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Commentary

How the LTL market could evolve as the FedEx Freight spinoff plays out

FedEx announced in December it would spin off FedEx Freight as a standalone LTL carrier over the next 18 months. Photo credit: Feng Cheng / Shutterstock.com.

Satish Jindel, president, ShipMatrix | Feb 27, 2025, 12:11 PM EST

On June 25, 2024, during an earnings call, FedEx leaders announced that the company's board had authorized management to explore options for a sale or spinoff of FedEx Freight, and that a decision would be announced by the end of the year.

On Dec. 19, the leadership announced that a spinoff was the best option and would be completed over 18 months. Why tell the shareholders and the less-than-truckload (LTL) market of this move if it is not happening for many months?

Now, competitors and shippers can prepare for the various changes that could result from the FedEx Freight spinoff.

Competing carriers and shippers should benefit from FedEx's Priority and Economy services getting merged for a number of reasons.

While the parcel market supports express and ground services, the FedEx Express volume has been shrinking for many years, with FedEx Ground now representing over 80% of total parcel volume. So, if there is a rationale to merge the Express and Ground parcel networks, FedEx Freight's Priority and Economy services should also be merged.

The premium for the Priority service price is so small that it does not make up for the various costs related to offering two services.

If the two services were so appealing and financially rewarding, other LTL carriers would have done the same. Yet after 12 years, no other LTL carrier has followed suit.

Many LTL carriers with just one service are generating operating margins better than 14.5% of FedEx Freight.

As the LTL industry speeds up the transit times on high-volume lanes, the gap between Priority and Economy services will shrink.

Greater role for technology

While the parent company wants to spin it off as FedEx Freight, expect the new board to rename it American Freightways.

With relief from intercompany charges of $528 million during fiscal year 2024 paid to FedEx Corporation for marketing, sales, technology and billing support, the spinoff will save FedEx Freight a few hundred million dollars by handling those corporate support functions itself. If it uses that money to go for greater market share with pricing initiatives, it could be good news for shippers.

Shippers should get ready for a greater role of technology. With the National Motor Freight Traffic Association finally adopting dimensional pricing, there will be a greater need by shippers and carriers to capture shipment dimensions. This change should ensure more accurate billing and reduce the cost for auditing all freight bills for proper classification.

With shippers being required to pay greater attention to the dimensions of the pallets, they can expect FedEx Freight support to improve their palletizing just as FedEx helps parcel customers improve their packaging.

Because there are practically no appointment deliveries in the parcel business, expect FedEx Freight to embrace opportunities with AI to reduce the number of appointment deliveries, which should help shippers avoid charges for such service.

We can also expect FedEx Freight to take greater interest in participating in LTL industry conferences and contributing its shipment data to SMC3's national LTL database.

No matter which of these changes occur, a FedEx Freight spinoff as a standalone LTL carrier will be good for the entire industry.

And for those wondering why FedEx needs 18 months to spin off Freight, just imagine the pressure on the board and leadership that may find that investors are valuing its LTL business at a higher market cap than its parcel business, which is generating just a 5.5% margin compared with 14.5% for LTL business.

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