

The Battle for Value, 2004: FedEx Corp. vs. United Parcel Service, Inc.

FedEx will produce superior financial returns for shareowners by providing high value-added supply chain, transportation, business, and related information services through focused operating companies competing collectively, and managed collaboratively, under the respected FedEx brand.

FedEx Mission Statement (Excerpt)

We serve the evolving distribution, logistics, and commerce needs of our customers worldwide, offering excellence and value in all we do. We sustain a financially strong company, with broad employee ownership, that provides a long-term competitive return to our shareowners.

UPS Mission Statement (Excerpt)

On June 18, 2004, the United States and China reached a landmark air-transportation agreement that quintupled the number of commercial cargo flights between the two countries. The agreement also allowed for the establishment of air-cargo hubs in China and landing rights for commercial airlines at any available airport. The pact represented the most dramatic liberalization of air traffic in the history of the two nations, and FedEx Corporation and United Parcel Service, Inc. (UPS), the only U.S. all-cargo carriers then permitted to serve the vast Chinese market,¹ were certain to be the primary beneficiaries of this opportunity.

News of the transportation agreement did not come as a major surprise to most observers as U.S. and Chinese negotiators had been in talks since at least February. The stock prices of both companies had been rising steadily since those talks began,

¹Northwest Airlines served China through both all-cargo and all-passenger services.

This case was prepared by Robert F. Bruner and Sean D. Carr as a basis for classroom discussion rather than to illustrate effective or ineffective management. The case complements "Battle for Value: Federal Express Corporation vs. United Parcel Service of America, Inc." (UVA-F-1115), prepared by Robert F. Bruner and Derick Bulkley. Copyright © 2005 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. To order copies, send an e-mail to sales@dardenbusinesspublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation. Rev 07/08

but FedEx's share price had rocketed at a rate nearly five times faster than UPS's.² **Exhibit 1** presents an illustration of recent stock-price patterns for the two firms relative to the S&P 500 Index. FedEx had the largest foreign presence in China, with 11 weekly flights—almost twice as many as UPS. The company served 220 Chinese cities, and flew directly to Beijing, Shenzhen, and Shanghai. FedEx's volumes in China had grown by more than 50% between 2003 and 2004.

While UPS lagged behind FedEx in the Chinese market, it was still the world's largest package-delivery company and the dominant parcel carrier in the United States. UPS had been active in China since 1988 and was the first carrier in the industry to offer nonstop service from the United States. By 2003, UPS had six weekly Boeing 747 flights to China, with direct flights to Beijing and Shanghai, serving nearly 200 cities. UPS reported a 60% growth in traffic on its principal U.S.–Shanghai route since initiating that service in 2001, and it predicted that peak-season demand would exceed its capacity.

As the U.S. package-delivery segment matured, the international markets—and especially China—became a battleground for the two package-delivery giants. FedEx had virtually invented customer logistical management, and was widely perceived as innovative, entrepreneurial, and an operational leader. Historically, UPS had a reputation for being big, bureaucratic, and an industry follower, but “Big Brown” was aggressively shedding its plodding image, as it too became an innovator and a tenacious adversary. UPS had recently undergone a major overhaul of its image, and was repositioning itself as a leading provider of logistics and supply-chain management services.

The 2004 air-transportation agreement between China and the United States was a watershed moment for the international package-delivery business—more than 100 new weekly all-cargo flights were up for grabs with the United States' largest trading partner. There was, however, no guarantee for exactly how those new cargo routes would be allocated between UPS and FedEx, companies that had been battling each other for dominance for more than 30 years. Moreover, the eventual assignment to the region of other carriers would test each company's ability to fend off emerging competitive threats.

Against this backdrop, industry observers wondered how the titanic struggle between FedEx and UPS would develop, particularly for investors in the two firms. Was the performance of the companies in recent years predictive of the future? Success in China was widely seen as the litmus test for corporate survival in the new millennium. Which company was better positioned to attract the capital necessary to win this competitive battle?

FedEx Corporation

FedEx first took form as Fred Smith's undergraduate term paper for a Yale University economics class. Smith's strategy dictated that FedEx would purchase the planes that it required to transport packages, whereas all other competitors used the cargo space

²Between February 18 and June 18, 2004, FedEx's stock price rose 13.9%, whereas UPS's grew 3.1%.

available on passenger airlines. In addition to using his own planes, Smith's key innovation was a hub-and-spoke distribution pattern, which permitted cheaper and faster service to more locations than his competitors could offer. In 1971, Smith invested his \$4-million inheritance, and raised \$91 million in venture capital to launch the firm—the largest venture-capital start-up at the time.

In 1973, on the first night of continuous operation, 389 FedEx employees delivered 186 packages overnight to 25 U.S. cities. In those early years FedEx, then known as Federal Express Corporation, experienced severe losses, and Smith was nearly ousted from his chair position. By 1976, FedEx finally saw a modest profit of \$3.6 million on an average daily volume of 19,000 packages. Through the rest of the 1970s, FedEx continued to grow by expanding services, acquiring more trucks and aircraft, and raising capital. The formula was successful. In 1981, FedEx generated more revenue than any other U.S. air-delivery company.

By 1981, competition in the industry had started to rise. Emery Air Freight began to imitate FedEx's hub system and to acquire airplanes, and UPS began to move into the overnight air market. The United States Postal Service (USPS) positioned its overnight letter at half the price of FedEx's, but quality problems and FedEx's "absolutely positively overnight" ad campaign quelled that potential threat. In 1983, FedEx reached \$1 billion in revenues and seemed poised to own the market for express delivery.

During the 1990s, FedEx proved itself as an operational leader, even receiving the prestigious Malcolm Baldrige National Quality Award from the President of the United States. FedEx was the first company ever to win in the service category. Part of this success could be attributed to deregulation and to operational strategy, but credit could also be given to FedEx's philosophy of "People-Service-Profit," which reflected its emphasis on customer focus, total quality management, and employee participation. Extensive attitude surveying, a promote-from-within policy, effective grievance procedures that sometimes resulted in a chat with Fred Smith himself, and an emphasis on personal responsibility and initiative not only earned FedEx a reputation as a great place to work, but also helped to keep the firm largely free of unions.

FedEx's growth occurred within the context of fundamental change in the business environment. Deregulation of the domestic airline industry permitted larger planes to replace smaller ones, thereby permitting FedEx to purchase several Boeing 727s, which helped reduce its unit costs. Trucking industry deregulation also permitted FedEx to establish an integrated regional trucking system that lowered its unit costs on short-haul trips, enabling the company to compete more effectively with UPS. Rising inflation and global competitiveness compelled manufacturers to manage inventories more closely and to emulate the just-in-time (JIT) supply programs of the Japanese, creating a heightened demand for FedEx's rapid and carefully monitored movement of packages. And, finally, technological innovations enabled FedEx to achieve important advances in customer ordering, package tracking, and process monitoring.

By the end of 2003, FedEx had nearly \$15.4 billion in assets and net income of \$830 million on revenues of about \$22.5 billion. **Exhibit 2** provides FedEx's

financial and analytical ratios. The company had about 50,000 ground vehicles, 625 aircraft, 216,500 full- and part-time employees, and shipped more than 5.4 million packages daily.

United Parcel Service, Inc.

Founded in 1907, United Parcel Service, Inc., was the largest package-delivery company in the world. Consolidated parcel delivery, both on the ground and through the air, was the primary business of the company, although increasingly the company offered more specialized transportation and logistics services.

Known in the industry as Big Brown, UPS had its roots in Seattle, Washington, where 19-year-old Jim Casey started a bicycle-messenger service called American Messenger Company. After merging with a rival firm, Motorcycle Delivery Company, the company focused on department-store deliveries, and that remained true until the 1940s. Renamed United Parcel Service of America, UPS started an air-delivery service in 1929 by putting packages on commercial passenger planes. The company entered its strongest period of growth during the post-World War II economic boom and, by 1975, UPS had reached a milestone when it could promise package delivery to every address in the continental United States. That same year the company expanded outside the country with its first delivery to Ontario, Canada. The following year, UPS began service in West Germany with 120 of its trademark-brown delivery vans.

The key to the success of UPS, later headquartered in Atlanta, Georgia, was efficiency. According to *BusinessWeek*, "Every route is timed down to the traffic light. Each vehicle was engineered to exacting specifications. And the drivers . . . endure a daily routine calibrated down to the minute."³ But this demand for machinelike precision met with resistance by UPS's heavily unionized labor force. Of those demands, UPS driver Mark Dray said:

. . . drivers are expected to keep precise schedules (with hours broken down into hundredths) that do not allow for variables such as weather, traffic conditions, and package volume. If they're behind, they're reprimanded, and if they're ahead of schedule, their routes are lengthened.⁴

In its quest for efficiency, UPS experienced several major strikes resulting from changes in labor practices and driver requirements. In August 1997, the 190,000 teamsters employed at UPS went on strike for 15 days before agreeing to a new five-year contract. In addition to large wage increases, the new agreement called for the creation of 10,000 new full-time jobs and the shifting of 10,000 part-time workers into full-time positions. The strike cost UPS \$700 million in lost revenue, resulting in less than 1% sales growth for the year (1996) and a decline in profits to \$909 million from \$1.15 billion.

³Todd Vogel and Chuck Hawkins, "Can UPS Deliver the Goods in a New World?" *BusinessWeek* (4 June 1990).

⁴Jill Hodges, "Driving Negotiations; Teamsters Survey Says UPS Drivers among Nation's Most Stressed Workers," *Star Tribune* (9 June 1993).

For most of the company's history, UPS stock was owned solely by UPS's managers, their families, former employees, or charitable foundations owned by UPS. The company acted as the market-maker in its own shares, buying or selling shares at a fair market value⁵ determined by the board of directors each quarter. By the end of the millennium, however, having shrugged off the lingering effects of the strike and having emerged as a newly revitalized company with strong forward momentum, company executives determined that UPS needed the added flexibility of publicly traded stock in order to pursue a more aggressive acquisition strategy.

In November 1999, UPS initiated a two-for-one stock split, whereby the company exchanged each existing UPS share for two Class A shares. The company then sold 109.4 million newly created Class B shares on the New York Stock Exchange in an initial public offering (IPO) that raised \$5.266 billion, net of issuance costs. UPS used the majority of these proceeds to repurchase 68 million shares of the Class A stock. Following a holding period after the IPO, Class A shares were convertible to Class B, and could be traded or sold accordingly. Although both shares of stock had the same economic interest in the company, Class A shares entitled holders to ten votes per share while the Class B shareowners were entitled to one vote.

Until the stock split and IPO in 1999, the financially and operationally conservative company had been perceived as slow and plodding. Although much larger than FedEx, UPS had not chosen to compete directly in the overnight delivery market until 1982, largely because of the enormous cost of building an air fleet. But after going public UPS initiated an aggressive series of acquisitions, beginning with a Miami-based freight carrier operating in Latin America and a franchise-based chain of stores providing packing, shipping, and mail services called Mail Boxes Etc. (later renamed the UPS Store) with more than 4,300 domestic and international locations.

More assertive than ever before, the UPS of the new millennium was the product of extensive reengineering efforts and a revitalized business focus. While the company had traditionally been the industry's low-cost provider, in recent years the company had been investing heavily in information technology, aircraft, and facilities to support service innovations, maintain quality, and reduce costs. In early 2003, the company revamped its logo for the first time since 1961, and emphasized its activities in the wider supply-chain industry. "The small-package market in the United States is about a \$60-billion market. The worldwide supply-chain market is about a \$3.2-trillion market," said Mike Eskew, UPS's chair and CEO. "It's everything from the moment something gets made until it gets delivered for final delivery, and then after market, it's parts replacement."⁶

⁵In setting its share price, the board considered a variety of factors, including past and current earnings, earnings estimates, the ratio of UPS's common stock to its debt, the business and outlook of UPS, and the general economic climate. The opinions of outside advisers were sometimes considered. The stock price had never decreased in value. The employee stock purchases were often financed with stock hypothecation loans from commercial banks. As the shares provided the collateral for those loans, the assessment made by the outside lenders provided some external validation for the share price.

⁶Harry R. Weber, "UPS, FedEx Rivalry: A Study in Contrasts," *Associated Press Newswires*, 21 May 2004.

By 2003, UPS offered package-delivery services throughout the United States and in more than 200 countries and territories, and moved more than 13 million packages and documents through its network every day. Domestic package operations accounted for 76% of revenues in 2002; international (15%); nonpackage (9%). In the United States, it was estimated that the company's delivery system carried goods having a value in excess of 6% of the U.S. gross domestic product.⁷ The company employed 360,000 people (of whom 64% were unionized), and owned 88,000 ground vehicles and 583 aircraft.

At year-end 2003, UPS reported assets, revenues, and profits of \$28.9 billion, \$33.4 billion, and \$2.9 billion, respectively. **Exhibit 3** provides UPS's financial and analytical ratios. The company's financial conservatism was reflected in its AAA bond rating.

Competition in the Express-Delivery Market

The \$45-billion domestic U.S. package-delivery market could be segmented along at least three dimensions: weight, mode of transit, and timeliness of service. The weight categories consisted of letters (weighing 0–2.0 pounds), packages (2.0–70 pounds), and freight (over 70 pounds). The mode of transit categories were simply air and ground. Finally, time categories were overnight, deferred delivery (second-day), three-day delivery, and, lastly, regular delivery, which occurred four or more days after pickup.

The air-express segment was a \$25-billion portion of the U.S. package-delivery industry, and was concentrated in letters and packages, overnight and deferred, and air or air-and-ground. While virtually all of FedEx's business activities were in the air-express segment of the package-delivery industry, only about 22% of UPS's revenues were derived from its next-day air business. FedEx and UPS's competition for dominance of the \$25-billion domestic air-express delivery market foreshadowed an unusually challenging future.

Exhibit 4 provides a detailed summary of the major events marking the competitive rivalry between FedEx and UPS. Significant dimensions of this rivalry included the following:

- **Customer focus.** Both companies emphasized their focus on the customer. This meant listening carefully to the customer's needs, providing customized solutions rather than standardized products, and committing to service relationships.
- **Price competition.** UPS boldly entered the market by undercutting the price of FedEx's overnight letter by half. But by the late 1990s, both firms had settled into a predictable pattern of regular price increases. **Exhibit 5** provides a summary of recent rate increases.
- **Operational reengineering.** Given the intense price competition, the reduction of unit costs became a priority. Cost reduction was achieved through the exploitation

⁷"United Parcel Service, Inc.—SWOT Analysis," *Datamonitor Company Profiles* (16 July 2004).

of economies of scale, investment in technology, and business-process reengineering, which sought to squeeze unnecessary steps and costs out of the service process.

- **Information technology.** Information management became central to the operations of both UPS and FedEx. Every package handled by FedEx, for instance, was logged into COSMOS (Customer, Operations, Service, Master On-line System), which transmitted data from package movements, customer pickups, invoices, and deliveries to a central database at the Memphis, Tennessee, headquarters. UPS relied on DIADs (Delivery Information Acquisition Devices), which were handheld units that drivers used to scan package barcodes and record customer signatures.
- **Service expansion.** FedEx and UPS increasingly pecked at each other's service offerings. FedEx, armed with volume discounts and superb quality, went after the big clients that had previously used UPS without thought. UPS copied FedEx's customer interfaces by installing 11,500 drop-off boxes to compete with FedEx's 12,000 boxes, 165 drive-through stations, and 371 express-delivery stores. UPS also began Saturday pickups and deliveries to match FedEx's schedule. FedEx bought \$200 million in ground vehicles to match UPS.
- **Logistics services.** The largest innovations entailed offering integrated logistics services to large corporate clients. These services were aimed at providing total inventory control to customers, including purchase orders, receipt of goods, order entry and warehousing, inventory accounting, shipping, and accounts receivable. The London design-company Laura Ashley, for instance, retained FedEx to store, track, and ship products quickly to individual stores worldwide. Similarly, Dell Computer retained UPS to manage its total inbound and outbound shipping.

The impact of the fierce one-upmanship occurring between FedEx and UPS was clearly reflected in their respective investment expenditures. Between 1992 and 2003, capital expenditures for FedEx and UPS rose at an annualized rate of 34.64% and 36.78%, respectively. During this period, the two companies matched each other's investments in capital almost exactly. (Exhibit 6 provides a graphical representation of the firms' cumulative capital-investment expenditures.)

International Package-Delivery Market

By 2004, express cargo aircraft carried nearly 50% of all international trade, measured by value.⁸ Yet throughout the 1990s, international delivery had remained only a small part of the revenues for UPS and FedEx. After making significant investments in developing European delivery capabilities, FedEx eventually relinquished its hub in Europe in 1992 by selling its Brussels, Belgium, operation to DHL. Analysts estimated that FedEx had lost \$1 billion in Europe since its entry there in 1984. FedEx would continue to deliver to Europe, but relied on local partners. In 1995, FedEx expanded its routes in Latin America and the Caribbean, and later introduced FedEx AsiaOne, a

⁸Alexandara Harney and Dan Roberts, "Comment & Analysis," *Financial Times*, 9 August 2004.

next-business-day service between Asian countries and the United States via a hub in Subic Bay, Philippines.

UPS did not break into the European market in earnest until 1988, with the acquisition of 10 European courier services. To enhance its international delivery systems, UPS created a system that coded and tracked packages and automatically billed customers for customs' duties and taxes. UPS hoped that its international service would account for one-third of total revenue by 2000. In May 1995, it announced that it would spend more than \$1 billion to expand its European operations during the next five years. Exhibit 7 presents international and domestic (U.S.) segment data for FedEx and UPS.

According to economic and industry experts, China would become the world's second-largest economy within 11 years and the largest by 2039. It was already the world's largest market for mobile phones and a key center for the production of textiles, computer chips, and other high-tech products. According to recent economic projections, inter-Asia trade was projected to grow at a rate of 16.8% annually through 2005.⁹

The overall market for air cargo in China had been growing at 30% a year and was expected to increase at nearly that pace for the next five years.¹⁰ FedEx and UPS focused primarily on the import/export package market and not the intra-China domestic market, using local partners to pick up and deliver parcels within the country (although, by December 2005, each company would be permitted to own completely package operations in China). One industry source believed the domestic parcel market was approximately \$800 million, while China's export-import market was nearly \$1 billion. "As it becomes the workshop of the world," one observer noted, "teeming factories along the Pearl and Yangtze river deltas represent both the start of the world's supply chain and the source of some of its biggest transport bottlenecks."¹¹

The newly announced U.S.-China air-service agreement would allow an additional 195 weekly flights for each country—111 by all-cargo carriers and 84 by passenger airlines—resulting in a total of 249 weekly flights by the end of a six-year phase-in period. The two countries also agreed to allow their carriers to serve any city in the other country. Until that time, Chinese carriers were limited to twelve U.S. cities, and U.S. passenger carriers could fly to only five Chinese cities. The agreement also provided that when carriers established cargo hubs in the other country, they would be granted a high degree of operating flexibility. According to U.S. Transportation Secretary Norman Mineta, "This agreement represents a giant step forward in creating an international air-transportation system that meets the needs of the new global marketplace."

UPS and FedEx both welcomed the news. "This provides an extraordinary opportunity for strengthening commercial supply chains that support growing international trade between the United States and China and throughout the world," said Mike Eskew, UPS chair and CEO, who added that the hub provision in the agreement would

⁹UPS press release, 4 November 2004.

¹⁰Morgan Stanley, 6 April 2004.

¹¹Alexandara Harney and Dan Roberts, "Comment & Analysis," *Financial Times*, 9 August 2004.

facilitate that process. Fred Smith, chair and CEO of FedEx, said, "We think China is a huge opportunity for the company. We have significant expansion plans in the country, reflecting its fantastic growth and unique position as one of the world's top manufacturing centers."¹²

Performance Assessment

Virtually all interested observers—customers, suppliers, investors, and employees—watched the competitive struggle between UPS and FedEx for hints about the next stage of the drama. The conventional wisdom was that if a firm were operationally excellent, strong financial performance would follow. Indeed, FedEx had set a goal of producing "superior financial returns," while UPS targeted "a long-term competitive return." Had the two firms achieved their goals? Moreover, did the trends in financial performance suggest whether strong performance could be achieved in the future? In pursuit of the answers to those questions, the following exhibits afford several possible avenues of analysis.

EPS, Market Values, and Returns

Exhibit 8 presents the share prices, earnings per share (EPS), and price-earnings ratios for the two firms. Also included is the annual total return from holding each share (percentage gain in share price plus dividend yield). Some analysts questioned the appropriateness of using UPS's fair market-value share price before the 1999 IPO, because it had been set by the board of directors rather than in an open market.

Ratio Analysis

Exhibits 2 and 3 present a variety of analytical ratios computed from the financial statements of each firm.

Economic Profit (Economic Value Added, or EVATM) Analysis

EVA reflects the value created or destroyed each year by deducting a charge for capital from the firm's net operating profit after taxes (NOPAT).

$$\begin{aligned}\text{EVA} &= \text{Operating profits} - \text{Capital charge} \\ &= \text{NOPAT} - (K \times \text{Capital})\end{aligned}$$

The capital charge was determined by multiplying the cost of capital, K , by the capital employed in the business or operation. This computation could be done by either of two methods, both of which would yield the same answer; they are presented in the exhibits for the sake of illustration. The *operating approach* works with the asset side of the balance sheet, and computes NOPAT directly from the income statement. The *capital approach* works with the right-hand side of the balance sheet, and computes NOPAT indirectly (i.e., by adjusting net income).

¹²Dan Roberts, "FedEx Plans Expanded Services in China," *Financial Times*, 23 June 2004.

Estimating Capital Exhibits 9 and 10 calculate the actual amount of capital from both an operating and a capital approach. Included in capital are near-capital items that represent economic value employed on behalf of the firm, such as the present value of operating leases, amortized goodwill, and losses. The rationale for including losses and write-offs in continuing capital is that such losses represent unproductive assets or a failed investment. Were they excluded from the capital equation, the sum would only count successful efforts and would not accurately reflect the performance of the firm.

Estimating NOPAT Exhibits 9 and 10 calculate NOPAT with a similar regard for losses and write-offs. Here, the aim is to arrive at the actual cash generated by the concern. To do so, the exhibits add increases in deferred taxes back into income because it is not a cash expense, and calculate the interest expense of the leased operating assets as if they were leased capital assets.

Estimating Cost of Capital The capital charge applied against NOPAT should be based on a blend of the costs of all the types of capital the firm employs, or the weighted-average cost of capital (WACC). The cost of debt (used for both debt and leases) is the annual rate consistent with each firm's bond rating (BBB for FedEx and AAA for UPS). The cost of equity may be estimated in a variety of ways. In the analysis here, the capital asset pricing model (CAPM)¹³ was employed. FedEx's beta and cost of equity are used in estimating FedEx's cost of capital. Because UPS's beta was unobservable, the analysis that follows uses the average annual betas for UPS's publicly held peer firms: FedEx, Air Express, Airborne Freight, Roadway, Yellow Transport, and J.B. Hunt Transport.

Estimating EVA and MVA In Exhibits 9 and 10, the stock of capital and the flow of cash are used to calculate the actual return and, with the introduction of the WACC, to calculate the EVA. These exhibits present the EVA calculated each year and cumulatively over time. The panel at the bottom of each exhibit estimates the market value created or destroyed (or the market value added [MVA]) over the observation period. MVA is calculated as the difference between the current market value of the company and its investment base. The market value created could be compared with cumulative EVA. In theory, the following relationships would hold:

$$\text{MVA} = \text{Present value of all future EVA}$$

$$\text{MVA} = \text{Market value of debt and equity} - \text{Capital}$$

Thus,

$$\text{Market value} = \text{Capital} + \text{Present value of all future EVA}$$

¹³The CAPM describes the cost of equity as the sum of the risk-free rate of return and a risk premium. The risk premium is the average risk premium for a large portfolio of stocks times the risk factor (beta) for the company. A beta equal to 1.0 suggests that the company is just as risky as the market portfolio; less than 1.0 suggests lower risk; greater than 1.0 implies greater risk.

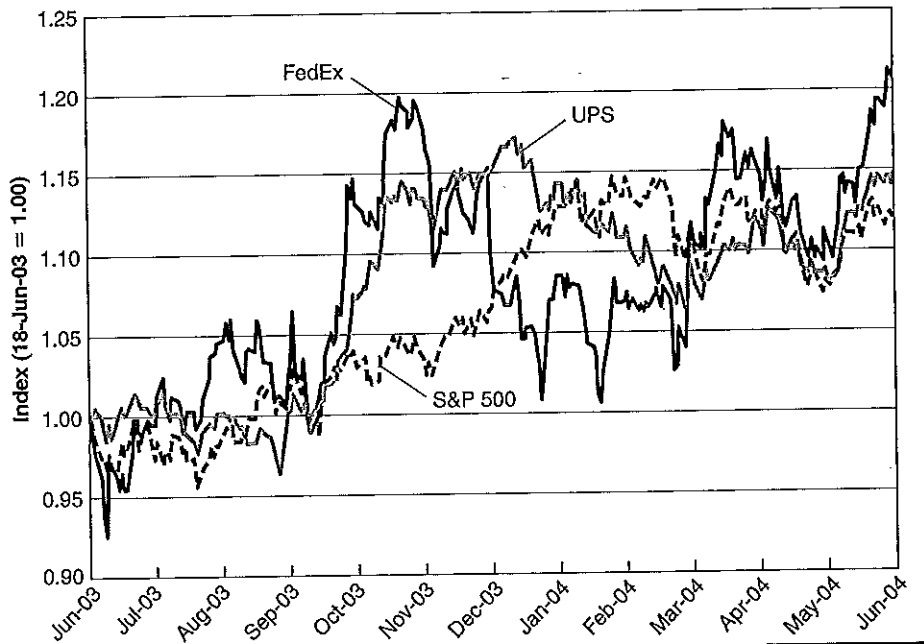
In other words, maximizing the present value of EVA would amount to maximizing the market value of the firm.

Outlook for FedEx and UPS

About 70%¹⁴ of FedEx's common shares were held by institutional investors that, it could be assumed, were instrumental in setting the prices for the company's shares. Typically, those investors absorbed the thinking of the several securities analysts who followed FedEx and UPS in 2004. **Exhibit 11** contains excerpts from various equity reports, which indicate the outlook held by those analysts.

Observers of the air-express package-delivery industry pondered the recent performance of the two leading firms and their prospects. What had been the impact of the intense competition between the two firms? Which firm was doing better? The companies faced a watershed moment with the dramatic liberalization of the opportunities in China. Might their past performance contain clues about the prospects for future competition?

¹⁴Officers, directors, and employees of FedEx owned 7% of the shares; the remainder, about 23%, was owned by individual investors not affiliated with the company.

EXHIBIT 1 | UPS and FedEx Price Patterns June 2003 to June 2004

Source of data: Datastream (case writer's analysis).

EXHIBIT 2 | Financial and Analytical Ratios for FedEx

FEDEX CORP	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	
Activity Analysis													
Average days outstanding	44.10	42.60	41.82	41.79	42.67	44.11	39.74	44.57	46.98	46.98	44.25	41.54	365/receivables turnover
Working capital turnover	(42.21)	(317.85)	37.64	103.73	93.51	67.84	208.05	47.08	46.37	98.37	28.50	37.11	Sales/average net working capital
Fixed assets turnover	2.21	2.25	2.46	2.53	2.50	2.49	2.67	2.56	2.58	2.43	2.48	2.58	Sales/average net fixed assets
Total asset turnover	1.38	1.35	1.42	1.46	1.53	1.51	1.64	1.58	1.58	1.47	1.49	1.46	Sales/average total assets
Liquidity Analysis													
Current ratio	0.87	0.99	1.15	1.05	1.07	1.09	1.03	1.13	1.14	1.06	1.25	1.18	Current assets/current liab.
Cash ratio	0.06	0.11	0.26	0.20	0.06	0.06	0.08	0.12	0.02	0.04	0.11	0.16	(Cash + mkt. securities)/curr. liab.
Cash from operations ratio	0.38	0.50	0.50	0.58	0.58	0.51	0.61	0.64	0.56	0.63	0.76	0.56	Cash from operations/curr. liab.
Defensive interval	0.70	0.78	0.91	0.92	0.68	0.72	0.80	0.92	0.94	0.87	0.92	1.02	(Cash + AR + cash taxes)/ (rents + gross CAPEX)
Long-Term Debt and Solvency Analysis													
Debt/equity ratio	1.24	1.21	0.95	0.70	0.52	0.51	0.41	0.29	0.37	0.36	0.28	0.28	Total debt/total equity
Times interest earned	1.36	1.82	2.92	3.73	4.31	5.06	6.42	7.78	7.83	6.58	6.98	10.51	EBIT/interest expense
Fixed-charge coverage ratio	0.34	0.46	0.64	0.65	0.61	0.57	0.74	0.75	0.72	0.65	0.61	0.83	EBIT/(rental exp. and int. exp.)
Capital expenditure ratio	0.15	0.21	0.22	0.28	0.23	0.22	0.29	0.27	0.23	0.25	0.27	0.22	Cash from operations/CAPEX
Cash from operations/debt ratio	0.27	0.36	0.42	0.65	0.71	0.66	1.04	1.29	0.91	0.96	1.23	0.93	Cash from operations/total debt
Profitability Analysis													
Margin before interest and tax	3.67%	4.87%	6.26%	6.29%	6.07%	5.94%	6.82%	6.93%	6.69%	6.09%	5.79%	6.54%	EBIT/sales
Net profit margin	(1.51%)	0.69%	2.41%	3.17%	3.00%	3.14%	3.17%	3.78%	3.77%	2.98%	3.45%	3.69%	Net income/sales
Return on assets	1.63%	4.88%	6.45%	7.09%	6.75%	6.51%	6.94%	7.33%	7.32%	5.74%	6.38%	6.30%	(NI + int. exp.)/avg. total assets
Return on total equity	(7.20%)	3.22%	10.62%	13.25%	11.95%	12.19%	12.70%	13.54%	14.38%	9.90%	10.85%	11.39%	Net income/average total equity
Financial leverage effect	(21.85%)	7.43%	26.64%	28.87%	32.51%	35.85%	29.48%	35.63%	42.95%	28.59%	31.87%	44.36%	Net income/operating income
Growth		'92-'93	'93-'94	'94-'95	'95-'96	'96-'97	'97-'98	'98-'99	'99-'00	'00-'01	'01-'02	'02-'03	CAGR ('92-'03)
Sales		3.42%	8.60%	10.76%	9.39%	12.13%	37.79%	5.67%	8.84%	7.52%	4.98%	9.12%	11.53% ('92-'03)
Book assets		6.04%	3.44%	7.36%	4.13%	13.83%	27.02%	9.93%	8.25%	15.73%	3.54%	11.39%	9.81% ('92-'03)
Net income bef unusual (gain) loss		(196.51%)	86.11%	45.61%	3.42%	17.37%	37.91%	26.73%	9.03%	(15.10%)	24.07%	14.48%	25.20% ('93-'03)
Net income		(147.34%)	279.40%	45.61%	3.42%	17.37%	39.26%	25.51%	9.03%	(15.10%)	21.50%	16.90%	35.51% ('93-'03)
Operating income		31.67%	45.51%	11.40%	5.53%	9.65%	58.27%	7.49%	4.99%	(2.14%)	(0.16%)	23.30%	13.64% ('92-'03)

Source of data: DataStream (Thomson Financial).

EXHIBIT 3 | Financial and Analytical Ratios for UPS

UPS	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	
Activity Analysis													
Average days outstanding	23.13	23.11	25.86	30.50	34.81	38.57	37.68	39.67	44.79	53.16	54.92	51.60	365/receivables turnover
Working capital turnover	267.78	4,748.29	161.79	80.63	20.39	20.81	14.51	3.90	11.35	10.33	9.82	7.72	Sales/average net working capital
Fixed assets turnover	2.59	2.63	2.52	2.34	2.19	2.04	2.18	2.94	2.41	2.28	2.30	2.41	Sales/average net fixed assets
Total asset turnover	1.83	1.86	1.75	1.66	1.50	1.41	1.45	1.17	1.37	1.24	1.19	1.16	Sales/average total assets
Liquidity Analysis													
Current ratio	1.03	1.00	1.04	1.09	1.35	1.32	1.46	2.85	1.58	1.64	1.57	1.79	Current assets/current liab.
Cash ratio	0.06	0.12	0.09	0.07	0.12	0.14	0.44	1.50	0.43	0.35	0.54	0.72	(Cash + mkt. securities)/curr.liab.
Cash from operations ratio	0.69	0.74	0.56	0.66	0.60	0.73	0.77	0.53	0.61	0.84	1.01	0.84	Cash from operations/curr. liab.
Defensive Interval	1.71	1.83	1.47	1.36	1.38	1.60	3.12	5.13	3.07	2.82	4.98	4.57	(Cash + AR + cash taxes)/ (rents + gross CAPEX)
Long-Term Debt and Solvency Analysis													
Debt/equity ratio	0.23	0.22	0.24	0.34	0.44	0.43	0.36	0.19	0.37	0.50	0.37	0.26	Total debt/total equity
Times interest earned	18.68	23.59	20.85	17.19	13.71	7.38	12.17	16.08	19.58	16.83	23.15	36.41	EBIT/interest expense
Fixed-charge coverage ratio	18.68	23.59	20.85	17.19	13.71	7.38	12.17	16.08	19.58	16.83	23.15	36.41	EBIT/(rental exp. and int.exp.)
Capital expenditure ratio	0.23	0.26	0.21	0.22	0.19	0.22	0.25	0.19	0.22	0.29	0.41	0.33	Cash from operations/CAPEX
Cash from operations/debt ratio	1.67	2.04	1.43	1.13	0.74	0.94	1.10	0.92	0.76	0.75	1.22	1.22	Cash from operations/total debt
Profitability Analysis													
Margin before interest and tax	7.74%	8.20%	7.95%	10.29%	9.07%	7.56%	12.47%	14.74%	15.19%	12.69%	12.81%	13.16%	EBIT/sales
Net profit margin	3.12%	4.55%	4.82%	4.96%	5.12%	4.05%	7.02%	3.26%	9.86%	7.83%	10.18%	8.65%	Net income/sales
Return on assets	9.47%	9.10%	9.10%	9.24%	8.65%	7.16%	11.69%	4.91%	14.61%	10.68%	12.73%	10.44%	(NI + Int. exp.)/avg. total assets
Return on total equity	13.87%	20.53%	20.30%	20.25%	19.42%	14.93%	24.27%	7.08%	30.14%	23.41%	25.55%	19.51%	Net income/average total equity
Financial leverage effect	35.59%	46.16%	58.39%	53.41%	60.16%	36.82%	60.70%	39.72%	107.00%	61.51%	56.55%	62.38%	Net income/operating income
Growth		'92-'93	'93-'94	'94-'95	'95-'96	'96-'97	'97-'98	'98-'99	'99-'00	'00-'01	'01-'02	'02-'03	CAGR
Sales		7.65%	10.08%	7.51%	6.29%	0.40%	10.37%	9.13%	10.05%	2.94%	2.04%	7.08%	7.32% (92-'03)
Book assets		5.93%	16.80%	13.08%	18.26%	6.41%	7.26%	35.01%	(5.99%)	13.73%	6.99%	9.68%	8.12% (92-'03)
Net income bef unusual (gain) loss		5.82%	16.51%	10.57%	9.88%	(20.68%)	91.53%	(49.28%)	232.28%	(17.35%)	34.19%	(10.94%)	14.25% (92-'03)
Net income		56.86%	16.51%	10.57%	9.88%	(20.68%)	91.53%	(49.28%)	232.28%	(18.23%)	32.64%	(8.93%)	18.83% (92-'03)
Operating income		14.08%	6.74%	39.21%	(6.33%)	(16.31%)	81.98%	29.05%	13.39%	(14.02%)	3.01%	10.01%	12.95% (92-'03)

Source of data: DataStream (Thomson Financial).

EXHIBIT 4 | Timeline of Competitive Developments

FedEx Corp.	United Parcel Service, Inc.
• Offers 10:30 A.M. delivery	• Establishes next-day air service
• Acquires Gelco Express and launches operations in Asia-Pacific	
• Establishes European hub in Brussels	• Begins intercontinental air service between United States and Europe
• Introduces handheld barcode scanner to capture detailed package information	
• Offers warehouse services for IBM, National Semiconductor, Laura Ashley	
	• Establishes UPS's first air fleet
	• Offers automated customs service
• Acquires Tiger International to expand its international presence	• Expands international air service to 180 countries
• Wins Malcolm Baldrige National Quality Award	• Introduces 10:30 A.M. guarantee for next-day air
	• Begins Saturday delivery
	• Offers electronic-signature tracking
• Offers two-day delivery	• Expands delivery to over 200 countries
	• Provides supply-chain solutions through UPS Logistics Group
	• Launches Web site for package tracking
• Launches Web site for package tracking	• Offers guaranteed 8 A.M. overnight delivery
• Acquires air routes serving China	
• Establishes Latin American division	
• Creates new hub at Roissy-Charles de Gaulle Airport in France	• Makes UPS stock available through a public offering
• Launches business-to-consumer home-delivery service	• Acquires all-cargo air service in Latin America
• Carries U.S. Postal Service packages	• Acquires Mail Boxes Etc. retail franchise
• Acquires American Freightways Corp.	• Begins direct flights to China
• Expands home delivery to cover 100% of the U.S. population	• Offers guaranteed next-day home delivery
• Acquires Kinko's retail franchise	• Contracts with Yangtze River Express for package delivery within China
• Establishes Chinese headquarters	• Reduces domestic ground-delivery time

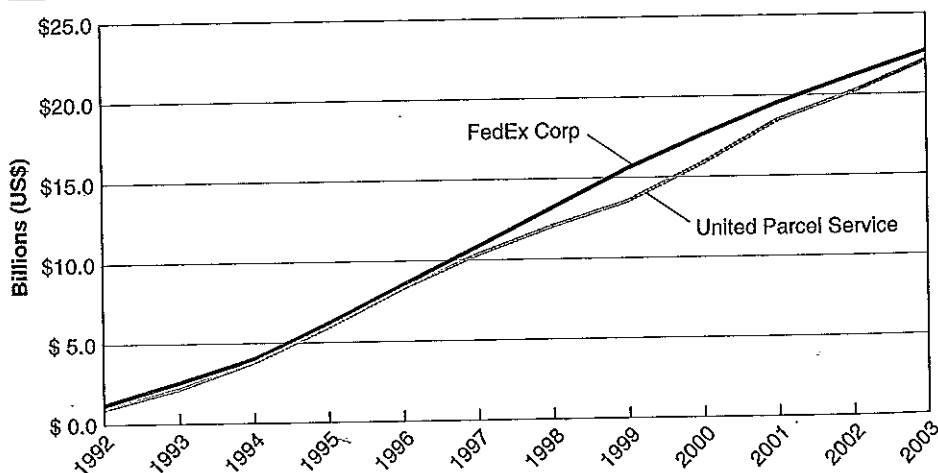
EXHIBIT 5 | Summary of Announced List-Rate Increases

UPS	1998	1999	2000	2001	2002	2003	2004	Average
Date implemented	2/8/02	2/9/03	2/8/04	2/6/05	1/8/06	1/7/07	1/6/08	
UPS ground	3.6%	2.5%	3.1%	3.1%	3.5%	3.9%	1.9%	3.1%
U.S. domestic air	3.3%	2.5%	3.5%	3.7%	4.0%	3.2%	2.9%	3.3%
U.S. export	0.0%	0.0%	2.9%	2.9%	3.9%	2.9%	2.9%	2.2%
Residential premium ¹	\$1.00	\$1.00	\$1.00	\$1.05	\$1.10	\$1.15	\$1.40	
Commercial premium ²	N/A	N/A	N/A	N/A	N/A	N/A	\$1.00	
FedEx	1998	1999	2000	2001	2002	2003	2004	Average
Date implemented	2/16/02	2/9/03	2/2/04	2/2/05	1/8/06	1/7/07	1/6/08	
FedEx ground	3.6%	2.5%	3.1%	3.1%	3.5%	3.9%	1.9%	3.1%
U.S. domestic air	3.5%	2.8%	0.0%	4.9%	3.5%	3.5%	2.5%	3.0%
U.S. export	0.0%	0.0%	0.0%	2.9%	3.5%	3.5%	2.5%	1.8%
Residential premium-express ²	N/A	N/A	N/A	N/A	\$1.35	\$1.40	\$1.75	
Residential premium-ground ²	N/A	N/A	N/A	\$1.30	\$1.35	\$1.40	\$1.75	
Residential premium-home delivery ²	N/A	N/A	N/A	\$1.05	\$1.10	\$1.15	\$1.40	
Commercial premium-express ²	N/A	N/A	N/A	N/A	\$1.50	\$1.75	\$1.00	
Commercial premium-ground ²	N/A	N/A	N/A	N/A	N/A	N/A	\$1.00	

Sources of data: UPS, FedEx, and Morgan Stanley.

¹The residential premium was an additional charge for deliveries of express letters and packages to residential addresses, a price distinction UPS had applied to residential ground deliveries for the previous 10 years to offset the higher cost of providing service to them.

²The commercial premium was applied to products shipped to remote locations and/or select zip codes.

EXHIBIT 6 | Cumulative Capital Expenditures for FedEx and UPS

Sources of data: Company regulatory filings.

EXHIBIT 7 | Geographic Segment Information (values in millions of U.S. dollars)

FedEx Corp.	1992	1993	1994	1995	1996	1997	1998 ^a	1999	2000	2001	2002	2003
U.S. domestic Revenue	5,195	5,668	5,195	6,839	7,466	8,322	9,665	12,910	13,805	14,858	15,968	17,277
Identifiable assets	3,941	4,433	4,884	5,322	5,449	6,123	6,873	6,506	7,224	8,637	8,627	9,908
International Revenue	2,355	2,140	2,280	2,553	2,807	3,198	3,589	3,863	4,452	4,771	4,639	5,210
Identifiable assets	1,522	1,360	1,109	1,112	1,250	1,503	1,503	1,001	1,018	1,254	1,520	1,536
Consolidated Revenue	7,550	7,808	7,474	9,392	10,274	11,520	13,255	16,773	18,257	19,629	20,607	22,487
Identifiable assets	5,463	5,793	5,992	6,433	6,699	7,625	8,376	7,507	8,242	9,891	10,147	11,444
United Parcel Service Inc.	1992	1993	1994	1995	1996	1997	1998^a	1999	2000	2001	2002	2003
U.S. domestic Revenue	14,722	15,823	17,298	18,243	20,108	20,238	22,252	24,093	26,325	26,163	26,284	26,968
Identifiable assets	7,873	8,539	9,902	11,157	9,376	10,063	9,832	10,725	12,477	13,717	14,129	14,915
International Revenue	1,797	1,960	2,278	2,802	2,260	2,220	2,536	2,959	3,446	4,158	4,988	6,517
Identifiable assets	1,164	1,214	1,280	1,488	1,323	1,372	1,810	2,111	2,061	3,050	2,874	3,567
Consolidated Revenue	16,519	17,782	19,576	21,045	22,368	22,458	24,788	27,052	29,771	30,321	31,272	33,485
Identifiable assets	9,038	9,754	11,182	12,645	10,699	11,435	11,642	12,836	14,538	16,767	17,003	18,482

Sources of data: Company regulatory filings.

^a FASB Statement No. 131 (Disclosures about Segments of an Enterprise and Related Information), established the standard to be used by enterprises to identify and report information about operating segments and for related disclosures about products and services, geographic areas, and major customers.

EXHIBIT 8 | Equity Prices and Returns for FedEx and UPS

United Parcel Service, Inc.	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Stock price ¹ , December 31	\$9.25	\$10.38	\$11.75	\$13.13	\$14.63	\$15.38	\$20.00	\$69.00	\$58.75	\$54.50	\$63.08	\$74.55
Dividends per share ¹	\$0.25	\$0.25	\$0.28	\$0.32	\$0.34	\$0.35	\$0.22	\$0.58	\$0.68	\$0.76	\$0.76	\$0.92
EPS, basic incl. extra items ¹	\$0.44	\$0.70	\$0.81	\$0.92	\$1.00	\$0.82	\$1.59	\$0.79	\$2.54	\$2.13	\$2.84	\$2.57
P/E multiple	21.26	14.82	14.42	14.34	14.55	18.64	12.58	87.34	23.13	25.59	22.21	29.01
Capital appreciation		12.16%	13.25%	11.70%	11.43%	5.13%	30.08%	245.00%	(14.86%)	(7.23%)	15.74%	18.18%
Cumul. compound annual return ²		12.16%	27.03%	41.89%	58.11%	66.22%	116.22%	645.95%	535.14%	489.19%	581.95%	705.95%
FedEx Corp.	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Stock price, December 31	\$10.19	\$12.25	\$19.13	\$14.97	\$19.16	\$26.19	\$32.06	\$54.81	\$35.50	\$40.00	\$53.95	\$63.98
Dividends per share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.20
EPS, basic incl. extra items	(\$0.53)	\$0.25	\$0.91	\$1.32	\$1.35	\$1.56	\$1.72	\$2.13	\$2.36	\$2.02	\$2.38	\$2.79
P/E multiple	nmt	50.00	20.96	11.36	14.22	16.79	18.70	25.73	15.04	19.80	22.67	22.93
Capital appreciation		20.25%	56.12%	(21.73%)	27.97%	36.70%	22.43%	70.96%	(35.23%)	12.68%	34.88%	18.59%
Cumul. compound annual return ²		20.25%	87.73%	46.93%	88.04%	157.06%	214.72%	438.04%	248.47%	292.64%	429.57%	528.02%
Standard & Poor's 500 Index	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Index level	435.71	466.45	459.27	615.93	740.74	970.43	1,229.23	1,469.25	1,320.28	1,148.08	879.82	1,111.92
Annual return		7.06%	(1.54%)	34.11%	20.26%	31.01%	26.67%	19.53%	(10.14%)	(13.04%)	(23.37%)	26.38%
Cumul. compound annual return ²		7.06%	5.41%	41.36%	70.01%	122.72%	182.12%	237.21%	203.02%	163.50%	101.93%	155.20%
Cumul. Market-Adjusted Returns	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	
UPS	5.11%	21.62%	0.53%	(11.90%)	(56.51%)	(65.90%)	408.74%	332.12%	325.69%	480.02%	550.75%	
FedEx	13.19%	82.32%	5.57%	18.03%	34.33%	32.60%	200.83%	45.45%	129.14%	327.64%	372.83%	

Source of data: Standard & Poor's Research Insight, annual reports.

¹These data have been adjusted for the two-for-one stock split and initial public offering completed by UPS in November 1999. Prior to 1999, UPS shares were not publicly traded and the company acted as a market-maker for its own stock.

²Compound annual return calculation: (Current year price—Beginning year price)/Beginning year price.

EXHIBIT 9 | Economic Profit Analysis for FedEx

FedEx Corp.	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Return on Net Assets (RONA)												
Net operating profit after tax (\$mm)	\$187	\$176	\$363	\$405	\$419	\$499	\$727	\$726	\$866	\$750	\$881	\$1,418
Beginning capital (\$mm)	\$4,078	\$4,344	\$4,456	\$4,655	\$5,081	\$5,663	\$6,882	\$7,863	\$8,636	\$10,090	\$10,870	\$12,050
RONA (NOPAT/beginning capital)	4.59%	4.05%	8.16%	8.70%	8.25%	8.82%	10.56%	9.23%	10.03%	7.43%	8.10%	11.77%
Weighted-Average Cost of Capital (WACC)												
Long-term debt (\$mm)	\$1,798	\$1,882	\$1,632	\$1,325	\$1,325	\$1,398	\$1,385	\$1,360	\$1,776	\$1,900	\$1,800	\$1,709
Shares outstanding (mm)	216	219	224	225	228	230	295	298	284	297	298	299
Share price (\$)	\$10	\$12	\$19	\$15	\$19	\$26	\$82	\$55	\$36	\$40	\$54	\$64
Market value of equity (\$mm)	\$2,205	\$2,682	\$4,274	\$3,363	\$4,359	\$6,018	\$9,453	\$16,333	\$10,098	\$11,893	\$16,087	\$19,104
Tax rate (%)	23%	46%	46%	43%	43%	43%	45%	41%	39%	37%	38%	38%
Long-term U.S. gov't. bonds (%)	7.97%	6.80%	7.53%	7.01%	7.07%	6.89%	5.94%	5.79%	6.19%	5.65%	5.55%	4.76%
Senior Baa-rated debt (%)	9.20%	8.11%	8.71%	8.27%	8.46%	8.16%	7.33%	7.69%	8.67%	7.94%	7.96%	6.58%
Risk premium (%)	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%
Beta	1.10	1.15	1.20	1.20	1.40	1.35	1.30	1.15	1.20	1.20	1.20	1.10
Cost of equity ¹ (%)	14.13%	13.24%	14.25%	13.73%	14.91%	14.45%	13.22%	12.23%	12.91%	12.37%	12.27%	10.92%
WACC	10.99%	9.72%	11.61%	11.18%	12.56%	12.61%	12.05%	11.64%	11.79%	11.35%	11.53%	10.36%
Economic Value Added (EVA)												
RONA (NOPAT/beginning capital)	4.59%	4.05%	8.16%	8.70%	8.25%	8.82%	10.56%	9.23%	10.03%	7.43%	8.10%	11.77%
WACC	10.99%	9.72%	11.61%	11.18%	12.56%	12.61%	12.05%	11.64%	11.79%	11.35%	11.53%	10.36%
Spread	(6.39%)	(5.67%)	(3.46%)	(2.48%)	(4.30%)	(3.79%)	(1.48%)	(2.41%)	(1.75%)	(3.92%)	(3.43%)	1.41%
X beginning capital (\$mm)	\$4,078	\$4,344	\$4,456	\$4,655	\$5,081	\$5,663	\$6,882	\$7,863	\$8,636	\$10,090	\$10,870	\$12,050
EVA (annual)	(\$261)	(\$246)	(\$154)	(\$115)	(\$219)	(\$215)	(\$102)	(\$190)	(\$151)	(\$396)	(\$373)	\$170
EVA (cumulative)	(\$261)	(\$507)	(\$661)	(\$777)	(\$995)	(\$1,210)	(\$1,312)	(\$1,502)	(\$1,653)	(\$2,049)	(\$2,422)	(\$2,252)
Market Value Added (MVA)												
Market value of equity (\$mm)	\$2,205	\$2,682	\$4,274	\$3,363	\$4,359	\$6,018	\$9,453	\$16,333	\$10,098	\$11,893	\$16,087	\$19,104
Long-term debt (\$mm)	1,798	1,882	1,632	1,325	1,325	1,398	1,385	1,360	1,776	1,900	1,800	1,709
Capital (market value) (\$mm)	4,002	4,565	5,907	4,687	5,684	7,416	10,838	17,693	11,874	13,793	17,887	20,813
Book value of equity (\$mm)	1,580	1,671	1,925	2,246	2,576	2,963	3,961	4,664	4,785	5,900	6,545	7,288
Long-term debt (\$mm)	1,798	1,882	1,632	1,325	1,325	1,398	1,385	1,360	1,776	1,900	1,800	1,709
Capital (book value) (\$mm)	3,378	3,554	3,557	3,570	3,901	4,360	5,346	6,023	6,561	7,801	8,345	8,997
MVA (market value - book value)	\$625	\$1,011	\$2,350	\$1,117	\$1,783	\$3,056	\$5,492	\$11,670	\$5,313	\$5,993	\$9,542	\$11,816

Sources of data: Value Line Investment Survey, Standard & Poor's Research Insight, Bloomberg LP, Datastream.

¹The cost of equity was derived using the capital asset pricing model (CAPM).

EXHIBIT 10 | Economic Profit Analysis for UPS

United Parcel Service, Inc.	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Return on Net Assets (RONA)												
Net operating profit after tax (\$mm)	\$914	\$888	\$944	\$1,448	\$1,545	\$1,379	\$1,909	\$3,215	\$2,955	\$2,846	\$2,589	\$3,309
Beginning capital (\$mm)	\$6,932	\$7,195	\$8,280	\$9,679	\$11,796	\$12,514	\$13,350	\$18,845	\$17,161	\$20,007	\$20,802	\$23,391
RONA (NOPAT/beginning capital)	13.19%	12.34%	11.40%	14.96%	13.10%	11.02%	14.30%	17.06%	17.22%	14.23%	12.45%	14.15%
Weighted-Average Cost of Capital (WACC)												
Long-term debt (\$mm)	\$862	\$852	\$1,127	\$1,729	\$2,573	\$2,583	\$2,191	\$1,912	\$2,981	\$4,648	\$3,495	\$3,149
Shares outstanding ¹ (mm)	1,190	1,160	1,160	1,140	1,140	1,124	1,095	1,211	1,135	1,121	1,123	1,129
Share price ¹ (\$)	\$9	\$10	\$12	\$13	\$15	\$15	\$20	\$69	\$59	\$55	\$63	\$75
Market value of equity ¹ (\$mm)	\$11,008	\$12,035	\$13,630	\$14,963	\$16,673	\$17,282	\$21,896	\$83,538	\$66,663	\$61,068	\$70,839	\$84,167
Tax rate (%)	40%	43%	40%	39%	40%	41%	40%	38%	39%	38%	35%	34%
Long-term U.S. gov't. bonds (%)	7.97%	6.80%	7.53%	7.01%	7.07%	6.89%	5.94%	5.79%	6.19%	5.65%	5.55%	4.76%
Senior Baa-rated debt (%)	8.34%	7.36%	8.08%	7.71%	7.78%	7.53%	6.71%	6.90%	7.99%	7.16%	6.66%	5.47%
Risk premium (%)	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%
Beta ²	1.24	1.13	1.16	1.18	1.18	1.14	1.08	1.15	1.11	1.09	0.95	0.80
Cost of equity ² (%)	14.92%	13.15%	14.02%	13.64%	13.68%	13.27%	11.99%	12.23%	12.41%	11.75%	10.87%	9.24%
WACC	14.20%	12.58%	13.32%	12.72%	12.47%	12.12%	11.26%	12.02%	12.09%	11.23%	10.56%	9.04%
Economic Value Added (EVA)												
RONA (NOPAT/beginning capital)	13.19%	12.34%	11.40%	14.96%	13.10%	11.02%	14.30%	17.06%	17.22%	14.23%	12.45%	14.15%
WACC	14.20%	12.58%	13.32%	12.72%	12.47%	12.12%	11.26%	12.02%	12.09%	11.23%	10.56%	9.04%
Spread	(1.01%)	(0.24%)	(1.91%)	2.24%	0.63%	(1.10%)	3.04%	5.04%	5.13%	2.99%	1.89%	5.11%
X beginning capital (\$mm)	\$6,932	\$7,195	\$8,280	\$9,679	\$11,796	\$12,514	\$13,350	\$18,845	\$17,161	\$20,007	\$20,802	\$23,391
EVA (annual) (\$mm)	(\$70)	(\$17)	(\$158)	\$217	\$74	(\$138)	\$405	\$949	\$881	\$599	\$392	\$1,195
EVA (cumulative) (\$mm)	(\$70)	(\$87)	(\$246)	(\$28)	\$45	(\$92)	\$313	\$1,262	\$2,143	\$2,741	\$3,133	\$4,328
Market Value Added (MVA)												
Market value of equity ³ (\$mm)	\$11,008	\$12,035	\$13,630	\$14,963	\$16,673	\$17,282	\$21,896	\$83,538	\$66,663	\$61,068	\$70,839	\$84,167
Long-term debt (\$mm)	862	852	1,127	1,729	2,573	2,583	2,191	1,912	2,981	4,648	3,495	3,149
Capital (market value) (\$mm)	11,870	12,887	14,757	16,692	19,246	19,865	24,087	85,450	69,644	65,716	74,394	87,316
Book value of equity (\$mm)	3,720	3,945	4,647	5,151	5,901	6,087	7,173	12,474	9,735	10,248	12,455	14,852
Long-term debt (\$mm)	862	852	1,127	1,729	2,573	2,583	2,191	1,912	2,981	4,648	3,495	3,149
Capital (book value) (\$mm)	4,583	4,797	5,775	6,880	8,474	8,670	9,364	14,386	12,716	14,896	15,950	18,001
MVA (market value - book value)	\$7,287	\$8,090	\$8,983	\$9,812	\$10,772	\$11,195	\$14,723	\$71,064	\$56,928	\$50,820	\$58,384	\$69,315

Sources of data: *Value Line Investment Survey*, Standard & Poor's *Research Insight*, Bloomberg LP, DataStream.

¹These data have been adjusted for the two-for-one stock split and initial public offering completed by UPS in November 1999. Prior to 1999, UPS shares were not publicly traded and the company acted as a market-maker for its own stock.

²For the period 1992-2001, this figure reflects the average betas for peer firms.

³The cost of equity was derived using the capital asset pricing model (CAPM).

EXHIBIT 11 | Equity Analysts' Outlook for FedEx and UPS**FedEx Corporation**

Analyst	Comments
Morgan Stanley's J.J. Valentine, April 6, 2004	It was refreshing to hear FedEx's management highlight some of the risks in China as we sense these issues are too often overlooked by the bulls. Some of these issues include: • lack of legal framework • different interpretations of laws by regional and local governments • nonperforming loans that put pressure on China's banking sector • liability by government for retirement program of state-owned enterprises • widening gap between the urban and the rural standard of living • government that often dictates commercial relationships One issue that's not as much a risk as it is a challenge is finding skilled, educated labor. This was a recurring theme that we heard during our visit to Asia, namely that China has a large unskilled workforce to produce cheap products, but it is becoming increasingly difficult to find skilled labor for the service industry, such as parcel delivery or logistics.
Value Line Investment Survey's W.R. Perkowski Jr., Dec. 12, 2003	The international business should drive long-term growth. Unlike the domestic express business, which has reached maturity, the international market remains in the growth stage. Indeed, growth rates in this sector mirror the rate of domestic expansion in the late 1980s. Furthermore, demand for this service should rise going forward, as a greater amount of manufacturing capacity is outsourced to Asia. Finally, since a large portion of FedEx's cost structure is fixed, and it has ample capacity to serve additional business, any increases in volume should flow directly to the bottom line.

United Parcel Service Inc.

Analyst	Comments
Value Line Investment Survey's D.Y. Fung, Dec. 12, 2003	United Parcel Service's third-quarter 2003 results were better than we expected. . . . This gain was driven by record-breaking results in the international and nonpackage segments. Indeed, both units experienced advances in volume and margins, which led to bottom-line increases of 171% and 61% respectively. Importantly, growth of these two businesses has resulted in greater earnings diversity at UPS. This has helped to protect investors from the cyclical downturn in the U.S. economy in the past two years. Going forward, we believe international and nonpackage will continue along their positive growth trajectory, while generating a higher portion of the company's net earnings.