At FedEx, will a new person wear the CEO crown?

Fred Smith will step away from CEO role soon, noted consultant predicts

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Corporate succession plans can be complex creatures. At FedEx Corp., a $90 billion company that has been run by its founder for 51 years, it is even more so.

But the time for succession may soon be coming, according to a prominent consultant who has a long history with FedEx. By the end of 2022, and perhaps as early as its investor and analyst meeting on June 28 and 29, the Memphis, Tennessee-based giant (NYSE: FDX) could announce that founder, Chairman and CEO Frederick W. Smith (at left in photo) will relinquish the CEO role to become executive chairman, a new position. Should that happen, Raj Subramaniam, FedEx's president and chief operating officer (at right), would assume the CEO's mantle as well as keep the presidency. Richard F. Smith, the founder's oldest child, would be groomed to become the next COO once Subramaniam, 54, ascends to the CEO role.

The younger Smith, 44, was named earlier this month to become president of FedEx

Express, the company's air and international unit, the parent's largest operation. Smith, currently FedEx Express' regional president of the Americas and executive vice president of global support, becomes the unit's interim president on April 1. He officially takes over Sept. 1. Donald F. Colleran, the unit's current head, will stay on through year's end in an advisory role, at which time he will retire.

The succession plan's specifics are the predictions of Satish Jindel, whose firm, SJ Consulting, has worked with FedEx for 25 years and, among other things, advised FedEx on its 1998 acquisition of small-package carrier Caliber System Inc., a move that put FedEx into the U.S. ground parcel business. Jindel was so confident about his predictions that he agreed to go on the record with them.

The elder Smith, who turns 78 in August, will still be involved in major decisions affecting FedEx, Jindel said. In becoming executive chairman, Smith would continue to oversee the activities of FedEx's board while maintaining a powerful strategic influence. By contrast, opting to remain only as chairman would effectively remove Smith from any deeper involvement beyond running FedEx's board, Jindel said.

Such an evolutionary role for a company patriarch is not unprecedented. As executive chairman of trucking giant Knight-Swift Transportation Holdings Inc. (NYSE:KNX), Kevin P. Knight shepherded the company into the LTL industry last year through the acquisitions of AAA Cooper and Midwest Motor Express. More than a year ago, Jeff Bezos relinquished the CEO role at Amazon.com Inc. (NASDAQ: AMZN) to assume the new position of executive chairman. Though his successor, Andy Jassy, runs Amazon's day-to-day business, the idea of Bezos totally divorcing himself from the company he founded was far-fetched.

Smith has been separating himself from FedEx's daily operations for several years. In 2016, he stepped down as president in favor of David J. Bronczek, who was also COO at the time. After Bronczek, widely regarded as Smith's heir apparent for all the top roles except the chairmanship, abruptly retired in early 2019, Subramaniam, another Smith protege, assumed the president and COO roles.

Smith, long a presence on FedEx's quarterly analyst calls, typically avoids the event these days. He took part in FedEx's fiscal 2022 second-quarter call to answer questions specifically directed to him. Otherwise, the calls have been led by Subramaniam, Brie Carere, executive vice president and chief marketing and communications officer, and Michael Lenz, the CFO.

Despite withdrawing from the public eye, Smith remains an irresistible force at FedEx. As of the end of 2021, he owned more than 20 million shares, according to a Securities and Exchange Commission filing. He controls about 7.9% of FedEx shares, making him the company's largest individual shareholder.

Smith cemented his leader-for-life position in January 2019 when FedEx announced that its policy of mandatory retirement at 75 would apply only to nonmanagement directors. Smith was, and remains along with Subramaniam, the only manager on FedEx's board.

Few, if any, executives over the past 50 years have matched Smith's legacy of success and staying power. From its incorporation in 1971 and operational launch two years later, FedEx and Smith have been one and the same. One would be hard pressed to find any CEO who has remained so active at one company after more than five decades.

Even though FedEx is a public company whose upper management is answerable to his board, Smith's rule is still law. As Jindel said, "if the big boss wants to make a change, he makes a change." A key personnel step like the promotion of Richard Smith, while announced by Subramaniam to fend off any questions about nepotism, needed to be approved by the elder Smith, Jindel said. The younger Smith joined FedEx in 2005 and has held various high-level positions since then.

It is this iron grip that Jindel said he hopes Subramanian and the younger Smith will try to loosen. FedEx has operated under the mantra that its business units should "compete collectively and operate independently." The result has been a siloed enterprise that has not always been the model of operating efficiency. By contrast, FedEx's arch-rival, UPS Inc., (NYSE: UPS) is the prototype of the integrated delivery model; typically, one driver picks up and delivers all letter and parcel shipments regardless of product line.

The company has pivoted under Subramaniam's leadership. Through the first three quarters of its 2022 fiscal year, which ends May 31, trucks operated by FedEx Freight, the company's LTL unit, have operated more than 7 million miles on behalf of the FedEx Ground ground parcel delivery unit, Subramaniam said last week on FedEx's most recent analyst call. The LTL operation has provided FedEx Ground with intermodal containers, which have already been dispatched more than 36,000 times, he said.

In what may be the most significant development of all, FedEx has expanded a program to move FedEx Express' deferred-delivery shipments directly to FedEx Ground's facilities for transportation. FedEx Express, the company's air and international unit, handles large volumes of two- and three-day deliveries that never see the inside of a plane. Pushing more of that business to a lower-cost alternative like FedEx Ground could add billions of dollars to FedEx's bottom line, Jindel has said. A complete integration of the company's air express and ground units would "make the company a $400 to $500 a share stock," Jindel said. FedEx shares closed Thursday at $225 a share.

Subramaniam, a marketer by skill set who weighs his public words carefully, has subtly changed the lingo. “We’ll continue to comprehensively look at all our assets and our network to put the right package in the right network and [at] the right cost to serve,” he said on the call.

The other issue is FedEx Ground. Fedex spent its first 25 years as an air carrier, and aviation remains at the core of its culture decades after it expanded into ground deliveries. The company operates 690 aircraft across a network of 680 airports worldwide. No other air cargo carrier comes close to matching FedEx’s size or its prowess. However, the massive shift in the U.S. toward business-to-consumer (B2C) deliveries, and away from the business-to-business (B2B) segment that is FedEx’s bread and butter, has pushed the company to expend more resources on FedEx Ground.

The past nine years have been a rocky ride on the bottom line. According to estimates from Deutsche Bank, FedEx Ground’s profits since 2013 have risen by $400 million on revenue over that time of $17 billion. That implies a mere 2.5% contribution margin from the Ground unit over that time, the bank said.

For the past two to three quarters, FedEx Ground has been plagued by labor shortages that have forced up costs of transportation and warehousing, and have led to unacceptable operating inefficiencies. On the latest analyst call, executives said the unit’s staffing issues are behind it. However, they acknowledged that the unit will not achieve double-digit operating margins during the second half of the fiscal year. By contrast, UPS’ operating margins at its core ground-parcel delivery unit are around 12%.

An industry executive familiar with FedEx’s business questioned the fervency of the company’s commitment to the Ground business. “Much of it is low-margin, e-commerce stuff that is going to residences,” the executive said. “You have to wonder if (FedEx) really cares if it gets there in one day, two days or three days.”

If that is indeed the mindset, it speaks to a larger issue of whether the company has become too insular in its executive thinking. FedEx used to bring in outsiders to take executive positions, according to Jindel. That doesn’t happen as much anymore, with most of the executives being homegrown and with hirings coming from within, he said.

Unlike UPS, which is run by a 11-person executive committee and whose CEO, Carol B. Tomé, is not an insider, the FedEx enterprise is still very much controlled by one person who is the ultimate insider. “You will never see a CEO at FedEx who’s hired from the outside like UPS did with Carol Tomé,” Jindel said. “But the company would definitely benefit from outsiders’ perspectives.”

The FREIGHTWAVES TOP 500 For-Hire Carriers list includes FedEx (No. 1), UPS (No. 2), Knight-Swift Transportation (No. 3) and Midwest Motor Express (No. 206).