

Case Study: IT Outsourcing Central to Royal Mail plc Turnaround

EquaTerra's Advice Forms Basis for 10-year, £1.5 Billion IT Outsourcing Agreement

At a Glance

Company Profile

At the time of the project, this government-owned mail and retail business produced annual sales in excess of £8 billion, employed more than 200,000 people, delivered 82 million items of mail a day, ran 14,400 Post Offices across the U.K. and sold more than 170 products and services.

Services Featured

- Contract Negotiation and Development

Business Processes Involved

- Information Technology

Executive Summary

This case study shows how EquaTerra advised the U.K. Royal Mail Group plc (RMG) on a landmark IT outsourcing agreement that would help the group reduce costs and get the IT services it needed. Facing a myriad of problems, including a large in-house IT organisation, poor financial performance and bad press, RMG needed a transformation programme to restore profitability and effectiveness. Inevitably, IT outsourcing came to the forefront as a way to reduce IT overhead and release funds for investment in higher service quality. EquaTerra played a pivotal role. EquaTerra helped RMG with contract development, drafting the commercial deal structure and schedules. Furthermore, by acting as a moderating influence on RMG's negotiating position, EquaTerra helped RMG achieve financial concessions where appropriate. With a contract built on a solid foundation of trust, the company today is increasingly efficient and profitable, having reinvigorated and reinvented itself to meet the challenge of increasing competition.

Business Challenge

RMG Under Fire, Hires EquaTerra for Fresh Perspective

When RMG became a plc in March 2001, its goal of world leadership in the postal business seemed a long way off. At the time, RMG was losing money heavily and was under fire in the press – both for its declining financial performance and perceived poor levels of service. The Postal Services Act 2000 created a commercially focused company with a more strategic relationship with the government, as well as establishing a new regulatory regime with an independent regulator, Postcomm, and a reformed consumer body, Postwatch. Crucially, this transformation also removed RMG's commercial handcuffs, freeing it up to examine the potential savings from innovations such as outsourcing.

RMG's problems ran deep and extended to its IT infrastructure. The group had a large and unwieldy in-house IT organisation, on which it spent approximately £300 million a year. RMG's complex legacy structure had an impact on its investigation of IT outsourcing. The group's Business Systems division, the operational and executive arm running its IT function, engaged PwC Consulting (now owned by IBM) to advise on the available outsourcing options, structures and processes. At the same time, the Chief Information Officer – responsible for formulating IT strategy and overseeing best practice and standards – brought in EquaTerra to contribute a separate perspective and provide checks and balances on the deal structure.

Note: This case study was written prior to EquaTerra's acquisition of Morgan Chambers in September 2007. All "Morgan Chambers" references throughout this document have been changed to "EquaTerra" to reflect the new ownership and brand.

How We Helped

EquaTerra's Role Expands

In line with the brief, the EquaTerra team began work in 2001. EquaTerra monitored and commented on PwC Consulting's advice on the best way forward. It also advised the CIO on basic principles, structures, pricing, and service and scope issues. EquaTerra's main focus was on commercial packaging and approaches. EquaTerra continued to carry out this role throughout the initial preparatory work leading up to the launch of the request for proposal (RfP) for IT outsourcing into the market. However, in July 2002 PwC Consulting was acquired by IBM, one of the bidders for the IT outsourcing contract. As a result, PwC Consulting had to withdraw from its advisory role, resulting in an expansion in the scope of EquaTerra's role.

EquaTerra Advises the U.K. Royal Mail on Contract Development

From then on, EquaTerra worked closely with RMG's management team to draw up the group's IT outsourcing contract. As the RMG team negotiated, first, with various bidders, and then, with its preferred bidder (the CSC-led Prism Alliance including BT and Xansa), EquaTerra concentrated on contract development, drafting the commercial deal structure and schedules to sit alongside the terms and conditions. EquaTerra's work formed the commercial basis for the 10-year, £1.5 billion contract signed with the CSC consortium in May 2003.

EquaTerra Expert Opinion Confirms Value of Contract

Once the deal was agreed, EquaTerra delivered a final report for RMG's CIO providing an expert opinion as to the robustness of the contract, enabling RMG to get an understanding of the real value of the deal. In this report, EquaTerra assured RMG that it had obtained an excellent deal from the customer's viewpoint as well as containing virtually every concession it could have hoped for as a buyer. EquaTerra went on to stress that the contract had been built on a solid foundation of trust and RMG had to be careful not to abuse the strong position it had established.

Results

IT Outsourcing to Save RMG £250 Million

Announcing the CSC-led IT outsourcing agreement on 6 May 2003, RMG Chief Executive Adam Crozier commented: "This is a great deal for Royal Mail and a great deal for our people. It is a vital component in our renewal plans in terms of reducing costs and giving us the information technology services that we need to make Royal Mail a great company." In the years since then, IT outsourcing – designed to save RMG £250 million over its 10-year lifecycle – has been central to RMG's dramatic commercial turnaround.

EquaTerra's advice and expertise played a pivotal role in RMG's achievement of its targeted benefits, not least by acting as a moderating influence on RMG's negotiating position. The size and profile of the contract meant RMG was well placed to push for financial concessions from the providers. In areas where EquaTerra believed that pushing too hard would actually be counter-productive because of its detrimental effect on the supplier relationship, it made its views very clear – and RMG accepted them.

In summary, RMG realised the following benefits:

- Successful achievement of the targeted transaction and resulting savings
- A sustainable long-term agreement fully aligned with industry best practice in terms of commercial structure and deal shape
- A contract that balanced the realisation of commercial savings for RMG with the need to maintain a good, long-term supplier relationship and equitable sharing of the resulting benefits
- A sound and robust basis for the subsequent long-term recovery in financial performance and service quality across RMG's operations

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, Middle East, Africa and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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