

FedEx: The Next Network 2.0 Wave

Internal ID: S&F-STR-254

Topic: Operations Strategy, Customer Strategy, Risk Management

Industry: Air Freight & Logistics

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Classroom case | Strategy and operations

Information cutoff: October 4, 2026, 11:59 p.m. Eastern Time

This is a hypothetical strategy exercise based on public information. It does not describe an actual internal assignment or include later rollout results.

The decision

In October 2026, FedEx's U.S. parcel-network leaders must set the pace and market-selection rules for the next phase of Network 2.0. The company has said it expects to complete the U.S. implementation by the end of calendar 2027. A planning team must decide whether to maintain that schedule, accelerate consolidation, or release new markets only after local cost and service evidence meets pre-agreed gates.

Your team is advising a hypothetical FedEx planning group. Which markets should enter the next wave, how quickly should the program proceed, and what evidence would cause leaders to pause or redesign a wave? Your recommendation should balance density and utilization with delivery reliability, customer needs, workforce/provider capacity, and transition risk.

What Network 2.0 changes

FedEx describes Network 2.0 as an effort to improve how the company picks up, transports, and delivers packages in the United States and Canada. It consolidates sortation facilities and equipment, reduces pickup-and-delivery (P&D) routes, and optimizes enterprise linehaul to create a more integrated surface network. The program combines operations that had been run through legacy Express and Ground networks. The company says some P&D markets use service providers and others use employee couriers.

The potential logic is straightforward: where routes and facilities overlap, a combined network may reduce duplicate trips, use vehicles and sort capacity more efficiently, and lower cost per stop. But consolidation can also increase route length, load variability, or dependence on a smaller number of facilities and providers. Customer promises, local geography, peak demand, and workforce arrangements may make one rollout design work in one market and fail in another.

Progress measures do not share one denominator

In its 2026 Form 10-K, FedEx said Network 2.0 had been **implemented** at approximately 360 locations in the United States as of May 31, 2026. A separate company-wide description said the program had been implemented at approximately 410 locations in the United States and Canada. The company also reported that Canada's implementation was complete and that it expected to complete the U.S. implementation by the end of calendar 2027. These are location counts with different geographic scopes; they are not station counts or percentages of volume.

At Investor Day in February, management used different measures. It said approximately 25% of eligible U.S./Canada average daily volume (ADV) had been **optimized**, listed about 360 optimized stations, and said more than 200 stations had closed. The presentation forecast roughly 65% of eligible ADV optimized by the end of calendar 2026. It also forecast more than 900 optimized stations and more than 475 station closures by the end of 2027. The company did not reconcile location counts, station counts, and eligible ADV in the materials available for this case. February's forecast is not evidence that the end-2026 milestone had been achieved by October 4.

A promised efficiency, with limited public detail

Investor Day materials state a "10% P&D cost reduction in completed markets." This is a management-reported result. The presentation does not identify the markets or explain the baseline period, cost definition, treatment of transition expense, volume or mix adjustments, comparison group, or service outcomes. It does not establish that every market achieved the same result or that the change was caused solely by Network 2.0.

FedEx reported \$366 million of business optimization and realignment costs for FY2026. The 10-K says the category spans Network 2.0, international operational transformation, and a Europe workforce plan; it says Note 11 also includes DRIVE. FedEx disclosed \$147 million for international transformation and \$13 million for the Europe workforce plan, but did not publish a complete program-by-program bridge or isolate Network 2.0/DRIVE costs or benefits. The remaining costs were primarily severance, professional services, and provider incentives supporting Network 2.0, with \$14 million of property and equipment impairment.

The company's reported segment performance also reflects other forces. FedEx attributed increased Federal Express operating income to revenue growth and structural savings across multiple programs, including Network 2.0, Tricolor, and international transformation. It also discussed wage and purchased-transportation costs, trade-policy effects, the expiration of a Postal Service contract, and MD-11 grounding. Pricing, yield, package volume, fuel surcharge, foreign exchange, and mix also affect the segment. These aggregate results do not show what a particular Network 2.0 market contributed.

Reliability, providers, and execution

The 10-K identifies potential risks from higher-than-expected integration cost, lower-than-expected savings, customer loss, business disruption, litigation, regulatory challenges, and loss of employees or service providers. It also describes provider-capacity, contract, labor-availability, and employee-classification risks. These are company risk disclosures; they do not show that Network 2.0 has caused a service failure or labor outcome.

The planning team needs market-level evidence to distinguish savings from tradeoffs. Relevant measures include stops and packages per paid route hour, route miles, facility and linehaul utilization, transition costs, pickup completion, on-time delivery, damage and claims, complaints, customer retention, peak performance, workforce/provider turnover, safety,

overtime, and recovery after disruption. Comparisons should account for volume, customer mix, pricing, fuel, weather, geography, seasonality, delivery windows, labor arrangements, and concurrent programs.

Company boundaries and reporting timing

FedEx Freight became a separate public company, trading as FDXF, on June 1, 2026; it is outside this parcel-network decision. FedEx Supply Chain was sold to CMA CGM, with completion announced October 1, 2026. Neither transaction is evidence of a Network 2.0 operating result. Tricolor is an air-network strategy, while One FedEx/DRIVE and international transformation are distinct programs whose effects should not be assigned to Network 2.0 without evidence.

FedEx's fiscal year ended May 31, 2026. The company changed its year-end to December 31 effective June 1 and began a seven-month transition period. The 2026 Form 10-K and June full-year release cover the completed fiscal year, not the transition period. By the October 4 cutoff, the transition period was still in progress; the company's Q3 2026 call was scheduled for October 28. This case does not include later results or rollout updates.

What the research adds

Operations research studies offer mechanisms, not FedEx estimates. Models of last-mile routing show that density and delivery windows can jointly affect route productivity. Network-design studies show that parcel consolidation may lower modeled cost under some demand and service assumptions, while implementation changes make realized savings difficult to attribute. Other models show that clustered or changing demand can erode the value of fixed schedules. The studied settings include online grocery delivery, a French urban mail-and-parcel network, two London carriers, and synthetic micro-hub operations. None evaluates FedEx's multi-market network redesign or estimates its customer, labor, or reliability outcomes.

For example, Boyer and coauthors' grocery-routing model reports 13 stops per route under a 1.5-hour window versus 15 under a 3-hour window in one 500-customer illustration; their 13% cost interpretation is a modeled result under that study's assumptions. It is not a FedEx savings estimate. The research points to questions for the planning team: Which markets have enough density and route overlap? Which customer promises limit consolidation? How much demand variation can a combined design absorb? What comparison would separate network effects from pricing, volume, labor, and weather?

Paths the team could take

1. **Keep the current schedule.** Continue the planned sequence toward end-CY2027, using standard operating playbooks and monitoring service and cost as waves proceed. This preserves momentum and may capture scale benefits sooner, but gives less time to adapt where local evidence is weak.
2. **Accelerate broad consolidation.** Prioritize the fastest feasible closure and route-integration schedule across eligible markets. This could capture density and facility savings sooner, but raises the stakes of provider readiness, transition execution, and service protections across markets with different demand patterns.
3. **Gate each market on local evidence.** Continue in markets with documented route overlap and acceptable service performance; stage or pause markets that lack reliable cost, provider, or service data. This may reduce avoidable disruption and improve learning, but can extend parallel-network costs and delay benefits.

The team may combine these paths. It must specify who defines “eligible” markets, how “implemented” locations relate to optimized stations and ADV, which service measures are guardrails, what comparison supports attribution, who can pause a rollout, and how long leaders should wait for evidence-including a peak period-before expanding.

Assignment

Prepare a recommendation for the hypothetical planning team as of October 4, 2026. Choose a rollout pace and market-selection rule. Explain:

- which local conditions justify entering the next wave;
- which cost, utilization, and service measures should determine progress;
- how to distinguish Network 2.0 effects from concurrent programs and market changes;
- what workforce/provider readiness and customer protections are required; and
- what evidence would trigger expansion, redesign, or a pause.

State assumptions and identify missing evidence. Keep management claims, forecasts, reported results, academic mechanisms, and inferences separate. Do not transfer academic model estimates to FedEx. No single answer is established by the public record.

Selected sources

- [FedEx FY2026 Form 10-K](#)
- [FedEx FY2026 fourth-quarter and full-year results](#)
- [FedEx 2026 Investor Day release and presentation](#)
- [FedEx Freight spin-off completion](#)
- [FedEx Supply Chain sale completion](#)
- Boyer, Prud’homme & Chung, “The Last Mile Challenge” ([DOI](#)); see the private research package for full evidence locators and limits.