

# C-SUITE STRATEGIES

## THE COLVIN INTERVIEW

### THE CIO

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The FedEx Edge; CIO Rob Carter tells FORTUNE's Geoffery Colvin what it takes to ship six million packages a day without a glitch.

IT'S EASY TO FEEL A BIT SORRY for any company's chief information officer these days. The pace of technology is accelerating, and costs seem to be going up just as fast. But for Rob Carter, the CIO of FedEx, the job may seem even more daunting. He's responsible for all the computer and communication systems that keep this staggeringly complex outfit running. He has to connect 39 hubs around the world with 677 airplanes, over 90,000 vehicles, and more than 200,000 employees delivering six million packages a day in 220 countries. Seconds count. The least glitch could cost millions of dollars and trigger a PR disaster. And if anything goes wrong, you know who takes the heat.

But don't feel all that sorry for him. Carter works for a boss, CEO and founder Fred Smith, who completely believes in the importance of infotech. He gives Carter a \$1 billion annual budget. Most important, Carter is at the strategic heart of what makes FedEx successful. The company is America's second most admired and the world's fourth most admired, by FORTUNE's latest survey (see [fortune.com](http://fortune.com)), and Carter knows he helped put it there and must keep it there. If you're in the field you love, a job doesn't get much better than that.

Carter is a great example of a so-called C-suite member, one of those elite top execs whose titles start with "chief" and end with "officer." Increasingly, the C-suite is team-managing companies in all kinds of industries. The 46-year-old Carter is widely regarded as America's preeminent CIO. (Information Week magazine recently named him CIO of the year, an honor he has shared twice before.) He joined FedEx 13 years ago and has been CIO since 2000. Carter recently sat down with FORTUNE senior editor at large Geoffrey Colvin before an invited audience at the Time Warner Center in Manhattan. They discussed topics as varied as Internet security, competing with UPS, his own surprising problem with identity theft, and how he walks his dog. Edited excerpts:

Customers can track individual shipments on your website, which seems amazing, but they can do the same on UPS's site. You work hard, your competitors work hard. At the end of the day, is information technology a competitive advantage for you?

The answer is absolutely yes. UPS is a marvelous competitor. I'd say everybody needs a good competitor that keeps you on your toes, and I have tremendous respect for UPS and what they've accomplished with technology. There was a day when they didn't get this. It wasn't all that long ago, in the early '90s, when they really turned it around and said, "We're going to invest significantly." From that point in time we've been in a battle on technology, no question about it, especially customer-based technology. We tend to focus slightly less on operational technology. We focus a little

more on revenue-generating, customer-satisfaction-generating, strategic-advantage technology. The key focus of my job is driving technology that increases the top line, and there are some terrific examples of that.

Give me a good example.

A product we developed called Insight. The competition has now come close to doing this, but we took the whole tracking mechanism and turned it around so that as opposed to having to track a package, you say, "I want to know what's coming to me today." You can go out there now and see every inbound package, regardless of whether you knew someone was sending it to you. In the Northeast there's a company that does bone-marrow-sample testing for bone-marrow transplants. Getting those samples is a very painful process, and the viability of that sample is only about 24 hours. They'd send out kits to collection places, and they never knew exactly how many would be coming in on a given day. Using Insight, very early in the morning they can see every inbound kit that's heading to them and staff appropriately to get every one of those tests done, because the last thing you want to do is run out of hours in a day and have to recontact a potential donor and say, "Do the test again." Because it's not a fun test.

So you figure you have an infotech competitive advantage over UPS. How long do you think it will last?

I think it's easier to copy than it is to innovate. There's no question about that. So when we launch something new, they're hot on our heels. That's why we simply have to keep moving. We have a philosophy--it came out in the Marine Corps--from the early days, that says, "Move, communicate, and shoot." That's one of our strategies. And in that order, by the way. It's not "Shoot, communicate, and stand still." So we move, communicate, and shoot, and it's a very important thing. We have an **innovation** team that does nothing but look for new opportunities to come out of the gate with something that'll be a whack on the side of the head to them.

How much does FedEx spend on IT in a year, and how do you decide how much you need to spend to stay ahead of the competition?

We spend more than \$1 billion a year on technology. So the technology budget is significant. Part of the idea, though, has been to manage the expense-to-revenue number down to help the company grow faster than the IT expense. You can do a lot with \$1 billion. So I've been focused on saying we don't need to rapidly grow the staff and rapidly grow the footprint of IT at FedEx. Let's hold the line against the backdrop of a growing business and make that billion dollars more and more efficacious. We may not be able to outspend the Brown guys [UPS]. They're a larger company than us today, although we are hot on their heels. But we're going to come at it from a lot of different angles in trying to make those dollars really work for us, and people have fun doing that. We do get great accolades in the trade press too, for being one of the great places to work on hot, innovative IT projects.

Let's switch gears a bit and talk about FedEx and the war on terror. I don't want to be macabre, but the reality is that your company is famous for delivering stuff to the right place at the right time. Isn't that awfully attractive to a terrorist who would want to make a bomb or other device and FedEx it someplace? And what's to stop him from doing that?

One of the things about our system compared with other systems is the visibility of every transaction. If you wanted to be anonymous about having something delivered, we're kind of the wrong

place to start --especially to get something across borders. If you're not what the TSA calls a known shipper, you go through a perimeter of control and inspection and those kinds of things to clear customs. So the "known shipper" phenomenon and related declarations make us a less attractive target for that.

Having said that, this is a very dangerous world. We take our responsibility very seriously. We work with the regulatory bodies, the defense agencies around the globe, and I think we're the best at deploying a security team and an intelligence team that works with the DEA, the FBI, the CIA, the Department of Defense, and various foreign agencies. We've had many arrests and stings that have not received any publicity. If I gave you examples, I'd have to shoot you.

It was reported in the Wall Street Journal that FedEx worked with Homeland Security officials to develop a computer system that simplifies the reporting of suspicious behavior. What's that all about?

There are a lot of things that constitute suspicious behavior. We watch with them for patterns of shipments that are suspicious. We are a Patriot Act company that will work closely with them on saying, "We'll let you know who's shipping where if it's something that we believe is in the best interest of national security or world security."

It's also been reported that FedEx has opened the international portion of its databases, including credit card details, to government officials. Should we be worried ?

Not in a broader sense. That got publicized fairly widely. It drew some concern from some of our customers. But I can tell you it's done in a very, very managed fashion. In no way is it a broad reproduction of personal data or credit card information. It could be misused. But at the same time, it does allow the government to work with us, to drive to logical conclusions about what may be a threat.

FedEx has huge amounts of data about its customers. You have my credit card numbers. You have my electronic signature. If somebody else got hold of those things, or if some rogue employee decided to do some bad stuff, there could be real damage. Is our data safe and secure?

Yes. It is something that is probably at the top of my list on a daily basis. The group that we grow the fastest and invest in the most and that has created quite a reputation for itself is our information security team. So I have to look you in the eye and say, "Yes, your information is safe with FedEx." While I wouldn't disagree with you that we offer it to authorities, we never offer it for commercial gain, never for customer exploitation--spam, anything like that--ever.

What do you do to protect your own identity?

Actually, I have a case of identity theft going on right now, and my favorite Dilbert cartoon ever was Dilbert talking with someone in a restaurant about how they would never shop online. Dilbert hands the waitress a credit card, and she walks off and comes back with this full-length mink coat on, and he signs, and they're still talking.

A great deal of the threat continues to live outside the world of cyberspace, but being smart about what you do online means realizing that not everybody is your friend out there. Never fill out e-mail forms asking you to update any information, and even when it says click here or go to a site, it's absolutely critical that you look at the site and make sure you haven't been redirected to one that would pull information out of you. Unfortunately, it takes a pretty savvy user to know what's safe and what's not.

You have a case of identity theft?

I do. Some guy in Oklahoma City established all his electrical utility bills using my credit information. I don't know how you get away with this stuff. So I'm having to go out there with Equifax and all these credit agencies and clean up my credit rating.

This guy probably didn't realize you were the wrong guy to steal an identity from.

Yes--I'm trackin' him down!

Terror, identity theft--not how most people would define your business. As Peter Drucker might say, What business are you in?

I believe we engineer time. I believe that as the world shrinks and changes, we offer solutions that allow you to engineer time to make things happen along time schedules that weren't possible. If you remember the movie Cast Away, at the beginning Tom Hanks was running around with a stopwatch trying to figure out how that can all happen.

That was the movie in which Hanks played a FedEx employee. In fact, not just a FedEx employee but a computer engineer.

He was a systems engineer in that movie, yes.

Pretty glamorous ...

Except for the crash of the plane.

Speaking of speed, we've heard a lot about RFID tags, those little radio-frequency ID tags that are supposedly going to go into everything, and I would think that would have huge implications for your business. What have you found?

We are finding very poor results with passive RFID tagging. If you have a pallet load of shipments and a bunch of boxes are in the middle of a pallet, you will not under normal circumstances be able to read all of them. Now, if you'd like to extrapolate that you have all of them, you can do that. There's usually some record traveling with that pallet, shrink-wrapped, that says, "Hey, all this stuff is present," and if you get one read, you get them all. Well, we don't tend to believe in that. We tend to think a lot of things can happen.

It sounds as if for your purposes, this is not all it was cracked up to be a year or two ago.

I think the best way to describe it is as a two-ten technology--that was a phrase Bill Gates came up with. For the first two years there's tremendous hype and enthusiasm, and it's not what it's cracked up to be, and people get disillusioned and turn away from it. And then ten years later you look back, and you cannot believe how much the world has changed based on the maturing of that technology. RFID might be a three-15 technology, it might be a two-ten.

Now, a little about you. I read you have a Segway and you use it when you walk your dog. Is that right? I'm confident that's an error.

It's not. My neighbors really think I'm strange because in Memphis there aren't a lot of Segways. By the way, I don't have just any Segway. I have the E model, which is the one that balances itself when you step off it. You can go walk off and talk to neighbors, and your Segway stands there. Not everybody has one. The dog stays right there with it.

In a global world, you're a global guy. You were born in Taipei, and you've lived in a lot of different places, I gather, because your dad was in the Air Force.

Dad was in the Air Force--yes, he was.

And you later found out what he did?

Yes. It was an interesting revelation to me because I had already joined FedEx and was doing what I was doing. And my dad had always been kind of secretive. He was one of those guys who always kept a bag packed, and he would just leave at the drop of a hat. As it turns out, he was a logistics officer for Central Command and for Strategic Air Command over the years, and so his job was getting the right stuff to the right place at the right time. Since I figured that out, we've had some really interesting chats. He's 85 and still kicking, and we have some fun conversations about how much the world has changed. But like father, like son.

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