



# Remembering and Learning from FedEx Founder Fred Smith

James C Wetherbe (Texas Tech University)

**KEYWORDS:** Learn From Leaders, Entrepreneurship.

Smith died June 21, but the 11 management practices he encouraged at FedEx provide timeless wisdom for entrepreneurs and their ventures.

*EDITOR'S NOTE: FedEx Founder and Executive Chairman Frederick W. Smith died Saturday, June 21, at age 80. EIX's Founding Editor James Wetherbe worked closely with Smith beginning in 1993. In 1996 Jim published "The World on Time: the 11 Management Principles that Made FedEx an Overnight Sensation." Executive Book Summaries named it as one of the top 30 business books of 1997.*

*In this essay, which includes slightly edited excerpts from his book, Jim summarizes those principles, which helped FedEx achieve so much under Fred Smith's stewardship, as an inspiration for other founders to guide their ventures.*

**A complimentary audio version of the book is available below.**

While his family was wealthy enough that he never had to worry about living comfortably, Fred Smith had the courage of a hungry entrepreneur early on. As an undergraduate student at Yale University in 1965, he proposed the idea of FedEx's hub-and-spoke system for an economics class assignment. The professor scoffed at the feasibility of his idea and gave Fred a grade of C minus. Undeterred, instead of coasting on his inheritance, Fred in 1973 put it to work to create Federal Express, named because its original vision was to serve the Federal Reserve by sending money overnight to save "float," the time delay between when a financial transaction was initiated and completed. At the time it was one of the largest venture capital startups in the history of the world, raising \$80 million.

Fred's new company had a very rough beginning, one that would have defeated many entrepreneurs with less grit. The Federal Reserve backed out of its arrangement, but Fred kept the name anyway. On the first night of operation, 30 aircraft used the hub-and-spoke system to deliver only 11 packages. But Fred, with his entrepreneurial spirit, eventually grew his company into a global leader in the logistics and transportation industry, an \$87 billion revenue global operation. He shrewdly realized that FedEx was not in the business of moving packages, but of eliminating inventory.

I've studied the FedEx way of doing business since 1993, when I was the first Federal Express Professor of Excellence at the University of Memphis. I have also had the opportunity to work with Fred and other senior executives. I've analyzed FedEx's history, its philosophy, and its systems, as well as its ability to transform strategic decisions into profitable operations. I can now confirm that Fred Smith has created one of the most extraordinary companies in U.S. history.

After extensive research and hundreds of interviews, I have discerned why – or better yet, how – FedEx has maintained its profitable commitment to excellence. If your company is similarly committed, you would do well to embrace the 11 principles that underlie the unparalleled success of FedEx. I've outlined them here.

## You can never, ever do enough for your people

Fred Smith knew from the start that if he put people first, quality, service, and profits would follow. He created a flat management structure, minimizing the distance between leaders and frontline workers – a move that has empowered employees and expanded the breadth of their responsibilities.

## Everybody pitches In

FedEx has a basic principle: Everyone has specific responsibilities, but there are low fences between jobs.



People will hop over fences to help others out, but nobody can blame another for his or her failures. Courier, sorter, pilot, or public relations specialist – every FedEx employee should focus on the customer.

## **Rewards are absolutely, positively everything**

FedEx rewards success. For example, an employee who exceeds a customer's expectations may win on-the-spot recognition or rewards for a job well done. The company doesn't restrict reward giving to the annual review, nor is money the only kind of reward. The company continually invites employee and customer assessments. Is FedEx a good employer? Is the service what it should be?

## **A winning culture has many cultures**

FedEx stays ahead of the competition because it's not an infantry division, a mass of bodies moving in one direction. Rather, it's an aircraft carrier, an association of specialists running a complex mechanism. The company has many subcultures. On the floor of the SuperHub (at Memphis International Airport, the center of its operations), the culture is time; in the software development lab and logistics services the culture is innovation and ideas; in the field the culture is customer satisfaction.

## **An ounce of inspiration is worth a pound of control**

FedEx managers are transformational leaders. Fred Smith knew that a manager earns employees' respect and allegiance only by leading with idealism and style. He married that belief with the conviction that FedEx could sustain its high level of customer satisfaction only if leaders understand employees' needs and expectations.

## **The first rule is to change the rules**

FedEx shook up the package-delivery business when it discarded Postal Code-inspired zone-and-volume pricing systems in favor of fixed pricing. Confusion over charges all but disappeared. The change not only streamlined FedEx processes, it also allowed customers to project their shipping costs with accuracy.

## **Problems have silver linings too**

FedEx, like all other innovators, regards every problem as a challenge to develop new technologies or services:

Innovators transform problems into opportunities. FedEx welcomes its customers' problems as well.

## **Software equals savings, service, and sales**

FedEx has proved – more conclusively than most other companies – that the information an organization creates and shapes has value far beyond its in-house uses. Starting with FedEx's software, which allows it to track shipments, the company has leveraged the strengths of its information management systems into a vastly profitable logistics consulting business.

## **He who hesitates is lost (but remember, look before you leap)**

When Fred Smith decided to offer next-day afternoon delivery, his closest advisers fretted that it would cannibalize its existing priority and economy services. Smith argued that the new service would generate cash and eliminate FedEx's down periods between priority morning deliveries and the afternoon economy runs. His hunch paid off. Customers' enthusiasm for the new service was enormous, and two-day delivery has been growing while Priority Overnight has also continued to grow since its inception.

## **Letting go is hard to do**

ZapMail – FedEx's disappointing 1984 experiment in state-of-the-art, satellite-connected, faxed documents delivered to customers' doors – failed when low-cost fax machines flooded the business market. Within two years of its launch, FedEx shut down ZapMail and reassigned thousands of employees to other tasks. But because Fred institutionalized risk-taking from the start, other seemingly more implausible initiatives have succeeded. They include the first hub-and-spoke airline routing system (adopted later by commercial airlines like Southwest), the proprietary fleet of aircraft, and TV ads about FedEx technology rather than package delivery, to name a few.

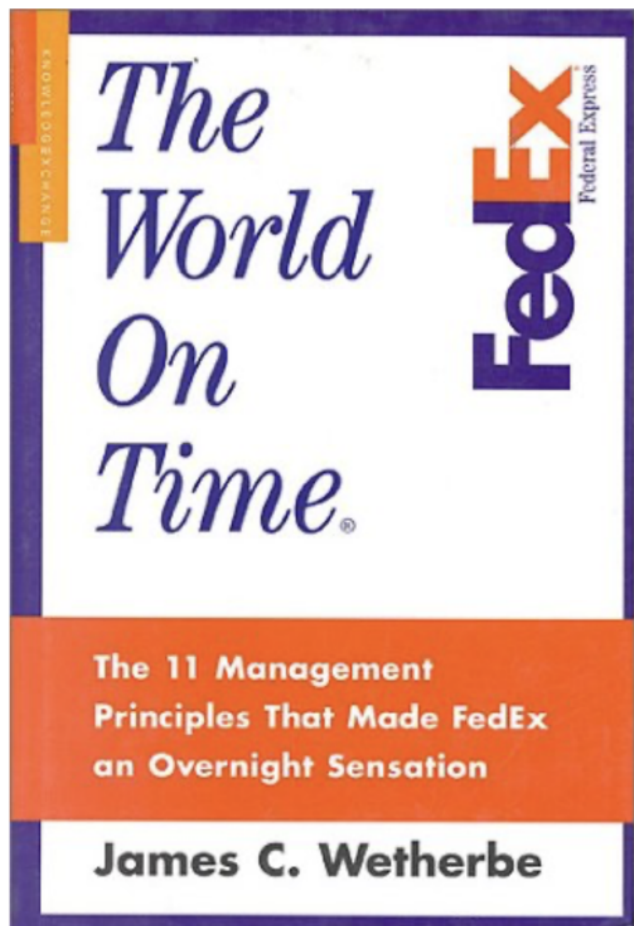
## **The image is the reality (if you work at it)**

FedEx's guaranteed on-time service and complete satisfaction is unconditional. Customers equate FedEx with that promise. It is this image that the public identified with FedEx – and it doesn't come easy. The image the company has so meticulously cultivated helps maintain, even extend, its market share. FedEx makes

Link to video

EIX  
(<https://soundcloud.com/user-876519212-189256831>)  
(<https://soundcloud.com/user-876519212-189256831>).  
The World on Time  
(<https://soundcloud.com/user-876519212-189256831/the-world-on-time>)(<https://soundcloud.com/user-876519212-189256831/the-world-on-time>)

## Listen to the Book



## Learn More

Entrepreneurial Brinksmanship: Lessons Learned From Best Buy and FedEx  
(<https://eiexchange.com/content/1-entrepreneurial-brinksmanship-lessons-learned-fro?search=Fred%20Smith>)

EIX and author James Wetherbe have made the audio version of "The World on Time" available for our readers below.

EIX  
(<https://soundcloud.com/user-876519212-189256831>)  
(<https://soundcloud.com/user-876519212-189256831>).  
The World on Time  
(<https://soundcloud.com/user-876519212-189256831/the-world-on-time>)  
(<https://soundcloud.com/user-876519212-189256831/the-world-on-time>)