CAN FEDEX DELIVER TODAY, EXECUTE FOR TOMORROW?

By Andy Johnson

To say the domestic parcel shipping landscape has changed in the last three to four years may be a gross understatement. Many long for the days before perpetual peak surcharges, 90+ page contracts, and overly complex pricing. But, as the industry forges ahead in the post-pandemic environment, a new litany of challenges lays on the horizon — specifically for FedEx, whose internal and external struggles have been on full display in recent months. A sizable gap in on-time performance with UPS, poor financial performance, and labor issues have created a PR nightmare for the Purple Palace. Can FedEx take back market share and differentiate themselves in 2023?

A Problem of Perception

Though the two are often looked at interchangeably, FedEx has always played second fiddle to its chief rival in size, and lately, perception has also included quality of service. Rarely has this been more evident than the on-time performance gap of the past 18-24 months. Perhaps the starkest contrast was peak 2021 performance, where FedEx struggled to achieve 88.2% on-time deliveries against UPS's 96.9%. As one disgruntled customer wryly exclaimed, "At this point, I don't think FedEx could deliver the morning sunrise."

Then, the FedEx Ground contractor model's blemishes were seen in August of 2022 when Spencer Patton, one of its delivery contractors, engaged FedEx Ground in a very public dispute over the financial conditions of the contractor network. As volumes declined from their pandemic level highs, costs began to soar and FedEx contractors who are paid on a per-stop or per-mile basis were faced with the reality of making less, often while doing more work. Patton, who was sued by FedEx and subsequently had his operating authority revoked, used his Trade Association for Logistics Professionals to publish a survey that cited 54% of current contractors operating at a loss and 67% being "very dissatisfied" with their financial relationship with FedEx Ground. Regardless of who was in the right, it was a PR debacle at a very bad time.

And as if all of this wasn't enough, in September, FedEx stunned investors by withdrawing its financial guidance for the remainder of 2023. Citing economic weakness in Asia and service challenges in Europe, FedEx Express took the bulk of the financial damage with YOY operating income dropping $474 million to $186 million for the first fiscal quarter. A bad look for a company that, only months before, had touted "driving yields and expanding margins... through profitable growth and capital efficiency" during its investors meeting.

Focus on Fundamentals

As with any underdog story, before you can mount your comeback, you must stay in the game. And while FedEx's survival is not in question, the company has its work cut out for it to position itself as UPS's equal.

Often, a year can make a lot of difference. 2022, for example, saw FedEx make some much needed gains in its struggling on-time performance metrics. According to FreightWaves, during the 2022 retail peak, FedEx improved from its dismal 88.2% in 2021 to a 95.2% on-time performance. Still not eclipsing UPS's 97.5% for that same period, FedEx closed the gap substantially. FedEx's performance also fares slightly better when considering that a portion of those service failures were due to missing a time commitment (e.g. Early AM) though still delivering on the correct day. Some of these gains in on-time performance are due to internal improvements, no doubt. However, the influence of softening volumes and extra capacity — evidenced by year-over-year earnings reporting — has also helped FedEx take steps in the right direction.

Working with Uncertainty

Sometimes in business, you don't have to be great, you just have to be better than your competition. Even though FedEx's own labor issues have not gone away, they are not currently in the news, which is more than can be said for UPS. As UPS gears up for particularly challenging labor negotiations with the Teamsters, FedEx is capitalizing on the public drama by insisting the only way UPS customers can avoid the uncertainty is to jump ship now. And though most industry insiders maintain a strike is unlikely, FedEx may have a compelling argument to many who still experience PTSD from the pandemic volume shortages.

FedEx CEO Raj Subramaniam maintains he's confident FedEx will achieve its 2025 projections, and while there is still a lot of time on the clock, the company is taking action to reduce costs and regain investor confidence. In addition to traditional cost cutting measures like reducing staff, closing office locations, and grounding flights, FedEx has also reduced the scope of its Sunday deliveries several times. Sunday has traditionally been viewed as a "catch-up" day in the FedEx network, and now with higher operating costs and lower demand, it looks like there will be more time to catch up. Reduced Sunday deliveries should make Ground contractors happy, who cited Sunday deliveries as being one of the main factors in reduced profit margins. FedEx also announced in February it will retire its SameDay City Service in large metro areas to "prioritize several other opportunities for growth."

Stability Among the Surcharges

While these steps are likely necessary for stability, they don't necessarily improve FedEx's value proposition. However, as UPS rolls out perpetual peak surcharges (now renamed "demand surcharges"), FedEx has allowed its peak surcharges to expire in January. It's not likely to save anyone's 2023 budget, but for a large UPS SurePost shipper, it could make the difference in deciding to switch. Recently, FedEx has become more aggressive in negotiations both with incumbent and prospective clients. Annual rate cap offerings at or below four percent rate caps, hefty discounts on transportation rates, and a willingness to negotiate terms and conditions have allowed FedEx to make inroads — all while UPS seemingly continues to do business like it's still 2020.

Concluding Thoughts

Though UPS may continue its reign as the industry leader for the foreseeable future, it certainly comes with a price (and an opportunity). If FedEx continues to improve service KPIs, focuses on cost reduction, and positions its business as the economical choice for shippers, it's not difficult seeing a greater market share capture. The trick will be overcoming a generally negative perception of the company's model. With storm clouds on the economic horizon, FedEx may have the winning cost-effective formula to help right the ship.

With 17 years of experience, ***Andy Johnson****, Project Manager, Parcel Consulting, Körber Supply Chain Solutions, has worked extensively in supply chain and managed transportation. His background includes sitting on both sides of the table, allowing him to anticipate what most shippers need to drive results and what many carriers are looking for in a good partner.*