EMBRACING THE CLOUD

AN INTERVIEW WITH MARCEL KROM AND GERRIE DE JONGE OF POSTNL

Marcel Krom is the CIO and Gerrie de Jonge is the director of shared IT services and sourcing at PostNL, a Netherlands-based company that provides mail, parcel, and e-commerce services in the Netherlands and internationally. The two recently spoke with BCG's Marc Schuuring about PostNL's move to a cloud-based sourcing strategy.

What was the situation with PostNL's IT function in early 2012?

Marcel: We were going through a major change. Ten years ago, we set up a large shared-services center, with all tasks performed in-house. It was a reasonably efficient setup. But three years ago, we realized that the model had passed the point of usefulness. The business perceived us as nothing more than another supplier and was playing us off against the market. So we knew that we needed to make a change. We explored the idea of becoming an independent services supplier, since we did have considerable scale, but we determined that that would not be appropriate for the company. We also explored a possible

takeover by a system integrator. But we wanted to stay close to the business.

At that point, we discussed the possibility of a new sourcing strategy—one centered on external provision and the leveraging of scale. Three years ago, we separated the IT demand functions from the delivery functions, and subsequently established the delivery functions as separate departments within our central IT, with the aims of greater clarification of responsibilities and the facilitation of different sourcing options. The question in 2012 was: What should

we do about the delivery of IT services? At the time, the business environment for PostNL was no different from the situation we are currently in: a strongly waning postal market, a growing parcel business, stagnating international development, and delayed European postal-market liberalization. The dream that we could build a large European postal company had vanished. We had to take those circumstances into account in whatever strategy we chose, which meant we had to focus on making costs flexible and facilitating both innovation and parcel company growth.

MARCEL KROM

Marcel Krom is the CIO of PostNL, a role he assumed in 2009. In 2012, he was appointed director of PostNL's international business segment, with responsibility for TNT Post UK, TNT Post Italy, and TNT Post Germany. He is also a member of PostNL's executive committee. Prior to joining the company, he was a managing director of Cendris (a subsidiary of PostNL) and held a number of business and IT roles within different companies. He studied business information management.

So it was clear that you needed to do something. How did you go about evaluating your options?

Gerrie: It was a mix of formal strategy development and experimentation. Three years ago, the cloud was already regarded as the promise for the future. We already had Microsoft Business Productivity Online Suite, the online version of Office and e-mail. And our suppliers were coming forward to help us with the cloud, though basically they were offering us different financial models for the existing services. We considered all of those inputs and launched a formal strategy-development project.

We defined our business and sourcing principles and evaluated four options: move to the cloud, deploy area-based outsourcing in the traditional way, go with one major outsourcing deal, or do nothing. The management team explored these options. We had some external help but insisted on analyzing and understanding the options ourselves. We also did some benchmarking to determine our position compared with the market and our peers.

We ultimately concluded that the cloud is the future and that we should execute the transition in-house. We did not want to team up with one major global supplier. Instead, we would transition to and manage a multicloud environment ourselves. The main reason was that we didn't have enough scale to decide otherwise: from the perspective of a global systems integrator, we weren't big enough to merit the special care we felt we needed. With the decision made, we started to detail the cloud-sourcing strategy and business case.

What were the key components of the new strategy?

GERRIE DE JONGE

Gerrie de Jonge is PostNL's director of shared IT services and sourcing. He joined PostNL in 2004 as program director of international IT services. In 2009, he assumed responsibility for shared services and sourcing. In addition to his line-management duties, he is program director for the execution of PostNL's cloud strategy. Before joining PostNL, Gerrie worked for Descartes Systems Group as vice president of supply chain visibility and as a senior business consultant with CMG. Gerrie holds master's degrees in mathematics and logistics management.

Marcel: The first was our commitment that everything—with no exceptions—would be moved to the cloud. Parts that were not included in the cloud would nonetheless be moved outside and linked to our cloud components. We did not want a hybrid model.

The second key component was an in-house multicloud-environment management function that could perform cloud orchestration, cloud services, and broker services. Large IT companies are eager to take on that role. They offer classic sourcing scenarios with a primus inter pares approach to managing the integration. We don't do that. We are exploring ready-made services, such as identity and access management, and use several services to set up the cloud operationally. This "operational management" is different from tactical vendor and supplier management.

We accommodate this in a cloud-IT department, which we initiated, set up, and staffed. So we currently have a business-IT department, which is focused on demand management; a service-IT department, which is focused on tactical management, sourcing and vendor management, and shared services definition; and the cloud-IT de-

partment, which has a coordinating help desk and staff managing the clouds on a daily basis. This department includes 40 to 50 full-time employees, plus an additional 30 who work at the help desk. The department manages the kernel components, connectivity with the clouds, identity and access management solutions, and data exchange between and among the clouds.

How did you go about getting board acceptance for your new sourcing strategy?

Marcel: The board formally approved the strategy in August 2012 after we presented the business case. But the directors demanded a convincing implementation plan. First of all, they were concerned about continuity: What happens when the cloud goes down? We responded that we would pick cloud providers, such as Salesforce and Microsoft, that are too big to fail. We also showed the board that, at that very moment, our existing infrastructure had comparable vulnerability.

The board also had some questions about our business case. Could we realize our strategy while adhering to our budget, and

would it be worth the effort? We spent about four or five months calculating, sizing the target organization, assessing migration costs, and estimating savings. Ultimately, the board believed in the validity of our vision.

Our deep dive with our executive committee was crucial in this process. We provided the executive committee with all documents and, in a structured way, explained our line of thought. We made process maps, presented supporting documents, detailed migration paths, and showed how processes would change. And we ultimately convinced the committee.

What were the anticipated effects on the IT organization—in terms of size (including overall cost and the number of full-time employees) and abilities—of the new sourcing strategy?

Gerrie: The new sourcing strategy meant a radical change for the organization. We had 450 full-time employees and wanted to move to 200. We knew the transition would be difficult. We saw two main options. We could set up the transition via a "big bang" approach and simultaneously provide all employees equal opportunity to acquire a position in the new organization. Or we could transition employees aligned with the organization's implementation in different phases. We consulted our workers council, which suggested that we launch the application process immediately and provide equal opportunity to all employees. By doing so, the thinking went, all employees would know where they stood even though it might take two years or more before they became redundant or started to work in the new organization.

The organization clearly tensed up when we made the announce-

ment, and it was page 1 news. But the IT department took full responsibility and went about its business. The placement procedure lasted from July through October 2013; by mid-November, all employees knew whether they had a job in the new organization or would become redundant. In most cases, those who learned that they would become redundant also

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were informed of the timing. We are currently in the migration phase. To date, the procedure has been quite manageable, and the organization's energy is once again more focused externally.

How have you gone about operationalizing the strategy? What were critical dimensions to consider and issues to address?

Gerrie: As the strategy will make us more dependent on suppliers, supplier and vendor management is very important to us. Our traditional perception of suppliers—that their goals are different from ours, that their services do not automatically meet our needs, and that the contract needs to be managed through penalties—needed to be replaced by a model in which we help suppliers be successful in working with our organization. It was, and is, important to get this mindset right.

We also decided to adopt a continuous benchmarking model that would allow us to work with suppliers without having to worry about the price-quality ratio. Hence we can do business with vendors without having to prove to the organization that we had nego-

tiated the best price. We apply continuous benchmarking to our entire supplier landscape. This allows us to continuously compare all suppliers with the market. If the market changes, we can proactively tell our suppliers to adjust their rates; if they refuse, we are entitled to annul the contract. This is key to making this model operational and cost-effective. It allows our supplier- and vendor-management staff to focus on collaboration with our vendors—not on control and punishment.

How are you involving the business during the migration period?

Gerrie: We now offer three clear sets of services: infrastructure as a service, platform as a service, and software as a service. Our discussion with the business has changed dramatically: we're no longer perceived as trying to protect our in-house IT assets. Instead, we have a business-driven dialogue centered on the services that fit the business's needs best. Decisions related to software as a service, in particular, are driven purely by business criteria. We now have a combined finance, back-office, and IT team that is deciding how to implement SAP Business ByDesign, for example. It is a joint project. IT is part of the team but the business manages it.

We are currently discussing simplification of the accounting system, which has 200 years of history. We are used to having 4,000 underlying accounts but want to reduce that number to a few hundred.

We are also trying to merge the business-client interface for both our parcel- and mail-business segments and radiate one PostNL look and feel by using Salesforce's business portal. We are currently in phase one, transferring the parcel business; the mail business will follow in phase two. This is a major, two-year project. A third major business-process transition is the optimization of the front-office interaction with customers: How do we deal with our client-interaction channels, and what do we use? We are dealing with this now. It will take about a year before the organization understands our goal and wants to collaborate.

Where are you now in your journey toward full implementation? What challenges remain before the strategy has been fully operationalized?

Gerrie: Management of a multi-cloud environment is difficult, and we still have some work ahead of us. For example, we need to move away from any internal notions of achieving engineering perfection. We need to be practical and able to make decisions and implement tools as quickly as possible. We also need to partner with suppliers with whom we have a good cultural fit and who can help us work through some of the thornier issues of implementation, especially regarding infrastructure. Building such relationships takes quite some effort.

Additionally, we have to agree on which services we want and divide the roles among suppliers. Some suppliers might lack the necessary in-house expertise to supply those services and hence will need to train people. This could take a while.

When will you be finished?
Marcel: We will be finished when

the data center is empty. Our target is mid-2015. Should we hit that target, the entire effort will have taken four years from vision to finalization: two years of talking, thinking, and convincing, and another two to migrate. As the landscape is very complex, we are likely to come across a few more issues, though, which could impact our timing.

Assuming you manage to tackle the remaining challenges, you will have achieved what many companies dream about: using the cloud to have a fully agile IT operation that is cost effective yet maintains its potential to innovate. What will be the next steps for your organization? What challenges do you see on the horizon?

Marcel: We have initiated an IT strategy project that looks ahead of the transformation. If we want to be a profitable mail company and the largest parcel company in the Benelux region, and if we want to be able to provide clients with insight into the whereabouts of their goods, we have to step up our capabilities. Our chosen IT strategy will determine our investments.

We have also started a project aimed at adjusting underlying structures to improve collaboration within the company and with customers. This project focuses on content management, master data management, integrated Internet service, event registration, and a single sign-on for clients and business clients. We are also thinking about moving toward an unambiguous track-and-trace capability across our networks in the Benelux region. It sounds simple, but it is actually very complicated.

Once you have successfully moved everything to the cloud,

will you refer to your strategy as an IT strategy or simply an *information* strategy?

Marcel: Technology—the *T* in IT— will still be a key focus for us. Technological developments will remain important to our core service, so it will be important for us to follow them. The focus, however, will no longer be on technology for IT. We will be less interested in services, development, and VMware than in the effects of business technology on logistics. Take wearable computing, for example: Is that an important development for our business, one we need to monitor closely? Technology will remain key but in a different way. We will be focused on true business technology.

Looking back at the last few years, what are the lessons learned, and what would you recommend to other companies in similar situations?

Gerrie: Efforts like ours require a combination of vision and flexibility. You need a consistent vision and must pursue it continuously without losing sight of your goal. Simultaneously, you have to have the flexibility to solve issues—expected and unexpected—that appear along the path. And issues are sure to arise, given the speed with which the market is developing. It is impossible to predict, with any certainty, how things will evolve.

Thanks, Marcel and Gerrie.