Who Wants to be a Millionaire, aired on Asia Television (ATV). The purpose of choosing the game show for sponsorship was to associate FedEx with speed and accuracy – the two key ingredients emphasized in the game show. The effort paid off for FedEx, as within three months of sponsoring the show, its top-of-mind recall increased by 42% among the people in China. Encouraged by the success, FedEx sponsored another game show on ATV, “The Vault.” The interactive game show was used to display FedEx brand at the backdrop through an attractive FedEx motion TV billboard. This initiative was successful as FedEx’s brand awareness increased and the company was able to position its services for its speed and accuracy.

In October 2001, FedEx introduced a unique service in China. The company inaugurated a massive 6,080 square-meter FedEx-DTW Express Center at Shanghai Pudong International Airport. The integrated warehouse management system at the center comprised a sorting and distribution system which employed state of the art wireless technology to enhance productivity and provide accurate information. The system could handle 6000 to 12000 packages per hour. Analysts felt that FedEx launched this system to cope up with the increasing volumes of goods and packages following China’s entry into the WTO in 2001.

To counter FedEx’s move, UPS launched two new services – UPS Signature Tracking TM and UPS Worldwide Express Plus TM in December 2001. The signature tracking service provided proof of delivery of the package of the recipient (his signature) within minutes of its delivery. This service was targeted primarily at business customers who needed to furnish proof of delivery to effect other business transactions. The UPS Worldwide Express plus TM enabled shipping of packages or documents from China to any major US city next day by 8 am or to other non-metropolitan cities in the US, 13 European countries and Canada by 8:30 am.

THE RIVALRY INTENSIFIES

The rivalry between FedEx and UPS to grab more market share of the Chinese logistics market further intensified in 2002. In April 2002, UPS launched a new intra-Asia hub at Philippines. The new hub along with two other hubs of UPS located in Singapore, Hong Kong and Taipei comprised the worldwide network of hubs of UPS. This move enabled UPS to significantly enhance its operational capacity in China, apart from enabling it to increase its ability to serve the Chinese customers by offering quicker and more reliable service.

In May 2002, following the launch of an intra-pacific air hub in Philippines, which complemented the other hub facilities in Taiwan, Singapore, and Hong Kong, UPS, launched an advertising campaign titled ‘Asia,’ showcasing UPS as an integrated logistics solutions provider. The campaign, like the previous ad campaign, stressed on the reliability of a UPS service. It also gave a glimpse of the advanced technology employed at UPS including the WAP-enabled package tracking technology.

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23 The interactive game show comprised a series of rounds in which questions were shot at the participants, who were required to reply with the right answer in quick time.

24 The immediate company or its brand which flashes to mind upon being confronted with an industry. For example, the brand which might immediately flash when one thinks of a cola drink might be Coke or Pepsi.

25 The automated system enables unloading and loading of goods, their sorting and their customs clearance with minimum physical effort.

26 Upon receiving the package, the recipient’s signature was taken and converted into the digital format and displayed online. This served as the proof of delivery.
In September 2002, FedEx planned to further improve its services in Southern China and the Pearl River Delta region, by upgrading the aircraft serving Shenzhen from DC-10 to an MD-11. This move also increased the freight capacity by 30 tons.

In order to understand the needs of the Chinese customers in smaller cities better and to offer these customers express delivery service of higher quality, UPS opened two offices in Chinese cities – Shenzhen and Qingdao in September 2002. UPS followed up this move by opening an office at the south Chinese city of Xiamen in October 2002. This was an effort by UPS towards further penetrating into the local Chinese market. Another significant factor of this launch was that all the employees of the office were hired locally.

STATUS IN 2003

By 2003, the competition between FedEx and UPS was at its peak. Both the companies had been aggressively pursuing the Chinese market by regularly announcing new and better services, agreements and tie-ups. Both the companies continuously revised their strategies according to the moves announced by their counterpart.

In January 2003, FedEx announced an agreement with Kodak to offer self-delivery services in 28 Kodak Express Shops in Shanghai. FedEx was the first company to offer express shipment delivery services following a retail approach. The Kodak shops that were selected in Shanghai were mainly located in business centers, high-class residential areas, where there were greater demand for these services. FedEx packaging and shipping documents service was available in-store so that consumers could handle the express shipment (below 2.5 kg) on their own with the assistance of Kodak shop’s trained staff.

In January 2003, UPS entered into an agreement with Yangtze River Express Airlines Company (Yangtze), a Chinese cargo airline. According to the terms of the agreement, Yangtze would provide regular flights to link UPS hub in Shanghai with four major Chinese cities – Beijing, Qingdao, Xiamen and Guangzhou. The agreement required six Boeing 737 flights each week on a Shanghai-Xiamen-Guangzhou-Shanghai route. In March 2003, the route was changed to Shanghai-Beijing-Qingdao-Shanghai. This agreement enabled UPS to offer one-day faster service and more reliability for international shipments.

In June 2003, FedEx entered into agreements with two Chinese companies – Trade Port and Sun Logistics, in an attempt to improve its services. The agreement enabled FedEx to offer quicker delivery of urgent packages by loading and unloading such goods at the 40,000 square feet Trade Port facility located very close to the airport. This proximity to the airport saved costs and time of customers. In the same month, FedEx announced plans to expand its business to 100 more cities in China by the end of 2003. The company expected to register revenue growth rates of 30% in China for the next five years.

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27 Yangtze River Express is 85%-controlled by a unit of Hainan Airlines Co. American Aviation fund controlled by international financier George Soros, is Hainan Airlines' biggest shareholder, with a 14.8% stake.

28 Trade port Hong Kong is a logistics company, backed by an international conglomerate of prestigious companies including Fraport AG (Frankfurt Airport Services Worldwide), Schiphol Group (Schiphol Amsterdam Airport), China National Aviation Corporation (CNAC), and Hongkong Land (a listed property developer and part of the Jardine Matheson Group), who possess good track records in specialized fields such as air logistics management, air transportation management, airline management, airport terminal management, and property development and management.

29 A logistics company, started on August 28, 2000, which offers a one stop logistics service by consolidating logistics resources and expertise, infrastructure strengths and web-based technology.
In June 2003, UPS signed an agreement with Lucent Technologies, a US company that designed and delivered networks for communication service providers, to undertake management of UPS logistics operations in the Asia-Pacific region. In the same month, UPS also announced plans to enhance its network from 21 to 40 cities in the Asia-Pacific region by the end of 2003. The company also announced plans to open 20 more offices in 2003.

Due to better understanding of local conditions and its aggressive investment strategy during the past couple of years, UPS was able to increase its market share among its existing customers and was able to attract new customers. The efforts made by UPS in China reaped positive results. The company’s revenues increased by 56% in 2001 (Refer Exhibit II). For the fourth quarter ending December 2002, UPS registered a significant growth of 60% in revenues with exports in China growing by 40%. According to unconfirmed reports, the market share in 2003 of both FedEx and UPS had increased in China.
Exhibit I

A Snapshot of the Logistics Industry in China (2002)

<table>
<thead>
<tr>
<th>Entry barriers:</th>
<th>Foreign logistics companies intending to do business in China can enter only through joint ventures with local Chinese companies.</th>
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<tbody>
<tr>
<td>Legal Regulations</td>
<td>Foreign companies cannot:</td>
</tr>
<tr>
<td></td>
<td>• Distribute products other than those they manufacture in China</td>
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<tr>
<td></td>
<td>• Own and manage distribution networks, wholesale outlets or warehouses</td>
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<tr>
<td></td>
<td>• Conduct customs brokerage and clearance, ground transportation, warehousing and related services outside a transport joint venture.</td>
</tr>
<tr>
<td></td>
<td>• Hold a majority stake in a joint venture, with limitations on where and how fast joint ventures can expand</td>
</tr>
</tbody>
</table>

Expected changes over the next decade:

The Chinese government promised to make significant improvements in the next decade in relation to the regulations, following the commitments made to the WTO. The promised improvements include:

• Foreign companies will be allowed to distribute imported products, besides those made in China

• China has agreed to phase out all restrictions on distribution services within three years. Restrictions on all services auxiliary to distribution will be phased out in three to four years. These include express delivery services, vehicle rental and leasing, freight forwarding, storage and warehousing. Foreigners engaged in these businesses will be able to set up their wholly-owned subsidiaries.

• In the most sensitive and protected sectors – chemicals, oil and petroleum – China will provide distribution rights to foreigners within five years.

Adapted from the article, “FedEx has ideas for China,” written by David L Cunningham Jr. in Nation (Thailand), dated October 15, 2002.
## Exhibit II

**Revenues of Top Five Logistics Companies Operating in China**

<table>
<thead>
<tr>
<th>Company/Revenues</th>
<th>2000 (RMB-Million)</th>
<th>2001 (RMB-Million)</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Couriers Service Company</td>
<td>1562</td>
<td>1600</td>
<td>2.4</td>
</tr>
<tr>
<td>DHL-Sinotrans</td>
<td>510</td>
<td>749</td>
<td>46.9</td>
</tr>
<tr>
<td>Federal Express Corporation</td>
<td>210</td>
<td>299.9</td>
<td>42.7</td>
</tr>
<tr>
<td>UPS</td>
<td>160</td>
<td>249.7</td>
<td>56</td>
</tr>
<tr>
<td>TNT Skypak-Sinotrans Ltd</td>
<td>110</td>
<td>149.9</td>
<td>36.3</td>
</tr>
</tbody>
</table>

FedEx vs. UPS: Competing with Contrasting Strategies in China

Suggested Readings & References:

35. What Happens When One of the World's Largest Countries Meets the World's Largest Transportation Company?”, www.chinaquest.ups.com