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**Promoting a World of Possibilities: Trends and Issues in the Global  
Marketplace**

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*Welcome and acknowledgements*

On a typical business day in the United States,

- Some 50,000 ocean containers arrive daily in American ports.
- Another 25,000 truckloads a day pour in from Canada and Mexico.
- At U.S. airports, another 70 million pounds of freight arrive in both passenger and all-cargo planes each day.
- Similar scenarios, with different statistics, occur daily in Europe, Asia, Latin American and the Middle East—creating a worldwide trading system of about 14.7 trillion dollars a year.

This is an exciting time to be in the world of business because business is changing the world. And because our world is changing quickly and unequivocally, the global marketplace is full of opportunities.

- We, in response, must be prepared to act on those opportunities. By understanding the forces influence the flow of planes, trucks and ships around the world and driving our global economy.
- These forces can be summarized into four macro-economic trends that affect everyone from car manufacturers in Tokyo to high-fashion garment-makers in New York.

The first trend is the increase in high-tech and high-value-added goods as a percentage of total economic output.

- These types of goods can be defined as any product with a relatively high value-to-weight ratio or a high value-added content.
- Examples range from artificial discs for spinal surgery to iPods to automatic car door openers—anything with a low weight and high price.
- As Alan Greenspan has noted, the weight of the United States' economic output has barely changed in the past half-century while its value has increased fivefold.
- Now much of this valuable cargo is delivered by air, certainly good news to our FedEx Express operating company. If you subtract deliveries within North America and Europe, 42 percent of the value of goods moved among international markets is carried by air. This is only one percent of the same market, if measured by weight.

What does this high-tech/high-value trend mean for business leaders? I believe it calls for us to constantly raise the innovation bar.

- People like new things. So innovation means new and better products for consumers.
- But innovation also adds value to companies. It can reduce their costs and increase their corporate value. In fact, innovation is one of the most important criteria investors look for in a company.
- It's by thinking innovatively about our business processes that we can add value to the technology of our products and services.

The second macro-trend is globalization, the integration of many micro-economies into one worldwide, interdependent economy.

- For many of us, globalization ironically starts pretty close to home. A friend commented recently that his daughter was wearing a global outfit. Her jeans were made in Taiwan, her blouse in India, her jacket in the Philippines and her shoes in Argentina. Her purse, though, was made in the good old USA.
- Since no single country has cornered the market on innovation, great new products are produced all over the world. And since companies can have the ability to source and sell globally, they have begun to streamline their supply chains and open new markets in places with names we're not sure how to pronounce.
- In 2006, the ratio of global exports accounted for about 30 percent of global GDP, up from 17 percent in 1980.
- And the volume of international trade grows about six to seven percent a year, about double the growth rate in real GDP.

This vaulting growth of international trade is great for businesses around the world, but it also means they must deal with governments, cultures and values very different from their own.

- For example, since FedEx operates in some 220 countries and territories, we must regularly deal with settings of political unrest.
- It also means we deal with a myriad of cultures, so when we begin service in a country we very quickly try to appoint managers from

within the culture to remain sensitive to an area's inherent values and practices.

- In essence, globalization means that business leaders must be good listeners, remain open-minded, and become good citizens of the local community.
- It means they have to be prepared to cross borders, time zones and language barriers with patience, flexibility and perseverance.

As the economy has become increasingly global, it also has become more fast-paced. People all over the world need things fast.

- Doctors need medical devices quickly to save more lives. Florists need tropical flowers from Central America in time for weddings. Toy manufacturers need to get their goods into stores for Christmas.
- Companies cannot wait weeks to source components and finished goods from around the world, especially in technology industries with high obsolescence rates.
- Several years ago, Ohio State University estimated that about 40 percent of U.S. economic activity was conducted on a fast-cycle basis. I imagine it's much higher than that now.
- Naturally, the air cargo/air express industry, pioneered by FedEx, has become the leading facilitator of fast-cycle logistics.
- Over the past 30 years, the value of world trade has grown 355 percent while the value of air cargo has climbed a remarkable 1,395 percent.

- And the value of U.S. exports by air has grown tremendously—from \$181 billion in 1995 to \$1.4 trillion in 2006, according to the U.S. Bureau of Transportation Statistics.
- Colography has reported that for every \$1 spent on express transportation, companies can expect to save \$1.50 in inventory and warehousing costs.
- So companies of all sizes depend on the delivery of just-in-time inventory to help them compete faster and more efficiently.

What are the repercussions of fast-cycle logistics for business?

- Obviously, we must produce and move goods faster through a more sophisticated supply chain management. This will not only satisfy the customer, but it will also save companies the cost of warehousing inventory.
- Just as important, due to the speed of change, businesses must quicken the flow of real-time information.
- At FedEx we've always believed that information about the shipment was just as important as the shipment itself. Speed up the information people need to make sound business decisions, and you've turned the fast-cycle logistics to your advantage.

The fourth trend—the growth of the Internet and e-commerce—adds fuel to the other three.

- E-commerce is a major facilitator of our economy and remains a vital growth engine for businesses today. It makes low-cost standardized information exchange available to anyone with a PC, regardless of time or space. With a few clicks of your

mouse, you can order parts for your Mack truck or a cashmere blanket for your baby.

- Forrester Research places 2006 e-commerce B2C sales at almost \$109 billion, a 23.5-percent increase over 2005. Forrester also predicts that online sales this holiday season will increase 20 percent over last year's.
- As people who grew up with the Internet begin to get married and attend weddings, look for more jewelry, small-appliance, and furniture sales to migrate online.
- The *business-to-business* sector is even more impressive. International Data Corporation estimated that US-based B2B e-commerce transactions will surpass \$650 billion by next year.
- E-commerce will be key to fostering economic growth for countries around the world, as it gives small and mid-sized companies the same market muscle as many larger companies.

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The four mega-trends—the increase in high-value goods, globalization, fast-cycle logistics and e-commerce—have set the rhythm of modern commerce. These trends have driven economic growth in the recent past and will continue to do so in the foreseeable future.

However, there's a bear of an issue growling in the world marketplace. It threatens to slow the staccato beat of world commerce to a dirge. I'm talking about our dependence on oil.

- Rising oil consumption, reduced production capacity, instability in key oil-exporting countries, and the threat of terrorism all increase the possibility of an energy crisis.
- While we can't control the policies of other nations regarding oil, we can help influence policy in this country and abroad.

Last year, I served as co-chair, with former Marine Commandant General P.X. Kelly, on the Energy Security Leadership Council (ESLC), originated by an organization called SAFE or Securing America's Future Energy.

- This group of business CEOs and retired four-star military leaders outlined a comprehensive plan to secure our energy supplies and reduce our oil dependence.
- The business leaders involved were Mike Eskew of UPS, Herb Kelleher of Southwest Airlines, and commanders who have spent years dealing with protection of the world's oil trade lanes.
- Most of the discussion you hear today about energy relates to oil prices and carbon emissions, and is conducted among environmentalists, lobbyists and politicians. But SAFE views our oil dependency as a vulnerability to both America's economic and military security and therefore is a vital subject for the entire nation.

Let me share some sobering facts with you.

- Here in the U.S, 40 percent of all energy we consume is oil, and 97 percent of transportation is powered by oil.
- On a broader scale, the U.S. consumes 25 percent of the world's oil, but holds only three percent of global oil reserves. In fact, 90 percent of the world's gas and oil reserves are either partially or fully

controlled by governments, several of them with strong anti-U.S. sentiment. Unfortunately, foreign oil is 60 percent of our daily supply. That's up from 30 percent in the 1970s.

- Nations will increasingly depend on Middle East oil to meet future needs. Already, the demand for oil in China and India is projected to grow 147 percent from 2003 to 2030.
- So any rupture in oil supply, be it from terrorism, natural disaster or other events, could produce havoc not only in America but internationally as well.

To help leaders think about the results of an oil disruption, SAFE and the National Commission on Energy Policy last month conducted in Washington D.C. a simulation they call Oil Shockwave. This simulation was a follow-up to one conducted almost two years ago.

- It was a half-day exercise in which nine top former government officials were given a set of compelling geopolitical events. These Washington insiders assumed the identity of Cabinet members advising the president over several months on how to respond to events affecting oil supply.
- Situations were presented through pre-produced newscasts, and participants had to respond in real time to each new situation. This particular simulation included saboteur attacks on a major pipeline in the East and losses of one million barrels of oil a day.
- People like Robert Rubin, former Secretary of the Treasury, Carol Browner, former head of the EPA, and Richard Armitage, former Deputy Secretary of State, took part.

- They quickly concluded that the U.S. government had few options to prevent an economic crash here or worldwide in the event of escalating events.
- As John Mintz of the Washington Post said about the exercise, “the tolerances are so tight between supply and demand that even small disruptions in the delivery of oil and natural gas can cause cascades of unpleasant developments.”
- Secretary of Defense Robert M. Gates, who participated in the first simulation noted, "The American people are going to pay a terrible price for not having had an energy strategy."

But we of the ESLC organization have developed recommendations for a national energy policy, and we have presented those ideas in Washington. We think these strategies, which address energy security, carbon emissions and our economy simultaneously, will go a long way toward helping the U.S. loosen the grip of oil on our country and our commerce. I'd like to share the four recommendations of our plan with you tonight.

The first recommendation is to reduce oil consumption. Trucks and planes alone consume more than 70 billion gallons of fuel a year, so the opportunity for savings and environmental benefit are enormous.

- One way to wean ourselves off fuel is to strengthen fuel-efficiency standards for passenger vehicles and light-duty trucks. And once the bar is raised on those, we recommended targeting a four-percent annual increase in fuel efficiency for such vehicles.
- We should also set fuel-efficiency standards for larger commercial vehicles; right now, none exist for them. This would help drive

innovation and improvement much more rapidly than market forces alone can.

- Another part of this recommendation is to fund financial incentives for the production and purchase of fuel-efficient vehicles. Get rid of the 60,000 vehicle-per-manufacturer cap on tax incentives for the purchase of fuel-efficient vehicles. Link the tax credit to miles-per-gallon car performance.
- The more we boost efficiencies for businesses and consumers, the less oil we will consume and the more money we all save.

The second recommendation is to provide oil alternatives by growing the supply and demand sides of the biofuels market.

- Let's ensure that tax credits continue for America's family-owned gas stations to install ethanol fuel pumps and build the related infrastructure.
- Also, let's require a 10-percent annual increase in the production of flexible-fuel vehicles so that all major production models are compatible with ethanol blends by 2015.
- The council also recommends establishing a competitive program using grants, tax credits, direct loans and loan guarantees to assist more bio-refineries in various regions of the country.

The third leg of our program is to expand supply.

- That translates into increasing access to our conventional oil and natural gas reserves, particularly in Alaska and on the Outer Continental Shelf, with sharply expanded environmental protections.

- We also advocate the development and wider-spread use of enhanced oil-recovery techniques, which could add one billion more barrels to the U.S. supply from the Permian Basin region of Texas and New Mexico alone.

The fourth and final recommendation is to better manage risks, in light of military threats to the global infrastructure.

- The United States should encourage burden-sharing with its allies and partners in defense of global oil flows.
- Let's provide diplomatic support and counter-terrorism training and military aid so that oil-producing nations can better help protect petroleum supplies.
- And let's help producing countries in their efforts to develop attractive investment climates, backed by stable societies.
- Finally, the council advocates changing old legislation to allow China and India to join the International Energy Agency and participate in the updated global petroleum reserve arrangements, given the growing demands on their economies.

Converting these recommendations into national policy, I believe, can dramatically reduce our dependence on fossil fuel and continue to accelerate the already fast-paced flow of goods and services around the world. And as history proves, that flow of global trade creates an interdependent world economy that's beneficial to the countries that participate in it. In short, the globalization of the economy creates the potential for greater wealth for more citizens of the world.

- For example, Taiwan in the late 60s and early 70s languished economically well behind Europe and America. But Taiwan began to develop a business-friendly political leadership and operating environment. In the last three decades Taiwan has increased its GDP 16 times as compared to the U.S.'s three times, and brought higher living standards to its citizens.

In conclusion, it is up to us to re-write the rules of the marketplace to help keep goods, services and ideas flowing across borders. It is up to us to safeguard our energy future. And it is up to us to focus responsibly on win-win solutions for our companies, our countries and our world.