

## BROWN: CRUSHING COMPETITION SINCE 1907



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## CURRENT SITUATION

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### Current Performance

Here are some key statistics pertaining to UPS's performance over the past year:

Return on Investment (ROI = Operating Income / Total Assets):

2007 =  $\$578,000,000 / \$39,042,000,000 = 1.5\%$ .

2006 =  $\$6,635,000,000 / \$33,210,000,000 = 20\%$

2006 =  $\$6,143,000,000 / \$35,222,000,000 = 17.4\%$

I noticed that this sharp decline in ROI is mostly due to a steep incline in selling general and administrative expenses. From 2006 to 2007, these expenses jumped nearly \$7.5 billion. This dropped their net income from an average of \$4 billion over 2005 and 2006 to not even half a billion in 2007!<sup>1</sup>

UPS competitor ROI - FedEx in 2007:

$\$3,276,000,000 / \$24,000,000,000 = 13.7\%$

UPS market share is about 60% in ground shipping and about 35% in air shipping in the U.S.<sup>2</sup> I have confirmed these figures at Yahoo Finance by dividing the Market Capitalization (MC) for UPS by the MC for the entire industry.

Although UPS still maintains a profitable stance, it experienced a steep decline in profits from 2006 to 2007. For some reason their selling general and administrative expenses went through the roof in 2007, costing them almost \$7.5 billion more than in 2006. Although UPS is projected to grow at about a 13% rate over the next five years<sup>3</sup>, that rate would have only justified about half that increase from 2006 to 2007.

### Strategic Posture

What can [Brown](#) do for you?

UPS mission: To guide the company's efforts to provide responsible, ethical business behavior and manage business conduct to achieve and maintain compliance with all applicable regulations and policies for all aspects of UPS business worldwide, including all wholly owned subsidiaries.<sup>4</sup> Applying Andrew Campbell's means for evaluating a mission statement, let's see how that of UPS measures up. I will simply answer the questions Campbell proposes and then provide a score. For a complete list of those ten key questions, see Wheelen and Hunger page 13. If the answer to any question is no,

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<sup>1</sup> <http://finance.yahoo.com/q/is?s=UPS&annual>

<sup>2</sup> <http://www.answers.com/topic/united-parcel-service?cat=biz-fin>

<sup>3</sup> <http://biz.yahoo.com/ic/11/773g5r.html>

<sup>4</sup> <http://www.pressroom.ups.com/mediakits/factsheet/0,2305,1092,00.html?mkname=companyinfo>



0 points are awarded. If the answer is somewhat, 1 point is awarded. If the answer is yes, 2 points are awarded.

1. 2
2. 1
3. 0
4. 0
5. 2
6. 2
7. 2
8. 2
9. 2
10. 1



According to Campbell, a mission statement can also be a company flag to rally around, a signpost for all stakeholders, a guide to behavior, and a celebration of a company's culture (Wheelen and Hunger 13). UPS comes close to exceptional per my evaluation as they earn a score of 14!

In 1999, UPS changed its vision statement from "the leading package delivery company" to "the enablers of global e-commerce".<sup>5</sup> It seems that UPS saw an opportunity to really play a major role with the emergence of e-commerce. UPS probably chose to realign their vision to keep them focused on e-commerce as it becomes an increasingly popular way of doing business. One can easily determine what the goal is by reading this statement.

What about their objectives, strategies, and policies?

### Objective

As stated by Michael Eskew: We are committed to continued growth across the globe. We will grow our small package position in the U.S. at market rates and we will grow faster than the market across Europe and Asia. Also, we will aggressively grow our freight services business in key industries within the U.S., Europe and Asia. And finally, we will continue to maintain a long-term focus on creating value for our customers and for our shareowners.<sup>6</sup> These objectives are undoubtedly in line with their mission and vision as well as internal and external environments.

### Strategy

On March 12 of this year in New York City, Davis and Kuehn were joined at the conference by David Abney, the company's chief operating officer, and Alan Gershenhorn, senior vice president for worldwide sales & marketing. The four

<sup>5</sup> <http://www.peachpit.com/articles/article.aspx?p=20881>

<sup>6</sup> <http://investor.shareholder.com/ups/news/releasedetail.cfm?ReleaseID=163600>





executives detailed the execution of UPS's long-term strategy by describing a number of initiatives in 2008, including:

- Launch of a new air freight product portfolio.
- Delivery of seven 747-400 jet freighters.
- Opening of a new air hub in Shanghai.
- Expansion of UPS-owned operations in China.
- Acquisition of UPS's package agent in Romania.
- Addition of Express morning delivery to five more countries.
- Acceleration of delivery times on thousands of UPS Freight lanes in the United States.

Davis also said he believes “UPS is well-positioned in relation to global trends, is executing on its strategy and will deliver long-term results that drive shareowner value.”<sup>7</sup> If a strategy is a comprehensive master plan as to how the corporation will achieve its mission and objectives, UPS gets full credit here.



### Policy

We Comply With the UPS Code of Business Conduct. We manage our business in compliance with all applicable laws and regulations of the countries in which we operate, and in accordance with our company's high standards of business conduct. All employees are expected to comply with the UPS Code of Business Conduct, which is essential to maintaining our reputation for honesty, quality, and integrity. It is also each employee's responsibility to report to the company any

situation where our standards or the laws are being violated. Any employee disclosing, in good faith, violations or suspected violations of legal requirements or UPS business standards will not be subjected to retaliation or retribution. Likewise, failure to comply with the provisions of the UPS Code of Business Conduct will not be tolerated.<sup>8</sup> Per Wheelen and Hunger, policies are broad guidelines for decision making that link the formulation of a strategy with its implementation. In our estimation, from its mission to its objectives to its strategies to its policies, UPS is on the right track all the way down the line.

<sup>7</sup> <http://investor.shareholder.com/ups/news/releasedetail.cfm?ReleaseID=299260>

<sup>8</sup> <http://investor.shareholder.com/ups/governance/documentdisplay.cfm?DocumentID=563>



## CORPORATE GOVERNANCE

### Board of Directors



**D. Scott Davis**  
Chairman and Chief  
Executive Officer



**Duane Ackerman**  
Chairman Emeritus,  
BellSouth Corporation



**Michael J. Burns**  
Chairman of the Board,  
Chief Executive Officer  
and President  
Dana Corporation



**Stuart E. Eizenstat**  
Head of International  
Trade and Finance  
Covington & Burling



**Michael L. Eskew**  
Former Chairman and  
Chief Executive Officer



**James P. (Jim) Kelly**  
Former Chairman and  
Chief Executive Officer



**Ann M. Livermore**  
Executive Vice  
President, Technology  
Solutions Group,  
Hewlett-Packard  
Company



**Rudy Markham**  
Retired CFO, Unilever



**Victor A. Pelson**  
Senior Advisor, UBS  
Securities LLC



**John W. Thompson**  
Chairman of the Board  
and CEO  
Symantec Corporation



**Carol Tomé**  
Executive Vice  
President - Chief  
Financial Officer, The  
Home Depot



**Ben Verwaayen**  
Chief Executive, BT  
Group

It appears that 9 of 12 board members are outside members having worked or are currently working for other companies besides UPS.

The UPS stock ownership policy: [They] have stock ownership guidelines for [the] management and board of directors. The guidelines are based on [the] expectation that [the] management team maintain a significant level of investment in [the] company.

[Their] stock ownership guidelines extend to all levels of management and to members of [the] board of directors. For [their] senior executive officers and directors, they are:

- Chairman and CEO: 9.0 to 11.0 times annualized base salary;
- Management Committee: 5.5 to 6.5 times annualized base salary; and

- Non-employee Directors: 6.0 times annualized retainer.

The aggregate shares for stock awards and option awards, which were outstanding as of December 31, 2007, are presented in the table below.

Name	Stock Awards			Stock Options
	Restricted stock	Restricted performance units	Phantom stock units	Number of shares underlying options
F. Duane Ackerman	331	-	-	-
Michael J. Burns	2,972	-	-	-
Stuart E. Eizenstat	2,972	-	-	-
James P. Kelly	3,855	583	377	1,343
Ann M. Livermore	3,855	1,255	1,798	7,215
Gary MacDougal	-	1,255	1,798	2,864
Rudy Markham	347	-	-	-
Victor A. Pelson	-	1,255	1,798	5,609
John W. Thompson	3,855	1,255	1,798	5,609
Carol B. Tomé	3,855	1,255	850	2,864
Ben Verwaayen	4,209	-	-	-

UPS stock is publicly held and traded. Its ticker symbol is *UPS*. As far as I can access information, UPS does not issue any preferred stock. All shares consist of common and treasury stock. Over the last three years they have shown negative equity in treasury stock.<sup>9</sup>

The Board's membership includes a majority of independent directors. In order to reflect the company's unique ownership structure, the board's membership also includes a significant number of management directors. An "independent" director is a director whom the board has determined has no material relationship, other than as a director of the company, with the company or any of its consolidated subsidiaries, either directly, or as a partner, shareholder or officer of an organization that has a relationship with the company.<sup>10</sup>

In terms of knowledge, skills, background, and connections, the board at UPS is well seasoned. Davis, for example, offers expertise in finance and international business. This is precisely the type of expertise UPS needs as a global enterprise. This makes him well qualified as the current CEO as they will continue to undergo new lines of business in the international arena. Other executives possess mountains of expertise

<sup>9</sup> <http://finance.yahoo.com/q/bs?s=UPS&annual>

<sup>10</sup> <http://investor.shareholder.com/ups/governance/documentdisplay.cfm?DocumentID=559>



and experience ranging from communications to engineering to business law to public affairs and much more.

Here is a chart illustrating how long each executive has been a member of the UPS Board of Directors:

Board Member	Since...
D. Scott Davis	2001
Duane Ackerman	8/29/2007
Michael J. Burns	2005
Stuart E. Eizenstat	2005
Michael L. Eskew	1998
James P. Kelly	1991
Ann M. Livermore	1997
Rudy Markham	11/8/2007
Victor A. Pelson	1990
John W. Thompson	1995
Carol Tomé	2003
Ben Verwaayen	2001



Although UPS does not disclose exactly how their board operates from day to day, the structure seems to be quite sound according to Wheelen and Hunger. One item I did find was an article about a dividend declared and new committees formed by the board on May 10, 2007.<sup>11</sup> Surely this points to the board fulfilling responsibilities beyond merely rubberstamping management proposals. In fact, at UPS, top management is the board of directors.

The UPS board is obviously aware of their responsibilities to work hand in hand with their committees to accomplish their objectives. They have even included a clause in their structure to allow them to form new committees should the need arise.

<sup>11</sup> <http://investor.shareholder.com/ups/news/releasedetail.cfm?ReleaseID=242172>



## Top Management

The top management team (TMT) at UPS is composed of 12 members as follows:



**D. Scott Davis**  
Chairman and Chief  
Executive Officer



**David Abney**  
Chief Operating  
Officer, UPS and  
President, UPS  
Airlines



**David Barnes**  
Senior Vice  
President and Chief  
Information Officer



**Daniel J. Brutto**  
President, UPS  
International



**Alan Gershenhorn**  
Senior Vice  
President,  
Worldwide Sales  
and Marketing



**Allen E. Hill**  
Senior Vice  
President, Human  
Resources



**Kurt Kuehn**  
Chief Financial  
Officer



**Teri Plummer  
McClure**  
Senior Vice President of Legal,  
Compliance and Public Affairs,  
General Counsel and Corporate  
Secretary



**John McDevitt**  
Senior Vice  
President, Global  
Transportation  
Services



**Christine M.  
Owens**  
Senior Vice President,  
Communications and  
Brand Management



**Bob Stoffel**  
Senior Vice President,  
UPS, Engineering,  
Strategy and Supply  
Chain



**Jim Winestock**  
Senior Vice  
President, U.S.  
Operations

The UPS TMT oversees the day-to-day management of the company. Each member of the TMT brings to the table different skills and experience to enable UPS to cope with the complexities of being a global corporation. As you can observe from the image above, most of the members have the words “global” or “worldwide” in their title denoting the vast experience they possess.

Whether or not executives are kept after a merger is hard to tell. UPS does disclose, however, that they will maintain management from other companies as they acquire them as in this example of the Overnite Corporation acquisition in 2005:

"UPS welcomes the employees of Overnite as members of the team," said Mike Eskew, UPS chairman and CEO. "A top U.S. motor freight carrier is now a UPS company. Our customers will benefit since we can provide the broadest





portfolio of transportation and logistics services to better serve their needs.

"Overnite has an extensive transportation network, a strong focus on operational efficiency and flexibility and a good mix of large- and middle-market customers," Eskew continued. "Additionally, Overnite has a strong management team that will continue to run the business."<sup>12</sup>

One very interesting fact is that virtually the entire TMT are long-standing UPS employees and have been promoted from within. In fact, the vast majority of them began their careers at UPS as part-timers while still in college. Some drove the trucks and others loaded freight. All in all, almost every one of them has come up through the ranks making them aware of what it's like to be at the very bottom of the totem pole.

UPS is quite systematic as pertaining to strategic management. From what we have been able to gather, they seem to follow the basic elements of the strategic management process (i.e., environmental scanning, strategy formulation, strategy implementation, and evaluation and control). One chief example of this is the newly implemented sustainability report they release each year since 2002. In collaboration with the board of directors and other managers, UPS was the first in its industry to release such a report.<sup>13</sup>

## 2007 Executive Compensation

The following table sets forth the compensation paid to executives in 2007.

Name	Fees earned or paid in cash	Stock awards	Option awards	Total
F. Duane Ackerman	\$ 18,750	\$ 2,160	\$ -	\$ 20,910
Michael J. Burns	75,000	66,944	-	141,944
Stuart E. Eizenstat	75,000	66,944	-	141,944
James P. Kelly	75,000	97,192	3,904	176,096
Ann M. Livermore	75,000	104,798	8,537	188,335
Gary MacDougal	42,500	124,520	-	167,020
Rudy Markham	-	833	-	833
Victor A. Pelson	85,000	174,212	8,537	267,749
John W. Thompson	85,000	104,798	8,537	198,335
Carol B. Tomé	95,000	104,798	3,904	203,702
Ben Verwaayen	75,000	90,278	-	165,278

<sup>12</sup> <http://investor.shareholder.com/ups/news/releasedetail.cfm?ReleaseID=170502>

<sup>13</sup> [http://www.sustainability.ups.com/downloads/2006\\_Sustainability\\_PDF.pdf](http://www.sustainability.ups.com/downloads/2006_Sustainability_PDF.pdf)



## EXTERNAL ENVIRONMENT: OPPORTUNITIES AND THREATS (SWOT)

### Societal Environment

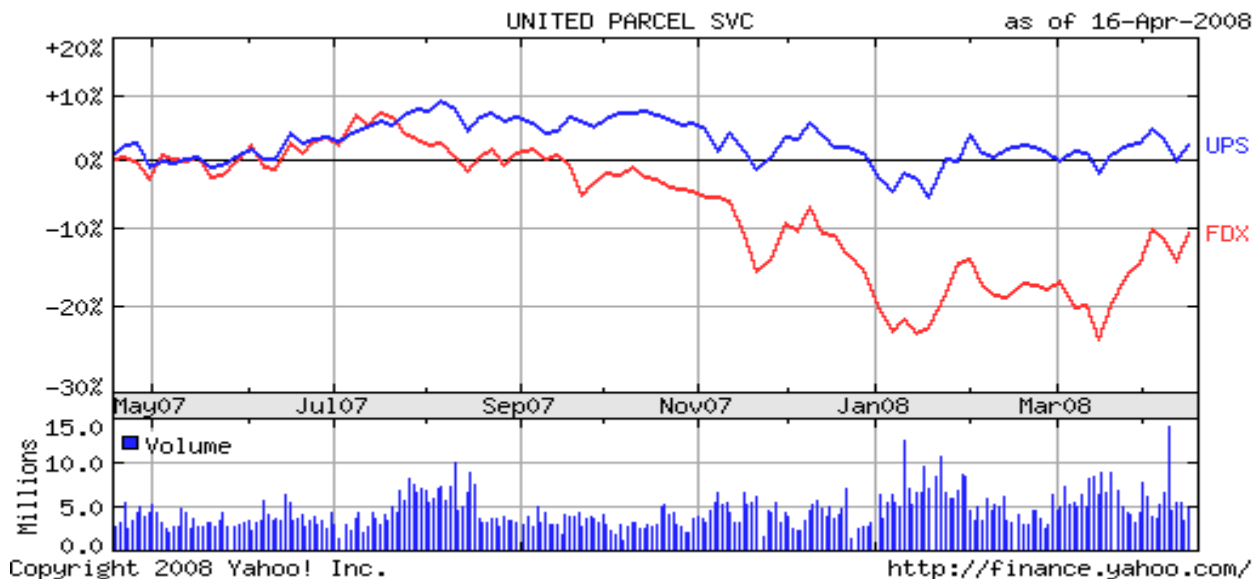
#### Economic

There are many environmental forces that affect a company's ability to be successful in business. Many of these factors are present for every company in the industry. These are forces that influence the long-run decision of the corporation. One of the most important powerful societal aspects is the economic forces that regulate the exchange of materials, money, energy, and information. As we are well aware, the economy of the United States has become increasingly volatile and many stock prices have fallen dramatically over the last year. UPS is threatened by this reality but unlike most companies, UPS has been able to remain profitable in the midst of the struggling economy. In spite of the success they have maintained, the damage to the United States economy remains a threat to UPS's potential future success.

#### Market Cap

UPS	74.68B
FedEx	29.44B

The graph below shows a comparison of stock prices over the last year between UPS and FedEx. While there is a visible drop in FedEx's price, UPS remained profitable and held strong in the forefront of the Air Delivery & Freight Services industry.



UPS is able to remain profitable because of the opportunities that it creates for itself internationally. The International Package segment of UPS operates in approximately 220 different countries. This allows for steadily increases profits in the midst of struggles in the United States.



## Technological

Our society has made enormous progress in the development of innovative technologies that make business more successful and increase the availability of information. The Air Delivery & Freight Services industry is among the leaders in incorporating new technologies into its businesses. UPS has an entire segment of its operations entitled Logistics Technologies. Through a suite of integrated software applications UPS Logistics Technologies has successfully helped thousands of distributors reduce transportation costs, save time routing, improve customer service and increase overall operational efficiency. The incorporation of radio frequency identification (RFID) allows customers to track their packages throughout the shipment process. Each package is scanned when entering a warehouse and then again when it leaves. This has increased customer satisfaction immensely.

Additionally, UPS Business Technology provides advanced shipping service and support. They have 5 different classifications of internet based shipping to meet various needs of their different customers. These are CampusShip, Internet Shipping, ConnectShip, iShip, and Worldship. Each one has its own specialization and focus.

Conversely, this technology has the potential to be a big threat to UPS because the company relies on the software and hardware they use to be able to do business profitably. If there are any problems with their systems the chain of distribution will be drastically impacted and UPS would potentially lose millions of dollars.

## Political – Legal

UPS has capitalized on a great opportunity when it comes to the political and legal forces that allocate power and provide constraining and protecting laws and regulations. UPS has developed and incorporated into its business a 'green fleet'. Currently, UPS operates 1,269 trucks that run on Compressed Natural Gas (CNG). In March of this year they added 167 new trucks that are spread over 7 cities throughout the United States. Robert Hall, UPS's director of vehicle engineering said, "UPS has deployed alternative fuel vehicles for more than 70 years and this CNG deployment is one more step towards the 'greening' of the UPS fleet." It is a cost effective and environmentally friendly choice. As you can see in the photo below the new fleet is clearly marked as a low emission vehicle. The trucks are expected to reduce emission by 20 percent and



improve fuel economy by 10 percent compared to the cleanest diesel engines available today. Many environmentally concerned potential customers will be more likely to ship their items from UPS if they know that UPS cares about the environment and is taking the needed steps to reduce their impact on the environment.

A potential threat comes in the form of terrorism. In the United States alone we have experienced many instances of terrorism using the

medium of delivery services. Bomb threats and anthrax scares are not uncommon news stories in the delivery industry. Government regulations threaten to slow down business by imposing stricter regulations for package shipment. Additionally, regulations abroad from government agencies include reporting the shipper's information to regulatory agencies. Not only does this remove a level of privacy, it also slows down business and costs the company money.

## **Sociocultural**

There are many opportunities that internet based businesses have created. Sociocultural forces regulate the values, mores, and customs of a society. Throughout the years trends have dictated the customs and values of our society. The current trend, which has become a staple of revenue for the economy comes in the form of online shopping. Lifestyle changes are one of the main contributors to this new development. Each day millions of transactions happen with the click of a mouse. All of the items purchase need to be transported from warehouses to their destinations. UPS is the leading freight company for these transactions. One of the 8 current sociocultural trends is changing pace and location of life. This is a byproduct of the technological age that we are a part of. Every aspect of our lives is in some way connected to media, instant communication, cell phones, or other convenience items. Because of the success of internet shopping, UPS has been able to tap into a huge opportunity for increased profits and success.

In each of these four forces there are potential opportunities and potential threats to UPS. Effective management and a well structured business plan can help them capitalize on their opportunities and even turn a threat into an opportunity. While, the focus has been on UPS's opportunities and threats in the United States, many of their same issues are faced in the other countries in which they do business. UPS has shown their ability to create new ideas, technologies, and market segments to allow them to reach the most possible customers.

## **Task Environment**

A task environment includes the elements or groups that directly affect a corporation and, in turn, are affected by the corporation. UPS's task environment is the Air Delivery & Freight Services industry. It represents the customers, creditors, employees, unions, suppliers, competitors, or governments that are in direct contact with UPS. They are the forces that drive industry competition.

## **Industry Competition**

The threat of new entrants is one aspect of the task environment. In order for there to be a threat of new entrants there has to be access to the industry to make it financially attractive. There are certain barriers to entry that make it harder for a company to achieve success in the industry. UPS has achieved low economies of scale, meaning that they are capable of producing large amounts of their products at a lower cost. Any



company that attempted to enter the industry would have to struggle to survive because they simply are not able to produce their products at the price UPS is able to. Additionally, UPS has established itself as a trusted name in shipping, people rely on UPS daily. It would be difficult for a company to come in and take business away from UPS because they are a trusted name and people are comfortable doing business with them. In the chart below you will see that I have placed the threat of new entrants in the low probability of occurrence and a high impact on the corporation. By this I mean that while it is highly unlikely that any new entrants will enter the industry, if one is successful in getting in, it will have a significant impact on UPS. One example of this is DHL, a company that was doing more business in Europe and came to the United States and continues to take little pieces of the UPS market segment.

Another aspect of the task environment is the bargaining power of buyers. This is the most influential forces that UPS has to deal with out of the 6 forces listed in the table below. UPS relies on contracts with other companies to gain the rights to ship their products. The buyer has the power to ask certain things of UPS in order to gain their business. For example, Amazon could have an exclusive contract to ship all of their orders through UPS but they may negotiate the price lower than UPS would like it to be. Amazon has the power to do this because UPS knows that if they do not accept the contract, FedEx or DHL will. The buyer, Amazon, has some leverage over the decision.

This leads to another force at work in the environment, rivalry among existing firms. For UPS this directly relates to the bargaining power of buyers. In this case FedEx and DHL are UPS's main rivals. Since the number of competitors in the industry is few, they all watch each other carefully to make sure that they match any move by the other companies. Both the probability of impact on UPS and the probability of occurrence are high. This is UPS greatest threat from the task environment. They must constantly be aware of the competition.

The final three forces are relatively insignificant to UPS. The relative power of other stakeholders, threat of substitute products or services, and bargaining power of suppliers are far less important for UPS. They should not be overlooked but management can place less emphasis on them. It is possible that there could be a substitutes for UPS sometime in the future as technology continues to advance but for now, packages need to get from place to place and shipping companies, like UPS, are our fastest way to accomplish that.

		Probable Impact on Corporation		
		High	Medium	Low
Probability of Occurrence	High	Rivalry Among Existing Firms		
	Medium	Bargaining Power of Buyers	Bargaining Power of Suppliers	Relative Power of Other Stakeholders
	Low	Threat of New Entrants	Threat of Substitute Products or Services	Bargaining Power of Suppliers





## Groups affecting the immediate environment

As stated previously, the task environment includes customers, competitors, suppliers, creditors, labor unions, governments, trade associations, interest groups, local communities, and shareholders. Each group affects UPS differently and to varying degrees. I believe that currently it is the customers who have the greatest impact on UPS. The ability to purchase items and thus, need them shipped, directly relates to the economic situation of the country in which your business is located. The customers are equally threats and opportunities. They are the life blood of UPS's success. UPS depends on their continued need for items delivered to them daily. UPS is also highly affected by government regulations, specifically outside of the United States where the government requires knowledge of the specific details of each shipment to be reported.

UPS makes many efforts to support the local communities and its shareholders. Its new fleet of 'green' trucks is just one example of the importance that they place on our communities. Additionally, they have partnered with many charities to bring about change throughout the world. Recently they partnered with Africare to help refugees in Chad. That is just one of the many examples of their charitable contributions. In addition to earning great profits, UPS seeks to make our world a better place.

## EFAS

No.	External Strategic Factors	Weight	Rating	Weighted Score
	<b>Strengths</b>			
O1	UPS maintains a dominate portion of the market share at 73billion market cap	0.09	4.5	0.405
O2	Foreign companies are more inclined to do business in the US due to the devaluation of the US dollar, leading to more international companies using UPS as a source of transportation	0.1	3	0.3
O3	implementation of new software technologies, RFID and scanning allow customers to track their packages	0.15	5	0.75
O4	Internet based markets rely on their services to make their business successful (Amazon)	0.1	4.8	0.48
O5	Development of environmentally friendly trucks to reduce emissions , currently they have 1,629 Compressed Natural Gas trucks	0.15	4.9	0.735
	<b>Weaknesses</b>			



T1	If the computer system crashes or malfunctions every system dependent on that function would be stopped which would create a backlog	0.15	3	0.45
T2	Government regulations in some countries hinder the process since the shipping information is required to be reported to regulatory agencies	0.08	2.5	0.2
T4	The current status of the United States economy threatens UPS's success due to fewer items being purchased within the US and rising gas prices	0.1	5	0.5
T5	Strong US competition in the form of FedEx & DHL	0.08	4.2	0.336
	<b>Total Scores</b>	<b>1.00</b>		<b>4.156</b>

## **INTERNAL ENVIRONMENT: STRENGTHS AND WEAKESSES (SWOT)**

### **Corporate Governance**

UPS is controlled by a twelve member management committee. The purpose of UPS' executive management team is to provide both an executive leadership and strategic vision, as well as to manage the strategic planning process. Each member specializes in a specific aspect of business. This gives them the flexibility to react to any type of conflict that may arise in the course of business. In the package delivery industry, UPS competes directly with FedEx, which operates with 21 executive managers. This could cause difficulty in managing a group of that size, thus giving UPS the advantage when decisions must be made and executed quickly.

The Board of Directors is also made up of twelve members. Their job is to set corporate strategy and overall direction, hire and fire the CEO and top management, control, monitor, and supervise top management, approve and review the use of resources, and care for shareholder interests. To do this, the board is composed of several outside members which represent various major holders with a financial interest in the company through large stock holdings. Because the board is mostly made up of outside members, it is able to maintain the agency between the managers and ownership interest of UPS in alignment.

There are four committees within the management structure. The four committees are: Audit, Nomination and Corporate Governance, Compensation, and Executive. The Audit Committee, chaired by Carol Tomé, oversees the recording and preparation of financial statements to ensure its accuracy and compliance with SEC regulations for the entire corporation as well as all of its subsidiaries. The Nomination and Corporate Governance Committee screens, recommends, and aids in the election of new board members. The Compensation Committee was created in order to prevent the board of



directors having to directly decide on compensation related issues, more specifically related to executive bonus programs. Finally the Executive Committee, made up of current Chairman and CEO Scott Davis, and Chief Financial Officer Michael Eskew, may exercise all powers of the Board of Directors in the management of UPS' business and affairs. UPS' corporate committee structure is designed to distribute decision making authority among board members, keeping them efficient and keeping any one member from having too much power.

Knowledge of the current corporate structure by employees is achieved through a comprehensive Code of Business Conduct. In this document the structure is laid out and clearly defined. The Code of Business Conduct, distributed along with a Code of Policies, is produced in 12 languages for all business units. Both the Code of Policies and Business Conduct outline the moral and ethical values expected of every single employee of UPS.

#### **UPS Corporate Compliance Mission Statement**

Promote an organizational atmosphere that protects our legacy of ethical conduct and supports full compliance with all legal and regulatory requirements and UPS policies throughout all UPS business units globally.

### **Corporate Culture**

The culture of UPS is made clear through the company charter. The UPS Charter consists of well developed value, purpose, mission and strategic statements that reflect the goals of the firm. Because of the industry in which UPS operates the Charter focuses heavily on the active role UPS plays in different countries.

#### **UPS Value:**

We believe people do their best when they feel pride in their contributions, when they are treated with dignity, and when their talents are encouraged to flourish in an environment that embraces diversity. Clearly on the forefront of the UPS corporate culture is the fair and equal treatment of its employees in its global workforce.

UPS defines several corporate values, but most relevantly refers to the treatment of their culturally diverse workforce. By making statements like this in the Charter it is expected that all employees abide and act accordingly. The statement made is broad enough to be

applied to every country in which UPS operates or owns a subsidiary.

#### **The UPS plan of action**

Create the future through One company. One vision. One brand.

We will continue to expand our distribution and supply chain solutions to synchronize the world of commerce - the flow of goods, information, and funds.



UPS's purpose in business is simply stated as, "to enable global commerce." This broad purpose allows them to apply their values in various forms all over the world. Also, due to the fact that the purpose of their business is to function on a global level, they are forced to employ strategies and cultures that embrace the cultures of countries in which they operate and employ workers.

In the company Charter, UPS clearly addresses its position on several issues facing the company under its strategy statements. By doing so in such a public fashion there is no question as to management's feelings or standpoint on certain issues. It also outlays their intent for future growth and expansion.

We will expand our position as a trusted broker between buyers and sellers worldwide.

We will harness the appropriate technology to create new services and to strengthen our operations and networks.

We will attract and develop the most talented people whose initiative, good judgment, and loyalty will help realize our company's mission.

We will continually study customers' behavior, anticipate their needs, and design our products and services to exceed their expectations.

We will create a practice of innovation that leads to sustainable growth.

We maintain an environment that enables us to treat every customer as if they are our only one.

We will leverage the UPS brand to maximize brand loyalty among all constituencies.

UPS used the corporate charter to create unity among employees. This unity, founded on the sense of pride found from being a UPS employee, has come to form the company culture of UPS as it is today. UPS does an excellent job of considering and forming their strategic decisions based on what works best for the employee culture. Because of this, employees working for UPS worldwide feel as though they are a part of the company as opposed to just a worker, and are inspired to work harder because of this. This respect for its employees, according to the UPS fact sheet, has led workers to stay with the company for an average of over 15 years.

The distinctive culture is even cited on the UPS investor web site as a competitive strength:

#### **Distinctive Culture:**

We believe that the dedication of our employees results in large part from our distinctive "employee-owner" concept. Our employee stock ownership tradition dates from 1927, when our founders, who believed that employee stock ownership was a vital foundation for successful business, first offered stock to employees. To facilitate employee stock ownership, we maintain several stock-based compensation programs.

UPS obviously takes a fair amount of pride in the culture they have developed throughout the years. In assessing the strategy-culture compatibility of UPS, both the



culture and the strategy work with each other and can adapt to changes in the current operating environment.

## **Corporate Resources**

### **Marketing**

In January of 2007 UPS invested \$35 million in a new advertising campaign. The campaign relies on an up front and simple explanation of its complex business and personal services via a man making animated drawings on a whiteboard. This new simplified approach to brand expansion and recognition for UPS makes an attempt to clearly explain its highly technical, complicated, services. Unlike UPS, FedEx (UPS's main competitor), relies on the use of comedy to build name recognition, and offers little explanation of the services offered. Therefore, UPS is able to make a better impression by taking its target market seriously.

It is clear that UPS's objective with this new approach is to inform the decision-makers of companies, both large and small, that UPS can save them time and money with their logistics solutions. This is in alignment with its mission of aiding its customers, "leverage UPS's expertise in the areas of engineering, technology, finance, and supply chain design by developing and implementing business solutions that contribute to your global supply chain success."



UPS uses this new campaign in conjunction with their old slogan of, "What can 'Brown' do for you?" Again the focus is on offering a variety of different services to existing customers by informing them about the different complex business solutions offered by UPS.

The recent trend in business has led to a need for globalization. UPS has recognized this by focusing not only on the BRIC countries (Brazil, Russia, India and China) but also emerging markets in the Pacific, the Middle East and Eastern Europe. A clear advertising campaign for regions besides North America are non-existent, also it has not been stated if the "whiteboard" campaign is intended for global markets.

UPS has put a significant amount of effort into its website as a marketing tool. There are over 150 different versions of their website in both English and the native language for most countries. Because of the recent technological boom, a large portion of UPS's business is done online, therefore having a well functioning, globally accessible and user friendly website is crucial to please a tech-savvy customer.

UPS's Senior Vice President of the Communication and Brand Management Division is headed by Christine M. Owens. She is in charge of all global public relations, employee



communications, customer communications, advertising, as well as brand management. Christine started with UPS in 1979 as a seasonal truck loader during the holidays, and has since climbed the ladder to her current position. Christine is also a member of the executive management team, so she is heavily involved in the day to day operations of the company. Her role is to continue to build and maintain a strong relationship with its global customer base and develop UPS as a brand.

## **Operations and Logistics**

UPS clearly states in its annual report that their operational strategy is, “to increase domestic revenue through cross-selling services to our large and diverse customer base, to limit the rate of expense growth, and to employ technology-driven efficiencies to increase operating profit.” UPS benefits from the strongest international package handling network in the industry. As stated, this can allow them to offer a wide range of services to a single customer, leaving them with little reason to use a company other than UPS for their logistical business needs.

This offering of various services falls directly in-line with their advertising campaign that clearly explains the complicated services that UPS performs. By informing customers on the services, UPS is able to increase profit margins on existing, individual customers.

UPS is primarily a package pickup and delivery service based on an integrated air and ground operating network. It operates globally, in over 200 countries and territories. In 2007, UPS delivered 3.79 billion packages, the equivalent of 15.75 million packages per day. It operates under three reporting segments: US Domestic Package, International Package, and Supply Chain & Freight. UPS has internally developed the strong network in the industry that allows them to perform every aspect of their company with the same service truck, offering maximum flexibility.



UPS operates an extensive fleet of both vehicles and airplanes. UPS has 100,000 vehicles in the US alone. It operates roughly 600 airplanes world-wide, making it the ninth largest airline in the world. Nearly half of UPS's 600 plane fleet is either owned or booked as a capital lease. UPS uses six cities nationally as supporting regional hubs, and also operates a central hub in Louisville, Kentucky. UPS also has hubs in Germany, Hong Kong, Singapore, Taiwan, Miami, and the Philippines.

UPS's massive transport infrastructure allows companies to outsource their shipping and supply chain management needs to UPS. This allows them to bill the value of the work to the customer rather than the costs involved. As competition among companies in various industries continues to increase, the need to cut costs by outsourcing will become a more central focus to firms.

UPS is highly dependent on its workforce. Because delivering packages involves driving, you are reliant on a person to perform that job. If there is a labor strike of some sort it would just about cease operations unless you were able to find *qualified* replacement workers. Also, they are susceptible to increased energy costs. High gas prices lead UPS to run their trucks on natural gas for a couple years in 2004, but they have recently had to switch back to gasoline due to an increase in natural gas prices, despite gas being nearly \$100 per barrel at the time.

UPS has a highly automated package handling system. It performs all of the routing electronically through the use of barcodes and high-tech machinery. Packages are sorted by destination and automatically distributed to waiting trucks. However, UPS is not technology reliant as it still demands a manned workforce to drive and personally deliver the packages.

### **Information Systems**

As previously mentioned, UPS operates an internally developed network that allows them to instantly coordinate both ground and air transportation units to pick up and deliver packages with time-definite performance. In their annual report, UPS states, "Technology is the backbone of everything we do at UPS. It is at the heart of customer access to the company." UPS is fully aware of the value of a strong information system, and has spent much time and effort into perfecting their system.

It is in technology and information systems that UPS considers its core competency. The goal of UPS's information systems department is to continue to develop and strengthen this competency to reduce costs and maximize efficiency and profits.

UPS has such a developed system, that it offers both management and consulting services to its business clients in regards to *their* information systems. UPS can offer advice on ways to develop and strengthen a client's system, or offer to manage it completely. By completely managing a client's information system, the client, having outsourced a troublesome function of their business, can focus on their own core competency. Again this allows UPS to bill on the value of services rendered to the client, as opposed to the costs involved.

UPS.com, processing over 15 million transactions per day, allows users to track packages, make pickup requests, get rate quotes, open an account, locate drop-off points, view transit times, and order supplies all at the customer's ease. Because of the high level of integration of their system, users can see what times their packages were picked up, and arrived at the various stops along its route, including international packages.

Because UPS's operations as a whole are so dependent on the strength of its information system, managers are continually evaluating its performance. This also makes the role of the IS manager that much more important. Wherever the system is not running at its full capacity, or potential, profits are being missed out on. Because of



the size of UPS, anywhere they can find in the complex system, to shave a second off package handling times, could result in millions of dollars in savings over time. This makes monitoring the system and reviewing its performance crucial to UPS's future success.

It is fair to say that the performance of UPS is directly tied to the performance of its IS systems. This is also its source of competitive advantage in its package handling and freight industries. The strong IS system also plays an important role in the decision making process. Because the system is so detailed and accurate, management is always able to get instant up-to-date information about the performance of the firm, or more importantly, the information systems.

### **Research and Development**

There is no mention of research and development anywhere in the financial statements. If expenditures are being made, they are being included in the "other expenses" area on the income statement, and are not detailed. However, a look into the future of UPS on the Investor's Relations page talks mostly about the continued growth and development of their package handling and supply chain management network.

Though it is not a direct form of R&D, expenditures made to the Information System does help UPS. By continuing to grow their admitted backbone, funding their shipping network to promote growth will add to UPS's competitive advantage in their industry. Thus, there is a return derived through the reinvestment of profits to further the quality of their already strong network.

The IS manager could be considered to be in control of R&D spending. If that manager feels like an investment of capital is needed to further develop or fix in the existing network, then I am sure UPS complies. Also, if that manager sees an opportunity to streamline another task by including it as part of the automated network, then UPS would be inclined to make an investment, pursuant to that manager's recommendation.

### **Human Resource Management**

Because UPS operates a large fleet of both trucks and airplanes, they must hire people to operate those vehicles. Without having good workers in these positions, UPS is prone to failure. Therefore, there is great importance put on the HR department in the people that are hired. The task is so important that UPS has dedicated a whole website, UPS Careers, just to the HR department, in order to showcase career possibilities at UPS as well as manage applicants.

Currently UPS is the defendant in two California class action lawsuits involving labor disputes. In the first, Marlo v. UPS, the plaintiffs (about 1,200 full time supervisors) claim they were unfairly denied overtime opportunities, and seek penalties for missed meal and rest periods, the related interest, and attorneys fees. The second, Cornn v.



UPS, involves a class of about 23,000 current and non-current employees seeking back pay, compensatory and punitive damages as well as attorney's fees.

At the end of 2007, UPS claims to have over 425,000 employees. Over half, or about 246,000 employees are members of local unions affiliated with the International Brotherhood of Teamsters. Just recently in 2007, new 5-year labor contracts were negotiated, effective August 1, 2008. These contracts should ensure the future employment of the members through the next five years. UPS also employees roughly 2,900 pilots employed under the collective bargaining agreement with the Independent Pilots Association; their contract extends through 2011. Airline mechanics work under a collective bargaining agreement with Teamsters 2727, formal negotiations were began back in October 2006, and have not yet been finalized. Mechanics not part of the open contract (about 2,900) have agreements with the International Associations of Machinists and Aerospace workers that run through July 31, 2009.

The fact that many employees are members of unions is both a strength and a weakness. Because the unions sign long term contracts, labor under these contracts is guaranteed for the length of the agreement. However, upon renegotiations, UPS is susceptible to losing a large chunk of their labor force if they are unable to reach a deal with the union negotiators.

It is the job of the HR department to manage these contract and negotiations, to ensure that UPS always has the people it needs to continue to grow and dominate the package handling industry.

A driver position at UPS is a fairly labor intensive job. Due to this, workers were frequently injured on the job. This creates a liability for UPS in two ways, 1) injured workers don't work, and 2) they must be paid as they do not work. Because of the potential for a heavy financial burden, in 1996, UPS took a bottom-up approach at redesigning the safety program in place, allowing the drivers to have a fair amount of input into the design of the way packages are handled. This resulted in lower injury rates among employees, a decline in employee turnover and an improved attitude towards safety on the job. The successful redesign and improvement in the safety record was enough to win the firm the 2005 Workforce Management's Optima Award for Innovation.

## **Finance**

In 2007 UPS's revenue increased \$2,145,000. This shows that UPS, despite already bring the largest company in its industry, is still able to attract new business and grow as a whole. Despite this modest 4.5% increase in revenues, UPS's operating and net income fell roughly 90% from the previous year. This is mostly due to a 30% increase in expenses relating to compensation and benefits.

UPS is a multinational enterprise that operates in many countries around the world. Because of this, many of the transactions that took place occurred in a currency other



than the dollar, which is UPS's primarily used currency. In 2007, UPS recognized a foreign currency adjustment of \$190 million, due to the weak dollar and increased value of currency around the world.

Financially, UPS's goals are to establish a strong balance sheet, with a strong cash position in order to secure its existence, and make sure it remains liquid in a short term period. From a long term stand point, UPS hopes to increase its overall size in order to offer an increase number or services.

In UPS's sustainability report they state, "UPS's financial strength enables the company to extend economic benefits to our various stakeholders." These benefits include: compensation and benefits, taxes, an economic impact due to their global expansion, dividends, charitable giving, the ability to enable global commerce, and opportunities for small and diverse businesses. UPS feels that they indirectly pass on their profits and ability to make large business transactions through these different activities.

DIRECT COMPETITOR COMPARISON					
	United Parcel Service (UPS)	Deutsche Post AG	FedEx	United States Postal Service	Air Delivery & Freight Services
Market Cap:	74.68B	N/A	29.44B	N/A	2.19B
Employees:	425,300	5,076,411	211,600	6,961,381	1.44K
Qtrly Rev Growth (yoy):	6.10%	N/A	9.80%	N/A	9.00%
Revenue (ttm):	49.69B	83.60B <sup>1</sup>	37.24B	72.65B <sup>1</sup>	4.36B
Gross Margin (ttm):	26.50%	N/A	27.81%	N/A	17.00%
EBITDA (ttm):	8.73B	N/A	5.16B	N/A	208.68M
Oper Margins (ttm):	14.06%	N/A	8.73%	N/A	5.74%
Net Income (ttm):	382.00M	3.01B <sup>1</sup>	1.98B	N/A	19.59M
EPS (ttm):	0.359	N/A	6.338	N/A	0.36
P/E (ttm):	201.11	N/A	14.98	N/A	22.4
PEG (5 yr expected):	1.34	N/A	1.44	N/A	1.46
P/S (ttm):	1.52	N/A	0.81	N/A	0.78

UPS had a tough year in 2007. Its growth was a bit sluggish in comparison with its direct, publicly owned, competitor, FedEx. It posted in revenue growth of 6.1% as opposed to FedEx's

9.8%. UPS's bottom line was hurt the most, posting a net income of \$382 million, just 20% of FedEx's \$1.98 billion posted income. Those income numbers result in earnings per share of just \$.359 for UPS and a whopping \$6.34 for FedEx. UPS does succeed in achieving an operating margin of over 14%, bettering FedEx's by almost 5%. This means that on every transaction from operations, UPS is able to make 5% more than FedEx. Competitively operating, UPS is stronger than FedEx; however, FedEx is better able to manage their non-operating expenses and smooth-out earnings a bit better than





UPS. If UPS can better manage their financials after operating income, they will stay competitive and continue their dominance in the package handling industry.

UPS's balance sheet is much larger than FedEx's. UPS has \$39 billion in total assets to FedEx's \$24 billion. This means that UPS is able to offer more than FedEx. One example of this is the new business line recently developed by UPS offering lines of credit to companies. UPS is able to make their large balance sheet work for them by utilizing their assets to achieve the best return they can on stagnant assets. UPS hopes to attract more business from existing customers by allowing room for flexibility by offering a wide array of services than a single company would need to operate successfully.

## IFAS

No.	Internal Strengths and Weaknesses	Weight	Rating	Weighted Score
S01	A twelve member management committee is the perfect size to manage operations for UPS. It allows plenty of perspective without having too many people to manage.	0.07	3	0.21
W01	UPS operates with only four management committees. With additional committees specifically assigned to different tasks within UPS, they can increase productivity and efficiency.	0.07	3	0.21
	Culture			
S02	UPS harnesses their cultural diversity to succeed worldwide. Their global strategy depends on a diverse workforce, and is achieved through a balance of workers from around the world.	0.06	4	0.24
W02	Because UPS operates in many different countries, they have to manage people in different countries differently according to the customs in that country. Ensuring people in different environments are treated fairly is costly and risky.	0.05	3	0.15
	Marketing			
S03	UPS utilizes a simple straight forward advertising campaign that clearly explains the complex services that UPS offers.	0.07	4	0.28
W03	A global company, the advertising campaign is a centrally performed function, with broad messages that don't necessarily work in all locations.	0.04	2	0.08
	Finance			



S04	UPS has the largest balance sheet in the industry. This allows them to expand offered services, as well as easily consider acquisitions.	0.06	3	0.18
W04	In 2007, UPS had a difficult time managing post operational expenses, making net income much weaker than operating income. If this poor management of post operation expenses continues UPS could be in trouble.	0.04	3	0.12
Research & Development				
S05	There is no actual R&D function which keeps costs down.	0.03	2	0.06
W05	UPS's form of R&D spending is in the form of maintaining and increasing the abilities of its current package handling network, which is a never ending task.	0.05	3	0.15
Operations				
S06	UPS has invested billions of dollars in infrastructure and package handling facilities to offer unsurpassed package delivery services and supply chain management solutions	0.10	5	0.5
W06	Because UPS is in the package delivery and transportation industry, and mostly use trucks and airplanes, they are highly susceptible to an increase in energy prices	0.08	3	0.24
HR Management				
S07	Because UPS operates via a highly automated system, the main job, other than administrative positions, is for drivers of trucks and pilots for planes. Due to this the hiring process is fairly straight forward and not difficult in the sense that people only have to be evaluated for one position rather than several.	0.04	3	0.12
W07	UPS employees must be trustworthy, especially in the driver position. Drivers handle other people's goods and must maintain a high level of integrity and skill; therefore recruiting managers must hire people carefully.	0.05	2	0.1
Information Systems				
S08	UPS has developed the strongest package handling network in the industry that integrates both air and ground functions to guarantee package deliveries	0.15	5	0.75



W08	The size of UPS's immense international, multi-platformed package handling network is so large that it could possibly become difficult to manage	0.04	3	0.12
Total Scores		0.46		1.47

## ANALYSIS OF STRATEGIC FACTORS (SWOT)

The SFAS matrix combines the external factors from the EFAS table and the internal factors from the IFAS table. The revised weight indicates the priority of each factor in UPS's future success. The factors with the highest weight in the EFAS and IFAS appear in the SFAS matrix.

No.	Strategic Factor Analysis Summary	Weight	Rating	Weighted Score
S08	UPS has developed the strongest package handling network in the industry that integrates both air and ground functions to guarantee package deliveries	0.15	5	0.75
S03	advertising campaign that clearly explains the complex services that UPS offers	0.10	4	0.4
W01	committees. With additional committees specifically assigned to different tasks withing	0.10	3	0.3
W06	transportation industry, and mostly use trucks and airplanes, they are highly susceptible to	0.10	3	0.3
O3	RFID and scanning allow customers to track their packages	0.15	5	0.75
O5	to reduce emissions , currently they have 1,629 Compressed Natural Gas trucks	0.15	4.9	0.735
T1	malfunctions every system dependent on that function would be stopped which would create a backlog	0.15	3	0.45
T4	economy threatens UPS's success due to fewer items being purchased within the US	0.10	5	0.5
Total Scores		1.00		4.19



## STRATEGIC ALTERNATIVES AND RECOMMENDED STRATEGY

The TOWS Matrix illustrates how the external opportunities and threats facing a particular corporation and can be matched with that Company's internal strengths and weaknesses to result in four sets of possible strategic alternatives. The TOWS Matrix is very useful for generating a series of alternatives that the decision makers of a company or business unit might not otherwise have considered.

**SO Strategies** are generated by thinking of ways in which a company or business unit could sue its strengths to take advantage of opportunities.

**ST Strategies** consider a company's or unit's strengths as a way to avoid threats.

**WO Strategies** attempt to take advantage of opportunities by overcoming weaknesses.

**WT Strategies** are basically defensive and primarily act to minimize weaknesses and avoid threats.

	<b>Strengths(S)</b>	<b>Weaknesses(W)</b>
	<p>S08 - Strong package handling network</p> <p>S03 - Straight forward advertising campaign</p>	<p>W01- Too large of a span for management committees</p> <p>W06 - Highly susceptible to higher energy prices</p>
<b>Opportunities(O)</b>	<p><b>SO Strategies</b></p> <p>Continue to increase global market share through new technologies in world-wide delivery services and B2B solutions.</p> <p>With simple ad campaigns, UPS can highlight its corporate responsibility of reducing carbon emissions.</p>	<p><b>WO Strategies</b></p> <p>To hedge against high petroleum prices, larger deployment of alternative fuel vehicles.</p> <p>As UPS slowly grows into a conglomerate, more specific management committees can be useful to not overload current management.</p>
<b>Threats (T)</b>	<p><b>ST Strategies</b></p> <p>To continue positive earnings growth, UPS needs increased global revenues to offset weak dollar and slowing US economy.</p> <p>UPS can advertise the security of their IS/IT infrastructure and how safety and importance of customer data.</p>	<p><b>WT Strategies</b></p> <p>With the US economy contracting, UPS needs to 'trim the fat' to stay competitive. With alternative fuels and well planned forward contracts, fuel costs can be reduced.</p>



## STRATEGIC ALTERNATIVES

While prevailing US economic issues continue in a downward trend, UPS is maximizing its global exposure through increased supply chain logistics, expanding B2B services and of course penetration into emerging markets package delivery. UPS has been driving to succeed internationally with positive results, the implementation and strategies in use are working and it shows on their income statement. Being UPS is employee driven and most management comes from within, the attitudes that drive the Company are positive and keep the stockholders' interests foremost, since employees are major shareholders.

During 2007, UPS solidified the next five years' labor through a key employee union agreement with the International Brotherhood of Teamsters. In the late 1990's, the UPS drivers did strike and was disastrous to profitability. Looking forward, guaranteed labor helps when focusing on strategic alternatives for the future, knowing you can count on your most valuable asset, the employees. Referencing the above TOWS Matrix, the most significant issue on the horizon is increasing fuel prices. UPS does not use a price strategy focus, therefore when package shipping prices increase to cover fuel costs, many consumers may turn to USPS, albeit slower, USPS is subsidized by the federal government and thus not required to make a profit.



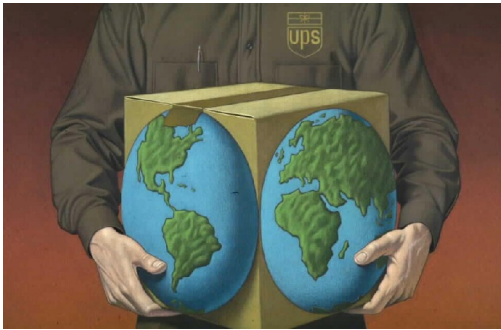
To keep fuel prices down, UPS needs to team up with a large auto/aircraft engine manufacturer and expand their alternative fuel usage among its fleet. UPS currently uses CNG (compressed natural gas) to power many of its trucks, but much of the fuel costs come from aviation fuel costs. The fuel being used now was most likely purchased with forward contracts roughly one year prior, but oil prices have

spiked recently and so moving forward fuel costs might jump as much as 50% over current price levels.

Another alternative would be hedging against the US dollar, as the value has fallen dramatically. So being paid in foreign currency might cut exposure risk and stabilize profits. These procedures should be accepted positively by the BOD as it is a friendly Board and the members' try to do what is best for the employees'. These recommended strategies will help the promote positive corporate culture, especially



through use of alternative fuels and can motivate employees to use alternative fuels in their personal lives, after the successful use of these alternative fuels vehicles while working. There is no need for any type of retrenchment or regression strategy, not even a stability strategy is warranted for UPS. The current market for the package delivery industry is expanding fast due to increased globalization, thus UPS's strategy is all growth! There would be no point in offering a discount service with cost differentiation as the focus, as spoke of earlier the USPS will always be able come in cheaper because its subsidized.



In the short term UPS is the global leader in package delivery and expanding into other types of B2B services, using the above strategies they will continue in the 3-5 year range to dominate. With respect to long-term goals, 5+ years, they must maintain focus on the services that put them in their current position and not lose the edge, becoming complacent and losing their industry leading innovations and fantastic global brand image. The

VIRO framework help to evaluate a firms core competencies to see if they are distinctive competencies.

#### **VIRO FRAMEWORK**

**VALUE: DOES IT PROVIDE CUSTOMER VALUE AND COMPETITIVE ADVANTAGE?**

**RARENESS: DO OTHER COMPETITORS POSSESS IT?**

**IMITABILITY: IS IT COSTLY FOR OTHERS TO IMITATE?**

**ORGANIZATION: IS THE FIRM ORGANIZED TO EXPLOIT THE RESOURCE?**

Using the above framework UPS has many competencies, but I fail to see any Distinctive Competencies in the package delivery side of UPS, because #2 in the industry FedEx, uses similar techniques and has its own niches. They both compete in the same markets with a similar mission and style. As for the Company as a whole, they do present distinctive competencies with their combination of financing, supply chain solutions and package handling bundled into one stop shopping.





## IMPLEMENTATION

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Strategy implementation is a process by which strategies and policies are put into action through development of programs, budgets and procedures. Implementation of strategy is typically conducted by middle and lower-level managers, with review by top management. But for the type of changes needed to stay ahead of the curve would be directed by the top managers. The implementation has been as follows since 2007:

- **Deployed the first commercial fuel cell vehicle in North America through a unique partnership with DaimlerChrysler and the U.S. Environmental Protection Agency. The vehicle, which is a Mercedes-Benz F-Cell, delivers packages on a daily route in Ann Arbor, Michigan.**
- **Deployed a fuel cell-powered Sprinter van in Stuttgart, Germany.**
- **Joined the U.S. EPA's Smartway Transport Partnership, an initiative to reduce fuel use and emissions by shippers and carriers.**
- **Developed an advanced preventive maintenance inspection process for our delivery fleet, resulting in a savings of 330,000 quarts of oil and \$3 million.**
- **Replaced six older 727 and 747 aircraft with new, highly efficient aircraft.**

These programs should be handed to the new management committees that were discussed earlier. As UPS expands so does the number of niche functions of management, being that alternative fuel implementation is imperative to the entire fleet, this would be a specific team that needs to keep at the forefront of the latest technology. As of recently UPS had 93,000+ delivery vehicles and is the world's 9<sup>th</sup> largest airline, and roughly 2,000+ delivery vehicles were using alternative fuels. With a depreciable life for most autos of 3-5 years, UPS can phase-in alternative fuel/hybrid vehicles when updating fleet vehicles. The cost would not be any greater than replacing with traditional gas or diesel vehicles, as the alternative fuel technology is becoming cheaper and more abundant. The complete hybrid implementation will save shareholders money and increase the net income, through the power of influence, UPS might proposition government for an alternative fuel subsidy for trying to offset the massive carbon foot print of Brown.

Now the implementation of currency hedging and fuel forward contracts, these will be contracted out through UBS AG which the company already has an existing relationship. The use of a broker is imperative and only should be undertaken by experienced proven professionals. UPS currently uses hedging but because of the



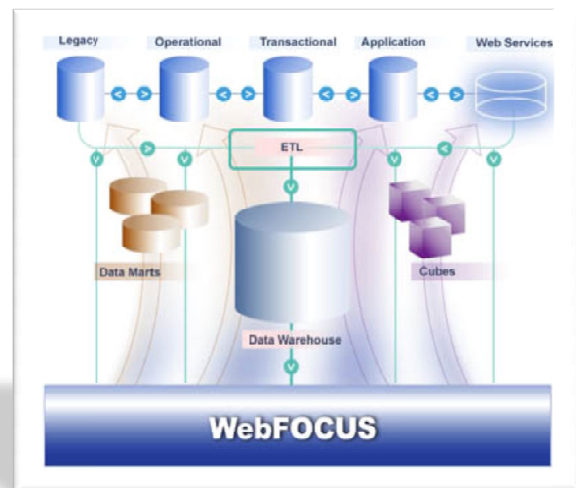
recent weakness of the dollar more aggressive hedging should be considered. This can be an expensive proposition if the broker does not perform to expectations, if they ~~broker~~ does perform then the loss on currency translation will be mitigated. It is hard to ~~see how~~ effective the hedging of fuel contracts is because UPS offsets gains from hedging against fuel expense.

## EVALUATION AND CONTROL

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### UPS' Information System

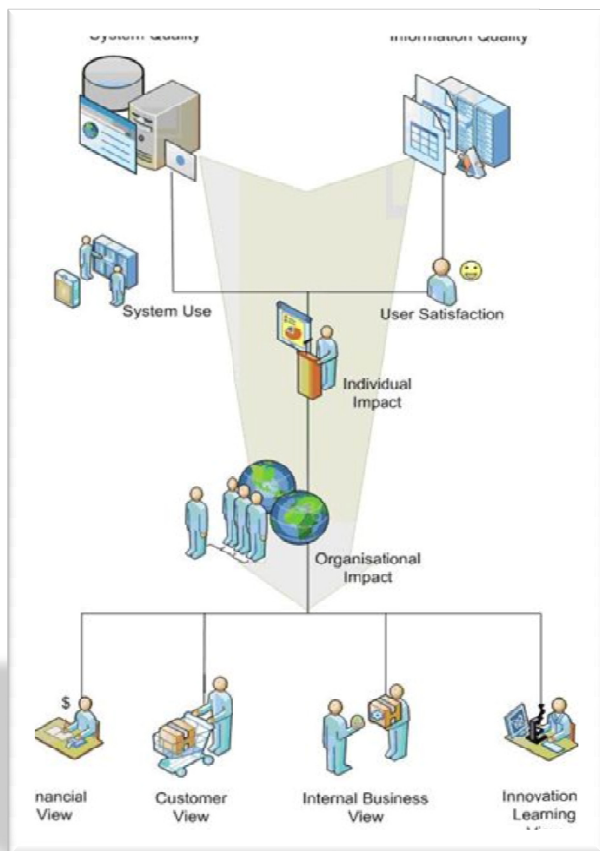
Known at UPS as Worldport, it is a 4 million square foot, fully automated facility that is the company's largest capital investment to date (at more than \$1.2 billion) and a large cog in the global supply chain. More than 2 million express packages from around the globe pass through Worldport every day. For this to happen it has to run like clockwork.



According to UPS, when UPS Information Services initially evaluated the design of its new hub, which called for the consolidation and automation of manual package-sorting functions, the group saw 50 independent applications running on five different operating systems that would have to interact. With the new hub sorting as many as 150 packages every second, and each package requiring multiple interactions among these systems, a middleware system that could support more than 3,000 messages each second was required.

Worldport has more than 100 miles of computer-controlled, high-speed conveyers; 167 camera tunnels; and fiber-optic cable -- 4,482 miles -- to stretch from Louisville to Seattle and back. Hundreds of planes fly in and out of the hub each night, transporting millions of packages, and information about each package is transmitted instantly. Worldport computer systems conduct more than 59 million database transactions per hour. The Service Center functions 24/7 and is staffed with experts on data networking, software support, programming, database management, and computer operations.

All of this activity and more needs to be monitored by an information system. Unfortunately, no such off-the-shelf product existed. So UPS turned to its internal software engineers to develop what UPS now calls, Common Infrastructure Services (CIS) and Common Message Environment (CME).



By developing CIS/CME in-house, UPS is able to customize its information system, ensuring that it fits the company's needs. As a result, UPS has total control over the timing of upgrades and the enhancements included in each system.

UPS' department of IT employs over 4,000 people in its technology centers. They use the most advanced digital information system and a global telecommunications network that links approximately 1 million users in 150 international locations, making UPS the largest user of cellular technology in the world. They are also leading the charge into cyberspace and the world of e-

commerce.

UPS' information system not only measures performance on a scale of area, unit, project or function but it also measure performance of the entire company worldwide, per package and per person! This information can be produced at a moment's time. Managers no longer have to wait to receive vital performance reports longer than a few hours. UPS' information system does not use benchmarking; it is in its self a benchmarking system. With a company the size of UPS, every aspect of its service relies, today, upon its information systems. UPS's information is one of the leading systems in the world. It is a standard to all the many other shipping companies. Since UPS develops their own software and systems they any of the 4000 highly skilled employees can simulate or implement many specific activities or procedures to test for efficiency. In fact UPS has received numerous awards in its many years in business for their innovation and efficiency to perform. Here now is a supplemental list of UPS' many accolades.

## UPS' Awards in Information Systems

- "Most Admired Shipping Company", for the 18th consecutive year, Fortune magazine (Feb 2001)
- "Top 100 e-Business", InternetWeek Online magazine ( July 2001)
- "Global 500: The World's Largest Corporations" - ranked # 3, Fortune magazine (July 2001)
- "Best Places to Work in I.T.", ComputerWorld magazine (July 2001)
- "e-50 Index for Companies", Fortune magazine (August 2001)
- "Smart Business 50", ranked # 2, Ziff-Davis Smart Business magazine (August 2001)
- "Innovation Award for Returns on the Web", CIO 100 magazine (August 2001)
- "Top 25 Wireless Innovators", ComputerWorld ROI magazine (September 2001)
- "Fittest 50", Darwin magazine (October 2001)
- "The Innovative Use of Technology by Corporate I.T. organizations", ranked # 7, InfoWorld 100 magazine (November 2001)

According to what UPS has already set-up and in-place with its way for company evaluation and control, we have determined that UPS has adequate control measures in-place to ensure that it will conform to our recommended strategic plans, successfully and with little resistance.

