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ISSUE:

STATUS: Draft

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1.Introduction

In order to increase competition and enable greater commercial freedom, the government established Consignia – a holding company with three key divisions, Royal Mail, ParcelForce and Post Office Limited. Post Office Limited face a challenging future – there is much media speculation about how an inefficient network of outlets can be maintained, given recent losses of over £200m. One of the most significant areas of cost for Post Office Ltd is ICL, and IT generally.

One of the factors contributing to future potential losses for Post Office is the fact that benefit payments will no longer be made through post offices, but instead will be made to bank accounts that are to be administered by Post Office. ICL Pathway have bid to provide the infrastructure and technology to facilitate this on the counter, and this bid (Network Banking) is now close to resolution. The Network Banking negotiations have been long and sometimes fraught, and both the client and ICL are very aware that the current main contractual framework does not facilitate good working relations.

Given the commercial and cost pressures facing Post Office, and given the recent experience negotiating Network Banking, both ICL and Pathway believe there is a need to revise the current contractual framework. These discussions will also look to extend the length of the current contract beyond its current 2005 deadline, potentially to 2010. This means this bid must include technical refresh.

An additional consideration is that Consignia placed an OJEC advertisement at the end of December inviting tenders for outsourcing of its Business Systems Group, who provide all IT infrastructure support within Consignia group. Outsourcing of Post Office back office systems would ideally be included within this bid activity, but this is currently part of the wider Consignia outsourcing bid that is being managed on behalf of ICL by Bryan Wakefield in ISD. ICL Pathway have expressed a definite preference to split off Post Office back office system infrastructure and include it in the bid activity described in this document. Neither ISD nor Post Office nor Consignia have agreed that this approach can be taken. It is assumed to be a logical part of this bid given that integration of the front office system is much easier if we also have control of the back office systems. Including back office system outsourcing for Post Office in this bid is dependant on the client and Consignia agreeing to this being acceptable, to there being a good fit with the other components of the bid proposition, and resources being available in ICL to manage this component of the bid.

This bid will seek to address three key areas:

1. Changing the way ICL and Post Office work together
2. Technical Refresh – to provide a technology solution that supports the Post Office business as it changes and evolves to 2010
3. Post Office back office system outsourcing (subject to client agreement, this being a logical component of the bid proposition, and resources being available within ICL to manage this part of the bid)

1.1 Purpose of Proposition Directive

This Proposition Directive has been produced as a brief for all those involved in the ICL team proposing the extension and revision of the current contractual framework to Post Office.

The purpose of this Bid Directive document is to:

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- Provide general background on the proposition environment, covering the requirement, customer, competition and proposition evaluation.
- Confirm the win strategy and associated offering to the customer.
- Provide a central repository for core strategy information
- Provide a repository for the latest thinking

1.2 Renewal Proposition submission dates

Initial discussions are being held between Alan Barrie (Post Office Executive Director of Strategic Alliances) and David Courtley, ICL COO w/c 28th January 2002. It is expected that after this initial high level meeting, it will be appropriate for the Bid Manager to initiate discussions with Post Office and Parity. Parity have been appointed by Post Office to act as a facilitator throughout this bid process.

Initial client meetings to establish the requirements from both sides will be held in early February. Some agreement should be made regarding the 'rules of engagement' and the objectives of the bid activity by mid March. Assuming the client agrees that the scope of the bid addresses ways of working, technical refresh and back office system outsourcing, another 6-9 months of work will ensue. ICL's aim is to have completed these negotiations by end December 2002 and to have the new contractual arrangement in place from January 1, 2003.

Until further detail of the scope of the proposition and client requirements can be defined it is not possible to provide a more detailed breakdown of milestone dates. This issue should be addressed and resolved by end March 2002.

2.The Renewal Proposition environment***2.1 Introduction and Bid Environment.***

The changes in structure within Post Office mean that it is now a division called Post Office Limited, within Consignia. Given that one component of this bid will potentially address outsourcing of back office systems run by a Consignia division (Business Systems Group), it is vital these organisational complexities are considered. The current Horizon/ICL Pathway contract is due to expire in 2005. There are a number of reasons why both Post Office and government would want to avoid contractual discussions of this nature at that time:

- A general election is likely in 2004/2005 and uncertainty and disruption around the future of Post Office's network of outlets would be undesirable
- Technical Refresh of the current kit (network, hardware, software) will be a business imperative around 2004/2005 and Post Office will have a stronger negotiating position when not dealing with a business critical situation in their counter-top IT.

Stakeholders and their needs must be considered as they will influence a decision on early renewal and all stakeholders will wish to understand how the ICL proposition will improve Post Office's business attractiveness. Improving technology will not improve the business automatically – it is vital that the proposition applies the benefits of improved technology in a manner appropriate to Post Office's business model, and the models and operating procedures of its clients. Stakeholders who should be considered are:

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- DTI
- Royal Mail
- ParcelForce
- Post Office Clients e.g. DVLA, BT, Utilities

A key influence is clearly the UK Government and their current thinking on the post office network needs to be understood, especially in terms of support for maintaining reach and rural branches. Postcomm are actively producing strategic documents intended to inform and stimulate debate, and advise Government on options regarding the network.

Given these interested parties, Post Office finds itself subject to the scrutiny of a number of public bodies concerned with its coverage and reach as well as those with an interest in it achieving its potentially conflicting commercial targets. Since 1998/1999 it has transformed from a business that generated 24 consecutive years of surplus, to one that is struggling with losses of £200m. A number of factors have influenced this:

- Increased competition in the postal services market
- Increased industrial action in the mail and postal industry
- Shifts in consumer behaviour affecting core revenue streams e.g. bill payment by direct debit, payment of state benefits direct into bank accounts
- Loss of key clients e.g. BBC for payment of TV licences

The Post Office finds itself facing new commercial challenges in terms of maintaining and growing profitable revenue streams. It must also deal with a blurred political/commercial divide which impacts its ability to manage its outlet network as it sees fit, and undertaking business process re-engineering on an operation that has remained relatively unchanged for over 50 years. ICL Pathway must ensure it focuses on the highest priority business issues facing Post Office, and offer solutions that address those issues, to maximise commercial success.

2.2Procurement

Both ICL Pathway and Post Office appear to have an objective to revise current contractual conditions governing the working relationship. It could be argued that what is being suggested as the scope of this bid activity is in fact simply exercising Change Control around the current contract. While this may be the commercial and legal case, it is suggested that in order to shed the baggage of the past, and to enable both parties to move forward in the relationship, this should be treated as something more than Change Control.

One potential issue with taking this approach is that Post Office may feel there is a requirement to go to competitive tender. ICL Pathway does not want this to happen for a number of reasons:

- It would increase the cost and time involved in the bid activity
- It would not serve our aim of resolving our relationship difficulties with Post Office and demonstrating our ability to change and be a credible supplier in the future
- ICL Pathway's aim is to maximise its chances of winning this bid – having competitive tenders involved obviously does not service that objective

In order to address these potentially conflicting perspectives the following approach is recommended. In terms of the sales and relationship management approach the focus will be on a greenfield approach – defining the requirements in a scenario where there are no constraints of the current system. It must of course be understood that the obligatory migration activity may result in some changes having to be made to that final vision of requirements. This should set the right mindset in both Post Office and ICL Pathway that we are entering a new era of the relationship, while commercially and legally the deal can be delivered through change to current contract.

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2.3 Requirements – Post Office Limited

At time of writing, it has not been possible to meet with the client so there is no formal statement of requirements at any level of detail. It is possible however to make some assumptions as to what these requirements will be, given the knowledge we have as to Post Office's business objectives, and some technological and operational imperatives.

- Post Office currently face significant cost down objectives (15% to end 2002/3 with a further 10% likely to end 2003/4)
- A clear technology roadmap that will demonstrate how technology refresh can be implemented, what new technology will be implemented, and how this can be applied in the operating environment of the Post Office to improve their business performance
- Flexibility in the solution must be improved – in terms of 3rd party product integration, development timeframes, functionality delivered, scalability and evolution of the Post Office product set and client base.
- An improvement in “time to market” especially in terms of current ICL Pathway delivery timescales
- An improvement in the ability to offer packaged off the shelf solutions

2.4 ICL – Post Office's Perception

ICL is seen as a strategic supplier to Post Office, and this was recognised in the recent First Class Supplier Awards from Post Office. The relationship does not always run smooth though, and various exercises such as CSIP have highlighted some specific good and bad points:

- ICL is a trustworthy and proven partner now delivering and managing existing and new (e.g. Your Guide) services to the satisfaction of Post Office
- ICL is expensive, operates purely to the letter of the contract, is slow to deliver and does not understand POL business or strategies
- ICL has delivered an over engineered technical solution which, because of inherent complexity, does not offer the flexibility and agility demanded by a modern IT architecture
- Horizon architecture, though, is now seen as an integral part of Consignia's/POL's Integrated Retail Strategy
- A combination of ICL's partnering capabilities, membership of the Fujitsu Group, skills base and innovation is as good as any other of Consignia/POL's Strategic Suppliers but our knowledge of the POL estate and business processes is unrivalled

2.5 Post Office Limited - Relationship with ICL***2.6 Post Office Limited – Key Success Factors***

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2.7 Competition

ICL Pathway's intention is to manage this bid such that Post Office do not choose to invite competitive tenders. It is also fair to assume that competitors are not showing a significant amount of interest in bidding for this work at this time as the current contract is not due to expire for another 3 years.

Potential threat does arise though, as a number of competitors who would be interested in winning the Horizon business already operate in Post Office and Consignia. IBM have been cited to ICL as a company who understand how to work with Consignia, and Parity recently won the First Class Supplier Award from Consignia. Parity should pose minimal threat in the context of this bid, as they have been appointed as facilitators/advisors to Post Office. EDS have a significant presence in Consignia at present, and their recent announcement regarding the strategic intent to run government infrastructure was an aggressive statement. Additional threats arise from the recent invite to tender advertised by Consignia, for outsourcing of all of their infrastructure activities (currently managed by Business Systems Group). This is likely to attract interest from all the major competitors – EDS, IBM, SEMA, and management consultancies such as Accenture and PwC with whom ICL have no strong ties.

While ICL have a relatively strong position within Post Office at the present time, it must not be forgotten that this is a large and potentially lucrative client that will attract significant competitor interest. Other companies may be better able and more willing to take on much of the risk Post Office do not want to bear, and this is something ICL has little appetite for. Depending on what key success factors and decision criteria are used by Post Office, the lack of flexibility in financial assistance may be a competitive disadvantage to ICL.

2.7.1 Competitive Position / Why ICL should win

- As an unsolicited bid this does not need to be subject to normal procurement guidelines and there is no formal requirement for Post Office to seek competitive bids - although they may choose to do so for value-for-money/ negotiation reasons
- Key competitors are unlikely to be ready, able or willing to undertake work on this bid at this time – barriers to entry are still high given the reliance Post Office have on this network and specific tools and services provided by ICL Pathway
- Given the current poor financial position of Post Office, the client is likely to be amenable to contract changes (such as extending the length of the contractual commitment) that will reduce their costs
- Within the current contract there are a number of tools and systems knowledge in place that would pose very high barriers to entry for competitors and add significant strength to the ICL Pathway proposition.

In terms of positioning it is vital that ICL changes current perception. Part of the scope of this bid is to look at how we change the way we work together and delivering on our intentions to be more proactive, responsive and add value is imperative. Our competitive position should focus on our proven capabilities of providing a managed service and the potential we have to fulfil future requirements. We should also be able to demonstrate the ability of both our organisation and our solutions to adapt to changing business environments – very important considering we are looking to sell a solution that is to remain operational until 2010. At present we do not necessarily have the 'evidence' to be able to back up this position, but it should come through in how we deliver our business from now on.

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2.8 Evaluation criteria

It isn't yet clear what criteria Post Office will be using to evaluate this bid proposition.

However, it is likely that the following will be key :

- A proven ability to reduce costs to enable Post Office to meet their cost down targets
- Ability to implement major projects and to be able to handle the migration and implementation activity this bid is likely to result in
- Ability to make use of new technologies and to implement those in the Post Office environment without over-complicating the solution
- Some element of shared risk is likely to be required – this was one of the most significant criticisms received by ICL Pathway in the recent Network Banking bid activity

2.9 Bid Timetable (Revised)

MILESTONE	DATE

3. The ICL offering***3.1 Overall Proposition Strategy***

The Proposition Strategy underpins the two core components of the proposition – Changing the Way We Work and New Technology Implementation. The strategy itself thus has two components:

1. Demonstrating to Post Office the considerable capability that already exists within Horizon, in particular demonstrating how ICL has added particular value with some of the tools and functionality that are available e.g. security and resilience
2. Demonstrating to Post Office that ICL can move on from the initial Horizon solution and implement new technology that will continue to support and enable the Post Office business. It will also look to the future rather than being constrained by current technology in place bringing a creative and innovative approach.

Post Office have significant experience of working with ICL Pathway and to some extent this is counting against us in the bid situation as the focus is on past and present problems rather than on the positive capabilities. The idea of 'demonstrating' is thus key in the implementation of this strategy – as well as being able to talk a very positive story, we have to show that we are both committed to continuing the relationship and can also deliver the goods required to be able to do that.

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While it is vital that there are changes in behaviour and the focus is on delivered benefit, this is not at any price. It is vital that both ICL Pathway and Post Office recognise the need for both parties to look at their working practices and make change.

Another criticism that has been directed at ICL Pathway by Post Office is a lack of innovation. It is vital that both the changes made to ways of working and the design of any new technology proposition embody principles of innovation and an ability to focus on the future while learning from past experience and knowledge.

Avoiding competitive tender is considered a priority within this bid activity. It is believed that the strategy described above can avoid competitive tender by

- Focusing on the considerable capability that ICL has already demonstrated in its current delivery
- Building stronger relations with key individuals in Post Office
- Encouraging the flow of communications that will both enable ICL Pathway to learn from its mistakes and be more proactive on focusing on the positive in discussions with Post Office

It can be assumed that this bid will only go to competitive tender if

- Post Office feel they are not getting best value pricing
- Post Office feel they are not getting the type of proposition and behaviour from ICL that they are looking for in ICL as a supplier moving forward
- Post Office become increasingly dissatisfied with the current delivery, and that of Network Banking

3.2 Sales themes

There are a number of components to the sales themes:

- ICL can provide a robust and reliable managed service
- ICL can change and evolve to meet the needs of a dynamic client operating environment in terms of the solution delivered and ways of working
- Choosing ICL enables business continuity and an evolution to the current solution rather than a disruptive revolution with a new supplier
- ICL can bring new technology, new functionality and a creative approach to the design of the next generation of IT within the Post Office
- Single tender is the easiest and most cost effective route – the time is right now

Robust and Reliable Managed Service

- in particular focusing on those areas of the current solution that have been designed specifically to meet the needs of Post Office e.g. some of the MIS and measurement tools
- highlighting the successful achievement of SLAs and key milestones over the period of the current contract
- highlighting the very broad scope and nature of the managed service provided e.g. security and fraud services, MIS, network management and field engineering

ICL – Changing and Evolving to meet Dynamic Client Operating Environment

- the ability to be respond to client initiated requests quickly and concisely
- to provide recommendations to the client as to how requests and the general solution can be improved through proactive analysis and thought
- to build some degree of future-proofing into the solution provided, to think more than one step ahead and enable the IT solution accordingly

ICL brings Continuity and Evolution

- the Post Office has enjoyed reasonably stable business processes and both the organisation and its client base are culturally unprepared for the potential revolution of a new supplier

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- Any new supplier would require some period of handover which would probably involved duplication of effort and cost, this would be avoided if ICL continued as prime contractor
- ICL brings significant understanding and experience of working with the Post Office and knows its business processes, continuing with ICL would avoid any disruption as a new supplier familiarised themselves with the operating environment

ICL can do Creativity and Innovation

- ICL has broad experience in a number of related and relevant industries e.g. retail, this can be used to develop the right solution for Post Office
- ICL needs to provide evidence of how it can approach requests for change and new business with an open and future-focussed mindset rather than being constrained by the past

Single Tender, Now

- there are no commercial or legal reasons why revision/extension of the current contract should not be considered at this time
- the earlier revisions are made, the sooner Post Office can reap the benefits of managing costs over longer periods, benefit from reduced costs arising from better ways of working, and begin to implement an IT solution that will take it to 2010.
- This bid activity acts as a key driver to encourage changes to ways of working that benefit Post Office by making ICL easier to do business with
- Sustainable competitive advantage must be built into the proposition in terms of value and partnership rather than bespoke inflexible code that does not support 3rd party product integration easily

3.3 Solution

It is not necessarily appropriate to start to define a solution before initial client requirements have been obtained. It is suggested though that the following lists summarises some general principles of what must be built into the solution rather than being prescriptive about what any solution should look like.

- An open platform to provide greater flexibility in terms of 3rd party product integration (potentially cheaper than bespoke development)
- A secure and reliable solution
- Ability to tailor to local requirements in terms of product and quality/range of service (not all offices do the same types and level of business)
- Potentially mobile services to support a rural network under increasing commercial pressures to generate profit
- Compliant with Euro (and other foreign currencies)
- Helpdesk, Field, OBC and other ongoing operational support – potentially through new channels as well as traditional call centres
- Further development of "Network Banking" and Financial Services to provide enhanced functionality and/or reduce cost
- Quick wins

4. Organisation and plans**4.1 Renewal proposition team resources**

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4.2 Timetable/milestones

4.3 Responsibilities

4.3.1 Proposition Sections?

Section	Title	Owner	Contributors
1	Management Summary		All
2	Background/Current Situation (why need to extend contract)		
3	Business Requirement		
4	Solution Overview		
	-Technical framework		
	-Commercial/Financial		
	-Management framework		
5	Why ICL		
6	Benefits		
7	Risk Management & Reduction		
8	Benchmarking (how you'll know you are getting VFM)		
9	Conclusion		