

<https://www.wsj.com/business/logistics/fedex-tackles-the-ultimate-logistics-challenge-getting-rid-of-duplicate-trucks-0103c0fc>

BUSINESS | LOGISTICS

# FedEx's Logistics Test: Getting Rid of Duplicate Trucks

Delivery company is discovering technology and productivity challenges as it works to merge Express, Ground networks

By *Esther Fung* [Follow](#)

Updated Aug. 4, 2024 12:26 pm ET

FedEx **FDX -1.86%** ▼ for years operated almost indistinguishable Ground and Express networks, their trucks sometimes delivering packages to the same doorstep within minutes of each other. Merging the two has revealed just how different the halves really were.

The parcel giant has embarked on a yearslong overhaul that will combine two networks with more than 500,000 workers that have operated side by side for decades. The overlapping structure racked up costs that were hard to justify as more of the business shifted to delivering orders from eBay or a Walmart store instead of time-sensitive packages to a hospital or office tower.

It is the equivalent of a corporate merger—unifying two streams of packages, workers and facilities—while keeping the trucks arriving on time. Last fiscal year, Ground hauled in \$34 billion in revenue and generated five times as much operating profit as Express, which recorded \$41 billion in revenue. Express uses FedEx jets, trucks and employees to deliver its boxes. Ground outsources its deliveries to contractors that operate local routes.

“Bringing them into a single transportation system is a daunting task,” said John Smith, a FedEx executive who is tasked with working out the kinks. (He is unrelated to Fred Smith, the founder and executive chairman of FedEx.)



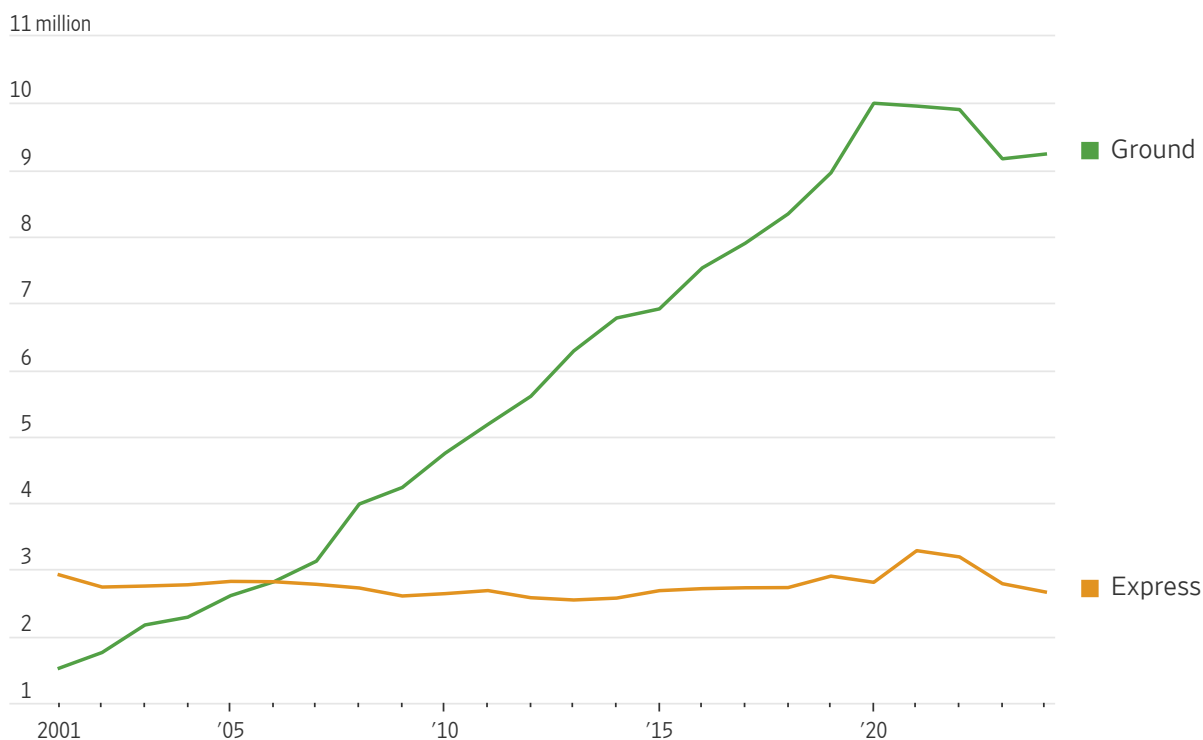
The surge in package volume that occurred during the pandemic has receded. PHOTO: GABBY JONES FOR WSJ

The Memphis, Tenn., company has started closing some facilities and shifting work to nearby locations. It is also parking planes and cutting jobs. Since it started integrating the two units in 2022, FedEx has discovered some wrinkles, such as technology snafus and productivity issues. In a few locations, it had to retain drivers to handle shipments with tight deadlines.

“One of the things that we learnt from this is to have what we’re now calling ‘designated couriers,’ ” said John Smith. FedEx needs the drivers picking up packages from airplanes to make tight delivery deadlines, he added.

FedEx and rival United Parcel Service have been under pressure as package volumes declined following the pandemic surge in e-commerce. UPS shares recently plunged after UPS warned of weaker profit margins. FedEx also has to contend with a leadership transition from its founder and the arrival of activist investor D.E. Shaw, which took a stake in 2022 and has appointed three members to the FedEx board.

## Average daily parcel volume in the U.S.



Note: FedEx's fiscal year ends May 31

Source: Company filings

In June, FedEx said it was assessing options for its third business unit, Freight, which investors expect to be spun off as a publicly traded company. Freight is the largest operator in the less-than-truckload sector, with about \$9 billion in annual revenue. The less-than-truckload business combines shipments from multiple customers on a single truck.

### Early lessons

FedEx executives had long defended the duplication, saying the networks served different customers, with Express deliveries commanding higher profits because of its time-sensitive service. This irked investors who thought UPS had a more cost-efficient, one-truck-one-neighborhood delivery model.

In June 2023, under new Chief Executive Raj Subramaniam, FedEx said it would officially change course. The growth of e-commerce and the volume of home deliveries pushed the company to increase utilization of trucks and to get rid of surplus equipment and facilities. This would improve density, efficiency and the customer experience, Subramaniam said.

“The toughest thing for us right now is technology,” said John Smith, noting that his team has to test different operating systems and not get sidetracked by “OpCo pride,” or operating company pride, referring to the existing preferences of the Ground and Express units.

For instance, facility managers had to try out different package-scanning software. Some Ground contractors said that, in the early days, their drivers faced delays taking on Express packages

because the boxes had to be scanned twice. John Smith said his team has since untangled these issues to simplify parcel pickup and dispatch operations.

FedEx is introducing the changes in smaller distribution centers such as Bozeman, Mont., and Starkville, Miss., that have fewer routes and lower daily parcel volumes. Executives say they are learning from the early moves and adjusting plans for the integration in bigger cities.

Initially, for example, some facility managers experimented with having Express packages delivered before Ground packages. But they learned that it was more efficient to consolidate packages into smaller delivery areas instead.

In some markets, including Hawaii, Alaska and Canada, the Express operations took over Ground deliveries because shipments in these regions rely more on the use of planes. In the Lower 48 U.S. states, Ground contractors are more frequently taking over Express volume.

FedEx has said it would take a few years to complete the reorganization. The company has told investors that the integration, together with other consolidation efforts, will cost around \$1.5 billion in the current fiscal year that ends May 2025.



FedEx Chief Executive Raj Subramaniam PHOTO:  
HOUSTON COFIELD FOR WSJ

“You’re taking freight from one facility to another. You’re taking people and moving them into different operating cultures with different management and processes,” said J. Bruce Chan, an analyst at Stifel who covers UPS, FedEx and other freight companies. “There is a lot of room for operational missteps.”

FedEx has already closed dozens of buildings, retired 32 jets and reduced its U.S. head count by around 22,000, including executives and rank-and-file workers, through attrition and layoffs. The new network, called Federal Express, now employs around 430,000 people in the U.S., and some employees remain jittery about their career prospects.

Chris Trentham quit his job as a FedEx Express driver in June to work for a waste-management company, which he says has better job security. Trentham was a driver at Express for two years and previously worked for two Ground contractors.

“I absolutely loved the job. It’s not rocket science. You get to know your customers,” said Trentham, who worked in Knoxville, Tenn. “But the whole time being at Express, I never knew if I’m going to work for long or if our station is closing.”

## Annual operating margins



Note: FedEx's fiscal year ends May 31.

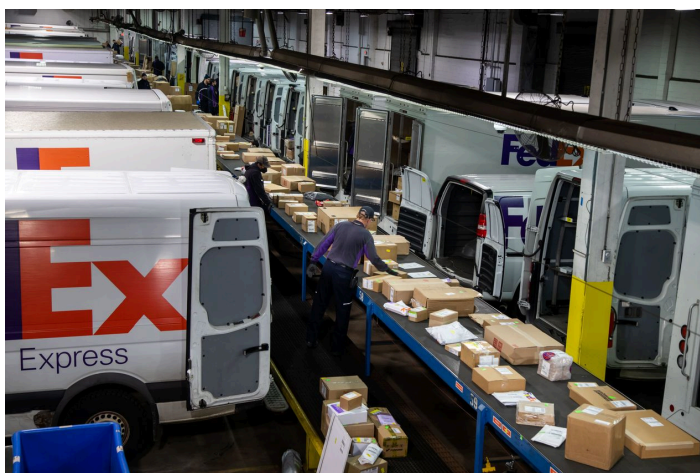
Source: the company

FedEx's John Smith said the company informs workers about job cuts ahead of time and connects them with other opportunities in the company or with other contractors.

## Contractor questions

So far, the restructuring has had minimal impact on customers. Since mid-2022, on-time delivery performance of Express parcels ranged from 94.5% to 98.2%, according to parcel shipping consultant ShipMatrix.

The overall weakness in parcel volumes meant that FedEx had sufficient equipment and property to meet demand, which has also helped to minimize complications in the transition.



Company policy is to give employees advance notice of any job cuts, FedEx says. PHOTO: MICHAEL NAGLE/BLOOMBERG NEWS



Behind the scenes it has proven disruptive to some Ground contractors, who hire their own drivers and buy their own trucks to deliver packages in designated areas. Those independent contractors, which number around 6,000, use different technology systems, scanners and route-planning tools.

Some contractors said they faced initial difficulties getting their employees to adhere to new deadlines. “I couldn’t tell if my drivers were making these stops on time,” said John Speed, a Ground contractor who started getting Express parcels in October for his routes in Humboldt, Tenn.

Speed said his employees were resistant to having to backtrack or cut across town to deliver time-sensitive parcels, because the routes extended their working hours. Ground drivers are typically paid by day instead of hourly. He eventually found a consultant with technology tools that helped his drivers meet and track the new delivery requirements.

Other Ground contractors said they welcome the extra parcel volume but are worried about whether FedEx will compensate them adequately for the additional work.

FedEx said it has now modified the software that Ground contractors used to plan their routes to accommodate Express volumes, and it offers incentives for meeting delivery targets and safety results.

Speed has other Ground routes that have yet to be integrated with Express, and he is issuing reminders to his drivers in weekly meetings.

“You need to prepare them. They don’t like change,” he said. “You have to push change.”



FedEx offers some incentives for on-time delivery. PHOTO: MARLENA SLOSS FOR WSJ

Write to Esther Fung at [esther.fung@wsj.com](mailto:esther.fung@wsj.com)

*Appeared in the August 5, 2024, print edition as 'FedEx Cuts Back on Duplicate Trucks in Logistics Challenge'.*