

'One FedEx' seeks better balance between air, rail, trucking



FedEx Freight, the largest US trucking operator, will survive as a standalone company within the new FedEx corporate structure. Photo credit: Trendsetter / Shutterstock.com.

William B. Cassidy, Senior Editor | Apr 5, 2023, 4:52 PM EDT

A massive reorganization announced Wednesday by FedEx will significantly change the way freight and packages move through its distribution network, both within North America and globally, shunting goods from one mode to another in a bid to improve asset utilization and save billions of dollars.

That includes moving more freight now in ground trucks and tractor-trailers by intermodal rail and moving more express freight by linehaul truck that is now traveling within the US in airplanes.

FedEx says the changes will result in lower costs and greater efficiency, while potentially lowering supply chain costs for shippers.

By June 2024, the second-largest US-based parcel delivery company will combine FedEx Express and FedEx Ground, taking steps to consolidate and optimize utilization in both its air and ground networks. Key to that plan is greatly improving shipment density in airplanes, on trains, and in trucks.

“The opportunity to optimize transportation and reduce empty miles is absolutely tremendous [on the ground alone],” said John Smith, currently president and CEO of FedEx Ground.

FedEx can save \$450 million in linehaul transportation costs alone by 2027, Smith, who as of April 16 will become president and CEO of US and Canada ground operations at FedEx, told Wall Street analysts.

“If you’ve ever seen a FedEx Ground and a FedEx Express truck in your neighborhood on the same day, you know the problem we’re trying to solve,” Smith said.

That linehaul cost reduction includes \$80 million in savings over the next two years from strategic use of intermodal rail, he said. “We will load 90 percent of our rail volume, significantly more than now, onto company-owned intermodal containers that move at a lower rate than trailers,” said Smith.

FedEx will increase its use of intermodal rail from 8 percent of total surface transport miles to 15 percent, Smith said. For FedEx, intermodal rail costs will be about 30 percent lower than the cost of moving those packages in over-the-road linehaul trucks, he added.

Overall, the company expects \$4 billion in savings from its reorganization in the fiscal year that ends May 31, 2025, including \$1.2 billion in surface transportation savings and \$1.3 billion in air network and international savings. Some of those savings will come from reduced international flights.

FedEx expects to cut trans-Pacific flights in its “purple-tail” fleet of airplanes by 30 percent, consolidating more freight to load planes more densely and using more capacity from commercial partners to meet surge demand, FedEx executives told analysts.

FedEx Freight stays

The company isn’t turning its back on less-than-truckload (LTL) carrier FedEx Freight, which will become a standalone subsidiary within a new Federal Express Corporation, alongside FedEx Custom Critical and FedEx Office. There are no plans for FedEx to sell or spin off the largest US trucking company.

"FedEx Freight is an integral part of our portfolio," Raj Subramaniam, FedEx's president and CEO, said during the analyst briefing, which was webcast by the company.

"We're winning with our freight bundle," said Brie Carere, chief customer officer. "We're the only player able to bundle parcel and LTL."

FedEx Freight is the largest US trucking company, LTL or not, with more than \$10 billion in revenue last year.

"With FedEx Freight, we have an opportunity to optimize the largest shipments in all three networks," express, ground, and freight, Smith said. FedEx Freight already plays a role in providing linehaul services to its sister divisions, especially during peak season surges in e-commerce packages.

That capability will become more important, said Satish Jindel, president of research firm SJ Consulting Group. "No one cares whether a linehaul FedEx Freight trailer traveling between Chicago and Pittsburgh is carrying packages or LTL freight," Jindel said. "That will eliminate empty miles."

Air shift to ground

As FedEx restructures its North American ground network, it will also streamline its air network, consolidating more freight for density and using global commercial partners to flex capacity levels. Once air freight arrives in North America, it will more likely move to truck rather than a domestic airplane.

International shipments arriving in North America will increasingly be transferred to regional and intra-regional truck networks rather than domestic flights, said Richard Smith, currently president and CEO-elect of FedEx Express. As of April 16, he will become president and CEO of airline and international.

The largest changes to FedEx since the company invested in trucking, creating FedEx Freight in 2003, are a reaction to a market slowdown, especially in global shipments, and increased pressure on FedEx margins. Many of the changes will bring FedEx's operating structure closer to that of archrival UPS, Jindel said. "Now there will be 'One FedEx' just like there's 'One UPS,'" he said.

Contact William B. Cassidy at bill.cassidy@spglobal.com and follow him on Twitter: [@willbcassidy](https://twitter.com/willbcassidy).

Journal of Commerce analyst Cathy Morrow Roberson contributed to this report.