

# Parcelhouse leverages flexible pricing as it reshapes logistics management.

## Overview

### ■ Challenge

The dual challenge for Parcelhouse was to reach 'critical mass' through securing a customer base of large, global clients and the committal of both human and monetary resources to support the optimal funding of its growth and direct its focus towards the business side of logistics.

### ■ Why Become an On Demand Business?

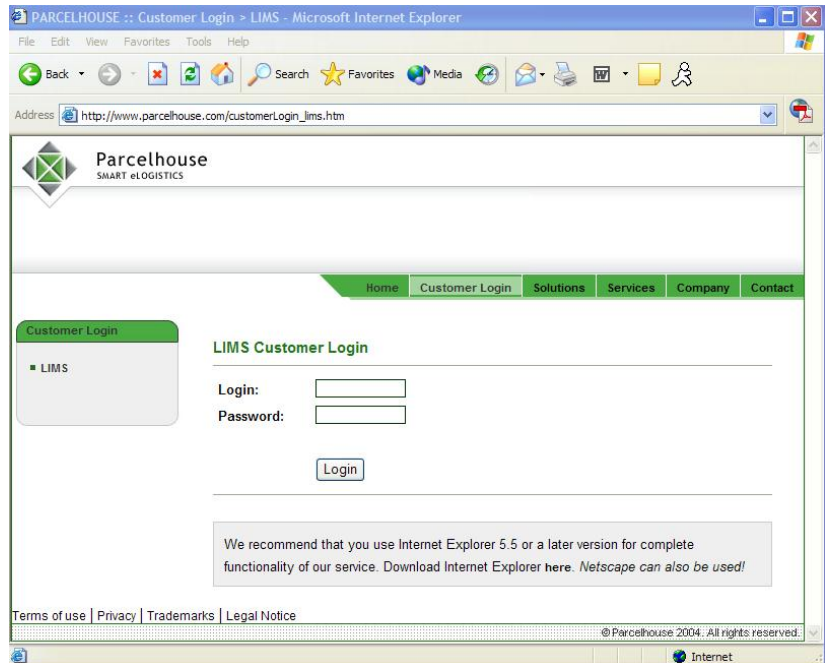
Parcelhouse needed an open infrastructure to grow its system efficiently and meet the robust and rigorous system requirements of its global customers, for whom resiliency and reliability are imperative. Parcelhouse also recognized the need to balance infrastructure requirements against the need to preserve capital to support growth. Minimization of upfront costs while keeping ongoing costs variable and predictable was necessary to simplify short-term cash management.

### ■ Solution

Parcelhouse teamed up with IBM to create an open, highly resilient platform that employs a flexible, fixed-plus-usage-based pricing model.

### ■ Key Benefits

- Major improvement in system availability with recovery time decreasing from 40 minutes to zero
- 200% increase in system usage with no increase in IT costs



More than 70 percent of Parcelhouse's business is generated from European customers across 13 countries. As an internationally growing business Parcelhouse focuses on increasing market confidence for its reliable 24x7 logistics information management solution. Today Parcelhouse employs 150 across four countries.

Parcelhouse is a small company founded on a big idea. What if companies with several logistics providers—each moving hundreds or thousands of packages at a time—could comprehensively track their logistical activities through a single interface? Not only track them, but also access rich, real time information that could be used to optimize logistics on a worldwide basis? Stockholm-based Parcelhouse (www.parcelhouse.com) was established by seasoned logistics industry veterans determined to make

*“By teaming up with IBM, we’re making a statement about how seriously we take the need for a resilient, reliable system. It gives our customers that much more confidence in our ability to deliver 24 x 7 and strengthens our competitive edge.”*

– Jason Juretic, Managing Director, Parcelhouse Asia Pacific

**On Demand Business Benefits**

- Greater system redundancy has led to major improvements in availability and reduction in recovery time
- System handled 200% increase in usage with no increase in IT operating costs
- The use of hosting and usage-based pricing has enabled the company to avoid an estimated 80 percent of the costs of acquiring its own infrastructure
- Planned move to a virtual Linux environment will reduce IT costs by up to 50 percent
- Variable and predictable cost structure facilitates cash management
- Outsourcing infrastructure management enables Parcelhouse to focus on developing new services and applications

*“IBM has helped us win new business and retain our existing business by being more responsive, reliable and cost effective for our customers.”*

– Jason Juretic

this vision a reality. Parcelhouse epitomizes how a startup can leverage existing technology in creative ways to fill a void in the marketplace.

To date, the standard paradigm for tracking packages via the Web has been centered on the relationship between the customer who owns the package (either incoming or outgoing) and the provider shipping it. The innovation behind Parcelhouse was the creation of a logistics information management system known as the Integrated Information Gateway (IIG) that enables customers to move from a fragmented logistics management approach—where each provider is managed separately—to a hub approach where a customer can manage multiple providers concurrently and efficiently. For customers the core value proposition is flexibility, as they no longer have to rely on one logistics provider for access via a single point of contact and control.

**Overcoming the credibility gap...and growing pains**

Applying the Parcelhouse business model to business practices presented another challenge in that the company incurred fixed costs upfront and derived transaction-based fees over a contract period. Parcelhouse realized that in order to jumpstart its operations and move beyond the embryonic stage, it would need to expand its customer base to include a larger number of multinational corporations. Large organizations needed strong assurances from Parcelhouse that the IIG system would always be there when they needed it and would meet their stringent performance and security requirements. As a company in startup mode, Parcelhouse needed to preserve its capital to fund the growth of its business and also realized that its core competence was in the development of services and the applications that support them—not in building and managing infrastructure. Having an industrial-strength system was essential and committing scarce resources to a fixed upfront expenditure would clearly divert the company from its strategic priorities.

Cash flow management was also critical. Given the variability of revenue sources, Parcelhouse needed a highly predictable cost structure to enable it to align incoming cash flow with outgoing cash flow, whilst operating with an extremely lean administrative layer - placing an even higher premium on process simplicity. With complex cash flows extending from Stockholm to Sydney and London, (where it maintains business offices), and Sri Lanka, (where it maintains a base of some 100 application developers), it was important that the financing of the solution did not add to this complexity.

From the technical perspective, Parcelhouse needed to be able to seamlessly integrate its systems with those of customers and logistics service providers without them having to modify their systems or business processes. Consequently, Parcelhouse required a high degree of flexibility to enable it to interact externally with a wide variety of environments. At the systems level, internal flexibility was also critical in enabling Parcelhouse to expand its capacity as its customer base grew, at the same time as optimizing the utilization and efficiency of its systems. Under Parcelhouse's existing system architecture, each customer required its own dedicated server, with the result being that the company faced the prospect of increasing complexity and systems administration as its customer base grew.

#### Making costs flexible

In summary, Parcelhouse needed a resilient, scalable and open solution with the capacity to meet its own requirements and satisfy the rigorous standards and requirements demanded by its customers. As a small business looking to sustain and manage its growth, Parcelhouse recognized the need to balance its infrastructure requirements against the need to preserve funds to support the growth of its business. To achieve this, infrastructure costs were required to vary with usage, yet remain predictable enough to plan for short-term funding requirements. Parcelhouse had to keep its lean base of human capital focused on the company's core strength—the development of new ways to manage logistics information. While managing and planning for the growth of its infrastructure were critically important tasks, they lay outside of the company's core area of expertise.

To help meet these challenges, Parcelhouse teamed up with IBM Global Services e-business Hosting to create a new service delivery platform that addresses the company's complex mix of business-level and technology needs. On the business side, creating a sustainable funding model was essential. The new system met this imperative through a combination of hosting and usage-based pricing, under which Parcelhouse pays only for the servers, storage capacity and bandwidth it uses. Managing Director for Parcelhouse Asia Pacific, Jason Juretic points out that working with IBM also provided Parcelhouse with a high level of credibility—a baseline requirement for companies outsourcing their mission-critical services. "By teaming up with IBM, we're making a statement about how seriously we take the need for a resilient, reliable system," says Juretic. "It gives our customers that much more confidence in our ability to deliver 24 x 7 and strengthens our competitive edge." The new system also directly addresses Parcelhouse's need for a more flexible architecture that easily adapts as the company continues to grow. The most fundamental change is the shift from a single-tier, Windows-based platform to a multi-tier platform running on two clustered IBM eServer xSeries 345 servers and an IBM

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## Key Components

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### *Servers*

- IBM eServer™ xSeries®
- IBM FAStT600 Storage Server

### *Services*

- IBM Global Services – e-business Hosting™
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FAStT600 Storage Server. As its customer base continues to expand, Parcelhouse is able to grow the solution incrementally without compromising efficiency. The use of a standardized architecture lays the groundwork for more efficient hardware utilization through load balancing and virtualization, and minimizing hardware requirements helps keep support costs down. In addition, reliance on standards like XML has made the essential task of integrating with customers and providers a simpler and more cost effective process. Despite its recent deployment, the new solution has already produced remarkable results. System availability—a point of vulnerability under the old system—has risen dramatically, while recovery time has fallen from 40 minutes to zero minutes due to system redundancy and the use of proactive monitoring alerts.

The system has also delivered on its promise of improved scalability, tripling the number of supported users with no increase in IT operating costs. In terms of costs, Juretic estimates that the use of hosting and usage-based pricing has enabled the company to avoid 80 percent of the costs of acquiring its own

infrastructure, and the savings are only expected to increase. As part of a technology roadmap it is currently developing in conjunction with IBM, Parcelhouse plans to evolve its current architecture from two-tier to three-tier, further enhancing system redundancy. This architectural approach will enable Parcelhouse to leverage its initial investments in infrastructure, thereby reducing its overall costs. Going forward, Parcelhouse envisages continued growth, fueled in part by its relationship with IBM. Juretic views the support provided by IBM as an integral part of the backbone of Parcelhouse's ability to respond to its customers and meet their requirements. "We are competing with companies ten times our size, so we need to provide our customers with world-class responsiveness," explains Juretic. "IBM treats us as if it has a stake in our success, which helps us to meet and often exceed customers' expectations."

#### For more information

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