



All in on e-commerce: Turning challenge into opportunity

One of the single greatest opportunities in front of the transportation and logistics industry is successfully managing the growth of online shopping. E-commerce has grown at a dizzying pace, and parcel volume is set to double by 2026 — from 50 million to 100 million packages per day in the United States alone.

In addition to a staggering increase in volume, this trend brings an increase in the number of residential deliveries — as shoppers click “purchase” and expect everything from paper towels to ping pong tables to make an efficient journey to their doorstep and even into their homes. This presents a challenge, as the influx of residential deliveries also increases the cost per delivery due to fewer packages per stop.

FedEx has a history of seeing what lies on the horizon, so we anticipated the ballooning e-commerce market, and we have developed solutions to delight our customers, contain our costs, and make even better use of our team members’ time.

Our latest e-commerce strategies

Let’s start with FedEx Ground, which is an industry leader, having increased market share for 19 of the last 20 years. From that strong leadership position, we are further disrupting the industry — and in late May, we made three significant announcements for online shoppers and e-commerce shippers alike.

- First, we announced that as of January 2020, FedEx Ground will make every day a delivery day for our customers with the addition of Sunday residential deliveries to a majority of the U.S. population.
- Second, we’re rapidly integrating our SmartPost package volume — nearly 2 million daily packages — into the Ground network. These

are packages we’re currently giving to the U.S. Postal Service that we will now take into the Ground network to increase the efficiency and density of our last-mile deliveries. To do this, we’re using state-of-the-art technology we’ve employed since 2016 to move SmartPost packages into the FedEx Ground network when another package is destined for the same or a nearby address. This has already resulted in the integration of approximately 20 percent of these packages to date, and starting this fall, we will accelerate that process and expect the vast majority of SmartPost package volume to be integrated by the end of 2020.

- Third, FedEx Ground is matching the explosive growth of large items ordered online, more than 10 percent of Ground volume and climbing, by making significant operational changes. Building new large-package facilities will enhance Ground’s ability to safely, reliably, and efficiently bring bulky items like furniture, rugs, mattresses — or that ping pong table — to our customers’ doors.

And through FedEx Freight Direct, customers can request to have these heavy, hard-to-handle online purchases carried inside their homes. Launched in 19 markets, FedEx Freight Direct has industry-leading features. This new service is an excellent opportunity to increase loyalty to our brand as we demonstrate the Purple Promise through these unique interactions with our customers.

When it comes to lightweight e-commerce shipments, FedEx Express is employing on-demand drivers to supplement our existing couriers to help us efficiently handle fluctuations in e-commerce volume. This is an additional, flexible workforce that will operate lightweight delivery vehicles and will choose from a limited number of shifts each week. They will specifically



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focus on rural and residential e-commerce deliveries for smaller packages to reduce our costs for this type of delivery. These operations will augment our current delivery systems, which use large vehicles and can deliver a broader range of packages. We will be providing additional details on this initiative in the fall.

And last month, we announced that we are boosting our network of convenient package pickup and drop-off locations through the addition of more than 8,000 Dollar General stores. This alliance will bring our total retail locations, including drop boxes, to more than 62,000. And thanks to Dollar General's rural footprint, it will bring more than 90 percent of customers in the U.S. within 5 miles of a FedEx drop-off and pickup location. This makes it even more convenient for people to choose FedEx. It also helps our company, e-commerce merchants, and online shoppers avoid the potential frustration of failed delivery attempts, stolen packages, or challenging returns.

We're also intensely focused on the opportunity to capture e-commerce market share globally and are prioritizing key markets and services in the regions. One excellent example is FedEx Delivery Manager International, which is now available in 59 countries and allows online shoppers to choose the delivery option that best matches their schedules. Pair our advancements in technology with the increase in cost-effective transportation solutions and the expansion of our convenient retail locations internationally, and we're well positioned to meet the needs of our customers' busy lives and increase our market share. I encourage you to read more in our regional roundup online, featuring the latest e-commerce developments around the globe.

Our e-commerce transformations, while novel for the industry, are a result of planning that has been underway for many years, as we saw how the explosion of online shopping would change the day-to-day requirements of our industry-leading networks.

These developments, and other recent innovations like Roxo™ the FedEx SameDay Bot, are significant on their own. Taken together, they will position FedEx and the online merchants we support for remarkable success against the competition as e-commerce continues to claim a greater share of global retail sales — estimated to double from 10 percent in 2017 to 20 percent in 2022.

On the international trade front

More difficult to anticipate are the challenges we face on the international front, the most significant of which are current trade disputes. International trade supports 1 in 5 American jobs — and with 95 percent of the world's population and 80 percent of its purchasing power outside U.S. borders, trade will be even more important in the future. In many countries, the percentage of workers and economic activity represented by trade is even greater. At FedEx, trade is our business, and all FedEx jobs are trade jobs. We see the value of trade every day as we move 15 million shipments daily, serving 220 countries and territories.

However, at least since the financial crisis began over a decade ago, many voters have become increasingly skeptical about the benefits of international engagement and trade. Tariffs are not an effective response to these concerns. In the short term, tariffs are a tax, and in the long term, they raise costs for businesses and consumers alike.

What's the best path to reestablish a positive view toward trade and more effectively respond to global economic challenges?

To answer that question, I recently joined an effort led by the Center for Strategic and International Studies (CSIS). We are asking the sharp minds of CSIS scholars to explore the most pressing issues facing the United States and the global trading system. The study will also look at solving issues through improved multilateral institutions and ensuring they're prepared for the challenges of today's interconnected global economy.



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Independent of global headwinds, over which we have little control, I have never been so optimistic about the future of FedEx. Despite the near-term challenges of the trade disputes, I am confident our unmatched intercontinental networks will become even more important to the world at large in the years ahead. With Earth's population projected to increase from 7.7 billion today to 9.7 billion by 2050, global trade transactions will continue to grow substantially, given the unprecedented connections now available to buy and sell to and from anyone, anywhere, at any time.

While I've discussed in depth our many e-commerce consumer initiatives, let me reiterate that it's the millions of business-to-business deliveries we make each day that are the backbone of FedEx. All of us should be very proud of the role we play in enabling critical commerce. From shipping products for urgently needed repairs, to vital supplies requiring temperature control, to pharmaceuticals and life-saving medical devices — you make it happen.

Our operating companies are being managed at the highest levels, and I have great confidence in our leadership, the enormous potential of the e-commerce innovations I've described, and, most importantly, in you, our 450,000-plus team members around the globe. FedEx's most exciting years lie ahead, and we are grateful for your individual contributions to our success.

Frederick W. Smith
Chairman and CEO



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Asia Pacific (APAC)

Customers want convenient options and shipment notifications that match their daily routines — whether it's rescheduling a delivery to a different date or address, or dropping off or picking up a package at a nearby convenience store.

In APAC, we're expanding our ability to provide convenience through our network. Using retail alliances, we now offer access to over 14,000 locations in seven markets, including 7-Eleven convenience stores in Taiwan, Korea and Hong Kong, as well as access to 1,300 convenience stores through the blueshyft platform in Australia. This is in addition to 160,000 locker box locations in China that allow for easy package pickups.

We've also launched FedEx Delivery Manager International (FDMi) in eight APAC markets to notify residential recipients of pending deliveries via email or SMS text message and allow them to proactively customize final delivery. In FY19, we increased FDMi notifications by over 42 percent in Asia Pacific and plan to cover more markets and channels moving forward to drive increased usage, customer engagement and an improved e-commerce experience.

Canada

In Canada, we continue to pursue opportunities aggressively to grow our share of the e-commerce market. What has that looked like? Over the last year, we doubled our retail footprint. And with the addition of Staples to the FedEx retail network, there's now a convenient FedEx retail location within 15 kilometers (9.3 miles) for 88 percent of the population.

And more customers are using our self-serve digital tools than ever before. One example is Redirect to Hold, which allows customers to reroute a package to a convenient FedEx retail location for pickup if they know they won't be home to receive it or they want a little extra

security. In FY18, these requests were handled entirely by our call centers. Through intense focus in FY19, half of these requests are now coming through our new digital tools — increasing customer convenience and reducing our costs.

Across Canada, we have plans in place to more rapidly onboard new customers. And to ensure we're delivering the Purple Promise to all of our customers, the entire Canadian sales team will undergo extensive e-commerce training — to include sharing of customer success stories and strategies to help create even more outstanding experiences!

Europe

Through customer and market-driven efforts launched in November 2018, FedEx Express sent a clear message across Europe: We're open for e-commerce business! Armed with completely revamped marketing materials and digital assets, the sales team in Europe closed more than 1,100 new deals from November through the end of June.

And that's only the start. FY20 began with the debut of 2,500 new retail locations in the U.K. through our FedEx Delivery Manager® platform, offering increased convenience to our customers. Combined with our existing alliance with Mondial Relay in France, Spain, Belgium and Luxembourg, customers in Europe now have more than 10,000 pickup locations to choose from — with more to come!

The e-commerce engine will continue to rev up in Europe as we extend our FedEx One Rate® pricing program, which accelerates the capture of new e-commerce business by offering simple and attractive rates to customers in key markets in Europe.



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Latin America and Caribbean (LAC)

In LAC, e-commerce sales are growing more rapidly than worldwide rates and are primarily concentrated in three markets: Brazil, Mexico and Chile. To take advantage of this trend, FedEx has developed a strategy that goes beyond pure transportation to offer end-to-end solutions for online shoppers and merchants.

This strategy is centered on three key capabilities, and LAC is aggressively focused on each to win in e-commerce.

- Cost-effective transportation options that allow our customers to choose from express, deferred or postal delivery, depending on their needs.
- Visibility and control using FedEx Delivery Manager International and notifications to provide convenient delivery options that cater to the daily routines of online shoppers.
- Convenient access points for package drop-off and pickup based on proximity to end consumers. In LAC, retail is an important enabler of e-commerce as an extremely cost-effective last-mile delivery solution. LAC currently has 1,800 FedEx retail locations, which will grow to 3,000 by the end of this calendar year, providing even more convenience to online shoppers for their package pickups and returns.

In addition, LAC is laser-focused on three additional segments to realize e-commerce potential: domestic transportation, fulfillment and cross-border transportation. Domestic shipping offers the largest incremental revenue opportunity for LAC. We are first focusing on Mexico, Brazil and Chile to accelerate this area of the business, with the remaining LAC countries soon to follow. In short, we have a customer-focused e-commerce playbook in front of us and a bright future ahead!

Middle East, Indian Subcontinent and Africa (MEISA)

As the most populous country in the MEISA region, with more than 1.3 billion people, India is our largest consumer market for e-commerce, and its retailers recognize the potential of their consumers to drive growth. With over 2 million e-commerce retail transactions a day in India, getting it right offers huge potential for FedEx.

We're seizing on that potential with solutions to meet customers' evolving needs. For example, with around 60 percent of e-commerce retail transactions paid in cash, we've expanded the Collect on Delivery (C.O.D.) service to 5,000 postal codes across India. And we've grown the FedEx Delivery Manager tool in India from 934 postal codes to more than 3,400 postal codes. These solutions allow recipients to pay how they want and give them greater control over shipment delivery.

Additionally, our customers want access to FedEx® services where they live and work. With more than 850 retail locations today in major cities across India, we will continue to expand our network to the areas where they're in demand.

With the Indian e-commerce logistics market expected to grow from USD \$700 million in 2017 to USD \$1.6 billion in 2020, we're working closely with FedEx Cross Border for international services that meet the needs of customers across this exciting and dynamic e-commerce market.