**Airborne Express: The Underdog**

**Case Synopsis**

Airborne Express was the third largest company in the U.S. air express industry until its acquisition by DHL in 2003. It was also the low cost player in the industry. The case focuses on the strengths and weaknesses of Airborne Express, its business level strategy, and its strategy for building a global business. The case offers a detailed view of a company that was been forced by adverse circumstances to become very efficient. The theme that runs through the case is that everything that Airborne Express did could be viewed as an attempt to reduce costs and boost productivity, while maintaining an excellent service.

The case opens with a brief review of the history of the company. The case then moves on to discuss the main features of Airborne Express’ operations. This includes a detailed “nuts and bolts” discussion of how it’s domestic and international delivery systems work. Next, the case reviews Airborne Express’ strategy, both in the domestic market and with regard to international expansion. The case then discusses the company’s organizational structure, control systems, and culture. The cases close with a discussion of its acquisition by DHL in 2003, and the aftermath of that acquisition

**Teaching Objectives**

The main teaching objectives of this case are as follows:

1. Familiarize students with the strategic and organizational characteristics of a company that has successfully pursued a low cost/focus business level strategy. This fits in with the discussion contained in Chapters 3, 4 and 5 of the text. It also fits in with the material on implementation covered in Chapter 12 of the text.

2. Discuss the concepts of distinctive competencies and barriers to imitation as they apply to Airborne Express. This complements material covered in Chapter 3 and 4 of the text.

3. Discuss the pros and cons of using strategic alliances to expand overseas. This complements the material on strategic alliances contained in Chapter 8 of the text.

The case works well as a basis for class discussion, or as the basis for a written report. It is a very good case for illustrating the company-wide effort that is required to become a low-cost player.

**Strategic Issues and Discussion Questions**

**1. According to Porter’s framework, what generic strategy was Airborne Express pursuing? Was this a sound strategy in the context of the air express industry?**

Airborne Express pursued a focus/low cost strategy. The company focuses on serving the needs of high volume corporate customers, and it aimed to be the lowest cost company serving this particular segment.

This strategy made very good sense in the context of the air express industry (see teaching note on air express industry). This is an industry where the product is essentially a commodity, differentiation is difficult, and price is the main competitive weapon. Substantial buyer power and the closeness of viable substitutes such as fax and second day/surface delivery, implies constant downward pressure on prices. To survive and prosper in this industry, a company has to have a low cost structure.

The strategy of focusing on large corporate customers was consistent with this environment. By focusing on large accounts, Airborne could utilize its ground capacity more effectively. On average, Airborne delivery drivers dropped off and picked up far more packages per stop than do the drivers of companies that focus on serving smaller accounts and individual customers (Federal Express and UPS). This helped boost productivity and lowers costs, enabling Airborne to make a profit at a price that would imply losses for UPS or Federal Express.

**2. What were the strengths of Airborne Express? Did it have a distinctive competence? If so, where did it lie? Was this competency imitable?**

Airborne had a number of strengths, all of which contribute to the company’s ability to offer a low cost but nevertheless very reliable service to its customers. In particular:

(a.1) The strategy of focusing on corporate accounts was strength, since it leads to better capacity utilization and lowers costs.

(a.2) The patented innovation of C-containers to hold packages represent strength. C-containers fit through the passenger doors of an aircraft, doing away with the need to install expensive cargo doors in aircraft. In addition, they can be easily maneuvered by small conveyor belts and individuals, doing away with the need to invest in expensive cargo loading equipment. Thus, the innovation lowered costs.

(a.3) Airborne’s practice of buying used aircraft, converting them to its own specifications, and doing its own maintenance, represented further strengths. It is less expensive to buy used aircraft and convert them than to buy new aircraft. It is also less expensive to do maintenance in-house. Thus, both practices lower costs. Airborne installed state of the art electronics equipment in its aircraft. While expensive up-front, this increases reliability (e.g. Airborne’s aircraft can land in thick fog.)

(a.4) The Company’s incentive systems were designed to reward employees for meeting the twin goals of high productivity and high reliability.

(a.5) Airborne’s national and international tracking systems were the best in the industry. These enabled Airborne to tell customers at a moment’s notice where in the system their packages are. This helped improve reliability and build brand loyalty. The same information systems helped Airborne to efficiently manage its billing systems, thereby lowering costs:

(a.6) The longevity of the top management team was a strength. Most of the top management team worked together for 15-20 years. They were very knowledgeable about the industry and the company. Any personal problems were resolved years ago. There was a lack of political in-fighting, which helped create an environment for effective top management decision making.

(a.7) Airborne was the only air express company to own their own airport (the major hub at Wilmington, Ohio). Thus, Airborne was less vulnerable to problems arising from airport congestion than other air express operations. This contributes to the smooth running of their operation, and further increased reliability.

(a.8) The Company’s attempts to diversify its product offering by moving into logistics services represented strength, since this is a less price-sensitive segment of the air express business.

As can be seen, Airborne had a number of significant strengths. Indeed, the organization-wide focus on productivity, low cost, and high reliability did seem to constitute something of a distinctive competence. Due to this, Airborne had a lower cost structure than any of its rivals. Moreover, this was a distinctive competency that its two major competitors, UPS and Federal Express, could only imitate with difficulty.

Eventually, any distinctive competency can be imitated, and there is no reason why Federal Express and UPS could not ultimately do many of the things that Airborne does. However, for UPS and Federal Express to imitate Airborne, they would have had to abandon their broad market coverage and adopt a similar focused strategy. This would be difficult, since they would have to write off years of investments in serving smaller customers, to say nothing of the dislocation such a strategic change would cause in their respective organizations.

**3. What were Airborne Express’ weaknesses?**

The truth is that Airborne had few major weaknesses. This was a very well-run operation. The main weakness was a lack of financial strength. Years of tight margins have left the company with few cash reserves. The lack of scale made it vulnerable to a price war between its larger competitors.

**4. Was Airborne’s strategy of using strategic alliances to expand overseas wise? What were the pros and cons of this strategy?**

Airborne’s global strategy involved two main steps. First, the company entered into alliances with foreign ground operators (e.g. Panther Express in Japan). Second, Airborne bought cargo space from other airlines (both passenger and cargo) to get its packages overseas. The pros of this strategy were as follows:

Airborne did not have to invest in aircraft to fly overseas (there are no fixed costs). Since there wasn’t for them the international demand that would be required to fly their own aircraft overseas at full capacity, this made good sense. For a time in the 1990s, both UPS and Federal Express were flying half-empty aircraft on trans-oceanic routes, and losing money in the process:

(a.1) there was plenty of spare cargo capacity in the holds of trans-oceanic passenger flights

(a.2) foreign partners bring local knowledge to the operation and can help with market access

(a.3) there was no need to invest in an overseas ground network

For a good ten years this looked to be a very smart strategy. However, by the late 1990s volumes had built up to the point where it now paid a company to fly its own planes overseas. Both FedEx and UPS were able to do this, but Airborne lacked the capital. Moreover, by the late 1990s the logistics business was becoming increasingly important. This required that a carrier had total control of a package to ensure that time sensitive inventory was delivered on time. Because it was using passenger airlines to fly packages across oceans, Airborne did not have this tight control, and by the early 2000s this was hurting the company.

Thus, while Airborne’s strategy made good sense initially, particularly given the company’s lack of financial strength, by the early 2000s it was no longer working. At this point, sale of the company to DHL, which did have a large international network, was looking increasingly attractive.

**5. Was Airborne’s strategy of trying to diversify its product offering to include logistic services for clients wise?**

Absolutely, the standard express business is a low margin commodity-type business in which buyers have a lot of powers. Logistics services, in which Airborne manages the just-in-time inventory systems of clients and helps, coordinate their global logistics, promises higher margins. There are three reasons for this:

(a.1) Such services are a necessity for many cost-conscious clients, and therefore unlikely to be cut in a recession.

(a.2) If Airborne can develop a firm-specific skill in handling this kind of business; it may be able to charge a premium price.

(a.3) Buyer power is reduced because making such systems work requires a much closer link between the air express operator and its client. This raises switching costs to the buyer, and limits their ability to play off air express companies against each other.

**6. Why did Airborne sell out to DHL in 2003? Why do you think that DHL was unable to grow its U.S. market share, and subsequently exited the market in 2009?**

Airborne sold out because by 2003 they realized that they realized that continuing globalization was putting the company at a distinct disadvantage relative to UPS and FedEx, particularly in the logistics business where they lack the required tight control over shipments. The sale to DHL was logical, since DHL had a good international network.

DHL’s failure to expand its U.S. market share speaks volumes about the height of entry barriers into the U.S. market. Even a well-financed operation such as DHL was unable to gain share from UPS and FedEx. It is worth noting that DHL shifted away from Airborne’s strategy and tried to serve all segments of the U.S. market. They simply lacked the coverage, assets, scale, brand, and operating skills to do this effectively, and lost a lot of money.