An Analysis of FedEx's Strategies and Performance Post COVID-19:

Shifts in Consumer Spending Post COVID-19 Pandemic

Thomas Burga

COVID-19 presented many challenges for the global supply chain, and many key players were forced to adapt to a new norm and create strategies to steer their companies through these unprecedented times. FedEx was one of the primary supply chain leaders that identified clear strategies and focused on execution after the pandemic to meet customers' and investors' expectations. This context shapes the current market outlook and FedEx's growth strategies.

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FedEx, its competitors, and other global supply chain leaders must be aware of the consumer demand shift since the ease of COVID-19. During the height of the pandemic, many consumers bought countless items ranging from home improvement, entertainment, and numerous other goods they would not usually buy under non-pandemic circumstances. The response to this high level of consumer need was to increase supply and take inventory early to meet the unprecedented demand. Many retailers, specifically Amazon, reached new heights in revenue during the pandemic (Reuters, 2020).

While this may have been positive for these companies, they have yet to adapt to shifting consumer demands post-pandemic heights. Many people now seek to spend on goods and services outside the home. One major area that has seen an increase in spending compared to during the pandemic is traveling. Looser restrictions and regulations across the globe have made it easier to travel now as opposed to Q1 2020 through Q3 2022. According to a research analyst for Citi, "…the data shows the prices of airline tickets sold so far for this July were 35% higher than tickets sold in July 2019" (Restrepo, 2022). The travel demand has significantly increased as economists describe these people as "revenge travelers." A revenge traveler is highly motivated to travel due to a time in which they could not travel; for many, this was the COVID-19 pandemic. Furthermore, "Delta Air Lines CEO Ed Bastian said that demand is off the charts while the airline industry is struggling to keep up" (Restrepo, 2022). Travel prices have increased, airlines are having trouble adjusting to the increased demand, and people are still ready and willing to spend money to travel after eased COVID-19 regulations across borders.

In fear of needing more inventory on hand during the pandemic, retailers ordered more and earlier than usual. This has led to an overflow in U.S. east coast ports as the influx of inventory has been nearly impossible to manage. As the ports have a fixed amount of space, retailers must be able to recognize the shifts in consumer demand ("Supply-Chain Bottlenecks," 2022).

Figure 1

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FedEx's Approach to the Recession and the Cost Savings Campaign

During a September 15, 2022, interview with CNBC's Jim Cramer, FedEx CEO Raj Subramaniam stated, "he believes a global recession is imminent." Due to this, he plans to close some offices, limit new hires, and decrease Sunday operations (Hur, 2022). Some believe his comments were a redirect from the FedEx Q1 2023 Earnings Report, as the company performed far below (-$800M) Wall Street's expectations and retracted their full-year financial forecast. Nevertheless, Mr. Subramaniam's comments caused concern among investors as they quickly sold their shares, causing a 21% drop in share price after trading hours were complete (Figure 1). These comments did not just affect FedEx investors, as his comments immediately impacted UPS (-4.5%) and XPO Logistics Inc (-4.7%). From a global perspective, Deutsche Post AG dropped (-6.6%) and London-based Royal Mail PLC (-8.1%) (Fung & Feuer, 2022). Investors should keep in mind that Amazon and other e-commerce businesses will be negatively impacted by this potential reality, as evidenced by the double-digit YTD decline experienced in the S&P 500 as of September 2022.

Mr. Subramaniam believes that the macroeconomic headwinds leading to a global recession are too much to absorb and plans to improve the business through headcount reductions and several other cost-saving initiatives. According to the Q1 2023 Earnings Report, FedEx plans to implement cost-saving initiatives to save $2.0-2.7B in 2023 and $4.0B by 2025 under the "Deliver Today, Innovate for Tomorrow" campaign ("FedEx. Corp Reports", 2022). The campaign details cost-saving plans of $1.4B for FedEx Express operating expenses, FedEx Ground's operating expense savings of $1.1B, and savings in overhead expenses of $1.5B. At face value, these seem like sound strategic moves that may lead to long-term success, but whether these actions are enough to appease worried investors is yet to be determined.

Additionally, FedEx plans to combat the impact of the recession by increasing prices to compensate for the decline in volume. As seen in the UPS Q3 Earnings Report, UPS has been successful in raising prices–delivering a revenue increase of 4.2% Q3 2022 vs. Q3 2021, and on an adjusted basis, operating profit is up $272M from Q3 last year ("UPS Releases," 2022). UPS CEO Carol Tomé and the leadership team plan to raise prices by 6.9% and focus on delivering more cost-effective packages rather than increasing the sheer number of packages at a lower price. The phrase "better, not bigger" drives their approach to the global economic downturn. This past August, UPS acquired healthcare logistics company Bomi Group. With this acquisition, temperature-controlled facilities will be added to Latin America and Europe. UPS wants to ensure that people receive the latest healthcare goods as efficiently and quickly as possible ("UPS to Acquire," 2022). With consolidated revenue of $24.2B and a 2.1% overall decrease in shipping volume, UPS is taking necessary and significant steps to grow its business. Some contribute the strong UPS Q3 earnings results to Carol Tomé as she was the CFO of Home Depot during the 2009 financial crisis. Mr. Subramaniam was not in a similar position during the financial crisis, while Tomé has direct experience. Yahoo Finance details …" but you have now FedEx in full-on restructuring mode. And you have UPS just in full-on execution mode, delivering another good quarter here…" ("UPS Beats Earnings," 2022).

Opportunities for Strategic Changes to Accelerate FedEx Recovery

FedEx also must monitor the differing and distinct goals of FedEx Express and FedEx Ground while trying to maximize the profitability of their 2016 European acquisition, TNT Express. Founder Frederick Smith (CEO at the time of the deal) believed that acquiring the highly respected European ground delivery service would be fruitful in standing out from competitors UPS and DHL. Unfortunately, the $4.8B acquisition has not been the revenue-building powerhouse that FedEx expected it to be. Surely investors will lose patience if the acquisition cannot be capitalized on soon, especially after FedEx lost $400M on a cyber security attack on TNT Express. According to Max Garland from Commercial Appeal, "they were on the path to grow profits by $1.2 to $1.5B over three years. As a result of the attack…more like $150 million now" (Garland, 2019). One of the primary drivers for the acquisition was an increase in shareholder value; if Mr. Subramaniam and the team of board members cannot turn this around, the acquisition of TNT may be a costly mistake.

An additional challenge for Mr. Subramaniam and his leadership team to address is the significant increase in fuel prices directly impacting operating margins. The Q1 2023 Earnings Report details that FedEx Express will save $1.5-1.7B, reducing the number of flights and deliveries by aircraft ("FedEx. Corp Reports", 2022). This is a sound strategy, as it is not worth losing money trying to operate volume at a pandemic level when the business could be focusing on how to reduce expenses. For FedEx Ground, Bloomberg reports that independent contractors deliver packages to homes. FedEx must find ways to increase the incentive for these independent contractors. These contractors may not see the benefit of working for FedEx as their rates have surely decreased since the pandemic's peak. Also, one of the independent contractors wanted FedEx to help pay for fuel and labor costs. After this, FedEx sued one of these contractors and canceled their routes. FedEx believed he "disparaged the company" (Beene, 2022). FedEx should assess other options to partner with its independent contractors. Maintaining a relationship will be challenging when their rates are decreased, and they are at risk of being sued when asking for help in covering costs in a high-inflation economy.

Bloomberg Intelligence Analyst Lee Klaskow believes that FedEx should combine FedEx Ground and FedEx Express. He believes the integration could create more cooperation and density in the FedEx system (Beene, 2022). Mr. Subramaniam should consider this as he is trying to make up for the decrease in demand by managing costs. A significant way to control costs would be merging the businesses and selecting the most profitable opportunities the organization should take while decreasing areas with mass expenses and little upside potential in congruence with the 2025 initiatives.

In his short tenure as CEO of FedEx, Raj Subramaniam has many expectations as he plans to mitigate the recession by managing costs and downsizing parts of the operations. This long-term strategy will most likely pay off for FedEx in the coming years after the current economic conditions improve. While FedEx is focusing on what it can control, which is its operating expenses, Tomé's strategy for UPS is currently reaping benefits because she reacted sooner than Subramaniam. After the recession ends, and when consumer demand increases for delivered goods, only time will tell if FedEx made the right decision by decreasing new hires and closing offices. However, if they are correct, investors may consider FedEx an attractive investment opportunity in the future.

FedEx's Recent 2023 Performance and Evaluation of Mr. Subramaniam's 2022 Decisions

It has been over a year since Mr. Subramaniam's comments on the "looming" 2023 recession. From a macroeconomic perspective, the S&P 500 started 2023 with a 0.3% decline, ending with a substantial 24% gain (Berwick & Uberti, 2023). While this can be attributed to the impact of AI and the technology investments to harness its capabilities and Nvidia's rally in Q3, everyone expected a "hard landing and consistent rate hikes from the Fed" (Alloway, Weisenthal & Shah, 2023). Investor sentiment and consumer spending said otherwise (Figure 2).

Figure 2

FedEx also created new plans to implement the cost savings initiatives that Mr. Subramaniam mentioned in late Q3 2022. The new cost-saving initiatives are called "DRIVE [a comprehensive program to improve the company's long-term profitability including a business optimization plan to increase efficiency while decreasing costs and utilize automation to transform back-office operations and modernize infrastructure]" and plan to dramatically change the scope of the business for the next two years.

With inspiration from competitor UPS, FedEx will combine all three lines of their business into one entity (Baertlein & Deka, 2023). Mr. Subramaniam states, "We believe now is the right time to reorganize how we work together…FedEx Express, FedEx Ground, FedEx Services, and other FedEx operating companies will become Federal Express Corporation" ("FedEx announces planned, 2023"). By Fiscal year 2025, FedEx hopes to "permanently slash" $4 Billion in costs. With a reported $1 Billion already cut in May 2023, investors believe FedEx is on their way to achieving these goals. As FedEx previously mentioned, headcount reductions are still important in combining these businesses. As reported, 10% of management roles will be cut. With the current uncertain demand in parcel services, in the business transformation process

FedEx must continue cutting management and reducing overhead to compete with competitors ("FedEx to outline, 2023").

FedEx's Path Forward

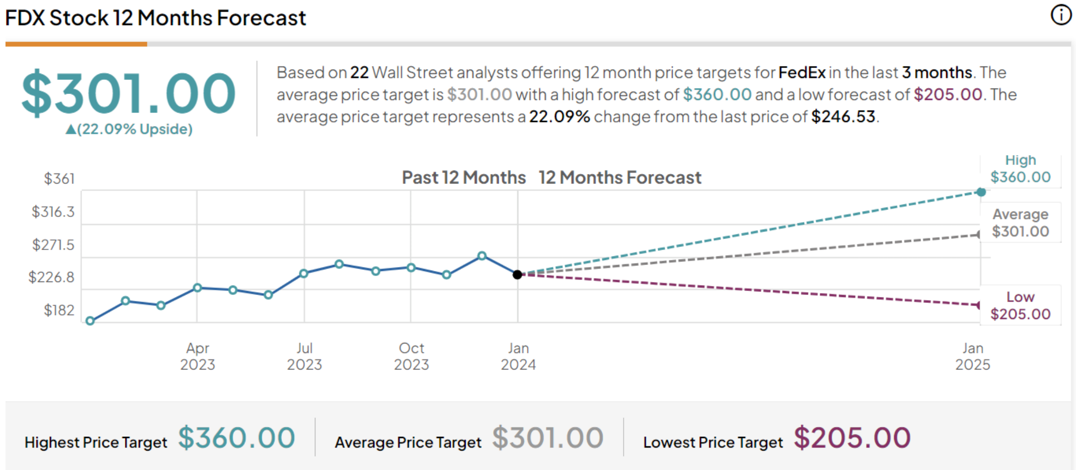

Figure 3

This historic project is expected to cost $2 Billion by the end of the fiscal year 2025. To finance this undertaking, FedEx has engaged in a "500 million accelerated share repurchase (ASR) transaction in December 2023" ("FedEx Reports Higher, 2023"). With a decrease in YTD outstanding shares, benefits led to $0.05 per diluted share, leading to reported cash on hand of $6.7 Billion in November 2023. This is a strategic move from FedEx as they continue to work towards these initiatives. However, FedEx still manages to entice investors with a 10% dividend boost this past April.

Conclusion

Barring external global complications, FedEx seems well on its way to achieving the goals set forth by Mr. Subramaniam in late 2022. As of January 19th, 2024, FedEx stock closed at $246.53, valued as a moderate buy by 22 Wall Street analysts, with an expected average price of $301.000 ("FDX Stock Forecast, 2023") (Figure 3). Mr. Subramaniam and management have come a long way since claiming "a global recession is imminent." With strategic goals and commitments to shareholders, FedEx is on the right track to strengthen and grow its business.

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