



Presents
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**Focus on Michael Hmel,
CIO for FedEx Ground
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Biography of Michael Hmel

Michael V. Hmel is Senior Vice President, Information Systems and Chief Information Officer for FedEx Ground, Inc. He was most recently Vice President of Information Technology for the small-package carrier.

As Senior Vice President and CIO, Mr. Hmel is responsible for coordinating all information technology services for FedEx Ground, FedEx Home Delivery, FedEx Supply Chain Services and FedEx SmartPost in the U.S. and Canada. The majority of his staff is devoted to development, maintenance, and support of field, financial, and transportation systems. A team of 400 professionals and 50 external consultants perform new application development, maintenance of legacy systems, software quality assurance, information engineering, and PC/LAN services.

In April of 2006, Michael Milutis, Executive Director of The IT Metrics and Productivity Institute (ITMPI), interviewed Michael Hmel regarding the status of a software managed maintenance program that FedEx Ground embarked upon with Computer Aid (CAI) in 1996.

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ITMPI: Could you give us a little bit of background about yourself and about FedEx Ground?

HMEL: FedEx Ground is one of four major operating companies within the FedEx Corporation. We are a 5 billion dollar company. The FedEx Corporation itself is a 31 billion dollar company. FedEx Ground is one of the largest operating companies within FedEx, and certainly the most profitable.

When we speak about IT at FedEx Ground, we're really talking about four different operating pieces. I have IT for Ground, for Home Delivery, for Supply Chain Services,

and for Smart Post. That's a very large organization of 400 IT professionals who are focused on application development and maintenance for all four of those companies. We purchase our infrastructure support from FedEx Services, which is centralized and handles common services for all of the operating companies.

I've been here for almost 12 years. I came in as a Director and advanced to Vice President. It was at that time that we started looking at managed maintenance. Shortly thereafter, I was promoted to officer and Senior Vice President, where I've been for the past six or seven years.

ITMPI: When you came into your current position, what were the major challenges facing your organization?

HMEL: When I first talked to CAI about managed maintenance, we had a very poor environment here for new development. We were stuck on some old platforms. We had a VAX platform and an AS/400 that we were still doing a lot of RPG on. And we couldn't do new development quickly enough to be responsive to the business. It was obvious that something needed to be done.

We knew we had to get to some new platforms. Consequently, we embarked upon a major initiative called the open system transformation.

That was when we first talked to CAI about managed maintenance. We realized immediately that this was something that could help move us forward. Managed software maintenance was a new concept for us, but we liked what we heard. Looking back, when you see where we are today compared to when we started, it's easy to see that it was a great decision.

ITMPI: What would you say some of the critical success factors were in this relationship?

HMEL: When we started this arrangement with CAI, we set out to move more of our own people into new development, into the new open platforms. We needed to give

them the opportunity to learn the new technologies and to concentrate on new development. Having CAI come in and handle the maintenance of many of our legacy systems really allowed us to move forward with our strategy and vision.

So we started out very small, with 5 to 8 people and a handful of systems. And we found CAI to be very flexible in delivering on the things they said they could in the managed maintenance arena. They kept the group staffed; we didn't have to worry about turnover or open spots. They brought additional value to us through their methodologies. They shared with us the things they had learned from years of being in the business. And they developed a very comfortable relationship and partnership early on. As a result, the relationship grew – over 8 or 9 years – to the point where we had 35-40 CAI people.

ITMPI: Could you give us some specifics about some of the methodologies and processes that CAI brought with them into your organization and how this made a difference?

HMEL: What CAI brought with them that no one else did — none of the other big players in this space — was a good set of measurements and processes. This really helped them prove that what they were doing was cost-effective and of good quality.

One example would be the measurements they conducted on the number of help tickets. A metric like this clearly demonstrates that by fixing problems at their root, tickets don't come back. And this drives down the number of help tickets. CAI was also able to prove that as people learned systems, they became more and more productive. As a result, where it once took five people to maintain a certain group of systems, over time CAI could drive that down to four, or three, or two. That was very valuable.

And the systems I am talking about were by no means trivial. We gave CAI a lot of the systems that support our field organization, that help run the entire FedEx Ground system. And although we started with a handful of 10 or 12 systems, this increased to about 40 systems over time. Throughout all of this, we were able to gain visibility - via reports and measurements – into exactly what CAI was doing. And it was exactly what they told us they could do.

ITMPI: How did executive management respond to the metrics that CAI was providing?

HMEL: Because of the measurements and the detailed reports, I was always able to go to the CEO and the CFO and the IT Steering Committee and state that the arrangement was working and that it was exactly what we wanted. Eventually, I didn't even have to produce the reports. I would just use them within my own IT group. Once we proved that we were managing things properly, executive management stopped questioning us.

ITMPI: Did you have any kind of pre-existing metrics in place before you started working with CAI? Had you been gathering any metrics at all on your maintenance processes?

HMEL: Honestly, there wasn't much. We measured things like turnover, and how many hours people were working. But we were not able to measure how efficient we were or whether or not we were putting time into the right things. Eventually, we were able to come up with a very good set of four key measurements that we now use to track IT on a monthly basis. These metrics are metrics that everybody here believes in and trusts.

ITMPI: Could you elaborate in more detail on these four key metrics?

HMEL: The first key metric is IT as a percent of revenue.

The second is turnover. When we first got into this arrangement with CAI, our turnover was at 15-20%. We're currently running at less than 2%.

The third metric is what we call high-value ratio. The high-value ratio is a measure of efficiency. It measures the degree to which we are able to put time into projects that represent high value for our customers. Everybody's time is tracked and then we calculate what percentage of their time is going into high-value efforts such as new development or system enhancements (as opposed to help tickets, administration,

training or sick time). Each year we set goals for the high-value ratio. Right now it is running at around 77%.

The fourth key metric is our milestone hit rate. On every project we project out our milestones every two months, and then we measure whether or not we were able to hit those milestones. We do this every time a project is laid out, with no exceptions. So if a project is going to take a year, we identify the five, six, seven, eight, nine, or ten milestones. They can be user related or IT related. And when we measure ourselves, we document how many we hit and how many we missed. There are no adjustments, no excuses. If you don't hit a milestone, it counts against you. If you do hit one, you get credit for it. Right now our milestone hit rate is around 80%.

When you roll all of these metrics together, you have a way to evaluate your efficiency, your effectiveness, your cost, and your quality. This has been very effective for us.

ITMPI: How do tools play a part in pulling all of this together?

HMEL: There are naturally some tools involved, but nothing very complex or expensive. We use a program for time accumulation and time reporting that was written in-house. For the other metrics, it's very simple. We simply take information from the company, and put it into Excel spreadsheets and have a number pop out (e.g., turnover, IT as a percent of revenue, etc.) These are very easy numbers to produce.

The FedEx Corporation itself is looking into buying some tools. They have over 4,000 IT people in all, so there is probably a need for a more sophisticated tool set there. But for FedEx Ground, we don't have that issue.

ITMPI: From a human perspective, nobody likes to be measured; and certainly it all comes down to that — people being measured. How did you deal with this challenge at FedEx Ground?

HMEL: As far as time reporting goes, managers and their superiors do not report their

time. But all individual contributors do. However, we have been tracking individual time since the company started in 1984. So this has not been an issue at all.

We never police people and look at them and say, "You didn't put in your 40 hours this week." That's not the way we work. We simply make sure that people are putting in their time on the correct activities. That's worked really well for us. I get no push-back at all.

ITMPI: What advice do you have for organizations that want to accomplish what you have managed to accomplish at FedEx Ground?

HMEL: The most important thing is to stick to a very simple set of metrics. In my opinion, the biggest mistake made is when people try to measure too many things. They end up performing all kinds of elaborate calculations and then they get all tangled up in this. At FedEx Ground we were able to reduce things to a very small set of four metrics and this has been absolutely key for us. We also publish these metrics every month and our CEO provides commentary on them.

This is actually what we are in the process of doing for the whole FedEx Corporation right now. FedEx has a huge IT group, and as we started measuring across that group, we had about 30 different metrics. "This is way too many," I said. "You've got to get the number of metrics down to ten. And once you are successful with that, we'll try to get it down to even less."

ITMPI: At FedEx Ground, who did you work with to identify that very small, highly focused set of metrics?

HMEL: The IT Steering Committee. They are the group here at FedEx Ground in charge of governing the IT resources and coordinating what IT works on. The IT Steering Committee was the key group. After that, I sat down with my direct reports — my Directors and Vice Presidents — and we honed the list down even further, over many months. What we got in the end was pretty good stuff, because to this day I can still get in front of my whole IT group at a town hall meeting, review those four key

metrics, and everybody understands exactly what I am talking about. They know whether we are doing good or bad.

And CAI was able to adapt to these metrics requirements. CAI essentially worked together with us to customize this program. We didn't work together on the metrics *per se*, but the metrics that CAI brought to the table fed nicely into the ones that we were reporting on.

ITMPI: Could you tell us about the metrics that CAI fed into these reports?

HMEL: CAI had a very precise analysis of time, especially as it pertained to maintenance. And on new development, they were able to show us who was putting in time, what they were putting their time against, and how people were improving. That certainly fed into our metrics, especially the high-value ratio.

ITMPI: Would you be able to quantify the overall net benefits of having a metrics program in place in your organization?

HMEL: This is difficult to quantify. Nevertheless, I will say this: after you build credibility with executive management, and after you get IT aligned with the business, if you go in and tell them that you need X amount of funding to get something done — you will get it.

Our success can be measured in the sense that, year after year, executive management does not cut the IT budget. They give us what we need to continue supporting and growing the business. And in years when the rest of the company gets a 5% increase, IT will get 10%. That's our best measurement of success. They're not trying to manage our costs anymore. In effect, they're saying, "We know you're managing the IT group well; consequently, the more we give you, the more you are going to get done." I think that's been the real benefit to FedEx Ground: IT has been transformed into a strong group that can run with the business, and stay ahead of them.

ITMPI: Do you see a need to expand your metrics program?

HMEL: We are pretty pleased with how it works right now. But things are changing so rapidly. The world is flatter. Everything is wireless. There is trouble with security. We are always keeping our eyes open.

I'm always looking for that fifth metric. Sooner or later, there's going to be a number 5 or a number 6 that we'll have to start measuring. We've not seen it yet, but I've got to believe that down the road there will be one or two more.

ITMPI: Were there any cultural challenges that came about when you first started partnering with CAI?

HMEL: What I would like to emphasize about CAI is that they were never just providing us a service. They were genuinely involved in understanding our business.

They are in here with us side-by-side. The CAI group actually sits here in this building, right next to my people. We don't even treat them like they're an outside services group. We've integrated them so tightly, you can't even tell anymore who is from CAI and who is from FedEx Ground. We all celebrate together. We all do things together.

We've also made this completely transparent to our internal customers. Nobody knows who is from CAI and who is from FedEx because of the way they sit here with us and because of the way that they understand the business. We try to do that with all our major business partners — IBM, HP, Oracle. We meet with them regularly, we share information openly, and we resolve our issues right up on the table. That's been another major reason for our success.

Questions? Suggestions? Comments? Please contact the IT Metrics and Productivity Journal Editor at michael_milutis@compaid.com.