

# Game Changing Insights **LEAD TO INNOVATION**

## **A FedEx Case Study**

### **Executive Summary**

In an effort to unite operational silos and manage IT spend across business units, FedEx used cost transparency and application & infrastructure analysis to unveil key drivers behind their multimillion-dollar IT spend. This fueled a shift to fact—versus assumption—based decision-making that enabled redistribution of existing run-the-business spending to change-the business initiatives. Examples include decommissioning tens-of-thousands of servers and all associated costs to yield large savings in the infrastructure budget and a transition from decades-old legacy applications to solutions that support cloud, e-commerce, and new ways to work with customers.

### **FedEx Corporate Overview**

FedEx is the world's largest express transportation company, providing delivery to more than 220 countries and territories. FedEx uses a global air-and-ground network for time-sensitive shipments. They also provide definite time and date stamps, with a money-back guarantee.



Industry // **Shipping –  
Logistics/Transportation**

Headquarters // **Memphis, TN**

Revenue // **\$50B+**

Employees // **168,000**

## TBM Solutions

- Apptio Cost Transparency

## Benefits

- Leveraged visibility into application spend to rationalize costs/consumption
- Justified transition to virtualization and cloud
- Shifted run-the-business spending to fund new projects

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— Kevin Humphries, SVP of IT

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Like any global enterprise, FedEx's IT organization is vast and its technology spend enormous. To keep track of that far-flung network of operational siloes, FedEx Services was created in 2001 to unify IT management across its myriad business units and operating companies.

This was the first step on its ongoing journey to rationalize infrastructure and applications that were dramatically expanded, diversified, and, as one would expect, fragmented through multiple acquisitions that included Kinkos (now FedEx Office), airlines, and logistics and delivery companies to name just a few. But what continually eluded decision makers on both sides of the ledger was gaining visibility into how IT's budget translated into better business outcomes.

FedEx Services already had good transparency into operational spending by tower – compute, networking, storage, etc. And, when pressed, the group could put together ad hoc reports on how that spend was translating into business performance. But in order to meet the growing demands for greater business agility (without sending spend into the stratosphere), IT needed to track how spending related to business outcomes continuously so it could do more than generate a few snapshots of its performance from time to time. Only then could the business and IT come together to have meaningful conversations about strategy, value, and cost versus quality.

"We were always talking to our business partners about the cost of IT," said CFO Mark McGough. "Our costs were really a black-box to them. We couldn't say 'It's your servers. It's your applications. It's the way you do your network.' We couldn't point at anything specifically and tell them 'It's the decisions you're making that are driving your technology costs.' "

"So, Kevin Humphries, our SVP of IT, and I got our teams together to better understand and have visibility into our cost so, one, we can manage them better but, two, we can also have good conversations around what drives each operational company's cost. That started our TBM journey."

## Driving out costs to drive innovation

One of the less obvious yet major upsides of cost transparency is the redistribution of existing run-the-business spending. Yes, run-rate cost-reduction and IT rationalization are usually catalysts for adopting TBM but instead of simply applying those savings to the bottom line, savvy CFOs and CIOs reinvest that money back into IT. Specifically, they use it to fund the never-ending requests by the business for new projects.

"We've changed the conversation from run-the-business to change-the-business," said Humphries. "We've created an understanding of how much it takes to run the business. There wasn't visibility to that before. There wasn't an understanding of the long tail of running each and every one of our applications."

Humphries continued, "Now, everybody is very cognizant of the ongoing operational cost of run versus change, and we're tilting that wheel to apply more of our resources to change, less of our resources to run, and the thousands of decisions that are required to make that happen successfully. Without the details TBM provides, you cannot make those decisions accurately."

"I think the important thing to realize here is that we're not arguing about 'Are the numbers right?' anymore," added McGough. "Instead, we're debating the right strategy to go forward. The conversations are about 'What if I do this? What will it do to my cost structure?' And we're not arguing about the answer anymore because the answer comes from our TBM system."

## Changing the conversation

In any relationship, finding the answer to contentious issues often starts by changing the conversation. In the case of the business-IT relationship, that same-old conversation usually revolved around cost. Specifically, how much IT spends versus its value to the organization.

But, because TBM applications use unit costs to parse IT's spending down to a granular level, everyone can see the all-in costs of supplying technology to the business. They can finally see actual cause and effect. Once business leaders have this information, once they finally know exactly how their own consumption of IT's resources drives IT's costs, it immediately and dramatically changes the conversation.

"For decades, the business units had invested in their own cost-accounting systems to manage big segments of their business—the airline, trucking operations, our sort operations, our field operations, customer service, etc. They had detailed cost and they were just waiting for IT to catch up and be able to talk with them in the same language," said Humphries.

"Because now we understand our cost, and where our opportunities to change are," Humphries continued, "we're able to move at the speed that our business partners want us to move, creating value for our customers when and where they want it. And being able to move the company away from decades of applications that were built in a different era to a modern era that is supporting e-commerce and the ways that customers are working with us, new ways, that's what the business demands. That's what our customers demand."

"The only way to do that is to transform those assets into something that are new. Make them cloud-enabled. Make them flexible, fast to change. And make them live where our customers live. And so we've been able to accomplish that using TBM as the underlying formula for success."

## Moving to the cloud

Embracing a cloud-first mindset is one of the "formula-for-success" strategies enabled by TBM. Without the facts surrounding run- versus change-spending, McGough and Humphries would still be stuck having conversations about how to reduce operational costs instead of working together to drive the business forward.

"So, a good example of that was when we made the initial turn toward virtualization in support of the new global data center that we were building in Colorado Springs," said Humphries. "By applying a TBM solution, we were able to take tens-of-thousands of servers out of our run-rate along with all the associated costs. And it yielded unbelievable savings back to the company." Four hundred basis points, or four percent of the IT infrastructure budget, to be exact—no small sum for a company that spends hundreds of millions of dollars on infrastructure every year.

McGough and Humphries also use TBM insights to explain how they are approaching cloud to their business partners, who often cite media reports touting the cost-saving benefits of putting all their infrastructure and applications into a public cloud environment and then ask why it's not being done at FedEx, as well.

For smaller companies, public cloud is often the best solution to solving complex technical challenges. But, for a company like FedEx, where 95 percent of its business applications are provided as shared services, private cloud yields the same business benefits as public cloud – agility, flexibility, speed to market, etc.—but retains the control, ROI, and TCO benefits of owned infrastructure. That is why Humphries poured so many resources into virtualizing the Colorado Springs data center.

"We've got to be very, very smart about this," said Humphries. "Because all of a sudden, cloud can become unaffordable when you add it all up. If we're running say, 22 SaaS versions of software, in 11 different public cloud providers, in 44 locations around the world, the charges for that can become a nightmare."

Humphries continued, "So, for example, we've made the Salesforce decision. As we look to embed those dynamic cloud capacities into the front line of our business, we've got to be very smart, very educated about how we do that. It requires tremendous insight into what you have, what you need, what you use, what you don't, when you use it, when you don't and we have this tremendous running start because of TBM."



## Managing the “onslaught of ecommerce”

Ecommerce started in the 1990s as a trickle. It is now a flood and will soon be a tsunami. Businesses worldwide are transforming their operations to take advantage of the global marketplace that ecommerce represents. As a world leader in moving goods from one place to another, FedEx is uniquely positioned to benefit from a marketplace no longer constrained by geography—but only if it too can transform its own operations to keep pace with an ever-accelerating rate of change.

“FedEx’s top priority is to make sure that we have all the solutions our customers need to get their products moved around the world, when they need it at the right affordable price, and so that’s what we’re focused on, making sure that we have the right solutions for customers: moving freight, moving packages from any place on Earth to any place on Earth,” said Humphries.

“And as far as IT goes, our priorities are supporting that vital customer mission and making sure that we have the technologies in place to support our operation and our customer’s needs anywhere in the world to make sure they get their packages when they need it, where they need it, on time.”

TBM has become essential to this core mission. Without the transparency that a TBM solution provides, making informed decisions on where to apply IT’s resources for the greatest business benefit would be far more costly and time consuming.

“So we’re making the transformation to the cloud,” said Humphries. “We’re making that transformation to support our ecommerce initiatives all over the world. And the information that’s needed to support ecommerce is needed in real-time fast.”

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### Become a Member

Founded in 2012 the Technology Business Management (TBM) Council is a nonprofit organization governed by an independent board of business technology leaders from a diverse group of the world’s most innovative companies like AIG, Aon, Cisco Systems, DuPont, ExxonMobil, First American, Microsoft, Nike, and more. The Council is focused on developing a definitive framework for managing the business of IT by establishing standards and providing ongoing collaboration and education opportunities.

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