

COMPANY PROFILE

# FedEx Corporation

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## COMPANY OVERVIEW

FedEx Corporation (FedEx or 'the company') is an integrated transportation services provider engaged in offering overnight courier services, freight services, logistics solutions, and business support services. The company operates through four segments, including FedEx Express, FedEx Ground, FedEx Freight, and FedEx Services. The company is one of the largest express transportation companies, delivering small packages worldwide. FedEx primarily operates in the US where it is headquartered in Memphis, Tennessee.

The company reported revenues of (US Dollars) US\$50,365 million for the fiscal year ended May 2016 (FY2016), an increase of 6.1% over FY2015. In FY2016, the company's operating margin was 6.1%, compared to an operating margin of 3.9% in FY2015. In FY2016, the company recorded a net margin of 3.6%, compared to a net margin of 2.2% in FY2015.

The company reported revenues of US\$14,931.0 million for the second quarter ended November 2016, an increase of 1.8% over the previous quarter.

## KEY FACTS

<b>Head Office</b>	FedEx Corporation 942 South Shady Grove Road Memphis Tennessee Memphis Tennessee USA
<b>Phone</b>	1 901 818 7500
<b>Fax</b>	
<b>Web Address</b>	<a href="http://www.fedex.com">www.fedex.com</a>
<b>Revenue / turnover (USD Mn)</b>	50,365.0
<b>Financial Year End</b>	May
<b>Employees</b>	115,000
<b>New York Stock Exchange Ticker</b>	FDX

## SWOT ANALYSIS

FedEx Corporation (FedEx or 'the company') is an integrated transportation services provider engaged in offering overnight courier services, freight services, logistics solutions, and business support services. The company's strong brand image not only enhances its bargaining power, but also helps strengthen business and revenues growth. However, industry's strong competitive landscape may exert additional pressures on the company's operations and could adversely impact FedEx's performance.

<p><b>Strength</b></p> <p>Strong Brand Image Large Scale of Operations</p>	<p><b>Weakness</b></p> <p>Overdependence on the US Market Unfunded Employee Post-Retirement Benefits</p>
<p><b>Opportunity</b></p> <p>Strategic Business Acquisitions to Enhance Business Performance Network and Service Expansion to Drive Business Growth Positive Outlook for the Global Air Freight Sector</p>	<p><b>Threat</b></p> <p>Increased Security Requirements Result in Substantial Costs Intense Competition in LTL Freight Industry Dispute with Owner-Operators May Impact Cost Structure</p>

### Strength

#### Strong Brand Image

FedEx has a strong brand image. FedEx Express, a subsidiary of the company, is one of the world's largest express transportation companies, offering time-certain delivery to more than 220 countries and territories, connecting markets that comprise more than 90% of the world's gross domestic product. Moreover, the company is amongst the most recognized names in the global express delivery services segment. For instance, according to the annual 'World's Most Admired Companies' report released in 2015, FedEx is among the most admired companies in the world earning No. 12 spot, and the No. 1 spot in the delivery industry. Since 2001, FedEx has been ranked among the top 20 in the FORTUNE World's Most Admired Companies list. Thus, the company's strong brand image not only enhances its bargaining power, but also helps strengthen business and revenues growth.

#### Large Scale of Operations

FedEx is an integrated transportation services provider engaged in offering transportation, e-commerce, and business services. The company operates through four business segments, including FedEx Express, FedEx Ground, FedEx Freight, and FedEx Services. FedEx Express is engaged in packages and freight deliveries throughout the US and to more than 220 countries worldwide. FedEx Express also offers domestic pickup-and-delivery services within certain non-US countries, including the UK, Canada, China, India, Mexico, Brazil, France, Poland, and South Africa. FedEx Express has approximately 60,000

drop-off locations, 643 aircrafts and approximately 57,000 vehicles and trailers in its integrated global network. FedEx Ground serves customers in the North American small-package market, focusing primarily on business and residential delivery of packages. FedEx Ground operates a multiple hub-and-spoke sorting and distribution system consisting of over 575 facilities and 33 ground hubs.

FedEx Freight offers less-than-truckload (LTL) freight services in North America. The segment operates 370 service centers with a ground fleet of 65,000 vehicles and trailers. To provide FedEx Home Delivery service, FedEx Ground leverages its existing pickup operation, and hub and line haul network. FedEx Home Delivery's operations are often co-located with existing FedEx Ground facilities to achieve further cost efficiencies.

In addition, FedEx Office offers access to copying and digital printing through retail and web-based platforms, signs and graphics, professional finishing, computer rentals, and the full range of FedEx day-definite ground shipping and time-definite global express shipping services. Thus, large scale of operations provides economies of scale and enables FedEx to reach out to a wider customer base. It also allows the company to tap various price points in the industry and cater to a broad range of customer requirements.

## **Weakness**

### Overdependence on the US Market

FedEx is highly dependent on the US market for a majority of its revenues. In FY2016, the US, the company's largest geographic market, accounted for 75.6% of the total revenues. The concentration of operations in this area increases the company's exposure to country specific factors such as labor strikes, changes in economic conditions, and increasing competition. Over-dependence on the US could have a dampening impact on the company's revenues if the economy and/or the company's sales in the US do not grow as expected. Overdependence on the US market could amplify geography specific threats, thus negatively impacting its business performance.

### Unfunded Employee Post-Retirement Benefits

The company has significant unfunded pension obligations. FedEx sponsor programs that provide retirement benefits to most of its employees. These programs include defined benefit pension plans, defined contribution plans and postretirement healthcare plans. In FY2016, the company's pension obligations stood at \$29,602 million as compared to planned assets of \$24,271 million, resulting in an unfunded status of \$5,331 million. Similarly, the funded status of FedEx's postretirement healthcare plan was short by \$905 million in FY2016.

Volatility in financial markets (equity and debt) led to decline in pension fund asset values. Going forward, pension fund assets are likely to be impacted to a greater extent than pension fund liabilities, leading to further increase in unfunded pension obligations. Thus, unfunded pension obligations will force FedEx to make regular cash contributions to bridge the gap between pension assets and liabilities, thereby pressurizing the liquidity position of the company.

## **Opportunity**

### **Strategic Business Acquisitions to Enhance Business Performance**

The company has acquired a number of companies in the recent past, which is expected to enhance its financial position and geographic footprint. For instance, in May 2016, FedEx acquired the Netherlands-based TNT Express NV to strengthen the company's portfolio and reshape the global transportation and logistics industry. TNT Express-NV is a provider of mail and courier services and the fourth largest global parcel operator. Also in 2015, the company completed the acquisition of GENCO Distribution System, one of the largest third-party logistics providers in North America. The acquisition would allow FedEx to offer a more comprehensive portfolio of logistics services, complementing the transportation services already provided by the company.

Similarly in 2014, the company acquired Bongo International. Bongo International's capabilities complement and expand FedEx portfolio of offerings to better target the growing global e-commerce marketplace. Furthermore in the same year, FedEx Express acquired Supaswift businesses in South Africa and six other countries, including Botswana, Malawi, Mozambique, Namibia, Swaziland and Zambia. The acquisition boosted the company's geographic footprint in Africa and enhanced its service offering. The acquisition also enabled FedEx Express to offer a complete suite of export, import and domestic solutions across Southern Africa, connecting the region to more than 220 countries and territories worldwide, enhancing customers' business flexibility and speed to market.

Therefore, the company's strategic focus on business acquisitions would bring complementary technologies and support geographic expansion, thus enhancing its financial position.

### **Network and Service Expansion to Drive Business Growth**

FedEx is highly focused on its network expansion to drive growth. For instance, in March 2017, FedEx expanded its FedEx First Overnight service to more than 4,400 zip codes across the US. In February 2017, FedEx Express entered into an extension to the express air transportation contract with the United States Postal Service originally executed in 2013. Also in February 2017, FedEx Supply Chain launched FedEx Fulfillment, an e-commerce solution that helps small and medium-sized businesses fulfill orders from multiple channels including websites and online marketplaces and manage inventory for their retail stores. In October 2016, FedEx Express expanded its distribution hub at Paris-Charles de Gaulle (CDG) Airport. In 2015, FedEx Trade Networks opened its new Atlanta gateway office, which provides expanded service offerings to customers, including freight forwarding, customs brokerage, and distribution solutions.

Thus, strong focus on network expansion and service would enhance coverage area and help the company drive future growth.

### **Positive Outlook for the Global Air Freight Sector**

The outlook of global air freight is positive. According to MarketLine, the global air freight sector is expected to generate total revenues of \$101,273.3 million in 2016, representing a compound annual growth rate (CAGR) of 1% between 2012 and 2016. Furthermore, the sector is expected to grow at a

CAGR of 3% for 2016–21 period to reach a value of \$118,723.9 million in 2021.

FedEx serves the global air freight market by offering overnight courier services, freight services, logistics solutions, and business support services. The company is one of the largest express transportation companies, delivering small packages worldwide. Therefore, the growing global airfreight sector would further lift the demand for the company's services, which in turn would further enhance its market share and revenues.

## **Threat**

### **Increased Security Requirements Result in Substantial Costs**

As a result of concerns about global terrorism and homeland security, governments around the world have adopted or may adopt stricter security requirements that will result in increased operating costs for businesses in the transportation industry. For example, the US Transportation Security Administration continues to require FedEx Express to comply with a Full All-Cargo Aircraft Operator Standard Security Plan, which contains evolving and strict security requirements. These requirements may change periodically as a result of regulatory and legislative requirements and in response to evolving threats. FedEx cannot determine the effect that these new requirements will have on its cost structure or its operating results, and these rules or other future security requirements may increase the company's costs of operations and reduce operating efficiencies.

Hence, regardless of the company's compliance with security requirements or the steps it takes to secure its facilities or fleet, FedEx could be the target of an attack or security breaches could occur, which in turn could adversely influence the company's operations and reputation.

### **Intense Competition in LTL Freight Industry**

FedEx faces intense competition, especially in the LTL freight industry. The transportation and business services markets are both highly competitive and sensitive to price and service, especially in periods of little or no macro-economic growth. The company's major competitors include Deutsche Post, Nippon Express, United Parcel Service, ArcBest, Old Dominion Freight Line, PostNL, United States Postal Service, YRC Worldwide, and XPO Logistics among others. Some of the company's competitors have more financial resources and are controlled or subsidized by foreign governments, which enables them to raise capital more easily. FedEx competes effectively with these companies by providing more reliable services at competitive prices. However, its competitors determine the charges for their services, and weak economic conditions have led to excess capacity and a competitive pricing environment, especially in the LTL freight industry.

An irrational pricing environment can limit the company's ability to increase its prices (including its fuel surcharges in response to rising fuel costs), and also to maintain or grow its market share. Thus, industry's strong competitive landscape may exert additional pressures on the company's operations and could adversely impact FedEx's performance.

### **Dispute with Owner-Operators May Impact Cost Structure**

The company is involved in numerous lawsuits and state tax and other administrative proceedings over the status of the owner-operators, which could impact the company's cost structure. FedEx Ground is highly dependent on owner-operators to conduct its linehaul and pickup-and-delivery operations. The company believes that FedEx Ground's owner-operators are properly classified as independent contractors and that FedEx Ground is not an employer of the drivers of the company's independent contractors. However, the company is involved in numerous lawsuits and state tax and other administrative proceedings that claim that the company's owner-operators or their drivers should be treated as its employees, rather than independent contractors. The company incurs certain costs, including legal fees, in defending the status of FedEx Ground's owner-operators as independent contractors.

Any adverse determinations in these matters could entitle certain of its owner-operators and their drivers to the reimbursement of certain expenses and to the benefit of wage-and-hour laws, resulting in employment and withholding tax and benefit liability for FedEx Ground. This could result in changes to the independent contractor status of FedEx Ground's owner-operators. Additionally, changes to state laws governing the definition of independent contractors could also impact the status of FedEx Ground's owner-operators.

Thus, any adverse change in the status of these owner-operators could result in additional cost on the company, which could impact its profitability in the medium term.



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