

Passed over for a big promotion at Consolidated Freightways, Donald Moffitt quit and went sailing. Then his old boss called.

Full circle

By Kate Bohner Lewis

IN THE SUMMER OF 1990 Donald Moffitt was 58 and in early retirement. While cruising his 44-foot sloop *White Bear* around British Columbia's Gulf Islands, he received a distress call on the boat's radiophone. It was his former boss, Consolidated Freightways, Inc.'s chairman, Raymond O'Brien. Would Moffitt please come home? O'Brien begged.

Moffitt smiled. His career was suddenly coming full circle. He had spent 33 years at Consolidated, the last 10 as the company's top financial officer. But in 1988 O'Brien promoted Moffitt's rival, Lary Scott, to Consolidated's number one spot. Passed over, Moffitt quit. After spending most of the next 2 years rebuilding Circle Express, a troubled regional trucker, he retired to his sailboat.

And now O'Brien wanted him back. Moffitt set *White Bear's* course for Victoria, B.C. and flew immediately to San Francisco.

Arriving at Consolidated's headquarters in Palo Alto still in his sailing gear, he listened as O'Brien filled him in on the grim news. Consolidated's core trucking business was eking out a profit.

But Emery Worldwide, an overnight delivery service and cargo company that Consolidated acquired in 1989, had consumed all of Consolidated's cash and was now deep in the red. Chemical Bank was demanding payment of \$85 million in fees on a promised \$900 million interim loan. Consolidated, O'Brien feared, was about to default on its outstanding commercial paper.

"The more I heard, the worse it got," Moffitt recalls. "I'd left Consolidated with \$300 million in cash on the books, and boom! We were only a heartbeat away from the B-word."

Over the next 72 hours O'Brien

persuaded Moffitt to take his old job back. A month later Moffitt's old nemesis, Lary Scott, was gone, and Moffitt was named president and chief executive officer.

Moffitt's first order of business was Consolidated's ability to meet its commercial paper obligations. The

Chemical loan, he figured, would hurt the company far more than help it. "They [Chemical] were structuring a loan we couldn't possibly get out from under," says Moffitt.

After sending the Chemical bankers packing, he decided Consolidated could weather its commercial paper problems with a \$75 million credit line. He secured the line from Bank of America on favorable terms after pitting BofA against Citibank for the business.

Breathing easier, Moffitt turned to Emery Worldwide. Purchased for \$489 million, the \$1.2 billion (revenues) unit was losing money at a rate of \$97 million a year. The diagnosis was simple: Fixed costs were too high, cargo volumes too low. Federal Express, for example, picked up more



envelopes at New York's World Trade Center each day than Emery picked up in all of New York State. Emery paid \$16 per pound, on average, to pick up and deliver an envelope for which it charged just \$6 a pound.

"I think [the board] thought I would dump [Emery]," says Moffitt. Instead, he and Emery Chief Executive Roger Curry took Emery out of the letter-mail and small-package segments of the overnight delivery business where Federal Express and United Parcel Service were the leaders. They concentrated their resources on overnight delivery of mid- and heavy-weight freight, packages weighing over 70 pounds.

To build volume, Moffitt and Curry introduced an incentive program that paid big bonuses to salespeople

who brought in new clients. In the first two years of the program revenues increased 37%. Last year some \$20 million in profits were split among Emery's nonunion workers and management. Average payout: \$3,421 per employee. "People respond when they know they'll get a piece of the action," says Moffitt.

Not everyone got a piece. To increase Emery's operating leverage, Moffitt and Curry told each of Emery's 50 managers to fire staff, shrink terminal space or whatever else was necessary to reduce expenses. Within 18 months this cut more than 2,000 of Emery's employees (total employment is now 8,000) and carved over \$200 million out of Emery's cost structure.

The medicine took. Last year

Restoring Consolidated's unionized trucking operation to health was—and still is—a tall order. Since 1988 Consolidated's long-haul profit margins have dropped from 6.5% to 1.5% in 1993. Despite a strong economy, the business lost \$46 million last year, thanks largely to a 24-day Teamsters strike last April.

The fundamental problem is this: Regional nonunion carriers like Viking Freight have taken business away from big unionized carriers like Consolidated largely because the nonunion outfits can use rail transport to make their route systems more efficient. Consolidated would like to do this, too. But the Teamsters' master contract has limited the amount of unionized truckers' freight that can be handled by rail to just 8%.

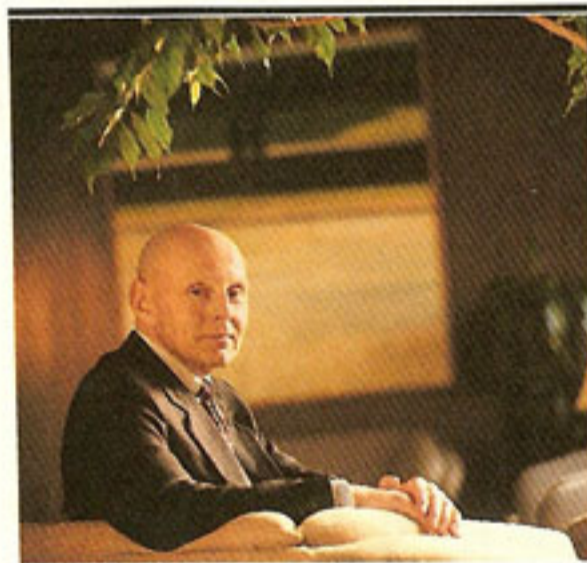
But things are looking up. Last June the Teamsters signed a new four-year master contract that will allow Consolidated to move up to 28% of its freight on the rails. Meanwhile, Moffitt is expanding Consolidated's own nonunion regional carrier, Con-Way Transportation Services. Started in 1983, Con-Way is a \$1 billion (revenues) operation that earned \$111 million in operating profits last year.

While Consolidated's unionized trucking operation isn't out of the woods, it's on the right track. Wall Street analysts estimate the unit earned over \$2 million in January, its first monthly profit since October.

Overall, Wall Street analysts think Consolidated will earn \$2.20 a share (\$105 million) this year, up from \$1 a share last year and a string of losses in 1990, 1991 and 1992. Revenues should rise by 8% to 10%, to around \$5 billion. In December Consolidated's board expressed its optimism by initiating a 40-cent-a-year dividend, the first payout since 1990. Recently at 23 $\frac{7}{8}$, Consolidated's stock has more than doubled since Moffitt rejoined the company. His personal holding has appreciated by some \$5 million.

Whatever happened to Moffitt's old rival, Lary Scott? For almost two years he has been trying to turn around another big trucker, Carolina Freight, so far without much success. Its stock has dropped by half since Scott signed on. Moffitt grins broadly at the irony.

Chief Executive Donald Moffitt (left) and Emery turnaround artist Roger Curry
Says Moffitt:
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Emery's operating profits rose to \$77 million—a \$205 million swing from when Moffitt rejoined his old company. After signing an \$880 million, ten-year contract with the United States Postal Service last year, Emery now has 24% of the over-70-pound freight market. Its nearest rival, Burlington Air Express, has a 13% share.

United Parcel Service and Federal Express have both announced plans to deliver heavier freight by air, but now they'll be trying to catch Emery. Demonstrating its new muscle, Emery announced a 7.2% general rate increase last October.

With Emery back in the black, Moffitt began tackling the problems in Consolidated Freightways' \$2.1 billion (revenues) long-haul-trucking business. For help he named Roger Curry president of the trucking division last July. "That was his reward for fixing up Emery," laughs Moffitt.