Bloomberg

FedEx CEO at 67 Has Industry Asking Who Follows Founder

By Natalie Doss and Jeff Green
15 June 2012
Bloomberg

Fred Smith has taken FedEx Corp. (FDX) from an idea in a college essay to the world's biggest cargo airline over the past four decades. Now the company has to figure out how to plan for the founder's eventual departure.

Smith, who holds the titles of president, chief executive officer and chairman, has built FedEx to more than $39 billion in annual revenue and $27 billion in market value. It's the largest company in the Standard & Poor's 500 Industrials Index led by its founder, based on data compiled by Bloomberg.

Yet at 67, Smith hasn't said who will succeed him or when he'll cede the top post. After once saying he might leave as soon as 2013, Smith now says he isn't going anywhere soon. That has left former executives and industry consultants questioning how the board is preparing for the post-Smith era.

"I'm extremely concerned," said Ron Wickens, FedEx's former vice president for strategic projects and a shareholder. "Who is that replacement? And does he have the vision that Fred Smith has?"

Smith's eventual successor at Memphis, Tennessee-based FedEx will face the burden of following a pioneering CEO, said John Haber, executive vice president of the transportation division at Atlanta-based NPI LLC, which helps clients manage supply-chain costs. That means he or she will have to figure out what to change to build on the company's success.

FedEx has "good bench strength, but their bench strength, they're not visionaries like Fred Smith," said Haber, who previously worked at competitor United Parcel Service Inc. "What is at risk is, 'What is the next great idea?'"

Express Unit

Restructuring is under way at FedEx's domestic Express unit, its largest, as U.S. volumes slump. It announced the retirement of 24 jet freighters last week, and investors will watch the June 19 earnings report for profit-margin gains because that business "drives the stock," said David Ross, a Stifel Nicolaus & Co. analyst in Baltimore.

Next week's quarterly results are the last for the fiscal year ended May 31, when FedEx fell 4.8 percent. That was the fourth time in the last five annual periods that FedEx trailed the S&P 500 and UPS. (UPS) FedEx closed yesterday at $86.84, an increase of 4 percent for the year. That compared with a 5.7 percent gain for Atlanta-based UPS.

Smith says talk of succession, which is part of annual planning at FedEx, is premature. After saying in September 2010 he "almost certainly" would leave within five years, and maybe three, he said in April that the timeline was only to start deciding on his future.

Not Leaving

"I'm not planning on going any place," Smith said in that interview. The 2010 statement "was a year ago September, and I said I'm not even going to think about it until then."

Smith isn't required to step aside. FedEx doesn't have a mandatory CEO retirement age. The limit for the chairman role is 72.

Smith is still "fully engaged" at FedEx and is focusing on strategic issues, corporate development and external affairs including policy matters, said Bill Margaritis, a spokesman.

"We have a very deep bench of highly qualified leaders who are capable of stepping into his role if need be," Margaritis said.

Possible candidates for Smith’s CEO job include Chief Financial Officer Alan Graf and Mike Glenn, executive vice president of market development and corporate communications, according to Ross and Satish Jindel, president of SJ Consulting Group Inc. in Sewickley, Pennsylvania. Dave Rebholz, the head of FedEx Ground, and Dave Bronczek, who leads Express, also are potential choices, Jindel and Ross said.

Director James Barksdale could be a chairman candidate, Jindel said. Barksdale previously worked for FedEx Express and later was CEO of Netscape Communications Corp.

‘Big Expectations’

“Whoever takes over is going to have pretty big expectations from the financial community,” Brandon Oglenski, a New York-based analyst with Barclays Plc, said in an interview.

“When you’re making long-term investments, which is definitely what Fred does, the short-term consequences can leave a lot of people on Wall Street upset,” said Oglenski, who rates FedEx as overweight/positive, the equivalent of Ross’s buy recommendation. “Over the long run you can be proven right.”

He cited FedEx’s decision to branch into surface transportation with its 1998 purchase of Caliber System Inc., which later became FedEx Ground, now the highest-margin business in the company.

A founder’s exit creates leadership-transition questions unique to young companies, said **Clarke Murphy**, CEO of executive search firm **Russell Reynolds Associates**. Not only must the board pick a new leader, directors must assess whether their historic direction still works, Murphy said.

‘Iconic CEO’

“Often, even after a successful reign of an iconic CEO, the future of the company needs to change,” said **Murphy**, who is based in New York and has advised on director or CEO searches at Wells Fargo & Co. (WFC), UnitedHealth Group Inc. (UNH) and MasterCard Inc. (MA)

Smith first described his concept for a reliable express air-freight service in a paper as a Yale University undergraduate and developed it while in the Marine Corps during the Vietnam War. The company began as Federal Express Corp.

He was an early proponent of expanding into South America, said Aaron Gellman, professor of transportation at Northwestern University’s Kellogg School of Management, who knows Smith and owns the stock. And it was Smith who foresaw the value of building a network in Asia, said ex-executive Wickens, who left in 2009 and worked closely with him.

Corporate Governance

FedEx requires directors on the nominating committee to report annually on management succession planning and the entire board to work with the committee and CEO to evaluate potential successors.

In 2010, a shareholder proposal to require “a written and detailed” succession policy and annual reports on it to investors got more than 20 percent of the votes. A similar proposal in 2011 didn’t go to a vote after FedEx modified its succession-planning language, said Jennifer O’Dell, assistant director for corporate affairs with Laborers’ International Union of North America, which advises benefit funds that own the stock.

Stakeholders “just want to make sure that the company is planning,” O’Dell said.

When the leadership shift does come, it won’t be risky, said Andrew Meister, an Appleton, Wisconsin-based analyst with Thrivent Financial for Lutherans, which holds FedEx shares. FedEx doesn’t need a turnaround CEO or “visionary, super- talented person” to fix past mistakes, he said.

FedEx Linkage

Jindel and Ross both said FedEx has a strong roster of internal candidates. Smith won't be replaced as long as he's in good health and wants to run the company, because his name is "linked to FedEx," Jindel said.

Directors need to ask several questions about how to replace Smith with the right candidate, said Jane Stevenson, a vice chairman at executive recruiting firm Korn/Ferry International in Atlanta.

"How do you create a smooth transition to right leadership? How do you know what the profile needs to look like?" she said. "How does a CEO who is a founder let go and successfully release the company to a new future that's being charted by someone else?"

That future has to combine the vision to make big, potentially risky investments and the ability to deliver improving returns to satisfy investors, said Wickens, the former FedEx executive. Those traits have been hallmarks of Smith's tenure, he said.

"Fred, he's not looking at today, he's not looking at tomorrow," Wickens said. "He's looking at 10, 15 years out. And I don't know of anybody that has that vision to bet money today on what's going to happen 15 years from now."