CASE STUDY 5

Outsource Non-Core Division – Canadian Telco (“Client”)

Challenge
Lead a “Document Services Outsourcing to accomplish the following program objectives:

- Determine the most cost effective solution to printing CLIENT volumes
- Seek ongoing improvements in document services capability / technology
- Enhance the CLIENT sales and marketing offering to drive external revenue
- Protect and enhance existing customer printing relationships
- Ensure sustained quality of service
- Ensure maximum value realized for CLIENT Assets

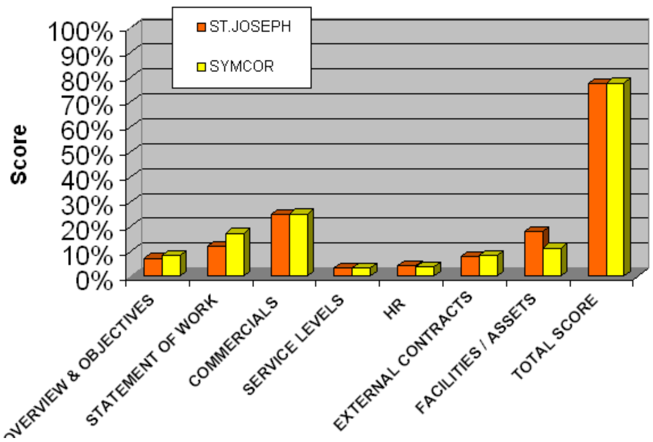
Insight
This deal was a key part of a corporate-wide initiative at CLIENT to outsource all non-core operations to improve quality and improve costs. The CFO’s business case requirements that had to be met in order to win approval for the outsourcing included:

- Demonstrated Economies of Scope & Scale
  - No impact to current external customer print production, outsourcing must be completely transparent to CLIENT customer base
  - Ability to enhance statement content with marketing collaterals
  - Ongoing competitive market pricing for CLIENT volumes including year over year productivity improvements reflected in prices
  - Ability to provide scalability to adapt to CLIENT’ changing business conditions
  - Improved operational costs for CLIENT’ postage and paper expenses
- Exceeding existing Production Quality
  - Vendor to meet or exceed current production measures
  - Vendor to manage downstream providers to meet or exceed statement delivery to CLIENT customers
  - Vendor to demonstrate national print capabilities and commitment to meeting Service Level Thresholds
  - Vendor to demonstrate Disaster Recovery capability

Solution
Given the complexity of the project, we deployed two procurement resources to support the project. We started with a thorough cost analysis of the existing Document Services operation at CLIENT to establish a baseline to measure internal costs against the market. An RFP was issued to eight vendors who we had prepared earlier through an RFI. Five of the eight recipients responded to the RFP with the following financial results:

1. COSTS	CP	DST	GLOBEL	St.JOE	SYMCOR	TELUS
TRANSITION CHARGES						
Vendor Charges	$ 25,000	$ 260,000	$ 46,400	$ 293,250	$ -	$ -
YEAR 1 SERVICES COSTS						
Hi	$ 11,091,845	$ 8,733,207	$ 7,517,983	$ 9,406,521	$ 8,265,834	$ -
Mid	$ 10,085,768	$ 7,962,809	$ 6,838,748	$ 8,578,042	$ 7,514,395	$ 8,190,668
Low	$ 9,079,691	$ 7,562,727	$ 6,159,513	$ 7,749,563	$ 6,762,955	$ -
TOTAL YEARS 2-5 COSTS						
Hi	$ 36,555,807	$ 28,416,345	$ 25,833,753	$ 29,198,573	$ 27,737,281	$ -
Mid	$ 32,636,264	$ 25,832,936	$ 23,485,230	$ 25,352,222	$ 25,067,076	$ 28,013,111
Low	$ 29,372,637	$ 24,463,055	$ 21,136,707	$ 23,889,742	$ 22,694,139	$ -
TOTAL SERVICE COSTS						
Hi	$ 47,672,652	$ 37,409,552	$ 33,398,136	$ 38,898,345	$ 36,003,115	$ -
Mid	**$ 42,747,032**	**$ 34,055,745**	**$ 30,370,378**	**$ 34,223,514**	$ 32,581,471	**$ 36,203,779**
Low	$ 38,477,329	$ 32,285,782	$ 27,342,620	$ 31,932,555	$ 29,457,094	$ -
COST NORMALIZATION						
Operations	$ 219,000	$ 800,190	$ 138,600	$ -	$ -	$ -
Vendor Production Prices	$ -	$ -	$ -	$ -	$ -	$ -
Resource Displacement	$ 4,150,000	$ 1,660,000	$ 2,650,000	Unknown	$ 2,563,000	$ -
Assets	$ 1,325,973	$ -	$ -	$ -	$ 1,325,973	$ -
Sub-total	$ 5,694,973	$ 2,460,190	$ 2,788,600	$ -	$ 3,888,973	$ -
CASH IN-FLOWS						
Customer Contracts	-$ 1,044,000	$ -	-$ 2,200,000	-$ 3,800,000	-$ 5,600,000	INCLUDED
Asset Acquisition	$ -	$ -	-$ 2,700,000	-$ 600,000	$ -	
Sub-total	-$ 1,044,000	$ -	-$ 4,900,000	-$ 4,400,000	-$ 5,600,000	$ -
5 YEAR TCO SUMMARY						
Hi	$ 52,323,625	$ 39,869,742	$ 31,286,736	$ 34,498,345	$ 34,292,088	
Mid	**$ 47,398,005**	**$ 36,515,935**	**$ 28,258,978**	$ 29,823,514	**$ 30,870,444**	**$ 36,203,779**
Low	$ 43,128,302	$ 34,745,972	$ 25,231,220	$ 27,532,555	$ 27,746,067	

A short-listing of the top two overall Respondents produced the following result:



FACTOR	WGT	ST.JOSEPH	SYMCOR
OVERVIEW & OBJECTIVES	10%	7.2%	8.3%
STATEMENT OF WORK	20%	12.0%	17.3%
COMMERCIALS	30%	25.0%	25.1%
SERVICE LEVELS	5%	3.3%	3.3%
HR	5%	4.1%	3.8%
EXTERNAL CONTRACTS	10%	8.0%	8.5%
FACILITIES / ASSETS	20%	18.0%	11.3%
TOTAL SCORE	100%	77.61%	77.65%

Results

Based on the second round of scoring and additional due diligence on operational capability, the RFP team recommended the selection of Symcor as the primary vendor for further negotiations, which we led. This included a lengthy due diligence period that required the team to travel the country validating the solution. There was also a very tough negotiation that lasted several months that finally resulted in an agreement on our Best and Final Offer on core contract items:

Items	SUPPLIER	CLIENT position June 20	Recommend "Best & Final"
Termination fees	50% of remaining recurring monthly revenues, and one time payment amortized over the life of the contract	Symcor's termination fee model @ 20%, but must demonstrate actual set-up costs	Straight line amortization over initial 48 months of program to the set-up investment (up to $10M). No termination fees in last year. Show evidence
Price Protection (Volume for Symcor)	Symcor has responded with +/- 35%. Baseline set horizontal against agreed volume level. 10% increase in price for total volume, below band. No upside improvement due to MFN pricing	Proposed +/- 20% for years 1 and 2, +/- 10% for years 3-5 with predictable pricing above and below the band (no price capping). Downside changes must equal upside	Agreed to +/- 35% and 10% price increase limit below band. Baseline set as of closing, true up annually (anniversary date) based on trailing 12 months .
SLA Matrix	Symcor has provided an SLA methodology , formal continuous improvement with a 15% penalty cap/mo and 5% annual cap	TELUS needs: penalties consistent with RFP, formal continuous improvement, supporting documentation	Agreed
Assets	$500K offer, includes forgiveness from IBM on last two months of lease agreement, $250K for equipment valued for resale at $730K, and a one time goodwill payment of $130K	TELUS understanding: 500K includes printers not owned by TELUS, plus some insert equipment. Additionally Symcor to assume lease and service costs for those printers and pre/post for 6 weeks until lease end (Dec 31)	Decline Symcor's offer of $250K for the equipment , TELUS will dispose of the equipment internally. Accept Symcor's one-time goodwill payment of $130K. TELUS had already negotiated the lease forgiveness concession with IBM
$2.5M One Time Payment	Accepted	No conditions to affect the full payment.	Agreed.
48 Hour SLA	Proposed 48 hour 60/40	Accept pending overall deal agreement and clarity on year over year improvements from Symcor	Agreed
CPI	Symcor has agreed to TELUS' recommendation of June 20.	Cap at 3%	Agreed