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Driving Change

The UPS Approach to Business

Mike Brewster and Fred Dalzell • Hyperion © 2007 • 304 pages

Industries / Logistics Industry
Manufacturing / Supply Chains

Take-Aways

- United Parcel Service (UPS) founder Jim Casey and his partner Claude Ryan started the company in 1907 with \$100 in capital.
- In 1927, UPS began one of the nation's first employee stock ownership plans.
- UPS entered the aviation business in 1929, and used computers as early as 1938.
- From 1935 to 1955, America doubled its number of privately owned cars, and department stores moved from cities to suburbia, thus changing delivery patterns.
- Worldwide, UPS is the biggest user of cellular phone minutes and the biggest corporate buyer of PCs.
- Customers themselves enter more than 95% of UPS's shipping information directly.
- To manage its systems, UPS owns the world's largest IBM relational database.
- Unlike most major companies, which grew through new product introductions, UPS grew through engineering and re-engineering its own systems.
- When UPS went public in 1999, it was the third-largest privately held company in the United States.
- UPS now manages specialty supply-chain management operations and fleet operations for outside companies.

Recommendation

The history of UPS is a century-long story about a visionary founder, Jim Casey, who took a simple idea and made it grow, forging a global delivery, logistics and transportation network. He built an exceptional company that recognizes the critical role of its employees and the need for constant renewal. Mike Brewster and Frederick Dalzell were given complete archival access ("warts and all," they say, although the book is very positive) to create this corporate biography for the company's 100th anniversary. They cover UPS's history and development, detailing Casey's visions and methods, and showing how UPS has become a leader in global shipping and logistics. Their enjoyable, informative book is as much an industrial engineering story as it is the biography of a company that has continually reinvented itself. *getAbstract* recommends it to businesspeople who want to see how diligent leaders built a global company.

Summary

Nevada Gold

Jim Casey, the founder of the global United Parcel Service (UPS), never let difficult circumstances deter him. In 1905, at 17, he left his family in Seattle to strike it rich in the aptly named town of Goldfield, Nevada, one of the West's legendary gold-mining towns. Casey and a friend sought a claim, but discovered that all the sites within 60 miles of town were already taken.

"As (Jim) Casey would later say, UPS didn't invent the retail delivery business, but it did refine it with improvements that meant better service for customers."

Cut out as prospectors, they decided to open a messenger service for the town's 30,000 inhabitants. Realizing that all of Goldfield's incoming messages funneled through a single switchboard, the partners negotiated a deal to deliver all the exchange's messages for \$50 a month. Goldfield was a tough town, and Casey's partner got shot and killed as he made a delivery. Casey then contracted typhoid fever and his doctor told him to return to Seattle.

"UPS needed commitment and faith and a level of performance from their people that would go well beyond a typical, corporate employer-employee relationship."

In 1907, Casey and his new partner, Claude Ryan, spent \$100 to set up a new business, the American Messenger Service, in the basement of a Seattle tavern. With a single bicycle and a few boys hired from reputable families, they distinguished themselves from the town's nine other messenger companies by stressing good service and low rates. Western Union was their largest client. In 1913, Evert McCabe joined the firm as a new partner, bringing in 30 employees and a fleet of motorcycles. He was a visionary and Casey was the businessman who implemented his ideas. As the company grew, Ryan left, and Casey's brother George became a partner.

"Necessity played a part in the formation of the promote-from-within philosophy, because the company was expanding at a breakneck pace."

Looking for a niche, the partners recognized that shoppers were buying from department stores, but had no easy way to get their purchases home. The nation's largest delivery services – Wells Fargo, Adams, American Express and United States Express – were not interested in intracity deliveries. American Messenger's big break came in 1917 when Charlie Soderstrom, who had extensive department store delivery and fleet management experience, joined the company. Within 12 months, it was handling all the deliveries for three large department stores. To ensure that deliveries were reliable, Casey bought long-lasting tires for his service trucks. Since his customers were high-end stores, Casey also had to uphold top standards. He meticulously maintained his vehicles, and required drivers to follow a dress and conduct code. They had to be polite and clean-shaven, and they could not smoke on the job. In return, UPS paid high wages.

Pullman Brown

The company adopted a new standard color, Pullman Brown, for its delivery vehicles in 1919. That year, it expanded to Oakland, California, then Los Angeles, San Francisco, and Portland, Oregon, and it continued to grow. As the company – by then called United Parcel Service – expanded, its leaders developed a company culture that stressed high standards. To reach employees, in 1924, UPS started publishing the Big Idea, one of the first corporate newspapers in the U.S. The next year, it gave its employees uniforms of the same brown used on the trucks. The partners chose brown because it hid road grime. To project the right image, UPS cleaned its trucks daily and steam-cleaned their interiors every week.

“A dynamic founder can be an invaluable asset for a young company, but a problematic legacy as well.”

UPS began applying industrial engineering techniques in 1923 when it hired Russel Havighorst, who had learned mass production techniques at Ford and General Motors. He applied his knowledge to shipping, and designed new sorting machinery and steel cages for packages. In 1926, Casey and Havighorst gathered ideas by visiting other shippers, including a packing house, Sears, Marshall Field and Ford. They copied the best of each operation. For the next 80 years, UPS relied on industrial engineering to design and improve its systems. Casey encouraged continuous re-evaluation of processes and ultimately coined the term "constructive dissatisfaction" to describe UPS's improvement process.

“Excellent service will always distinguish a company, whether it's based on an original business idea or not.”

In 1927, UPS offered ownership shares, including voting rights, to 52 employees, one-tenth of its workforce. The company launched this pioneering employee stock ownership plan even though it did not need to raise new capital. Its motive was to strengthen its relationships with its employees. By the end of the decade, it adopted the policy of promoting from within the ranks of the company.

“By relinquishing a share of equity, they were daring employees to put some skin in the game.”

Alert to new delivery methods and already serving much of the western U.S., UPS launched United Air Express in 1929 to expedite deliveries to Texas. The stock market crash and subsequent Depression forced it to close the air service in 1931. Though the economy was down, UPS expanded to New York City in 1930 and

doubled the size of its operations. Its initial volume in Manhattan was 1.5 times larger than its San Francisco business. UPS was already the world's largest parcel service by 1932, when it had some 650 employees. By 1934, it had 1,000 more.

“UPS achieved transformation by working slowly and methodically from the inside out.”

Always curious about how people viewed the company, Casey solicited employees' input and compiled it into the "Policy Book," a hybrid employee manual, mission statement and business plan. Still in use today, the book is an essential component of the company's culture. In UPS's first quarter-century, Casey had tremendous success – and witnessed great tragedy. McCabe was shot and killed by his mentally ill wife, who was grieving the death of their son. In a freak accident, a golf ball hit Soderstrom and left him unable to work.

“While the changeover to becoming a common carrier was arduous, the willingness to transform was clearly embedded in the company's DNA.”

As UPS improved its operations, demographic shifts altered its trajectory. From 1935 to 1955, Americans doubled the number of cars they owned and department stores moved to suburbia, where people could take home their own packages. When business stagnated in the early 1950s, UPS expanded its wholesale and business-to-business deliveries, and increased its long-haul intercity trucking. Wholesale shipping complemented UPS's retail operations, gave it more economies of scale and made better use of low-traffic shipping hours. Casey envisioned a worldwide delivery service. No company had ever built such a network, but UPS's history is the story of invention, expansion and reinvention.

Up in the Wild Blue Yonder

An early proponent of air transport, UPS now operates the world's eighth-largest airline with service to 200 countries and territories. Its planes depart and arrive every few minutes from 11:30 p.m. to 2 a.m. at its U.S. cargo, shipping and distribution headquarters at the airport in Louisville, Kentucky. Here, at a facility called Worldport, a system of 120 miles of conveyor belts sorts, routes and ships one million packages daily. Employees touch the packages only twice in this process. To track this huge volume, machines scan and record every package.

“Technology is not only beneficial to improving a company's internal operations, it is also a key component of a service culture.”

UPS perfected the use of a "hub-and-spoke" system for ground packages, bringing all packages to a central "hub" location for sorting and shipment to their destinations. But, uncharacteristically, it entered the air shipping business reactively, in response to Federal Express, which first applied the hub-and-spoke method to air shipments and then refined the concept by selling expedited deliveries. FedEx introduced many new services, including the overnight letter in 1981. UPS offered a two-day letter at 70% of the cost, but when customers asked for overnight delivery, UPS had to act. Buying nine used airplanes, it contracted with outsiders for its aviation operation, and began overnight delivery in August 1982. Initial volume was disappointing, but it grew. By August 1987, the company needed an in-house fleet. The Federal Aviation Administration told UPS that its airline start-up program was the most ambitious the agency had ever seen.

To accelerate its learning process, UPS hired retired and semi-retired airline professionals, and matched them with UPS veterans.

Big Brown Worldwide

Starting its airline led the company into new locations and new strategies. It moved into Canada, developed agency relationships in Turkey and began an ambitious plan to start an intracountry delivery service in West Germany in the late-1970s. This start-up was difficult. UPS's main competitor was the formidable national postal service, and it faced problems with salaries, workloads and labor relations. A task force re-examined the operation and called for an ambitious cross-training program. Now, Germany is a profit center and UPS operates a hub in Cologne.

"A Shanghai hub is important for UPS because there are so many goods flowing out of China to the U.S. and Europe that the volume UPS handles really just depends on how many planes it can get off the ground."

In 1985, UPS expanded into Great Britain, France, Belgium, the Netherlands and Luxembourg. It acquired other companies, and used local agents to overcome problems ranging from customs delays to employees who drank liquor at lunch. Eventually, UPS made 16 acquisitions in Europe, and added two more acquisitions to serve Asia, Africa and the Middle East. UPS entered somewhat frustrating and costly joint ventures in China, but it eventually purchased its partners' interests. Today, UPS serves more than 300 Chinese cities and is building a major hub in Shanghai. As of 2006, UPS had 23 more countries in its sights.

Powerful Technology

Aside from its global reach, UPS's other main strength is its technological ability, which allows it to serve customers "one-on-one," as envisioned by current CEO Michael L. Eskew. Unlike other great companies, which grew through new product introductions, UPS expanded by using continuous improvement, engineering and re-engineering its systems, and relying upon advanced technology. As early as 1938, it recorded data on punch cards. By the mid-1960s, it used computers to process cash-on-delivery packages. UPS experimented with robots to load and unload trucks. Today, technology tells loaders where to place every box, letter and envelope inside a UPS delivery car.

"Expansion for Casey and company was always an occasion for reflection and self-examination."

The company developed systems to track individual packages worldwide. As these processes became more sophisticated and user-friendly, UPS gave them to customers, so they could track their own packages and enter their own shipping data. Harry and David, the specialty foods merchant, and The Home Depot both use UPS technology to manage their customers' shipments directly. Today, customers themselves enter more than 95% of UPS's shipping information. This is a major reason that UPS can ship 15 million packages daily, worldwide.

"The bigger a company grows, the more the little things become harder to manage."

To run this system, UPS owns the world's largest IBM relational database. UPS buys more PCs than any other company and is the globe's biggest user of cellular phone minutes. To keep its systems running, UPS employs 4,000 software engineers. In the U.S., UPS worked with McCaw Cellular to build a national network of cellular phone companies to relay package data. To expedite U.S. Customs Department approvals, UPS developed a system that showed customs agents what packages would arrive the next day for processing. With 24-hour notice, agents could determine which packages needed manual inspection and which they could preapprove.

Going Public

UPS traditionally viewed widespread employee stock ownership as beneficial. It structured its stock distribution so that its managers would be the sole owners. To assure stability, UPS encouraged managers to hold their stock until retirement, when they got a 3% bonus. This fostered a long-term view. When UPS went public in 1999, it was the third-largest privately held company in the U.S. Given its traditions, it sought to protect employee ownership rights, so it issued employees a class of stock with 10 votes per share, while public shares carried one vote. UPS did not engage in the usual practice of letting insiders buy shares before the stock went public.

“UPS is defined in the popular imagination by its drivers and brown package cars.”

Even though UPS was no longer employee-owned, its expansion continued, fueled by new capital. In 2001, it acquired Mail Boxes, Etc., and now has more than 3,000 retail UPS Stores. It entered other new businesses, such as supply-chain management. To help customers' trucks leave with full loads and make as few stops as possible, UPS uses algorithms to analyze freight rates, routes and clients' shipping schedules. The company further developed its expertise in fleet operations, and supply-chain management and outsourcing. Over time, UPS spent \$2 billion to acquire 30 shipping and freight companies, which were branded under the UPS Freight name in 2006. This made UPS a big name in the \$3.2 trillion supply-chain management business. Now it is considering "premanufacturing," condensing high-tech companies' manufacturing and delivery process timeframes, so customers can order parts daily.

UPS is a global trade leader because it anticipated where market growth would occur; it was cautious about allocating resources to new projects; and it became a socially conscious force in its markets. The company also prospered because it used technology to transform itself continually while staying focused on its workers and its customers, just as Jim Casey did, 100 years ago.

About the Authors

Mike Brewster is a business writer and the author of *Unaccountable* and *King of Capital*. He and historian Frederick Dalzell are part of a consulting firm specializing in historical research and archival services for organizations. Dalzell's other books include *Changing Fortunes* and *Rising Tide*.



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