

FedEx Ground: Letter of Assurance



Reader's Note: *It is important that you review the accompanying video message prior to reading the letter. Please take a moment to watch the video first.*

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Raj Subramaniam, John Smith, & FedEx Ground Leadership Team,

At the core of the relationship between FedEx Ground and its Contracted Service Providers (CSPs), there must be a win/win dynamic. For significant stretches of FedEx Ground's CSP-based model, that win/win dynamic has not only existed, but thrived. CSPs understand that FedEx Ground's first and highest obligation is to its shareholders: maximize profits, return capital.

Additionally, FedEx Ground has worked hard to construct a balance sheet that withstands substantial economic headwinds and rapid price changes. CSPs, by contrast, do not have the \$60 billion balance sheet that FedEx Ground boasts. As a result, when economic conditions change in 12 months faster than they have in 30 years, CSP's balance sheets simply cannot weather that storm.

CSPs take substantial capital risk when they purchase their delivery territories: working capital to operate the business, the debt and capital requirements for growth, and the leverage on their vehicle assets—all attached to a personal guarantee. CSPs are small business owners (usually with

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10-25 employees) that simply do not have the financial resources to withstand historic price increases in three critical categories: fuel, wages, and trucks.

The purpose of this letter and statement is three-fold:

1. Establish a strong business case to FedEx Ground for an increase in compensation for CSPs via thoroughly documented analysis. This letter and appendix will prove that contractor costs have changed materially as a result of well-publicized global price increases, and those cost changes are worthy of immediate adjustments from FedEx Ground.
2. Establish a clear timeline for network-wide renegotiation. Prior letters of concern have called for open-ended discussions that ultimately made no progress towards a financial resolution.
3. Encourage FedEx Ground to make a courageous re-assessment of the viability of Sunday delivery. Sunday delivery has been both an incredible struggle and a financial disaster for all parties involved.

FedEx Ground, knowingly or unknowingly, has placed the financial viability of CSPs in their Ground network at enormous risk. Written from the desk of one of the largest contractors in the United States, believe me when I write that the situation is far more dire than the general public currently understands. Not a single day passes without my phone ringing with the story of yet another contractor who is financially collapsing under the weight of these dramatic cost changes that have gone unaddressed by FedEx Ground in 2022.

FedEx Ground has a precedent for addressing extraordinary circumstances. As recently as 2020, during the COVID-19 pandemic, FedEx Ground offered a flat, across-the-board 6-month compensation increase for its contractors in order to overcome the extraordinary conditions of that year. The changes experienced over the past 12 months, though, are magnitudes greater than what CSPs experienced in 2020. Yet, there has been no financial adjustment in any capacity.

An anonymous group of FedEx Ground contractors wrote two letters of concern in 2022. More than 1,000 contractors, representing more than 25,000 drivers, collectively signed those letters of concern. However, thousands of other contractors privately expressed unease in adding their signatures to the list, due to fear of retaliation against their contracts. Both of those letters of concern were met with little more than corporate speak: "FedEx is listening, FedEx invites

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conversation.” In reality, those conversations did not result in financial adjustments for the CSPs who desperately needed it.

The previous letters of concern lacked specific financial asks. The letters also lacked clear deadlines for financial adjustments. This letter strives to provide clarity and specificity.

There are two specific requests contained in this letter:

1. For the pickup and delivery network, a \$0.50 per stop pay increase on all Ground and e-commerce stops. This increase will apply on a go-forward basis to all current operating agreements. The rate increase will last for 12 months and will be re-evaluated in 2023 based on market conditions. As a highlight of how desperate the situation has become in the pickup and delivery space, FedEx Ground is issuing record amounts of contingency pay to stabilize the network’s service levels. These contingency resources often make 2-5x the pay of the original CSP.
2. For the linehaul network, a \$0.20 per mile pay increase on all solo and team runs. Spot runs will receive a 10% increase in compensation. As a highlight of how desperate the situation has become in the linehaul space, FedEx Ground is now outsourcing upwards of 30% of their linehaul network to external purchased power rather than utilizing its CSP network. This external (non-CSP) purchased power receives substantial premiums over the rates paid to existing CSPs.

It is understood that these requests will take time to implement. Unfortunately, CSPs simply do not have the balance sheets to weather further delays. CSPs have absorbed immense pressure from the magnitude of these price shocks and do not have much financial runway left. The timeline for these negotiations will remain open until November 25, 2022.

This letter is also written to encourage FedEx Ground to make a bold reassessment of the viability of Sunday deliveries. FedEx Ground historically observed Sundays, as well as major holidays, such as Easter, the Fourth of July, and Thanksgiving, as times of rest for both their staff and CSPs. Now, CSPs are contractually required to deliver each Sunday and on each of those holidays.

The rapid introduction of Sunday deliveries on a nationwide scale created significant operational, technological, and financial strains for both FedEx Ground and its CSPs. By our estimates, Sunday deliveries are costing FedEx Ground upwards of \$500 million in earnings drag. That \$500 million figure is getting worse, not better. Likewise, Sunday deliveries erased more than one-third of CSP’s profit margins in less than one year’s time. In parallel fashion, that margin erosion is worsening, not improving.



Sundays wreak havoc on FedEx Ground's ability to accurately forecast the next day's volume: the technological infrastructure and package volume projection algorithms are woefully inept. FedEx Ground has been unable to solve these forecast errors for two years now. Without accurate forecasts, CSPs struggle to align their costs to match the actual packages that are made available for delivery each day.

The attached Appendix strives to thoroughly document the business case for why FedEx Ground must provide the outlined pay increases. The FedEx Ground network is in a significant state of unreported distress. For those seeking to verify the level of distress in the network, allow this letter to point out some places to start investigating.

The key metrics that reveal the trouble that exists directly below the surface are:

1. Declining service levels across the entire FedEx Ground network due to CSPs walking out on their delivery territories.
2. A close examination into the number of CSPs whose contracts are terminated and/or they walk out on their territories in comparison to historical trends. CSP default rates are soaring.
3. A close examination of the quantity of open, under-, or entirely unserved territories being posted daily on BuildAGroundBiz.com. This website reveals the true level of distress that exists in the network.

To all non-FedEx Ground readers of this letter: do your research and ask the hard questions that reveal the extent of this crisis.

In FedEx's most recent earnings report on June 23, 2022, their numbers showed a stunning 30% expansion of profit margins in the very same quarter that saw CSP profit margins drop to new lows. In fact, FedEx disclosed that it had expanded its profit margins through successful arbitrage of its fuel surcharges, pushed through to customers, versus what was paid to its CSPs. This is one example that demonstrates the dislocation of the win/win dynamic, originally intended for the CSP model.

As of October 1, 2022, FedEx Ground will begin fining a substantial percentage of its CSPs between 1-3% of their annual revenues as a required contribution towards FedEx Ground's insurance policies. This will be another burden upon contractors in a season where CSPs simply cannot handle any added pressure.

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On August 20 and 21 more than half of all CSPs in the United States will gather at the Paris Hotel in Las Vegas for the annual Route Consultant Contractor Expo + Party. At that event, the Route Consultant Purchasing Alliance will be announced, allowing CSPs an avenue for expense savings. CSPs fully understand that they must also participate in this season of belt-tightening. We are diligently working to lower costs, improve efficiency, and put in sweat assets. The financial changes that we need, though, must also include an addition to topline revenue from FedEx Ground.

Additionally at Contractor Expo, the Route Consultant Purchasing Alliance will announce the formation of a 10-person CSP Committee. This committee will be a unified voice to FedEx Ground, empowered with the collective authority to speak on behalf of thousands of CSPs across the United States. The committee's initial focus will be the ongoing negotiations with FedEx Ground for the changes that CSPs urgently need, within the timeframe of November 25, 2022.

In conclusion, both FedEx Corporate and FedEx Ground have new CEOs that are inheriting a tough situation: activist investors joining the board, analysts' frustration with a stagnant stock price, challenges with Capex, and CSPs that desperately need financial help.

As a message directly to John Smith and Raj Subramaniam, please accept my encouragement to use this opportunity to dramatically win over the hearts and minds of your CSPs. We have struggled mightily through this pandemic—working to deliver the Purple Promise as essential workers in spite of incredible challenges. If you will take a bold step to honor our requests for a recovery in compensation, you will cement a loyalty within your service-minded CSP base that will propel FedEx Ground's growth for many years to come. If, instead, you decide to make our burden heavier via not only a rejection of our revenue requests, but with the addition of a brand new 1-3% revenue penalty on your struggling CSPs, you will bring this entirely CSP-led network to its very knees.

Please review the attached Appendix in support of the price adjustments.

Respectfully submitted,

Spencer Patton, Contracted Service Provider Since 2013

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