



First Phase Of Team Project: External Analysis Of United Parcel Service

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Assignment Instructions:

In the first phase of the team project, you are asked to conduct an external analysis for the company that you have selected. More specifically, you should use PESTEL and five forces frameworks. Use PESTEL to analyze the general environment of the company. In your PESTEL analysis, explain how each factor (political, economic, ...) is affecting the chosen company and how that factor can create opportunities and threats. For example, political changes are affecting the regulations regarding oil and gas pipelines and that is creating opportunities and threats for some of the businesses in the energy sector. Use the five forces framework to analyze the competitive forces in the industry of the selected company. Explain the intensity of each competitive force for the industry of your selected company and explain how that creates opportunities and threats. See the lecture to learn about the drivers of competitive forces. One common mistake that I have seen in the external analysis is that students often analyze the company instead of its environment. Make sure, that you are using the PESTEL and five forces correctly. For example, when I applied five forces to analyze the airline industry, I discussed the competitive forces in the industry. You should do the same thing instead of using five forces (or PESTEL) to analyze a specific company. The use of tables, bullet points, and graphs is strongly recommended in your submissions. Also, if you are using any reference, you must mention it at the end of your report. The report should be in word document format. Finally, please finalize the company you want to choose and confirm it with me before starting the assignment.

[I] Analysis of General Environment of (UPS) using *PESTEL*:

The PESTEL Framework:

- Political Factors
- Economic Factors
- Sociocultural Factors
- Technological Factors
- Ecological Factors
- Legal Factors

[II] Analysis of Competitive Forces in (UPS) industry using *Five Forces*:

The Five Forces Framework:

- Rivalry Among Existing Competitors
 - Threat of New Entrants
 - Bargaining Power of Buyers
- Threat of Substitute Products or Services
 - Bargaining Power of Suppliers

PESTEL ANALYSIS

United Parcel Service (UPS)

External Environment

POLITICAL

- ❖ **Government Actions:** Strict Regulation:
 - [1] Financial Regulations (*Taxation System, Fraud, Pricing, Tariffs*)
 - [2] Employee Labor Standards Regulations
 - [3] Business Conduct Regulations
 - ❖ **Firm Contributions:** Response to adhere to government actions:
 - [1] Financial team for UPS reporting system to record all company transactions while following government reporting standards
 - [2] UPS Company Code of Ethics & Employee Benefits Package
 - [3] UPS "Investor Relations" established a business code of conduct
- Opportunities for a fair & ethical work environment created

LEGAL

All legal factor are outcomes that reflect the political factors for company.

Outcomes include:

- [1] UPS established "Health & Safety Laws"
- [2] UPS established "Labor Laws"

ECOLOGICAL

- ❖ **Supply Chain Management Strategy:** UPS monitors and takes "Supplier-Compliance" actions to ensure their performance aligns with their company wide [ESG] targets expectation criteria.
- ❖ **[ESG] – "Environmental, Social, Governance" Targets:** UPS pledges to be fully carbon neutral by the year 2050, with interim goal by 2035.

ECONOMIC

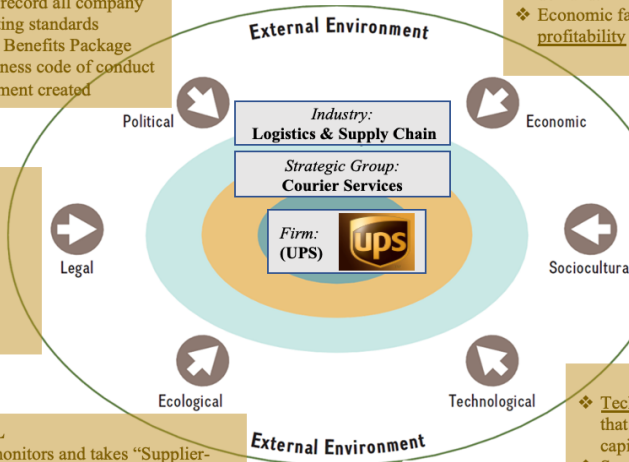
- ❖ **Employment Level:** Approximately 540,000 employees globally.
- ❖ **Growth Rate:** Extreme increased of 43.9% since 2020.
- ❖ **Price Stability:** UPS has unstable pricing for their products & services causing price uncertainty threats. Prices fluctuate based on current health of economy and consumer demand.
- ❖ Economic factors for UPS provide opportunities within their competitive structure's profitability aspect against smaller rival competitors.

SOCIOCULTURAL

- ❖ **Consumer Behavior:** Consumers behavior norms fluctuate with current events. The COVID-19 pandemic caused increased consumer spending usage norms with e-commerce on all online deliveries.
- ❖ **Carrier Market:** Since 2020, demand significantly increased for firms like UPS from the new consumer culture norms.
- ❖ **Market Segmentation Technique:** UPS incorporates demographic trends using a "Demographic Segmentation Strategy" presenting opportunities to improve performance efficiency across all groups.

TECHNOLOGICAL

- ❖ **Technological Strategic Priorities:** "Innovation" is a strategic priority for UPS that is demonstrated by their corporate investment initiatives in technology capital. Presents company with various production improvement opportunities.
- ❖ **Successful Automation:** Acts as "Application of Knowledge", UPS maintains improving production & manufacturing system abilities by annually investing in technology. UPS investment decisions help create innovation opportunities.
- ❖ **2023 Financial Targets:** UPS will allocate approximately \$13.5-\$14.5 Billion on capital spending.



FIVE FORCES ANALYSIS

United Parcel Service (UPS)

Five Forces

Threat of New Entrants – [LOW Threat]

- ❖ UPS's **market reputation** provides them with **industry advantages**
- ❖ **UPS Industry Entry Barriers:** [(1) Economies of Scale, (2) Capital Requirements, (3) Credible Threat of Retaliation]
 - **Incumbent Advantage:** UPS is established within their market as an incumbent firm, which highly increases their industry entry barriers against smaller rival competitors. Incumbent advantages achieve positive affects such as: [1] economies of scale & [2] pricing power, against smaller rival competitors.
 - **Profitability:** UPS has a market advantage for economies of scale from being an incumbent firm. Economies of scale advantage provides UPS with two achievements: [1] - Lower long-run average costs & [2] – Competitive pricing terms against rival competitors. Economies of scale achievements have a positive affect on profitability.

Threat of New Entrants

Bargaining Power of Buyers – [LOW]

- ❖ **Low Buyer (consumer) Bargaining Power Causes:**
 - [1] Buyer faces high switching costs
 - [2] Numerous/Large buyer purchases
 - [3] UPS Incumbent Advantage
- ❖ **Supplier (firm) Establishes Pricing Power:** Current events since 2020 from the COVID-19 pandemic created trends that increased e-commerce usage in consumer spending on all online deliveries increased buyer (consumer) demand for UPS carrier delivery. Surged increases in demand on supplier (firm) challenges their networks capacity operations. Supplier's (firm) like UPS have bargaining power over buyer's (consumer) which allows UPS to charge higher rates to retailers in order to meet their consumer demand surges.

Bargaining Power of Suppliers

Bargaining Power of Suppliers – [HIGH]

- ❖ UPS can pressure their industry's profit potential, increasing their overall profitability.
- ❖ **UPS High Bargaining Power Causes:**
 - [1] Incumbent Firm Advantage
 - [2] Concentrated supplier industry: *limited firms provide carrier delivery service capabilities*
 - [3] UPS Economies of Scale Advantage

Bargaining Power of Buyers



Threat of Substitute Products or Services

Threat of Substitute Products or Services – [Low-None]

- ❖ There are essentially no offered substitutes threatening UPS's industry, the only logical alternative would be the buyer (consumer) personally traveling themselves and handling their carrier delivery needs.

Part 1: PESTEL Analysis of the General Environment of UPS

[1] Political Factors

Affects:

An unstable political environment plays an essential role in on-air delivery and cargo transportation, especially if parcels are received or sent abroad. Political factors are always unpredictable: taxation, regulations and compliance, corruption level, trade control, and more others.

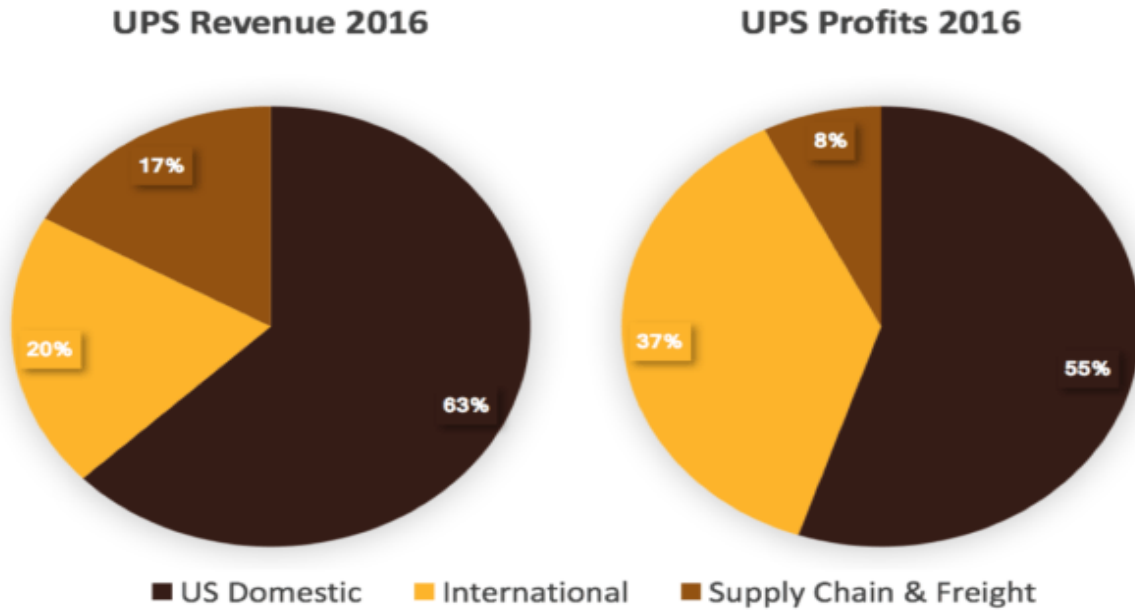
Created Opportunities:

The acceptance and perpetuation of UPS deliveries by the government of Senegal, Nigeria, and Togo are likely to increase the company's overall profit. On the other hand, all parcel services are not accepted by some countries.

Created Threats:

- Broken relationships with other countries can stop deliveries of the company. Different mandates from the government can make deliveries difficult. For example, the vaccination mandate made many workers quit their jobs. With a fewer number of employees, companies struggled to maintain customer satisfaction.

Revenue & Profits Chart



Source: <https://digital.hbs.edu/platform-rctom/submission/when-big-brown-loses-its-raison-detre-ups-rethinks-its-strategy-in-reaction-to-isolationism/>

- UPS entered the international market to deliver packages in the 1970s, and since then, UPS has grown immensely. “In 2016, 20% of UPS Revenue and 37% of UPS Profits came from International Operations underlining the importance of international commerce to UPS” (Ravin, 2017). These statistics clearly inform us about the importance of the international market for UPS, which means any political interference would have an extremely negative impact on the company’s total profits.
 - Recently, UPS was unable to effectively use its international market strategy because President Trump won on a platform of nationalism that restricted international trade. Moreover, the UK Brexit vote and the rise of political parties in favor of nationalism and isolationism in major EU countries are also a threat to this UPS.
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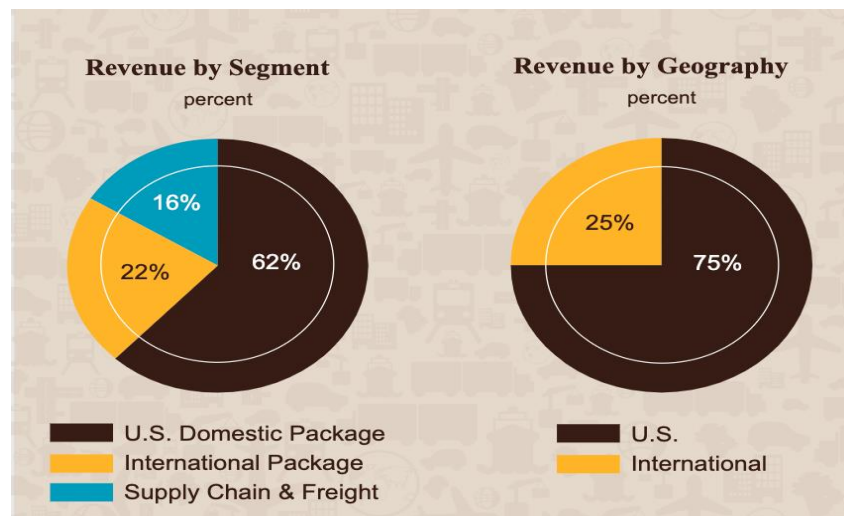
[2] Economic Factors

Affects:

With no doubts, interest rate, inflation rate, type of economic system, employment having huge influence on delivery and related services.

Created Opportunities:

Employment has direct impact on the purchasing power of individuals. UPS operates in 220 countries and territories and has more than 500,000 employees. When unemployment gets low, consumer delivery tends to be high because most customers have income to spend. Which is good for delivery businesses and helps drive growth. During the holiday season, more help is hired to allocate for the excess of packages, which in return creates job opportunities.



Source: http://media.corporate-ir.net/media_files/IROL/62/62900/UPS_AR14/index.html

Based on this chart, we can see what UPS produces the majority of their revenue by domestic shipping, which is what they are most known for. In 2014, UPS had a revenue of about 55 billion dollars.

Created Threats:

Changing the economic system to Command can bring UPS bankruptcy, because in a command economic system, a large part of the system is controlled by a centralized power. If central government decide to use another delivery service, UPS will be closed, if government decide to use only freight services, all companies will lose.

[3] Sociocultural Factors

Affects:

Society's culture impacts on organization of the environment. Beliefs, mood, worldview, relations of the population bringing us to the marketing message. Nowadays, advertisements and marketing of the delivery services are extremely different than a couple years ago. Companies deliver climate friendly, vegetarian, or different gender products.

Created Opportunities:

Reacting to changes in society can give a lot of opportunities to UPS. If UPS will look carefully to the social changes and start market research to see the trends and patterns of society, after change the market strategy, it can help to find new ideas and impact the deliveries of products.

Created Threats:

If society will decide to start another lifestyle, for example buying only organic products, UPS and all delivery services should adapt to the new changes. Adapting can be pricey.

[4] Technological Factors

Affects:

Technologies can bring a company to the next level or destroy it. It's very important to quickly adapt to the new changes of technology innovations.

Created Opportunities:

Automating delivery services allow UPS to replace human skilled tasks with completely machinery ones. Creating a new robot delivery system can reduce cost of suppliers, retail stores, and employers.

Partnership Ecosystem Map



Source: <https://www.partnerbase.com/ups>

As seen in the image above, UPS has many partnerships which creates an immense amount of opportunities for this company to reach more customers. This increases their consumer relations

and opens up more locations for people to ship their packages. Currently, they have over 150 partners and about 75 of these are technology related. UPS connects customers to tech partners with a discounted price for services such as E-commerce, e-marketing tools, accounting, warehouse and fulfillment management software, and shipping integration.

Created Threats:

Existing online services made deliveries faster through all the companies. New software programs can threaten UPS to exit the market. Also using virtual reality trends can lower large amounts of deliveries.

[5] Ecological Factors

Affects:

Companies should consider environmental factors such as recycling, renewable energy, climate change, using ecological products and a lot of others. Weather can simply affect the company's success.

Created Opportunities:

Today, to achieve business goals, there is a need to follow environmental-friendly policies. When UPS start managing their operations with minimal negative impact on the local and global environment, will use fuel-saving routes, collect unwanted plastic bags from customers and recycle them, and use renewable sources it will help to save some money.

Created Threats:

Disaster in one of the states can destroy storage facilities, such as fire, storm, or earthquake. Delivery industry will experience a huge loss.

[6] Legal Factors

Affects:

It is very serious to follow all legal frameworks, intellectual property law, consumer protection, health and safety law, employment law, discrimination law, data protection.

Created Opportunities:

Creating a new system of deliveries, for example, making packages more safe and secure, private opening , protecting consumers from info leaking, can give new opportunities to UPS and all delivery services. Customers start feeling safe and use delivery services more often preferring orders online rather than going to the store. On the other hand, making cannabis legal for postal services can raise the amount of deliveries.

Created Threats:

If company fails in one of these parts, it can bring serious concerns and threat to the future of all delivery services. Employment law operates differently in different countries, for example, when it comes to the minimum wage. A business in the USA needs much more financial resources to pay its employees than a business in Turkey, but rules in the USA are stricter when it comes to discrimination. That's why hiring new workers in Turkey with lower salary than workers of USA threaten to get discrimination court cases.






Part 2: Analysis of the Competitive Forces In the Industry for UPS – FIVE FORCES








UPS is a company that works in the logistics and supply chain industry. This part#2 of the analysis uses the five forces method to understand the potential of profit and gain insights into the industry trends.

[1] Rivalry Among Existing Competitors

Regardless of the UPS's competitive advantage of cheaper supply chain rates in comparison to their competitors, it still has a lot of competition as finding a substitute is easy. Logistics and supply chain industry is expected to grow because of the high demand of its customers yet the barrier to entry is difficult as the cost of starting a supply chain company is high and the existing firms are well established. FedEx Logistics, DHL Supply Chain, C.H. Robinson, Expeditors, Ceva, DB Schenker, Hub Group, and Kuehne + Nagel are all direct competitors of UPS.

PRICE COMPARISON CHART

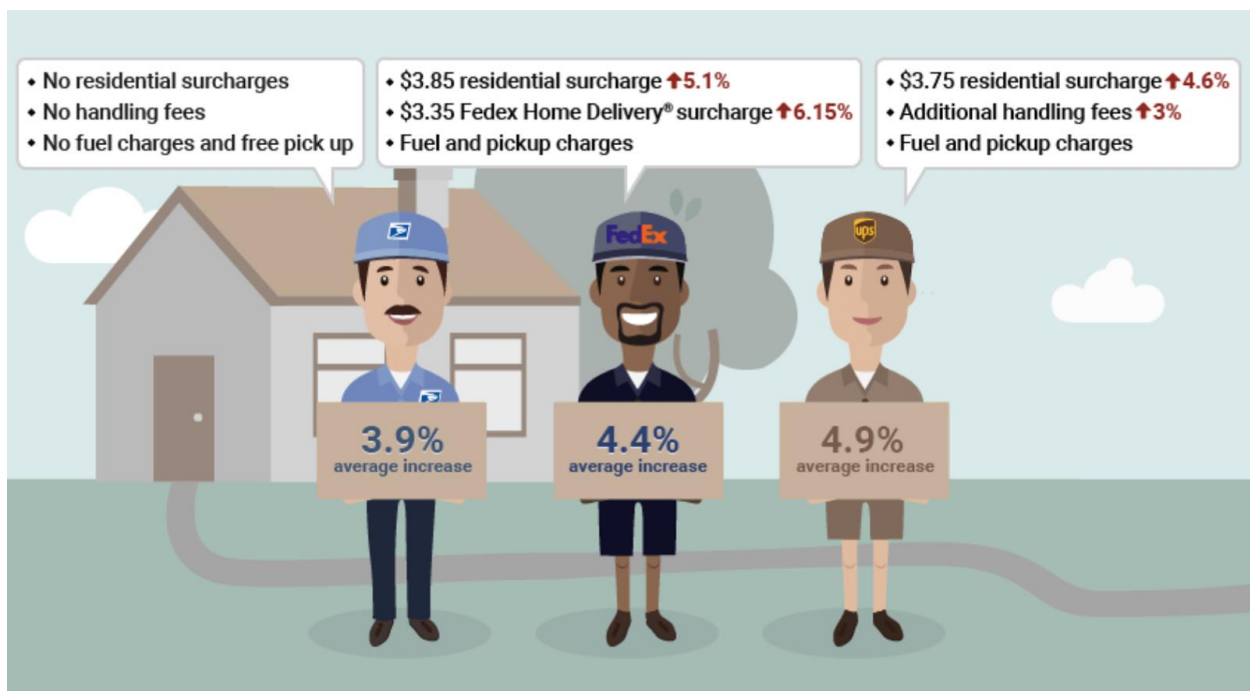
1 lb package						
						
Ships To	Next Day	Next Day	UPS Savings	2nd Day	2nd Day	UPS Savings
New York	\$14.50	\$14.79	none	\$13.09	\$8.08	38%
Florida	\$14.61	\$15.97	none	\$13.66	\$8.09	40%
California	\$15.54	\$19.36	none	\$14.77	\$9.56	35%

2 lb package						
						
Ships To	Next Day	Next Day	UPS Savings	2nd Day	2nd Day	UPS Savings
New York	\$19.80	\$16.69	16%	\$9.09	\$8.08	11%
Florida	\$20.90	\$17.66	15%	\$13.09	\$8.09	38%
California	\$23.09	\$21.61	6%	\$17.00	\$11.35	33%

Source: <https://www.hooverandstrong.com/ups-savings>

It is seen through this chart that in comparison to FedEx, one of UPS's biggest competitors, UPS gives the most savings on their standard packages. For a one-pound package that ships the next day, FedEx is preferred as their domestic rates for lighter packages are less expensive. As the weight of the packages increase, UPS continues to be the preferred carrier because it offers the best rates for a cheaper price than FedEx or even USPS.

Consumers prefer good quality of services and reasonable prices. This makes UPS more competitive as it has everything to satisfy customers. This company became advanced and successfully operating through all countries, maintaining the market share.



Source: https://vipparcel.com/blog/2017_shipping_rates_overview

As seen from the image above, USPS seems to be the preferred method for shipping where unlike UPS, it offers no additional charges such as residential surcharges, handling fees, fuel charges, and it's even free to pick up from the customer.



Source: https://vipparcel.com/blog/2017_shipping_rates_overview

Each of these carriers are comparing the cost of shipping from a warehouse in New York City based on the weight and size of the package. It is clear to see that USPS is the best option in comparison to its other two competitors, however, as the weight and size of the packages increase, UPS is a great option because of its great service and secure shipping for high-valued items. The price difference between UPS and FedEx to send a small package to Los Angeles, California is minuscule as UPS will save a couple of cents. Alternatively, sending a larger and heavier package to Florida shows where UPS is the better option between UPS and FedEx as its price difference for overnight shipping is about ten dollars. Regardless, USPS seems to offer the best price and services to its customers.

[2] Threat of New Entrants

Threat of the new entrant is low at the logistic and shipping industry. This is mainly because of the high estimation cost, as companies have to organize vehicles, airplanes, ships, vessels etc. This requires strict rules and policies to be followed by each department. Moreover, entrants have to

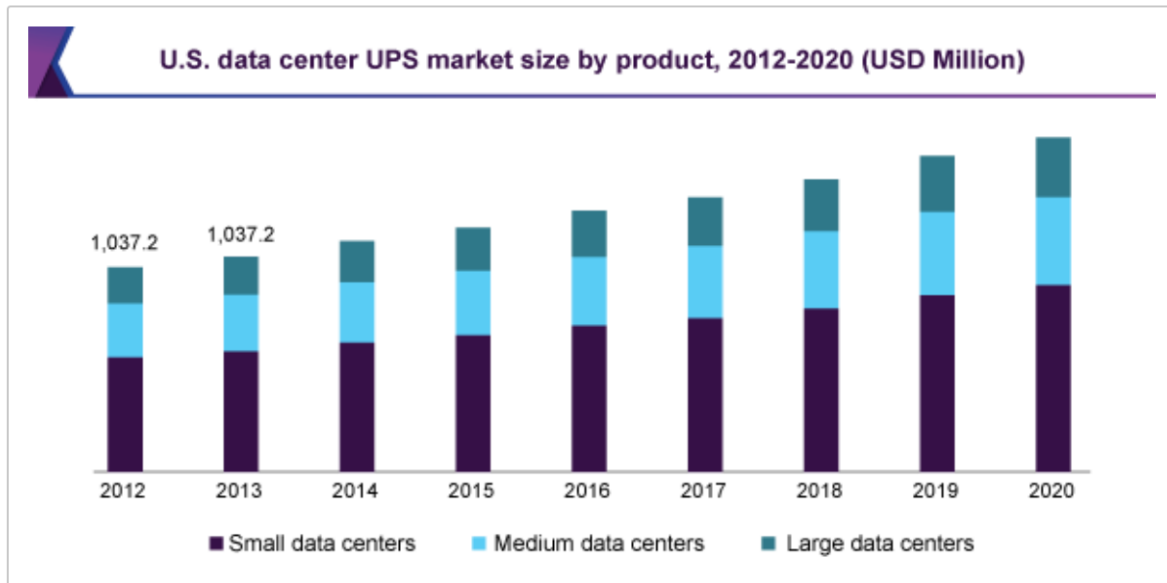
build strong distribution and network channels in order to run the operations smoothly. It is very hard for the new entrants to develop, as chances for this are very low. There are many other companies like DHL, FedEx that has covered the major market share.

[3] Bargaining Power of Buyers

The pressure of this competitive force is very low. Each company in this industry has very loyal customers because they are prosperous in maintaining a huge customer base. Plus, there are just a couple companies present in the industry, which puts buyers in a less competitive position. Consumers are involved in global business. As there are few areas where UPS does not provide services, the company is successful in maintaining the brand image and fulfilling its objectives at an affordable price.

[4] Threat of Substitute Products or Services

Delivery and shipping industry has very low pressure of substitutes and less threats. If consumers need any products, they have to send it from a different location and there is no other substitute available. The other options, if customers wait for someone who is traveling to the place and bringing their product, but there is no sense to do that. This alternative is unsuitable.



Source: <https://www.grandviewresearch.com/industry-analysis/data-center-ups-market>

UPS has about 4,300 locations throughout the United States. It also has many drop-off centers, such as in Staples, where it can be easy accessible for customers to visit rather than locating an actual UPS facility. Each center specializes in different services depending on what the consumer needs.

[5] Bargaining Power of Suppliers

Bargaining power of UPS suppliers and all delivery services has medium pressure. The reason is that suppliers can affect the delivery operations. Companies do not own vehicles and trailers for transportation of parcels. Thus, companies Swift and Budget have power when UPS calls them to rent a vehicle. But for the urgent delivery companies have to use airplanes. The Boeing is the main airplane supplier for UPS. Both companies have signed contract which restrict Boeing to increase the prices, this has limited the power of the company. However, UPS has maintained good relationships with the suppliers.

Results:

Number of Main Competitors: 3

Industry Size:

- Operates in 220 countries globally
- Approximately 540,000 employees

Firm's Pricing Power:

- Today, current events from the COVID-19 pandemic have increased using e-commerce for consumer spending on all online deliveries, thus creating popularity for the carrier market. These consumer spending trends increased demand for carrier delivery firms like UPS. Surges of increasing demand on firms like UPS can challenge their networks capacity operation. Today's massive demand increases allow UPS to impose charging higher rates to retailers in order to meet consumer demand, and ultimately giving UPS pricing power.
- Incumbent Advantage: UPS is established within their market as an incumbent firm, which highly increases their industry barriers to entry against other smaller rival competitors. Incumbent advantages come with significant positive affects such as achieving: [1] economies of scale & [2] pricing power, against smaller rival competitors.
- Economies of Scale: UPS has a market advantage for economies of scale from being an incumbent firm. Economies of scale advantage provides UPS with two achievements: [1] - Lower long-run average costs & [2] – Competitive pricing terms against rival competitors. Economies of scale achievements have a positive affect on **profitability**.
- UPS's **market reputation** provides them with **industry advantages** which ultimately allows them

Industries Type of product/service:

- UPS provides [3] main categories of products & services:

[1] Packaging & Shipping

[2] Mailboxes

[3] Printing & Document Services

UPS Industry Entry Barriers: Economies of Scale, Capital Requirements, Credible Threat of Retaliation, Consumer behavior tends today have exponentially increased industry entry barriers against smaller rival competitors of UPS

Intensity of Competitive Force:

- There is high intensity for a company like UPS
- High Market Share & Profitability

Created Opportunities:

- Competitive Industry Structure due to high industry growth of increased 43.9% since 2020.

Created Threats:

- Actions around UPS as a company are costly, long-term, and difficult to reverse
 - High – Hard to exit the market easily due to contractual agreements and emotional attachments (dependency from consumer behavior norms, high market demand)
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