FedEx and UPS in China—
Competing with Contrasting Strategies

J ust how “American” should you be when doing business many cultures away from home?

Rarely have two rivals offering similar services answered that question so differently as Federal Express Corp. and United Parcel Service of America, Inc.

FedEx was trying to paint China red, white and blue, following the same frontal-assault strategy it employed in the U.S. in the 1970s and in Europe in the 1980s. While promoting itself with jarring, Western-style advertising, FedEx was pouring out money to acquire its own air routes, fly its own aircraft into and out of China and, in partnership with an aggressive local company, built a huge network of purple and orange trucks and distribution centers.

“We’re the largest all-cargo carrier in the world and, as a result, we’ve got a pretty good formula for attacking any market,” noted T. Michael Glenn, executive vice president for marketing at FedEx’s parent, FDX Corp. “Whether it’s China or Japan or Germany, it really doesn’t make any difference.”

UPS, by contrast, hopes that Chinese customers won’t even notice that it was made in America. Its advertising was understated and old-fashioned even by Chinese standards. Its freight lands in China packed into leased space in the underbellies of planes operated by a Hong Kong airline, Dragonair, or other regional carriers. To deliver packages on the ground, UPS followed the traditional approach for foreign freight companies in China, piggybacking on the operations of Sinotrans, a vast, labyrinthine, government-owned transportation company.

“We’re a quiet company,” remarked Charles Adams, UPS’s top executive in Asia. “Sometimes we’re the student, and sometimes we’re the teacher.”

How the giants of the U.S. delivery business were forging ahead in China was more than a case study on differing corporate styles. Their strategies, which tracked what they did all across Asia, vividly illustrated two radically different approaches to questions faced by almost any U.S. company striving to expand overseas. Do we partner with entrenched competitors or tackle them head-on? Do we risk the capital to build our own manufacturing and distribution systems or lease someone else’s? Who are our customers, the locals or our multinational accounts? How much do we risk to build future market share?

IS THERE A WINNING STRATEGY?

The jury was still out for both FedEx and UPS. Neither was discussing market share or disclosing specific financial results in China. However, each said its operations were growing and profitable, and each contended that its approach was better.

In the Spring of 1998, UPS executives, buffered by their lower spending from much of the turmoil in Asia, had been quietly congratulating themselves on the apparent wisdom of their low-risk approach. As freight traffic slowed in the region, UPS had simply reduced the space it leased on other companies’ planes.

“Because of the investment (FedEx) made, they’re almost stuck in that market,” remarked

This case was prepared as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.
Joseph M. Pyne, UPS’s vice president for marketing. “That’s the plan they have to live with. We’re looking at the market and moving with it in China.”

Meanwhile, at FedEx, currency devaluations elsewhere in Asia had cut profits by more than $20 million during the first six months of 1998. On March 25, 1998, the company posted its first quarterly loss on international operations since 1996, largely because of the high costs attributable to its extensive air network in Asia, coupled with declining cargo volume and revenue in the region. Nevertheless, FedEx noted China remained “a bright spot.” Air-freight volumes from troubled Asian nations to China declined, but China’s exports were still strong, remarked Michael L. Drucker, FedEx’s top executive in Asia.

FedEx added that, despite the expense, its “build it and they will come” strategy was paying off in the market share. Estimates vary, but according to Air Cargo Management Group, a Seattle consultancy, FedEx had captured 13 percent of the express market in China, excluding Hong Kong, while UPS trailed with less than 5 percent. “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,” noted the FDX’s chief financial officer.

The payoff was critical for both companies. Although both were still small players in China, each with less than half the express-freight market share of at least 30 percent held by DHL International Ltd., a long-established Brussels-based company, both viewed China as the industry’s most important emerging market. China’s demand for time-definite express freight—the high-profit sector they crave—was projected to grow as much as 20 percent a year through 2002, far faster than the world-wide air-freight market. Currently, China’s air-cargo market was the world’s fifth largest, and its embryonic express sector was valued at $400 million a year.

“It’s hard to be unmindful of a 1.2 billion-person country that arguably has the most entrepreneurial, merchant-oriented people in the world,” said Frederick W. Smith, FDX’s founder, chairman and chief executive officer.

FedEx’s approach to that market reflected its personality at home. The company, and Mr. Smith, liked sizzle. With $12 billion in annual revenue, FedEx prided itself on having blitzkrieged the U.S. freight business by inventing overnight delivery in the 1970s. It called itself a “global evangelist” for high-tech, just-in-time deliveries. Its U.S. ad campaigns had long poked fun at competitors and warned business executives of certain humiliation if they used any other delivery company. FedEx pursued that strategy in China, even at the risk of seeming cheeky. Last year, it ran a ubiquitous print ad in Asia showing the tail of a FedEx plane parked in front of the Forbidden City—a cherished array of imperial buildings that was off limits to the public for 500 years. “Call FedEx,” the ad said. “It’s almost forbidden not to.”

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

Nonetheless, the FedEx style seemed to annoy some companies that expected a certain tone in the formal face-to-face sales pitches traditional in China. “I know they’re one of the biggest companies in the U.S.A., but that doesn’t matter here,” said Li Ping, an executive at Chinatex Cotton Yarns & Fabrics Import & Export Corp. in Beijing. “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 was not worried. Instead of chasing the established Chinese business clique, it was focusing first on multinational corporations with Chinese operations that already used FedEx elsewhere. It also was targeting expanding Chinese entrepreneurs whom FedEx believed would readily adopt its mantra about cutting-edge manufacturing and delivery techniques.

For those customers, who valued a highly controlled distribution system and constant
information about the status of shipments, FedEx’s philosophy was appealing. Wang Fazhang, a manager at Siemens Technology Development Corp. of Beijing, a unit of Siemens AG of Germany, noted using FedEx cut the delivery time for medical-equipment spare parts from Europe to three days from 28.

To achieve such results, FedEx was trying to leapfrog rivals in China and all across Asia by spending millions to build a network much like the one it operated in the U.S. That investment started in 1988 with its $880 million acquisition of Flying Tiger Line Inc.; FedEx mostly wanted the cargo carrier’s Asian routes, including a coveted but long-unused link between Japan and China. In 1995, FedEx paid Evergreen International Aviation Inc. $67.5 million according to Evergreens’ regulatory filings, to buy the only operating authority currently permitting a U.S. cargo carrier to fly directly into China.

MUCH CHEAP CARGO

Using that authority, FedEx flew an MD-11, laden with up to 170,000 pounds of freight, into Beijing and Shanghai four times a week. For now, FedEx filled much of the plane with cheap air cargo, for which it charged as little as $2 a pound and made, at best, a slim profit. As more manufacturing operations in China adopted just-in-time manufacturing systems, however, FedEx believed that the bulk freight would shift to highly profitable small-package services, for which the company charged up to $30 a pound. FedEx promised delivery of packages from the U.S. to China in three days, but often they arrived in just two days. Deliveries from China to the U.S. frequently arrived overnight.

In more than a dozen major cities in China, FedEx’s operations, trucks and employees looked identical to those in the U.S. In scores of other cities, FedEx packages were delivered in aqua-blue trucks and painted with the logos of both FedEx and its Chinese affiliate.

UPS STYLE

The 91-year-old UPS, with its giant, mostly ground-based U.S. delivery network and annual revenue of about $22.46 billion, was adhering to its long history of keeping a low profile. Until recent years, the company, owned mostly by its managers and retirees, eschewed any marketing at all, even at home. Its boldest advertising moves had been sponsorship of the Olympic games in 1996 and 1998.

Therefore, in China, UPS was doing as the Chinese do. Its marketing sought to build relationships discreetly, on Chinese terms—even though it, too felt multinationals were the core of its initial customer base here.

Monica Yan, an ad executive at China Guoxin Information Corp., switched to UPS from the state-run express-mail service after a UPS account executive came calling at her office in Beijing. “She came here and explained to me how UPS could be more convenient and not cost so much money, so I decided to use her company,” Ms. Yan noted.

In promoting itself, UPS emphasized its global network and stability, virtues that ring true for many Chinese. It also nurtured a Chinese customer base outside China, sponsoring Chinese New Year celebrations in Toronto and Vancouver, where many recent immigrants lived. A six-week UPS television campaign in China showed a motorized three-wheeler moving down a runway, followed by a larger van, a truck, and then a 747. “Their ads show lots of planes and trucks, with a very big world-wide network,” said Chen Bin, a manager of a state-owned logistics company in Beijing. “The image is not American” but “more world-wide.”

Investing just a fraction of what FedEx had put into Asia, UPS had gradually expanded with demand, trading some market share for more-limited risk. Meanwhile, it felt it could catch up whenever the market was ripe.

Thus, Big Brown operated without a single aircraft in China. It offered “total brown” service—
packages were picked up by workers in brown UPS uniforms, driving brown trucks—in Beijing, Shanghai, and only one other Chinese city, Guangzhou.

Lacking its own air service, UPS could not offer customers in China the range of logistical services that FedEx could. However, UPS, while avoiding the cheap air cargo that FedEx depended upon to fill out its aircraft, could still skim from the cream of the business, the lucrative document and small-package sector. The upshot: UPS could deliver a one-pound package or document from the U.S. to major Chinese cities in the same time FedEx promised, three days, at a price of about $47. For now, UPS executives felt that was plenty.

“If the situation changes in five to 10 years, then maybe we’ll want our own planes in China,” UPS’s Mr. Adams noted. “But that’s not a priority now.”