



QDM and Renewal: Keys to our future

There are major events or circumstances that change the direction of every person's life — perhaps getting married, switching careers, or discovering a new passion.

Likewise, key strategies or events in an organization can dramatically shift the course of its business — and every well-managed company knows that constantly anticipating and creating such changes are key to success. It's been said that any company that can't handle change is going to hate extinction.

FedEx has certainly originated and experienced many changes. From installing our first drop box in 1975 to our acquisition of TNT in 2016, we have implemented many strategies that have changed the face of FedEx. While we adhere to core values, through such change we've evolved dramatically over more than four decades into a Fortune 500 logistics giant.

Two big strategies that continue to be game-changers for us are Quality Driven Management (QDM), celebrating its 10th anniversary this fiscal year, and Renewal, the technology overhaul creating powerful new competitive advantages for FedEx.

Let's look first at QDM.

Quality is everyone's job

Developed by FedEx for FedEx, QDM is a company innovation that has stood the test of time. Over the past decade it has generated tremendous improvement in our processes, great cost savings and incremental revenue, and an improved customer experience. Check out the related story in this issue to see just how much.

It is so important to FedEx that we established the QDM Cup in 2012 to recognize the best Quality Action Teams (QATs) that produced the most

impressive results. In the last six years those teams generated \$462 million in incremental revenue, plus \$160 million in cost savings.

FedEx, of course, had a tremendous commitment to quality from the beginning. In the 1970s, as primarily an express network, we were first and foremost committed to service excellence. Every team member knew what the customer absolutely, positively expected in terms of overnight delivery. In the 1980s we moved toward the goal of 100 percent customer satisfaction and ultimately won the coveted Malcolm Baldrige National Quality Award in 1990, the first service company ever to do so. In the 1990s we began to define quality in terms of productivity. We saw the correlation between doing things right the first time and improved productivity. And we began to define quality service not in statistical terms alone but also in terms of customer expectations. It wasn't how we defined quality but how the *customer* did.

By 2008, in the throes of the Great Recession, we asked ourselves, "Can we continue our quality success despite the economic downturn?" We answered with a resounding "Yes" and created QDM.

This new program not only made quality everyone's job, it gave us a common quality language, common tools, and a blueprint called ABLE (Assess, Build, Launch, and Evaluate) that any FedEx team could apply to any business challenge. Essentially, QDM empowers all team members to become the architects of great change at FedEx. The result is superior business performance through the elimination of waste, cost, and unnecessary work as well as better speed to market and customer satisfaction.

Wonderful examples of QDM successes abound:

- International and TNT Sales organizations have accelerated integration as a result of sustained and consistent QDM training to ingrain a common language and approach.
- Air Operations has applied QDM over the years to solve a wide variety of challenges from fixing aircraft mechanical issues to decreasing aircraft out-of-service time to drastically reducing safety incidents.
- In the LAC region, team members used QDM to analyze business problems arising during peak in Mexico. From their analysis they built a comprehensive action plan that led to all-time-high customer satisfaction levels during the highest peak volumes ever encountered.
- At FedEx Ground, frontline team members applied QDM principles to improve yard safety. Yard accidents have dropped significantly, and the efficiency of switchers (tractors that move trailers around the yard) and on-time service have gone up.
- Through QDM, IT and FedEx Express developed a cost-effective, on-the-road mobile pickup-and-delivery scanning app for smartphones, in use within 68 countries across EMEA, MEISA, LAC, and APAC.

These are only a few of thousands of QDM-enabled achievements so far. There's so much more to come.

Think about the potential QDM can have on FedEx innovation over the next 10 years and beyond. We'll use it to operate more efficiently through continued fleet modernization, electrification, and automation efforts to dramatically improve safety and service while lowering costs. QDM improvements can run the gamut from automated reporting to robotics to driverless tugs.

We'll continue to put technologies to good use. For example, QDM can help trigger smart

decision making through artificial intelligence (AI) and advanced analytics. In other words, AI can detect trends that humans may never notice but should know about in order to better solve problems.

This fiscal year, we'll roll out Design-ABLE, a new framework to inspire innovation. It will help deliver new, best-in-class products and services to our customers. For example, in late 2017, Marketing, Operations, and IT teams were challenged with testing Design-ABLE to create a new delivery service — FedEx Freight Direct — for heavy, hard-to-handle shipments. The teams talked to customers to gain critical insights for the development process and will launch FedEx Freight Direct in five markets in FY19.

As we stand on the horizon of the next decade, there are many new ideas we'll transform into reality, but underlying all of them are the core values of FedEx. Let us recommit to the Purple Promise and support our PSP culture. Let us ensure that we continue to use QDM to create the greatest customer experience.

To do so means that we will apply the QDM principle of "Customers Define Quality" to deliver solutions tailored to our customers, whether internal or external. We will simplify. We will make it easy for customers to do business with us. And we will stay one step ahead — evolving in anticipation of customers' changing needs. The result is that we'll better deliver the Purple Promise every single day.

Renewal: Unleashing more powerful technology

Since FedEx began, we've been a technology-centric company. Early on, we embraced the idea that information about the package is as important as the package itself. As we grew, technology remained at our core. Managing assets such as planes, trucks, and sorting facilities depended on FedEx technology, the bedrock of our operations.

Technology is also the foundation of our relations with customers. It helps us create more services

for them, resolve problems quickly, and give them broader options for managing their shipments.

Renewal is a critical initiative in which IT and the business must partner to modernize FedEx systems. To continue supporting our business in the digital world, we must invest in next-generation technology capabilities suited to the connected global marketplace we serve.

For example, at FedEx Freight we're beginning to test a new technology called blockchain. By giving more visibility to everyone involved in the logistics process, blockchain can reduce customer claims, increase customer satisfaction, and reduce our costs. FedEx joined the Blockchain in Transportation Alliance (BiTA) to explore this new chain-of-custody technology within the logistics sector. We believe blockchain has the potential to significantly improve worldwide supply chains.

Another Renewal example: FedEx Virtual Assistant on fedex.com is an AI-enabled service that answers most any customer shipping question. It allows our customer service representatives and sales professionals to focus on higher-value customer interactions.

Finally, with FedEx Delivery Manager, our customers can keep track of their FedEx shipments by managing delivery times and locations from their mobile devices, while the shipment is in transit. To make it more convenient for consumers to ship and have shipments held for pickup, we've continued to grow our retail network. Now U.S. consumers can pick up their packages at any of 11,000 convenient, secure locations, including more than 8,000 at well-known retailers such as Walgreens. We're also placing 500 new FedEx Office locations within Walmart stores nationwide. As a result, 80 percent of the U.S. population is within five miles of a FedEx hold location. This huge retail initiative was powered by technology developed and sped to market by Renewal teams.

As you know, the pace of technological change is unprecedented and it keeps getting faster. We

must operate at the edge of new technology by relentlessly pursuing every tech possibility to make our business better. That's why the Renewal initiative is so critical to FedEx. It recognizes that technology is our central nervous system, and some parts of that system are no match for the modern world. Renewal helps us create a technology environment that gives us superior speed to market, greater reliability, and digital security.

There are so many examples of Renewal collaboration between IT and business units producing transformational programs. For example:

- With IT and Human Resources working together, we retired the aged PRISM system and brought on the more streamlined and intuitive Workday, making it much easier for team members and managers to handle common functions such as filing sick leave or vacation.
- IT partnered with the FedEx Express Dangerous Goods (DG) team to develop a mobile technology called SmartDG that electronically manages how such goods are accounted for at a facility. It replaces a paper checklist with a dynamic digital one accessible on an iPad. The result? DG processing is now easier, quicker, and safer. One team member said it cut what had been a 30-minute task down to about a minute!

These great collaborations prove that Renewal works in a wide variety of settings for both customers and team members. The reality is that Renewal offers a modernized framework that powers up all our key strategic initiatives.

Now it's time for every FedEx team member to embrace Renewal. Just as QDM helped make quality everybody's job beginning 10 years ago, Renewal is now so important to FedEx that it's everyone's responsibility to enable and support it. We all certainly want and need the benefits Renewal provides, so we've got to get behind it



From the Chairman

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100 percent. If it's vital to our company, it's vital to you. It's the key to delivering those change-the-world innovations FedEx is known for.

That's why we urge the entire FedEx team to use their voices, influence, and authority to accelerate our Renewal progress. Renewal is really not optional — everyone must support the revamp of our technical landscape. If you want to ensure the success of FedEx — and I know you do — please make choices that move us forward in modernizing our systems.

For instance, Renewal will usher in new ways of doing business; you'll need to understand and embrace them. If you're dealing with legacy systems in your work, your team should collaborate with IT to retire them. Old systems are too susceptible to security breaches. Or if your team is involved with IT to develop new processes or applications, be sure to give ongoing feedback — it will make the end result easier to use.

Each of us, in our individual ways, must support and accelerate our progress on Renewal. We must be *all in* to run a "sprint to the finish" — that is, modernizing our technologies and architecture by 2020. Achieving that goal enables us to scale new heights in growing FedEx and serving our customers. It will make FedEx an even bigger technology and transportation powerhouse.

FedEx has always defined the future. We've charted the changes that have brought us to \$65 billion in revenue and more than 425,000 team members worldwide. Through your collective effort to support both QDM and Renewal, we're on track to the brightest future I've ever seen for this company. Thank you for helping to make this happen!

Frederick W. Smith
Chairman and CEO

Asia Pacific (APAC)

Strong commitment to QDM in APAC

The FY18 Purple Promise Award winners in the APAC region are excellent examples of its ongoing commitment to improving the customer experience through QDM tools.

One enterprising cross-functional QDM team in APAC was recognized for improving reliability of FedEx deliveries in the APAC–Trans-Pacific lane, where we needed a better balance among service, revenue growth and profitability. The team introduced a new demand-planning process and aligned all functional groups, achieving greater efficiencies and reducing delivery issues caused by demand exceeding capacity.

Another Purple Promise Award–winning team in Hong Kong also worked to improve the customer experience with faster response times to remote pickup requests. In fact, they significantly cut remote pickup response times for APAC-origin shipments from the previous 24–72 hours to just one hour. Not only did they successfully meet customer expectations, but they also generated incremental revenue from remote pickup business.

Canada

Canada contributes to global cost savings and efficiency

FedEx Express Canada is having great success with the movement of U.S.-bound global deferred volume through Canada, which helps reduce airlift expenses and better uses FedEx assets. Moving this volume is an attractive, cost-saving alternative for international regions and operating companies. It also supports the IGNITE strategy (our global FedEx Express business strategy) and addresses capacity issues from the regions to the U.S. by taking advantage of southbound Canada-to-U.S. flights that have available space. FedEx Express Canada is collaborating with our counterparts in Europe and Asia to expand this service to other regions and operating companies

in FY19, as there is opportunity for global cost and efficiency improvements.

Latin America and Caribbean (LAC)

QDM supports Brazil linehaul integration efforts

The Brazil linehaul integration reflects the LAC division's commitment to QDM. FY18 was a year focused on integration, with an emphasis on the seamless combination of cultures and best practices from FedEx and TNT. The Brazil linehaul integration was a true collaboration with multi-region involvement, resulting in a model that will be replicated in the remaining integrations.

Using the principles and methodology of QDM, the cross-company, multi-geographic teams were able to “speak the same language,” follow a systematic approach and align their work to seek common solutions. The LAC team delivered results immediately, saving FedEx \$360,000 in the second half of FY18.

“The linehaul integration was one of the main challenges and opportunities for the FedEx and TNT Brazil integration. The team did a superb job and I am certain that the future results in savings and service improvement will be outstanding,” said Américo Pereira, vice president, Operations in Brazil.

Europe

Sometimes simpler is smarter

Viewing failures as opportunities is sometimes easier said than done. When FedEx Express Europe faced the cyberattack last year, we had to find other ways to continue serving our customers, and we did it with teamwork. We used a manual approach (since we were without our usual tools and systems), evolving our integration strategy in the long run.

Simplifying processes can save time and effort — and result in better quality. That's also the lesson

learned from this year's European Waste Reduction Initiative. It encourages team members to apply QDM principles to simplify processes and work more efficiently. TNT joined the initiative for the first time this year, and hundreds of team members contributed to more than 500 ideas that ranged from simple, quick wins to complex, cross-functional projects.

QDM projects are practical examples of how we bring to life our culture, values and behaviors. They also support our four values: Order, Learning, Caring and Results.

Middle East, Indian Subcontinent, and Africa (MEISA)

TNT adopting QDM Principles in MEISA

Successful integration relies on our ability to build one unique culture in our workplace, and the adoption of QDM principles across our business is critical in this effort.

MEISA TNT team members have learned about QDM through dedicated messages to managers, as well as a six-month communications strategy to articulate application of the six QDM principles to everyday work. Learning modules have also been shared, with 100 percent of targeted individuals completing the requirements for QDM Apprentice, beating the regional goals at practitioner and expert levels.

With collaboration across the business, more than 150 projects were documented during FY18, over and above the goal of 80 projects. MEISA Purple Promise Quality Awards were also given for local QDM projects for the first time, with the MEISA Aerospace Project winning gold, thanks to the development of time-specific pick-up and delivery for critical aircraft parts. This project not only delivers an outstanding service to customers but brings together the FedEx, TNT and FedEx Trade Networks for one solution.