

Drones Unlikely to Make Big Impact

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The CEO of FedEx doesn't see drones taking over the package delivery business anytime soon.

Fred Smith says FedEx has several drone studies underway. But the idea of delivering items by drone is "almost amusing," Smith said on a conference call on Wednesday after the company reported financial results.

Smith said FedEx has a drone expert on staff — its technology chief, Rob Carter.

"He actually owns a drone," Smith said. "He reported that it operates about eight minutes and can carry four Budweiser beers at his farm."

Jeff Bezos, the CEO of Amazon.com, caused a stir recently when he said Amazon is exploring drone deliveries, and that sending a small package via an automated drone could be reality in a few years. United Parcel Service and German delivery company Deutsche Post DHL have both said they are evaluating drone delivery.

There are huge obstacles to residential drone deliveries. The U.S. Federal Aviation Administration barred their use for commercial purposes in 2007. No-fly zones abound in places like Washington D.C. There are questions about who is liable if a drone crashes and damages something, or someone, on the ground.

The comments from Smith, who is also FedEx's chairman and president, came in response to an analyst's question about online sellers getting into the business of delivering goods themselves.

Smith said Amazon and other online retailers "can unquestionably do local deliveries should they choose to do so."

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But, he added, FedEx, UPS, or the U.S. Postal Service will perform the vast majority of deliveries. The three organizations are designed to handle large-scale deliveries, including costly deliveries to residences, Smith said.

While FedEx may eventually have to cope with online retailers making their own local deliveries, right now it is dealing with customers shifting from overnight delivery service toward cheaper ground transportation. That shift was a factor in the smaller-than-expected gain in FedEx's second-quarter profit reported on Wednesday.

Revenue and U.S. volume both fell slightly in FedEx's express unit, which handles overnight shipments and is the company's largest division. Ground shipping revenue rose 10 percent, and freight revenue was up 4 percent.

Even with shippers moving away from express, cost cuts in that unit drove most of the company's profit growth.

FedEx Corp. net income rose 14 percent to \$500 million, or \$1.57 per share. Analysts had been expecting \$1.64 per share.

A year earlier it earned \$438 million, or \$1.39 per share. It said superstorm Sandy hurt last year's profit by 11 cents per share.

Edward Jones analyst Logan Purk said FedEx executives once had to manage the shift from its old business of delivering urgent letters, which was replaced by email. Now they'll do it again as customers increasingly favor ground over air shipping.

"They are once again reinventing the business in response to the conditions the market is throwing at them," he said.

Shares of Memphis, Tenn.-based FedEx Corp. fell 31 cents to \$138.78 in afternoon trading.

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