History and evaluation of fedex corporation

FedEx Corporation (FedEx) provides a comprehensive suite of services such as transportation, e-commerce and business services. The company offers printing, copying and binding services as well as video-conferencing services. The company has presence in more than 1, 950 locations worldwide including Australia, Canada, China, Japan, Korea, Kuwait, Mexico, the Netherlands, the United Arab Emirates, the UK, and the US. These locations include 135 locations in seven foreign countries, as well as 30 commercial production centers.

The company classified its operations under four reportable segments, namely, FedEx Express, FedEx Ground, FedEx Freight and FedEx Services.

In the FedEx Express segment, the company operates chiefly through Federal Express Corporation, which serves more than 306 countries and territories by delivering packages and freight through a single global network. The segment also includes FedEx Trade Networks, Inc., which provides customs brokerage, international trade services, and global ocean and air cargo distribution. It operates around 49, 000 ground transport vehicles, including pickup and delivery vans, larger trucks known as container transport vehicles and over-the-road tractors and trailers. It owns and leases about 700 facilities for city station operations in the US. In addition, 400 city stations are owned or leased throughout FedEx Express’s international network. Further, in May 2010, the segment had around 46, 000 Drop Boxes, including 5, 000 Drop Boxes outside U. S. Post Offices. As of May 31, 2010, the segment also had around 13, 000 FedEx Authorized Ship Centers and other types of staffed drop-off locations, such as FedEx Office centers. Furthermore it had around 4, 000 drop-off locations internationally.

During 2010, FedEx Express purchased jet fuel from an assortment of suppliers under contracts that differ in length and supply for specific amounts of fuel to be delivered.

Under the FedEx Ground segment, the company provides small-package ground delivery services, principally through its FedEx Ground Package System, Inc. It principally serves domestic residences through its FedEx Home Delivery across the US and Canada. This segment also comprises FedEx SmartPost, Inc., which deals with the transportation of less time-sensitive business to consumer packages via the US Postal Service and Canada Post Corporation, and the delivery of high volumes of low-weight.

Its corporate offices and information and data centers are located in the Pittsburgh, Pennsylvania, area in a 500, 000 square-foot building. As of May 31, 2010, the segment had about 30, 400 company-owned trailers and owned or leased 520 facilities, as well as 32 hubs. The hub facilities average approximately 325, 000 square feet and range in size from 54, 000 to 715, 000 square feet. In addition, around 26, 300 owner-operated vehicles support FedEx Ground’s business.

FedEx Freight Corporation operated around 60, 000 vehicles and trailers and 492 service centers. These facilities range in size from 850 to 221, 300 square feet of office and dock space. The company’s FedEx Services segment is engaged in selling and marketing, besides providing information technology support and customer services support through FedEx Corporate Services, Inc and FedEx Customer Information Services, Inc. In addition, it operates through FedEx Office and Print Services, Inc., which offers document solutions and business services. Through its FedEx Global Supply Chain Services, Inc., the company provides a wide range of supply chain solutions. FedEx Office centers are located in strip malls, office buildings or individual structures and average around 4, 000 square feet in size.

The company also inducted a Boeing 777F freighter in its trans-pacific route, connecting Shanghai with FedEx’s Super Hub in Memphis, Tennessee. The direct connection will offer customers across Shanghai, Kunshan, and Suzhou a two-hour improvement in cut-off times in select areas. The company will be able to achieve fuel efficiency, besides lesser carbon footprint. Its capital expenditure for 2011 is expected to be approximately USD 3. 2 billion.

Business environment

The airfreight and logistics industry is at “ ground-zero” of globalization. The logistics services that tie this industry together, along with the speed of airfreight, has allowed operations, suppliers, and customer-reach to truly extend globally. Off shoring has created global supply networks with complicated logistics problems, which has prompted the proliferation of third-party logistics providers. Large airfreight carriers, such as FedEx and UPS, have redesigned their business model around such services. Their advanced IT infrastructure provides them with a leading edge over competitors, and they continue to invest heavily in this area. The airfreight slump in 2001 and 2002 caused the large airfreight carriers to seek alternative growth areas, and further encouraged them to drive toward providing turnkey freight transportation services. Industry leaders have spent the past few years forming alliances and acquisitions that reach out to the retail sector. Through these deals, leading airfreight carriers expanded their ground delivery trucking routes, offered more affordable deferred delivery options, worked with the USPS through freight forwarders, and expanded into many more retail outlets. B2C e-commerce is changing delivery dynamics, helping less-than-truckload (LTL) trucking and airfreight carriers, at the expense of full truckload carriers. This trend has caused air cargo and trucking to converge, where each is entering into each other's markets. Airfreight carriers are entering into time-definite trucking, and accepting heavier cargo. They market their services not as airfreight, but as time-definite services that use both air and truck. LTL trucking firms are offering more time-definite delivery services, where pricing is based on speed of delivery, as opposed to traditional trucking pricing based on distance and weight.

Demands of JIT inventory management and global trade have created a need for faster deliveries over longer distances, which helped develop a steady increase in airfreight usage over other modes of transportation. Airfreight remains small compared to other modes, indicating future growth potential, particularly since the forces of globalization will continue to influence economies. Asia, and particularly China, is a growing region due mostly to increased trade with the region, and China's robust manufacturing base

Industry overview

The A&L industry includes not only air carriers, but also transportation intermediaries such as freight forwarders and third-party logistics providers (3PLs). Post offices around the world are direct competitors, and some, such as Deutsche Post (owner of DHL), are partially privatized and publicly traded. Most global post offices now offer overnight and deferred delivery services for letters and small packages, as well as logistics services. Passenger airlines also compete, as they transport freight in the storage areas of their passenger airplanes, and many airlines own additional freight-only fleets. This industry is dominated by a few giants, but remains competitive through a multitude of small- and medium-sized companies.

Leadership

Peter F Drucker Strategic Leadership Award was presented to Frederick W Smith for the year 1997. He was recognized for innovative and result-oriented leadership. He sees solutions where others see obstacles. FedEx developed rigorous processes under his leadership with extremely low defect rates.

FedEx employees were highly motivated and were empowered through information, technology, and training. FedEx was transformed by and information technology innovation.

Smith believed that speed, reliability and customer service are three critical success factors. To achieve these goals he invested heavily on IT. It was Smiths strong belief that for an express industry it was absolute necessary to use IT to provide customers with real-time information about their shipments. FedEx under Smith leadership invested heavily in IT and was one of the few businesses in the US which anticipated the application of internet in business operations. Fedex. com was launched in 1994 enabling customer to do business online. The work culture in FedEx was open and informal. The talent of employees was well recognized and rewarded. Smith always received tremendous support and confidence from employees.

Smith was a strong advocate of globalization. Smith felt strongly that FedEx should commence international operations and in 1984, FedEx started its operations in Europe and Asia. FedEx acquired several major foreign companies under the leadership of Smith. FedEx acquired Tiger International in 1989 which transformed FedEx into the worlds largest full-service.

Competitive position (SWOT)

SWOT Analysis – Overview

FedEx Corporation (FedEx) is a provider of a broad range of transportation, e-commerce and business services to its customers under the FedEx brand. The company's strong market position and diversified business operations are its key strengths, even as its weak operational efficiency and return on equity remain areas of concern. Going forward, global economic conditions and intense competition may impede its growth. However, strategic expansions and positive short-term and long-term outlook for air freight and logistics may offer ample growth opportunities to the company.

Strengths

Weaknesses

Strong Foothold in the Market

Overdependence on the US

Diversified Business Operations

Declining Market Share in Sector

Opportunities

Threats

Strategic Growth Plans

Intense Competition

Cost-Cutting Initiatives

Seasonality of the Business

Strengths

Strong Foothold in the Market

FedEx's strong market position offers it an advantage over its competitors. FedEx is the world's largest express transportation company, offering time-certain delivery within one to three business days and serving markets that encompass over 90% of the world's gross domestic product. It offers delivery of small packages throughout the US and 220 other countries. FedEx Freight Corporation operates 60, 000 vehicles and trailers from a network of 492 service centers. FedEx Ground has more than 31, 500 company-owned trailers. In 2010, FedEx ranked 13th in FORTUNE magazine's " World's Most Admired Companies". This is the ninth consecutive year for the company to have been ranked in the top 20 on the list. In 2010, the company was listed among FORTUNE's " 100 Best Companies to Work for in America" and the company has made it to the list in 12 of the past 13 years. Further it is also ranked among 40 Best Companies for Diversity by Black Enterprise magazine. In addition, FedEx continued to rank highest in customer satisfaction in the University of Michigan Business School National Quality

Research Center’s American Customer Satisfaction Index in the express delivery category. In 2010, FedEx Express won the Institute of Transport Management’s “ Best Global Cargo Hub” award for its Memphis World Hub. The company has an excellent human network, with over 280, 000 team members who are confidently focused on safety, the highest ethical and professional standards. This strong foothold in the market and brand equity supports the company’s foray into new markets as well as the launch of new services.

Diversified Business Operations

FedEx has a well-diversified business mix, which provides it a competitive edge over its peers. Under the FedEx brand, it offers a whole range of diversified services through its group companies. . FedEx Services offers end-to-end shipping services to international customers through its FedEx Trade Network. FedEx Express is one of the world’s leading express transportation companies, providing fast and reliable delivery to over 220 countries worldwide including every US address. The company’s FedEx Ground provides cost-effective and small package shipping services, and business-to-business delivery services through FedEx SmartPost and FedEx Home Delivery. FedEx Freight provides the fastest, door-to-door same day and next day delivery of valuable items, urgent freight, and hazardous goods through FedEx Custom Critical. FedEx Services offers Internet access, copying and digital printing, document creation, computer rental, professional finishing, direct mail, and signs and graphics. This diversified nature of its business mitigates the risks related with concentration of revenues in a segment.

Strong Information Systems Network

FedEx’s information systems help the company efficiently serve its customers and also connect to different FedEx companies as well. The information integration helps the company gain business synergies across its multiple operating units. Its website, fedex. com, offers a single point of contact for all of its customers’ needs.

It provides shipment tracking, invoicing information, customer service as well as other FedEx Office services to its customers.

Similarly, customers can make a call to the company and can quickly and easily evaluate the various surface and air freight shipping options offered by FedEx and select the best option that suits their needs. Thus, a strong information system network helps the company offer an efficient freight service to its customers, based on their pickup and delivery requirements, nature of the product being shipped and time sensitivity.

Strong Growth

FedEx was trading at a price/earnings (P/E) ratio of 22. 47 at the end of fiscal year 2010. This was above the S&P 500 companies’ average of 18. 19. A higher than S&P 500 companies average P/E indicates that the company has high growth prospects, which are reflected in its stock’s premium pricing.

Investors are likely to expect higher earnings growth in the future compared to other companies in the S&P 500 index. The company’s return on equity (ROE) was 8. 6% for fiscal year 2010. This was above the S&P 500 companies’ average of 4. 5%. A higher than S&P 500 companies average* ROE indicates that the company is efficiently using the shareholders’ money and that it is generating higher returns than other companies in the S&P 500 index.

Weaknesses

Overdependence on the US

Although the company operates across the world serving over 220 countries, it depends heavily on the US market for its revenues. For fiscal year 2010, the US market accounted for over 71. 5% of the total revenue of the company. Overdependence on a particular market puts the company at a risk as any political, economic or climatic change in the region could have an adverse impact on the company’s business. It also restricts its market share and growth options.

Declining Market Share in Sector

FedEx’s operating margin was 5. 75% for fiscal year 2010. This was below the S&P 500 companies’ average of 7. 26%. A lower than S&P 500 companies average operating margin indicate inefficient cost management or a weak pricing strategy by the company. Due to decline in operating margin, the company’s compound annual growth rate decreased.

The company’s compound annual growth rate (CAGR) for revenue was 1. 84% during 2006- 2010. This was below the S&P 500 companies’ average of 12. 74%. A lower than S&P 500 companies average revenue CAGR may indicate that the company has performed below the S&P 500 companies’ average growth and lost market share over the last four years. The company’s underperformance could be attributed to a weak competitive position or inferior products and service offerings or lack of innovative products and services.

Opportunities

Strategic Growth Plans

FedEx is pursuing diverse strategic growth plans that drive its top line performance. FedEx Trade Networks, a subsidiary of the FedEx opened offices in offices in Middle East , Europe and Africa regions. This is the company's latest step in the ongoing global expansion plan including new operations in Warsaw and Gdynia, Poland and Dubai, the United Arab Emirates. The company has opened 20 international freight forwarding locations in the past nine months, bringing the company's total to 22 new international locations since 2008. Further, FedEx Ground is building 214, 000 square-foot facility as package sorting and delivery station. It would be the fifth major facility for the company in Chicago. Strategic initiatives such as these form part of the company's plans to strengthen and expand its global footprint.

Cost-Cutting Initiatives

FedEx has been pursuing diverse initiatives that improve its operational efficiency. The company plans to increase FedEx Express vehicle efficiency by 20% by 2020, and expand on-site renewable energy generation and procurement of renewable energy credits. It has been increasingly inducting hybrid vehicles into its fleet, which minimize cost, besides improving efficiency.

The company’s hybrid electric delivery fleet is the largest in the industry. Its continuous focus on hybrid and electric vehicles is likely to minimize its fuel costs, besides reducing pollution. To attain its objective of vehicle efficiency at low cost, the company is retiring and replacing older Boeing 727s with more fuel-efficient and quieter Boeing 757s.

Strategic Alliances

Strategic alliances could provide the company an immense opportunity to expand its service portfolio and cater to a wider customer base and improve its profit margins. FedEx has a multi-year agreement with OfficeMax to offer domestic FedEx Express and FedEx Ground shipping in over 900 US OfficeMax retail locations. FedEx SmartPost expanded its services in Canada for US shippers by collaborating with Canada Post Corporation. These alliances and mergers help the company generate cost efficiencies by maximizing the use of the combined assets. The company could further expand its service offerings and geographical presence by partnering or acquiring such potential companies and garner higher market share.

Growth of Air Freight and Logistics Market

Due to rapid growth of air freight and logistics market worldwide it offers a strong growth potential for the company. Air freight and logistics market is expected to reach a total value of USD164. 8 billion by 2012. Due to the strong performance of the Asia-Pacific economies, this sector recorded strong growth particularly in China and India. As China & India are hubs for low cost manufacturing, finished goods in these markets drive the demand for air freight and other means of transportation in the region. The demand for the company’s services could increase because of the strong growth of global air freight and logistics market. Forrester Research conducted a study of the global online shopping. It is forecast that the revenue of the global online shopping will reach USD334 billion by 2012 as compared to USD267 billion in 2009. Main drivers of online retail shopping are apparel, accessories , and footwear, computer hardware, software, peripherals, autos , and auto parts, consumer electronics and home furnishings. FedEx will benefit largely form the strong growth in online retail sales.

Threats

Intense Competition

The express package and freight market is highly competitive, which could affect the growth of the company. The companies in the industry compete on factors such as price, geographical coverage, reliability, frequency and capacity of scheduled service, ability to track packages and innovative service offerings. Key competitors of the company include United Parcel Service, Inc, US Postal Service, DHL International Limited, Con-Way Inc., Geodis SA, and TNT NV, amongst others. Some of these competitors have greater resources, lower costs and more favorable operating conditions. If the company fails to launch innovative services or efficiently serve its customers, growing competition could lure away its customers. Competition could also compel the company to compete in product pricing as well, resulting in lower profitability.

Seasonality of the Business

FedEx's business could also be affected by the seasonality of the industry. Historically, the US express package business has experienced an increase in volume during the November and December. The international business, especially the Asia to US market, witnesses a surge during October and November while other periods generally witness relatively lower volumes.

The FedEx Freight LTL Group handles lower volumes during late December, January and February while FedEx Ground witnesses its slowest periods during late December, June and July. Thus, any decline in volumes during the peak season cannot be made up during the lean period, affecting the earnings the company.

National Labor Relations Act

FedEx’s air cargo business may be affected by the National Labor Relations Act. FedEx Express’ employees are covered under the Railway Labor Act, which was extended to airlines in 1936, which restricts a labor dispute in one part of a broader transportation system from bringing that system to a halt. However, the US senate is debating the issue, as it is part of the FAA authorization bill. FedEx has announced its intentions to stop investing in its Express air unit, if the Congress shifts its employee status to the National Labor Relations Act. The company expects that the FAA authorization bill, if it becomes law, may enable employees to organize into local bargaining units, as they can unionize locally.

Strategies & future recommendation

FedEx’s strategy for success in the market place relies on a combination of customer understanding, operational excellence and product leadership customer value proposition. FedEx relies on its excellent operations system to deliver products or services quicker, more conveniently and at lower prices than its competitors.

FedEx focuses on its sales and advertising, as well as the information systems that support the extensive automation of their package delivery system.

Pursue growth through acquisitions

As trucking and airfreight continue to converge, with airfreight accepting larger freight loads and trucking offering more time-definite delivery, A&L industry companies can look for acquisition opportunities in this area. Many independent freight forwarders, customs brokerage firms, and 3PLs have established themselves as leaders in their niches over the past decade, which are also prime acquisition targets. No firm dominates logistics services, not even the A&L industry leaders, indicating much room for consolidation in this area.

Pursue growth through partnerships and alliances

Partnerships and alliances with complementary services providers, such as freight forwarders, can help airfreight carriers achieve many of the same goals as acquisitions. For example, FedEx has successfully tapped into the retail reach of the USPS with unique partnerships, while avoiding the high cost of the last leg that the USPS serves on a large scale. Airfreight carriers, freight forwarders, and 3PLs all can gain from partnering with airlines for belly space at times. Specialized companies should seek such alliances with companies that help to leverage their niche service with other services.

Grow revenue thru new mrkts with existing products

Most companies have suppliers and customers around the world, and most consumers order products globally through the Internet. Furthermore, developing markets with rising disposable incomes offer growth opportunities, especially Asia, which is the fastest growing trading region with the U. S. Commercial manufacturing clients in China are a substantial source of growth.

Appendix

FedEx Corporation, Key Competitors

Name

Headquarters

Revenue (US$ m)

Con-Way Inc.

United States

4, 265

Deutsche Post AG

Germany

84, 132

Geodis SA

France

—

Panalpina World Transport (Holding) Ltd.

Switzerland

5, 466

Royal Mail Group plc

United Kingdom

15, 534

United Parcel Service, Inc.

United States

45, 297

United States Postal Service

United States

68, 090

TNT N. V.

Netherlands

14, 447

DHL International GmbH

Germany

Key Executives

Name

Title

Biography

Frederick W. Smith

Chairman, Chief Executive Officer,

President

Mr. Smith has been the Chairman, the Chief Executive Officer and the President of FedEx Corporation since 1998. Prior to this, he served as the Chairman of FedEx Express since 1975 and Chairman, President and Chief Executive Officer of FedEx Express from 1983 to January 1998. He served as the Chief Executive Officer of FedEx Express from 1977 to January 1998 and as the President of FedEx Express from 1971 to 1975.

Robert B. Carter

Chief Information Officer, Executive

Vice President

Mr. Carter has been the Executive Vice President, FedEx Information

Services and the Chief Information Officer of FedEx Corporation since

2007. Prior to this, he served as an Executive Vice President and the

Chief Information Officer of FedEx from June 2000 to January 2007. He served as the Corporate Vice President and Chief Technology Officer of FedEx from February 1998 to June 2000. In the past, he held several senior positions such as the Vice President – Corporate Systems Development of FedEx Express from September 1993 to February 1998 and Managing Director – Systems Development of FedEx Express from April 1993 to September 1993.

Alan B. Graf, Jr.

Chief Financial Officer, Executive Vice

President

Mr. Graf has been an Executive Vice President and the Chief Financial Officer of FedEx Corporation since 1998. Prior to this, he served as an Executive Vice President and the Chief Financial Officer of FedEx Express from February 1996 to January 1998. He was the Senior Vice President and Chief Financial Officer of FedEx Express from December 1991 to February 1996 and the Vice President and Treasurer of FedEx Express from August 1987 to December 1991.