Investors get 1st look at big FedEx cost cut plan

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Investors are driving up shares of FedEx Corp. after the world's second-largest package delivery company promised to boost profits by shedding jobs, aircraft and underused assets.

FedEx plans to boost profit by $1.7 billion within three years. The much anticipated restructuring is a response to a shift by customers to slower, less expensive means of delivery as the global economy struggles to grow.

Founder and CEO Fred Smith said most of the cost cuts will come in the company's Express and Services units, which have been hurt the most by the global economic conditions. Smith said a voluntary buyout program announced in August should reduce "fixed head count by several thousand people." A majority of those employees are in the U.S.

Express is where FedEx got its start in 1971, and is still the company's biggest segment by far. The division moves 3.5 million packages on an average day, mostly by air. It's been hit hard as customers shift to slower delivery methods such as ground delivery and ocean shipping to conserve cash. Also, as technology products get lighter, FedEx charges less to ship them. Apple Inc.'s iPhone 5 is 17 percent lighter than the first generation model.

FedEx has been disposing of older aircraft and reducing flights to reduce the unit's costs. Express reported revenue of $26.5 billion in the latest fiscal year and has more than 146,000 employees worldwide — roughly two-thirds of those are in the U.S.

Services is FedEx's behind-the-scenes logistics division, but it also includes FedEx Office, formerly Kinko's. It was formed in 2000 and with annual revenue of $1.7 billion in fiscal 2012, is one of FedEx's smallest units. It has 13,000 employees, all based in the U.S.

Some of the money will be saved through improved technology that allows FedEx to streamline its staff and operations, Smith said. It's also trimming overhead like selling, general and administrative expenses.

"The key is striking the right balance between volume growth and yield improvements," Smith said Tuesday night at the opening of a meeting with investors and lenders in Memphis, Tenn. "With slow economic growth, however, the cost reduction programs we will describe ... are also essential to achieve our financial goals."

FedEx will spell out more details of the plan during the meeting's second day. At the start of Wednesday's session, FedEx slightly reduced its growth outlook for the U.S.

economy from just a month ago. It maintained its forecast for global growth.

FedEx said last month that the economic recovery is stalling, and it's going to get worse next year. It slashed its earnings forecast for the fiscal year ending in May. It said a continued slowdown in the developed world combined with high fuel prices will keep trade volumes trailing growth in the world's economies, mimicking a trend seen in the last two recessions.

Larger rival United Parcel Service Inc. lowered its forecast for all of 2012 and said its third-quarter earnings will fall below last year's results. UPS said many customers fear what's in store for the second half of the year.

UPS, which is based in Atlanta, also said it's making cuts in its business to make up for the shortfall.

Wall Street applauded FedEx's plan. Sterne Agee analyst Jeffrey Kauffman said he expects the plan to succeed because it sets units up to work more efficiently, instead of cutting back on key services. He forecasts the plan could drive earnings significantly higher and nearly double the stock price over the next 12 months.

"The domestic Express business has been a sacred cow at FedEx, but this change marks an admission that the world has changed, and that the network FedEx built must change as well," he wrote.

FedEx shares rose 4.4 percent, or $3.77, to $89.35 in afternoon trading. If that holds, it would be the biggest one-day percentage gain in the shares since December.

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