United Parcel Service, Inc.

Company Profile

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COMPANY OVERVIEW

United Parcel Service (UPS) is one of the largest package delivery companies in the world, a leader in the US less-than-truckload industry, and a global leader in supply chain management operations. The company operates in the US. It is headquartered in Atlanta, Georgia and employs about 408,000 people.

The company recorded revenues of $45,297 million in the financial year ended December 2009 (FY2009), a decrease of 12% compared to FY2008. The operating profit of the company was $3,801 million in FY2009, a decrease of 29.4% compared to FY2008. The net profit was $2,152 million in FY2009, a decrease of 28.3% compared to FY2008.

KEY FACTS

| Head Office                  | United Parcel Service, Inc.  
|                             | 55 Glenlake Parkway North East 
|                             | Atlanta 
|                             | Georgia 30328 
|                             | USA 
| Phone                       | 1 404 828 6000 
| Fax                         | 
| Web Address                 | http://www.ups.com 
| Revenue / turnover (USD Mn) | 45,297.0 
| Financial Year End          | December 
| Employees                   | 408,000 
| New York Stock Exchange Ticker | UPS 

**SWOT ANALYSIS**

United Parcel Service (UPS) is one of the largest package delivery companies, a leader in the US less-than-truckload (LTL) industry, and a global leader in supply chain management operations. The company's strong market position and large scale of operations enable it to serve a broad range of customers across major international markets and provides it the benefit of economies of scale. However, government regulations could put pressures on the company and affect its cost structure.

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**Strengths**

Strong market position

UPS is one of the largest package delivery companies in the world, in terms of revenue and volume. The company's operations reflect its market position. The company delivers packages for around 1.8 million customers to 6.1 million consignees in over 200 countries and territories each business day. In FY2009, it delivered an average of 15.1 million pieces per day worldwide. The company operates an extensive integrated global ground and air network with 141,000 domestic and international access points. The company operates a ground fleet of approximately 101,900 vehicles, ranging from custom-built package cars to large tractors and trailers, and utilizes nearly 510 airplanes.

The company manages supply chains for large and small companies in over 175 countries and territories. UPS is also one of the leading providers of less-than-truckload transportation services. The company is one of the largest air cargo carrier and logistics provider in Latin America and the Caribbean. In addition, in terms of revenues, UPS was ranked 43 among the Fortune 500 list of America's largest corporations in 2010. Moreover, the company is included in the Dow Jones Sustainability Index for the seventh consecutive year and the FTSE4Good Index for the fifth consecutive year in 2009. In FY2009, UPS was among the Top 500 Greenest Companies in America (ranked No. 85) by Newsweek Magazine. It was also included in the Carbon Disclosure Leadership Index Top 50 Global Companies in 2009. UPS was among the 40 Best Companies for Diversity by
Black Enterprise Magazine in 2009. It was also among the Top 50 Companies for Diversity by Hispanic Business Magazine and was among the 100 Best Global Brands by Interbrand (ranked No. 31) published in 2009. It was also included in the America’s Top Corporations for Women’s Business Enterprises every year since 1999.

The company’s strong market position and large scale of operations enable it to serve a broad range of customers across major international markets, provides positive brand image, and also the benefit of economies of scale.

Broad portfolio of services

The company is well diversified in terms of the end markets that it serves. It provides a diversified set of offerings through its three business segments. For instance, the US domestic package segment consists of air and ground delivery of small packages up to 150 pounds in weight and letters to and from all 50 states in the US. It also provides guaranteed, time-definite delivery of certain heavy-weight packages. UPS delivers to more businesses and zip codes in the US, and worldwide from the US, than its competitors.

Similarly, the international package segment provides air and ground delivery of small packages and letters to 200 countries and territories around the world. The supply chain and freight segment includes freight forwarding, international trade services and management-based solutions. It also offers various transportation solutions, including air, ocean and ground freight, as well as customs brokerage, and trade and materials management. The segment provides a portfolio of financial services with short-term and long-term financing, secured lending, working capital, government guaranteed lending, letters of credit, global trade financing, credit cards and equipment leasing.

UPS's broad portfolio of services enables the company to provide end-to-end solutions and tap high value customers. In addition, it also helps the company to balance revenues in the face of a slowdown in a particular segment.

Robust infrastructure

UPS has a strong transportation infrastructure. It operates a ground fleet of approximately 101,900 vehicles, which reaches all business and residential zip codes in the contiguous US. It also operates an air fleet of 510 aircraft, and is one of the largest airlines in the world. The company provides 141,000 domestic and international access points to its customers for easy access to UPS. These access points include: 38,800 branded drop-boxes, 1,100 UPS customer centers, 4,800 independently owned and operated The UPS Store and Mail Boxes Etc. locations worldwide, 2,700 alliance partner locations, 12,000 authorized shipping outlets and commercial counters, and 81,900 UPS drivers who can accept packages given to them.

In addition, the company also own 27 principal US package operating facilities, which have floor spaces that range from about 310,000 to 693,000 square feet. Furthermore, the company has a 1.9 million square foot operating facility near Chicago, Illinois, which is designed to streamline shipments between East Coast and West Coast destinations, and owns or leases over 1,100 additional smaller
package operating facilities in the US. It also owns or leases almost 600 facilities that support UPS’ international package operations and over 900 facilities that support its freight forwarding and logistics operations. UPS Freight operates 202 service centers with a total of 5.6 million square feet of floor space. It owns 140 of these service centers, while the remainder is occupied under operating lease agreements.

A strong infrastructure provides the company the advantages of reputation, service quality and economies of scale that differentiate it from its competitors.

**Weaknesses**

Geographical concentration

UPS has operations in Africa, Asia, America, Europe, and Middle East. Despite having a global presence, the company’s operations are concentrated in the US. In FY2009, the company generated about $34,375 million in revenues from the US market. This represented about 75.9% of the total revenues in FY2009. Comparatively, its competitors have diversified operations. For example, TNT, one of the competitors to UPS has operations in various European and Asian countries such as The Netherlands, Germany, Italy, China, India, Brazil, Australia, among others. Overdependence on one geographic region makes it susceptible to changes associated with the economic and political situation of the country. The company’s high reliance on the US market exposes it to the risk of downturns in the country’s macroeconomic conditions and increases its business risk.

Substantial debt

UPS has a considerable amount of debt. At the end of December 2009, the company has a debt of $8,668 million and increase of 11.2% from FY2008. The debt also grew considerably with a CAGR of 29% from $3,159 million in FY2005 to $8,668 million in FY2009.

Due to an increase in the debt, the company must generate sufficient amounts of cash to service and repay its debt. Its ability to generate cash would be affected by general economic, financial, competitive, and other factors that may be beyond the company’s control. If UPS is not able to obtain such borrowings or generate sufficient cash from operations to service and repay its indebtedness, the company could need to refinance its indebtedness to avoid any default. Such refinancing may not be available on favorable terms or at all. The inability to service, repay, or refinance its indebtedness could, therefore, negatively affect its financial condition and results of operations.

In addition, the company’s long term debt equity ratio was also significantly higher compared to its competitors. In FY2009, the company’s debt equity ratio was 1.1 as compared to its competitors such as Atlas Air Worldwide Holdings (0.64); UTi Worldwide (0.4), Pacer International (0.29) and Forward Air (0.23).
Higher level of indebtedness could have an adverse effect on the company’s liquidity position and may hamper its credibility in the market.

Opportunities

Geographical expansion

The company has been taking significant initiatives to expand its presence geographically. For instance, in June 2009 UPS acquired a unit of Intereuropa Globalni Logisticni Servis that has been acting as its agent for small package delivery in Slovenia since 1991. The acquisition will enable the company to invest in its global brand, transportation network, technology and workforce to serve its growing customer base in Slovenia more efficiently. In the same month, the company announced a new joint venture headquartered in Dubai to co-ordinate management and growth of UPS express package, freight forwarding and contract logistics services across the Middle East, Turkey and portions of Central Asia. In the following month, UPS introduced an economical ground option for shipping small packages from Mexico to the US known as UPS Standard.

Similarly, in January 2010, the company announced plans to significantly increase its global service parts logistics (SPL) network by establishing 101 new field stocking locations (FSLs) in China. In May 2010, UPS and P&T Express, a subsidiary of VNPT, the largest state-owned post and telecommunication company in Vietnam, established UPS Vietnam as a joint stock company to expand UPS’s footprint and better serve customers in Vietnam. Through the joint stock company, UPS will invest in new facilities in key commercial and industrial centers across Vietnam to widen access to growing intra-Asian capability and connect to the global UPS network. UPS will extend its express pickup and delivery service to 63 provinces in Vietnam and offer later pick-up and cut-off times.

Additionally, in June 2010, UPS formed an alliance with PosLaju, the Malaysian courier company, and jointly launched PosLaju International Premium, a day definite, international express delivery service with a money back guarantee serving more than 215 countries. The new service is available at all 52 PosLaju outlets in Malaysia and will, on average, shorten the international transit time of packages and documents by half.

These expansion initiatives would help the company to offer more service, increase customer base and expand geographical coverage. It would also ensure that the company can fully exploit the growth opportunities presented in diversified markets.

Expanding Chinese market

China has continued to dominate the Asian region in terms of activity and growth. UPS has been increasingly focusing on the Chinese market. According to Datamonitor, the Chinese air freight sector generated total revenues of approximately $5.7 billion in 2009. The sector generated total revenues of $5.5 billion in 2008, representing a CAGR of 4.9% for the period spanning 2004-2008.
Sector volumes increased with a CAGR of 3.7% between 2004-08, to reach a total of 8.3 billion freight tones kilometers (FTK) in 2008. The sector's volume is expected to rise to 9.4 billion FTK by the end of 2013, representing a CAGR of 2.6% for the 2008-2013 periods. The performance of the sector is forecasted to grow with an anticipated CAGR of 3.8% for the five-year period 2008-2013, which is expected to drive the sector to a value of $6.6 billion by the end of 2013.

To capitalize on this growth, the company activated a brand new intra-Asia facility located in Shenzhen, China in April 2010. The hub represented an investment of $180 million and has slashed at least a day off shipment time-in-transit for customers in the region, while offering a new level of service to the manufacturing region located just north of Shenzhen. Similarly, in 2009, the company opened a new International Air Hub at Pudong International Airport in Shanghai, connecting China to the UPS global air network including U.S. and European destinations.

With its increased focus, the company is well positioned to benefit from the growing Chinese market.

Online shopping

Total sales generated by e-commerce have grown explosively over the last five years. Though economic growth has been flattened by the recession, online retail still shows more signs of consumerism during recession than consumer retail as a whole. A majority of US online consumers changed their mindsets from ‘cutting back’ to ‘spending cautiously’ and shifted more of their shopping habits online. Online consumers have taken advantage of aggressive sales on big-ticket items, and invested more time in comparing prices and searching for coupons online. The emerging trend, combined with the ever-increasing access of consumers to shopping via personal computers and internet-capable phones, has online sales holding steady and actually growing throughout 2009 and in the years to come.

According to the US Commerce Department, total e-commerce sales in the US during 2008 were estimated at $133.6 billion, an increase of 4.6% on 2007. The US online retail sales reached $175 billion in 2007 from $144.6 billion in 2006. US online sales is expected to reach $500 billion in 2009. The company provides a portfolio of solutions that streamline the customer's shipment processing and integrates transportation information into the retailer's business applications. With the expected growth rate of online shopping, the deliveries of goods are expected to increase substantially, which would boost the revenues of the company.

Threats

Compliance with government regulations

UPS is obliged to comply with laws and regulations by various federal, state and foreign governmental entities, including the US Department of Transportation, the Federal Aviation Administration, and the US Department of Homeland Security, through the Transportation Security Administration (TSA), that regulate safety, management of hazardous materials, water discharges and air emissions, solid
waste disposal and the release and cleanup of regulated substances. The company's business is subject to licensing and other requirements imposed by the US Department of Homeland Security as a result of increased focus on homeland security and Customs-Trade Partnership Against Terrorism certification. Additionally, the company is also subject to new or more restrictive regulations imposed by these agencies, or other authorities relating to engine exhaust emissions, drivers' hours of service, security and ergonomics.

In addition, the company's business is also subject to numerous other laws and regulations in connection with its non-package businesses, including customs regulations, Food and Drug Administration regulation of the transportation of pharmaceuticals, and state and federal lending regulations. These laws and regulations affect the company's operations on its customer sites and, in some instances, impose added costs on the company's business. A violation of these laws and regulations could result in imposition of fines and penalties or the termination of the company's contracts. Such regulations could put pressures on the company and affect its cost structure.

Strikes, work stoppages and slowdowns

A significant number of the company's employees are employed under a national master agreement and various supplemental agreements with local unions affiliated with the International Brotherhood of Teamsters. UPS' airline pilots, airline mechanics, ground mechanics and certain other employees are employed under other collective bargaining agreements. Strikes, work stoppages and slowdowns by its employees could adversely affect the company's ability to meet its customers' needs.

The company may lose its customers permanently, if it is unable to provide uninterrupted service, and this could adversely affect the company's business, financial position and results of operations. The terms of future collective bargaining agreements also may affect UPS' competitive position and results of operations. Labor problems could disrupt the company's operations, resulting in lower revenues and loss of credibility.

Intense competition

UPS face significant competition on a local, regional, national, and international basis. The company's competitors include the postal services of the US and other nations, various motor carriers, express companies, freight forwarders, air couriers and others. Some of the company's competitors include FedEx, Panalpina World Transport, TNT, La Poste, Royal Mail Holdings, Deutsche Post DHL, Poste Italiane, among others. Competition may also come from other sources in the future.

Some of the company's competitors have cost and organizational structures that differ from UPS's and may offer services and pricing terms that the company may not be able to offer. If the company is unable to timely and appropriately respond to competitive pressures, its business, financial position and results of operations could be adversely affected.

In addition, the transportation industry continues to consolidate and competition remains strong. As a result of consolidation, the company's competitors may increase their market share and improve their financial capacity, and may strengthen their competitive positions. Business combinations could
also result in competitors providing a wider variety of services and products at competitive prices, which could adversely affect UPS’ financial performance.