

Federal Express Has \$1.2 Billion Plan To Expand Its Electronic Mail Service

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MEMPHIS, Tenn. — Federal Express Corp. quietly is laying big plans for its new ZapMail electronic document-transmission service, plans that include space satellites and outlays of \$1.2 billion in the next 10 years.

The service, which guarantees two-hour, coast-to-coast delivery of copies at \$35 for up to five pages, began operating nationally four weeks ago at a start-up cost of about \$100 million. So far, the service has been promoted in only a dozen major markets, but 40 more markets are to be added this week and many more later.

The company declines to say how the first month went or how much revenue it expects for the first year, although one securities analyst projects first-year revenue of \$35 million. From the beginning, Federal Express has been secretive about many aspects of the project, once code-named Gemini.

In a filing with the Federal Communications Commission, however, Federal Express says that it could invest \$1.2 billion in ZapMail over the next 10 years. According to the filing, the company expects annual revenue of \$1.33 billion from the service by 1988 and \$3.53 billion by 1995.

The company says in the filing that it is seeking proposals from several spacecraft makers for three communications satellites. The overnight-delivery company plans to launch two of the satellites in the first quarter of 1988 and will keep the third satellite as a spare.

The filing also cites plans to build four large earth stations, or teleports, and to install as many as 50,000 transmitter terminals in customers' offices. The company is seeking to control service quality and cost by minimizing dependence on outside vendors such as suppliers of long-distance telephone lines.

Currently, ZapMail customers call to have a courier pick up the document and take it to a Federal Express office. Federal Express sends copies of the document via a high-speed (as fast as five seconds per page) computer-enhanced facsimile transmitter made by Nippon Electric Co. to an identical machine at a Federal Express office in the destination city. A courier then delivers it to the addressee's office. The service costs \$35 for up to five pages, plus \$1 for each additional page. Customers can save \$10 and one hour by taking the document to the Federal Ex-

press transmission office.

Federal Express plans to place transmitters in customer's offices beginning on a small scale this fall and increasing rapidly early next year; several thousand transmitters are expected to be in place by the end of 1985. The equipment will be leased and operated by the customers and serviced by Federal Express. As these installations become widespread, they will eliminate much of the initial operation's biggest expense, courier pickup and delivery.

Meanwhile, analysts say, ZapMail start-up costs will depress Federal Express earnings for a couple of quarters.

David M. Guthrie of Morgan, Keegan & Co. expects that Federal Express earnings for the first quarter, ending Aug. 31, will be 30% to 35% below the year-earlier net income of \$28.2 million, or 63 cents a share. But Mr. Guthrie thinks a strong second half will boost net for all of fiscal 1985, ending May 31, to \$2.90 a share from \$2.52 a share for fiscal 1984, when net totaled \$115.4 million on revenue of \$1.44 billion.

James D. Parker of Robinson Humphrey/American Express Inc. sees earnings for the first half, ending Nov. 30, retreating to less than \$1 a share from \$1.31 a share a year earlier. But, he predicts that ZapMail will break even in the fourth quarter and that fiscal 1985 net will increase 12% to \$129.2 million, or \$2.75 a share, on revenue of \$1.79 billion.

Analysts predict a big future for ZapMail because it will be cheaper than using customer-owned facsimile machines—about \$1 a page compared with \$1.50 to \$3—and because Federal Express has unmatched market recognition and coverage. "The closest competitor," Mr. Parker says, would require a combination on the order of "Xerox and GTE and Purolator Courier," and there isn't a combination like that in sight.

What is in sight at this early stage is Federal Express's obvious determination to set things right when the new service goes wrong. Take the two-hour delivery guarantee. A recent delivery from Knoxville, Tenn., to Atlanta arrived one hour late. Before the customer had a chance to lodge a complaint, a Federal Express "Zap exceptions control agent" called the customer and promised that "an adjustment will be made." How much of an adjustment? "A 100% credit on your account," the agent replied. "If you get a bill, don't pay it."