

Opportunities and Obstacles in Global E-Commerce for Express Delivery Services

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“One of the things I was impressed, listening to the other speakers, is the commonality through all of the talks, and what I'm going to talk about in fact from a business perspective and from a transport carrier's perspective, is the speed at which business is moving. And if you look for a minute at some of the statistics and what has happened around the world within the last sixty seconds, you cannot help but be impressed by that while we're talking about logistics and while we're talking about e-commerce and while we're talking about trade and globalization, in fact it is the accelerating speed at which all of this is taking place that is challenging us.

“Speed of business is escalating at an unprecedented rate. And from a business perspective, our managing that speed of business, managing change and incorporating that within our strategic thinking about how we compete, is our key to success.

“Managing speed however is a lot easier said from this podium, than it is done in practice. And in fact if you ask the CEOs of some of the dot-coms, what's happened over the past year as they have faced anaemic profits and poor performance, as the market has held them accountable to the standards many of us have been held to for years, and if you look at many of the Fortune 500 companies from 1975 and where they are today, in fact they're no longer with us, they have experienced some of these same shortfalls. In fact, speed leads to disruption. The failure to move fast enough, channel conflict, "Do I sell direct through retail channels?" "Do I now sell through the Internet?" or "And how do I manage that process?" New competitors that we never thought of are our reality today. They are a different space. And gaining internal consensus can be different in the e-commerce world.

“But our failure to see these, and our failure to blend and balance speed, flexibility and a global scale, we can miss at our own peril.

“The challenges we face as businesspeople are the same as we have faced in years gone by. No matter what business we're in, we're all looking to improve customer service, to reduce costs, to compete in a changing marketplace, grow profitability and manage brand, attract workers, and yet do that at the speed of business, at the changing speed of business, and it is not a simple task, and I candidly have to tell you it is only going to get harder.

“What I'd like to talk about today are the major forces that we see impacting the speed of business, how we at UPS and many of our colleagues in the transportation industry manage them, where we see the supply chain going, and share with you our views of some real opportunities in electronic commerce and supply chain, and how the parcel delivery and logistics business can bring value to the supply chain and compete effectively. I'd also like to address some of the obstacles that stand in our way of creating the true, seamless supply chain that many of the speakers before me have addressed.

“There are in fact two global factors that we see affecting e-commerce and business today. One is globalization and the other is the impact that technology has had on how we as consumers and consumers as businesspeople make choices.

“First, let's look at globalization. Despite the civil unrest that was experienced at last December's World Trade Organization in Seattle, there is no turning back the tide of globalization. There is no turning back the forces of e-commerce and other technology innovations, and in fact globalization is inevitable, and it is necessary for healthy business. I mean who amongst us 15 years ago would have projected the collapse of communism in Russia and Eastern Europe, or that most of the free world would be lining up to do business with China today. Global trade, like money, will follow the path of least resistance. If you look in fact at the investment of the US, in foreign direct investment about 981 billion in 99, the same investment in the US about 812 they were about the same. But both figures are nearly double what they were in the past decade.

“We heard several of our speakers reference Chairman Greenspan and some of his comments, and that of our president and others. Globalization is in fact forging the new economy by providing productivity gains through streamlining of inventories and integration of supply chains to all who choose to participate. Chairman Greenspan has said that electronic commerce and the streamlining of the global supply chain are two major reasons behind our nation's ten year economic expansion. President Clinton and Prime Minister Blair have also talked openly about the supply chain revolution and the convergence of the same three flows that our previous speaker mentioned—goods, information and money—on a global scale.

“Amazing things happens when you merge the three and you drive inventory and inefficiency from supply chain, as the previous speaker said, inventory in motion moving in trucks, planes, ships and other modes of transportation around the world, open markets drive productivity and drive profitability.

“The second trend in globalization, and driving the revolution in e-commerce, is technology, and it is part of not only business-to-commerce but business-to-business growth. Eight years ago, there were only five commercial domains. Today there are five commercial domains going live every minute within the world. And in the time that we will sleep tonight, there will be 3.6 million new web pages created.

“But despite all of that, despite the money that is spent on the front end of creating some of the best web pages, attracting customers, and getting them to their web site, you could not take this glass, or anything else that you have purchased over the Internet, and push it into that computer monitor and have it come out at the other end.

Star Trek technology of beaming something from one place to another does not exist today. Perhaps within our lifetime, perhaps not. But I do make the open offer if you are aware of anyone working on that technology, please see me. It is rather fundamental and core to our business!

“So computers cannot cough up packages. While electronic connectivity and the Internet can bring together the buyer and seller, can make the small seem large and connect us whether we're in the US, whether we're in Japan, or whether we're in India. We still must rely upon transportation to connect the supply chain. It is that final flow that we are talking about. It creates opportunities for UPS, it creates opportunities for our customers, and it creates opportunities for our customer's customer.

“We are today living in an ever increasing wired world, a growing acceptance of electronic commerce and Internet use around the world, and you see some of the connectivity statistics here. But it's not just in Asia, or it's not just in Africa, which by the way stands for one of the greatest possibilities of even leapfrogging the US by using wireless technology, they will not use wire, they going to wireless technology and they may in fact leapfrog us if we're not careful.

“But here in North America, the Internet transcends virtually every aspect of our lives, in growth in Europe and in Latin America, which is also going wireless and using mobile technologies to drive their e-commerce revolution. These statistics and those combined on the previous page are driving the global change that we see today in the e-commerce dynamics.

“The implications are quite profound to our industry, not just transportation but package delivery and the logistics industry as a whole.

“The end consumer is being empowered. It used to be that we in the supply chain pushed things through, today they are being pulled, and the consumer has the power. And in 20 short years in fact the value of goods shipped by the parcel industry, and I draw the difference between the total logistics industry, but the small parcel industry has in fact changed. Today there are smaller, more frequent, time sensitive shipments than there were years ago. It is a trend inevitable in e-commerce. And as a result, 11% of the US GDP, from 5% in 1980s, is now related to parcel shipments, and the power of the consumer is paramount.

“How fast is e-commerce growing? Well, I'll use some of the same statistics that my predecessor used, and I will not dwell on them. Clearly, I think we're all familiar with the growth in business-to-consumer e-commerce, and "Yes" to our previous speakers, we are more than ready to handle the rush of demand that may occur this Christmas season. It is not my concern for either UPS or our competitors, it is frankly the concerns of the e-commerce companies and their ability to get it out the back door that I believe Professor Shapiro and others may address. Once they get it to us and I will even say to our competitors, there is no problem delivering it.

“The growth in B2C, business-to-consumer, we're aware of. But note the growth in business-to-business e-commerce. Not discussed nearly as much. Not as easy for the press to grab a hold of and understand how e-commerce is revolutionizing the way we will do business with each other. But that is where the growth is, and in fact as shown

on the chart, by 2003 it is estimated to be a 1.3 trillion dollar business in the US, 4.2 trillion dollars on a worldwide scale. And if there is any doubt, companies like UPS, GE and others can testify that we are incorporating in our B2B relationships today.

“A different view of the supply chain as previously expressed. The top giving you a sense of pushing through the supply chain from the supplier to the end consumer, the bottom showing you the end consumer reaching into the supply chain at any point. I mean after all, is Dell Computer a manufacturer, a distributor, or a retailer. They are in fact all three, as are many companies in today's environment. But you still have the fundamental movement of goods, information and funds, which are today becoming intertwined into one seamless transaction.

“There is always a new commerce. We talk about b-commerce, or e-commerce. I'll give you a new commerce: c-commerce. Collaborative commerce. It is no longer about the relationship between 1-to-1, but about many-to-many. The greater connectivity between trading partners, between for a customer: their customers, their suppliers, their distributors, their manufacturers, and the trust that must exist between every element in that supply chain is critical, to have the open sharing of information and the greater visibility, if we are to be successful in the web of relationships.

“E-commerce is about changing how business operates. UPS clearly benefits from e-commerce. We talked about smaller, more frequent shipments, and the growth that our business is seeing as a result of that, is good for our business. But our customers are benefiting as well. It is providing them with new channels to the market, it is reducing their costs, it is providing additional customers, providing a channel to improve customer service and improve profitability.

“However, those improvements will come to those only who are prepared to compete, who are prepared to embrace—we may call it e-commerce, I frequently say as I did in a previous slide, if you are having trouble with e-commerce, drop the "e" and get on with commerce. Because in five years I will predict there will be no more e-commerce, it will simply be how we do business or you will not be doing business, we will not be competing.

“Globalization and e-commerce must work together, it must be seamless if we are to achieve the benefits of an integrated supply chain. For our customers, and indeed for their customers, we work and we all must work wherever we reside, to make the movement of goods and information transparent. The comment was made by a previous speaker about Land's End, a good customer of ours, and in fact a global enterprise that has a web business that is second to none, and their need to be able to provide seamless shipments to customers wherever they may be in the world, however they may come in through the Internet to do business. And in fact if you go to Land's End and in fact any other place to track a package, you will not know that it is UPS behind their network, but in fact you will track that package, you will remain at Land's End, yet quietly, and seamlessly, their web site will be talking to our web site to get the information and return it to you.

“Several examples were given of logistics. Let me give you some very specific examples, where we have engaged with customers through our logistics subsidiary, to

provide the type of seamless integration that we are talking about, and the benefit that these customers have recognized.

“For IBM, we manage, as UPS, the storage system division supply chain around the world. We pick up disks, from different manufacturing plants, we warehouse them, we process orders, we then deliver it, we document the transaction and we even collect the money. Consolidating the logistics operations has cut IBM's cycle time by 60%; that's real money.

“If you go to Nike.com, and you order Nike shoes or Nike apparel, the engine behind that is UPS. If you call the call center, it is UPS that answers the phone, although we answer the phone as Nike, and we provide the services worldwide from our hub in Louisville, Kentucky.

“And Fender Guitar is recognized as one of the pre-eminent guitar companies in the world. If you are in Europe, and you order a Fender Guitar, and you have it delivered, we will actually tune that guitar, for Fender, before it is delivered by UPS to you. So it is delivered tuned by a professional musician, ready to go. And I see some of you laughing. That is the reality of logistics companies today.

“Ford approached us, and we track and deliver 13 million packages a day on a worldwide basis. And they said, "You know, if you can track and deliver 13 million packages, we deliver 4 million cars a year, between manufacturing and the distribution centers, the stores. We have an issue with our supply chain. It takes over two weeks in fact, of inventory, of cars in transit to the dealerships."

“And we worked with them and in fact have re-engineered their supply chain, from factory floor to dealership, and we are now tracking and have taken over that supply chain, four million vehicles, and estimate we will be able to reduce the inventory in transit, in finished goods, automobiles, by 40%, for Ford Motor Company.

“Just four examples of how logistics comes together.

“But in today's world that's not enough. We in fact have had what may have been a traditional transportation company, but we've had to form new businesses to compete and provide services to our companies. We now have an e-ventures group, that does R&D looking at the evolution of e-commerce and how we can provide a variety of supply chain solutions to the market.

“We have developed a strategic enterprise fund that invests in new business concepts, like Net Cell 360, the first pan-Asian provider of total Internet-based, e-commerce outsourcing solutions. Or Mo-i, which is located in San Francisco, which hosts their own live Internet auctions for any trading partner.

“Through these subsidiaries and through new businesses like them, we have positioned ourselves, and in fact I would argue transportation companies must position themselves, to participate in all three flows of commerce, the movement of goods, information and funds.

“UPS Capital Corporation is the final piece which was introduced this year to really marry the flow of funds. We provide a variety of services to our small and middle customers, traditionally not the market of major banks and financial institutions. We now provide small-ticket leasing, trade financing, accounts receivable financing, etc. to facilitate their business, and even other services for larger companies, such as asset-based lending and electronic bill presentment and payment.

“All of this does benefit UPS but it also allows our customers to expand and grow. And it clearly has shown that with our ability to connect from the beginning of a transaction, through the delivery and ultimately collecting the digital signature and knowing that transaction has been delivered, we are able to facilitate all elements of commerce.

“However, before the supply chain can be truly seamless, there are several issues that must be addressed and challenges we must face. It has been said by every speaker that has gone before me that e-commerce demands fast and very reliable delivery.

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“...well in fact air transportation is expensive. But companies are willing to pay because of the reduction in inventory and the reduction in cost that occur. However, poor road infrastructure, high import tariffs, complicated customs entry procedures and import costs are some problems that hinder the fast reliable delivery and increase cost.

“There are low end transportation options. However, they compromise the very fundamentals of the e-commerce model that we are talking about today; that is poor reliability and slow fulfilment times.

“We must continue pushing for air rights around the world. Our own Department of Transportation here in the United States found that the inability to serve a market directly increased the time, mileage, connections and expense of service to provide service within that country, and precludes a carrier from tailoring its service to the needs of its customers and system schedules.

“Fulfilment and returns, as several have mentioned, are critical, not only here in the US, which for those of you who live here are familiar, every holiday and every Christmas it seems that—and I can predict it now—on the 1st of January there will be a rash of stories about the problems with returns. Again I will tell you that is not the carriers, we are happy to return any of it. Good for business in fact! It is in fact the problem with the Internet companies, and how they fulfil the return cycle. And one of the big booms we expect this year, consumers checking before they order electronically what is the company’s returns policy.

“In the end, it’s all about speed, as I said at the beginning. E-commerce is the speed of business. We are moving faster and business is accelerating whether we like it or not.

“Let me suggest to you that companies as well as nations that wish to compete and survive in the e-commerce world must embrace the global economy, must embrace

globalization and must embrace technology and the reduction of artificial barriers that we have talked about.

“Our role both in the public and private sectors must be to create the right environment in which this new economy will survive. We must invest and manage not only the physical infrastructure but the virtual infrastructure—as I call it here, the info-structure—that is critical to allow commerce to move forward.

“We believe that business and nations that will compete most effectively will embrace the supply chain revolution, and to those businesses and to those nations who embrace the change, will go the spoils.

“With that, I thank you for your time and, again, I thank the other speakers for allowing me to go ahead.