Of Trucks and E-commerce:
Competitive Rivalry between FedEx and UPS

FedEx and UPS compete directly against each other in several product markets. These competitors are locked in fierce battles to dominate not only package delivery but emerging e-commerce and logistics markets as well. Across time, the rivalry between these firms has resulted in a great deal of competitive behavior (competitive actions and competitive responses taken to build or defend a firm's competitive advantages and improve its market performance).

In 1907, 19-year-old Jim Casey started UPS as a local delivery service. From its founding, strict operational guidelines have been in place at UPS. Even today, drivers are taught 340 steps that are to be precisely followed to successfully deliver a package the "UPS way."

Historically, UPS's rigid culture tended to discourage risk taking and innovation. Nonetheless, in the 1950s, UPS became the first company to use airplanes to deliver packages overnight. However, because of the higher cost compared to package delivery via trucks, UPS decided not to further pursue its innovation of overnight delivery.

In the 1970s, the shipping industry was substantially changed when Frederick Smith founded Federal Express (now called FedEx). Convinced that customers would value not only overnight deliveries but also the ability to electronically track them, FedEx developed a proprietary computerized tracking system called Cosmos. This system introduced computer technology to the shipping industry in previously unheard-of ways and permanently altered the nature of competition within it.

Study of its new competitor convinced UPS that overnight delivery was a market that it couldn't ignore. Thinking of Cosmos as a competitive advantage for FedEx, UPS set out to understand and imitate the system's capabilities. UPS employees even followed FedEx's trucks, partly to understand how Cosmos worked. In 1988, roughly 17 years after FedEx's entry into the overnight market, UPS introduced its rival service. However, it wasn't until 1995 that UPS was able to develop its own electronic tracking system comparable to...
Cosmos. At that time, many analysts concluded that UPS's slow market entry and inability to duplicate Cosmos's value-creating ability had permanently disadvantaged the firm. This conclusion hasn't proven to be the case. Although FedEx remains dominant in the overnight market, UPS's overnight business grew 8 percent in 2000, compared to 3.6 percent growth for FedEx.

Beyond this, though, UPS decided in the mid-1990s that some of the technological capabilities it had developed to match the sophistication of FedEx's Cosmos system also had commercial applications for Internet-based businesses. This decision was based on experience gained from efforts the firm started in the 1980s to study FedEx's operations methods. During that time period, UPS started applying technology such as tracking software, electronic clipboards, bar codes, and scanners to streamline its operations and cut costs. Efficiencies gained from its technology investments enabled UPS to almost double its operating margins from 8 percent to 15 percent. Study of e-commerce transactions convinced UPS that what it had learned from internal uses of technology could also benefit e-commerce retailers (e-tailers). In short, UPS caught FedEx off guard when it used its internally generated technology skills to offer e-tailers a multitude of shipping options and prices. Additionally, UPS began programming software tools, such as package tracking and returns management, directly into its customers' websites. These tools made it possible for shoppers to track orders with one click of a button and for e-tailers to more efficiently handle returns. Although FedEx and UPS compete for e-tailers' business, UPS remains the shipping partner of choice, as shown by recent market shares for the delivery of online purchases (55 percent for UPS; 10 percent for FedEx).

Encouraged by its success in e-commerce, UPS has initiated other competitive actions to evolve beyond its traditional capital-intensive transportation business. For example, the firm again relied on its technology skills to establish a logistics group in 1994. This unit helps firms such as National Semiconductor and Ford Motor Company learn how to use logistics technology to streamline their supply chains. FedEx competes against UPS in logistics; although both firms help customers better utilize information to track and ship inventory, UPS is pulling ahead of its competitor. Accounting for this success could be UPS's decision to offer warehouse management services. A customer choosing this service outsources its product logistics to UPS, allowing it to then concentrate on its own core competencies. UPS has built a sophisticated central warehouse in Louisville, KY to store, pack, and deliver such products as Samsung cell phones and Nike.com apparel. UPS is even going beyond the handling of physical goods, operating customer service call centers
and offering financial products to facilitate e-commerce, such as trade credit and electronic invoicing. The diversity of its logistics business is resulting in an annual growth rate of 40 percent while FedEx tries to reverse a decline in this area.

UPS's competitive actions in logistics seemingly have created an advantageous market position for the firm over its major rival. However, FedEx is responding to UPS's actions. For example, it quietly spent approximately $4 billion to acquire trucking companies and build hubs. In 2000, FedEx directly attacked UPS when it started offering home package delivery by ground. Although UPS still dominates that market with a 77 percent share, FedEx is making strides as its ground shipping business grows by 8 percent to 10 percent annually. Furthermore, FedEx believes that UPS's capital-intensive approach to its logistics business is flawed. According to the head of FedEx's worldwide e-solutions, "the benefit (to customers) is in moving things quickly and coordinating those moves, not in having parts sitting somewhere." This comment reflects FedEx's decision not to warehouse customers' goods, citing the high costs of building warehouses.