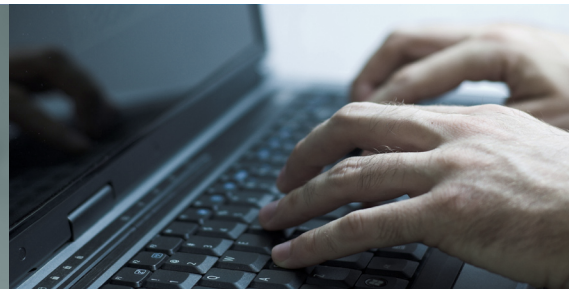


REALIZE GREATER VALUE
on your IT investment



Innovapost White Paper

The Business of IT: Innovation Through a Public-Private Partnership

June 2008



I. Introduction

Many senior government leaders are frustrated that their current approaches to IT services fail to deliver the benefits they expect.

This White Paper is recommended reading for those who have tried different models, explored different sourcing options, and restructured their IT organizations but are still not satisfied with the business results.

The next few pages recap the first five years of a journey taken by Canada Post and its subsidiary companies as they underwent an innovative process to transform their IT landscape. It was an evolution highlighted by a joint venture with a private sector partner that, in 2002, culminated in the creation of Innovapost.

Innovapost brings a unique approach to IT management, systems delivery and support that, without outsourcing overseas, has turned operational costs into corporate assets. Since 2003, Innovapost has delivered to its clients over \$250 million in operational cost savings. For Canada Post alone, application support costs decreased by 20%, and infrastructure costs decreased by 30%.

Elements of the Innovapost public-private model, and the results that it has achieved, hold lessons that may apply to your particular situation.

II. The Business Challenge

Government organizations share with private sector organizations a need to efficiently and effectively respond to customer needs. Unlike the private sector, government organizations are challenged to effectively deliver services within a public sector context, including transparency, fairness, and tax payer provided budgets and resources. The business challenge faced by government organizations is how to best deliver IT services, with speed, agility and efficiency in this public sector context.

The 'e-government' revolution held great promise to leverage the Internet as a means to enhance service delivery, reduce costs and introduce new ways of interacting with citizens. While great strides have been made in communicating and transacting with citizens via the Internet, it has also given rise to much broader expectation of government organizations with visions of more citizen-centric services, easier access, cost reduction, and greater integration across jurisdictions¹. E-government is no longer only about delivering better service levels for citizens; it's about reducing public sector spend, solving system and process integration problems, and helping organizations change the way they do business². The IT function needs to be a significant contributor to this agenda.

Run and Modernize

The pressure can be intense. Saddled with too many 40+ year-old, cumbersome, un-integrated legacy systems, rusted out infrastructure and siloed, early Web-based applications, many public sector IT departments are challenged to keep delivering the current state while modernizing core elements of their infrastructures, exploring new opportunities to deliver multi-channel solutions and exploiting the

1 "Government Executive Services Leadership in Customer Service: Delivering on the Promise," Accenture, 2007.

2 "Report of the Auditor General of Canada, Chapter 3 – Large Information Technology Projects," Nov. 2006.

Government needs new approaches to staffing the IT workforce because:

- The nature of governmental IT staffing is changing
- There is a secular trend that is gradually increasing demand for IT personnel
- It is becoming increasingly costly to hire staff, lose them, and get them back, ad infinitum; and
- Demographic changes mean there is a looming talent shortage that will hit the public sector first.

– *“Three Nuggets for Talent Gold”, Duncan Steward, Deloitte Canada, IntergovWorld.com July 31, 2007.*

benefits of emerging technologies. Managing these dichotomies and balancing resources and investments is not easy.

Any investment must demonstrate real business value when it comes to delivering better citizen service or enabling process and cost efficiencies. Canadians, along with policy makers and legislators, are not going to wait until you replace that old mainframe or you deploy your new integrated CRM solution before they design and announce new programs and initiatives. Government IT functions are at varying states of readiness to respond to this challenge. Progressive IT environments, with appropriate modernization investments, are much better positioned to proactively respond and drive business value. The overall governance structures and integration between the business and IT functions of an organization play a critical role in the extent to which IT is positioned to nimbly respond to emerging needs.

Employee Engagement

Staffing and engaging the IT workforce will continue to be a challenge for government organizations³. Ensuring that organizations have the right attributes (including pay, benefits, culture, career opportunities etc.) to be able to attract and retain skilled IT professionals is becoming more critical than ever as organizations compete for a limited supply of top IT talent in both the public and private sectors⁴. Getting the right people into the organization and keeping them engaged is a significant business challenge for government organizations.

Procurement

Public sector procurement is a constant complex balance of the needs for high quality, speed, agility, openness, fairness, appropriate oversight and control, while striving for optimal value for money⁵. Against this backdrop, several procurement ‘scandals’ have triggered changes to contracting rules, processes, roles and responsibilities with tighter controls and oversight. In some cases this has resulted in greater complexity for low-risk initiatives, while in other cases it is pushing the exploration of alternative options for higher-risk initiatives. Current procurement vehicles tend to focus

“Governments must deliver successful IT projects if they are to provide their services to the public economically, efficiently and effectively.”

– *“Report of the Auditor General of Canada, Chapter 3 – Large Information Technology Projects”, November 2006.*

³ “Report of Ontario’s Special Task Force on the Management of Large-Scale Information & Information Technology Projects,” July 2005.

⁴ For example, there is a pressing need to fill 89,000 IT vacancies in the federal government in the next 3-5 years, presentation to Information Technology Association of Canada (ITAC) by Steven Poole, Chief Executive Officer, Information Technology Services Branch, November 27, 2007.

⁵ “Procurement Efficiency in Government: Policy, Process, and Technological Transformation”, White Paper, CGI, 2007.

on managing risk through task-based, person-based, time-and-material contracts, with few solutions-focused procurements. It may be less risky to “buy bodies”, however the ability to optimize investments is diminished, and this approach requires increased integration and management by the government-buying organization. Alternative service delivery models, such as the Joint Solution Procurement process used by the province of British Columbia, pose new and innovative approaches.

Program Complexity

Major government programs have become increasingly complex and horizontal in nature, resulting in supporting IT initiatives that are more difficult and riskier to manage. Given the fundamental role and cost of IT in enabling these major programs, ensuring that IT delivers value is critical. Unfortunately, many large business initiatives have a history of unclear business objectives, overspending, delays, performance shortfalls and abandonment after major investments. In 2005, approximately 40% of IT projects in Ontario were still falling short in some way⁶. In fact, Gartner forecasts that through 2010, government agencies will cancel 30% of the IT projects that they initiate⁷.

III. IT Service Delivery Models

Which IT service delivery model best addresses these business challenges? In defining the ideal end state for government IT, Gartner notes that the evolution of government IT should be from ‘Support’ to ‘Enablement’ to ‘Drive,’⁸ with both “IT Presence in the Enterprise” and “Process Competency” increasing along their respective axes as the evolution progresses.

Briefly, as a Support function, the focus is on supplying and managing infrastructure, either through internal assets or third party providers. As an Enabler, an IT organization plays a more productive role in developing business-enabling applications across programs and agencies. While as a Driver, the IT group plays a stronger leadership role transforming government service delivery through technology advancement.

The creation of Innovapost as a separate entity, leveraging a commercial model, is Canada Post Corporation’s answer to this evolution. The result is an IT environment that leverages elements of these common IT service delivery models.

- **In-House:** IT services are controlled, managed and delivered by government employees.
 - Works well for keeping knowledge at hand and direct control over activities and technical environments.
 - Presents challenges in maintaining appropriate resource base and skill sets and in leveraging targeted expertise and economies of scale/scope.
- **Managed Services:** Components of the IT function, activities or environment are managed and/or delivered by a third party, which could include another government agency or private sector provider.
 - Works well in situations where organizations can focus their efforts on core business elements

6 “Report of Ontario’s Special Task Force on the Management of Large-Scale Information & Information Technology Projects,” July 2005.

7 “Why IT Projects Fail in Government,” Herbert Strauss, Nov. 2006.

8 “The Model Government IT Organization,” John Kost, Gartner, June 2006.

and divert “non-core” activities/functions to an external party specializing in the particular domain, resulting in lower total cost of ownership.

- Requires different skill sets to deliver a continued focus on on-going management and optimization of service agreements.
- **Solution Development:** The design, build and integration of a specific IT solution or application by a third party.
 - Enables innovation and promotes creative approaches to sharing risk and accountability.
 - Limited control over tactical execution .
- **Staff Augmentation:** Engagement of contracted IT professionals to address resource shortages (skills or numbers).
 - Offers significant flexibility and efficiency in addressing fluctuations in work demand.
 - May result in continuous knowledge transfer and lack of continuity within the organization. All of the risk is borne by the buyer.
- **Shared Services:** Common shared solutions, technical environments or IT services among multiple parties.
 - Increased efficiency, effectiveness and value-add of services (multiple “clients” drive for higher expectations).
 - Requires collaborative involvement of both service provider and customer, often under new engagement models.

The specific attributes of the Innovapost model, and how each of the above delivery models are used to address the IT needs of Canada Post and its affiliates is addressed below. However, to fully appreciate the evolution, it is useful to first explore how Canada’s largest Crown Corporation shifted from a traditional IT model to one that leveraged the efficiencies available from private-sector partnership. This shift allowed stakeholders to realize greater business value from their investment while attracting and retaining talented IT professionals.

IV. IT Transformation at Canada Post

By the late 1990s, senior management of Canada Post (which includes not only Canada Post, but subsidiaries such as Purolator) knew they faced a number of significant business challenges. Customer satisfaction ratings were on the decline, while competitors and substitute services in courier and technology markets were quickly gaining momentum and impacting their business.

The business challenges from an IT perspective were crystallized after Canada Post had pursued several different models for IT service delivery. Customers were expecting ready access to fast and easy service tailored to their needs, but Canada Post was relying on an IT backbone of 80 unintegrated legacy systems. Procuring IT services and support was complex and IT continued to be a major expense to Canada Post and Purolator. By the late 1990s, Canada Post concluded they were failing to generate sufficient business value from their IT investments, and had difficulty attracting and retaining skilled IT professionals. The business was preparing to undergo fundamental change and required innovative and agile IT solutions to support new processes, solutions, products and services while continuing to deliver on the universal

service mandate of Canada Post – mail delivery to every household and business in Canada.

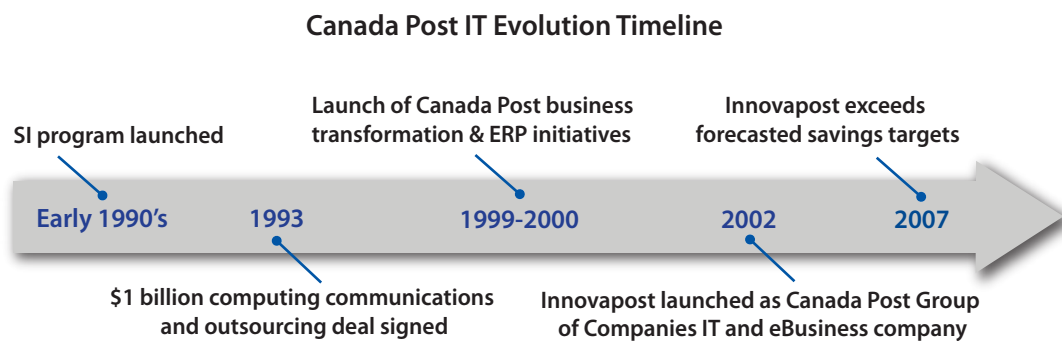
Based on the experiences it had gained through previous attempts to reform its IS/IT service delivery, Canada Post management recognized that a new approach was required to tackle the fundamental IT changes needed.

Specifically, Canada Post was seeking to:

- Access world class IT capabilities to compete in a technology-driven world.
- Meet customer demand for greater process/system integration.
- Leverage IT investments across the Canada Post and Purolator.
- Partner with a commercial IT/IS provider to lower the risk of bringing new solutions to market.

V. An Innovative Solution

Canada Post recognized that all of its business needs could only be met through an innovative solution. As a result, it decided that a separate commercial entity – with a clear mandate and governance, commercial partner, business goals, experienced management and staff, and proven IT/IS processes – would be the best way to meet their business needs.



In 2000, Canada Post issued a request for proposal to establish a jointly-owned, for-profit IT services and e-business company. Through this company, Canada Post and Purolator would procure all their information systems, information technology and electronic business services requirements. A commercial partner was selected and, in 2002, Innovapost was launched in what some referred to as a “\$350-million start-up”. Canada Post created an innovative solution for the ‘business of IT’ through a public private partnership: Canada Post and a commercial partner own 51% and 49% of Innovapost, respectively.

Innovapost’s mandate is to provide IT services to Canada Post Group, Canada Post’s customers, and foreign postal operators. It is governed through a Shareholder Agreement and a Board of Directors. The Board is made up of seven senior representatives from Canada Post and the commercial partner. Innovapost business results are reported in annual reports of both Canada Post and the commercial partner.

The 'winning' conditions for this innovative solution included a commercial operating model, core company values and a performance-driven culture, as well as a focus on employee engagement.

Commercial Operating Model

Innovapost operates under a commercial business model and is incorporated under the Canada Business Corporations Act. The operating model has a number of key attributes:

- An annual business plan, approved by both shareholders, with a balanced set of targets, including earnings before tax, cost savings, customer satisfaction, employee satisfaction, managed release quality, and service level agreement compliance. An external audit is conducted for Innovapost financial statements.
- Master Service Agreements and Service Level Agreements with its customers.
- Market rates for Innovapost labour.
- Customers review proposals and buy Innovapost services through purchase orders.
- The provision of IT services focuses on solution delivery, and minimizes a staff augmentation or 'body shop' approach to service delivery.
- Cost savings from infrastructure modernization and shared service efficiencies, plus earnings from Innovapost, are funneled back in to new development activities.
- Employee pay, benefits and variable compensation are based on a commercial IT service provider model, and are benchmarked to that market.

Core Values & Performance Driven Culture

A key challenge for Innovapost was to build a distinct company culture that could deliver on our commitments to customers, employees and shareholders. Initially Innovapost was made up of employees previously employed by Canada Post, Purolator and their existing service providers. Innovapost, in the formative years, had multiple sets of values and culture and needed to establish a single, distinct culture.

Innovapost has successfully established a core set of values and performance-driven culture in which clear goals, initiatives, programs and behaviours drive customer satisfaction, employee engagement and shareholder value. It is a company where pride and progress inform a set of corporate values that include leadership, honesty, teamwork, integrity and respect; a solutions-based environment in which innovative IT is developed and delivered by an engaged employee base.

Employee Engagement

As a knowledge-based business, successful IT service delivery requires engaged employees. Engagement is a measure of an employee's emotional and intellectual commitment to an organization.

Innovapost has a corporate goal of becoming one of Canada's '50 Best Employers' by 2012. To achieve this goal, Innovapost measures employee engagement annually and invests in various initiatives to improve engagement each year.

The Innovapost Model

The Innovapost model represents aspects of each of the various models described in Section III. The following table provides an overview as to how each model has been leveraged.

Model	Attributes of the Innovapost Model
In-house	The Chief Information Officers function resides within Canada Post and Purolator. This ensures that customer interests are protected through knowledgeable and highly involved decision makers.
Managed Service	All 'Tier 1' infrastructure, networks and data centers are provided by third-parties and managed by Innovapost. This allows customers to enjoy cost savings resulting from aggregated shared services, but managed by Innovapost through SLAs.
Staff Augmentation	Used to fill discrete, short-term resource needs. Typically with individuals with strong subject matter, technical or functional knowledge, and are part of a larger initiative managed by Innovapost. This ensures that customers are provided with personnel who have the right knowledge, and that continuity in this knowledge is leveraged within Innovapost.
Solution Development	Innovapost conceives, develops and delivers all IT solutions for Canada Post and Purolator. This approach benefits customers in that they do not need to manage the entire process – but can focus on buying end results and outcomes.
Shared Services	Infrastructure, networks and application maintenance and support are managed by Innovapost for Canada Post and Purolator. This provides cost savings and efficiencies to our two key customers.

Business Value Created

In five years Innovapost has delivered a number of tangible business results for its shareholders, customers and employees.

- Delivered over \$250M in operational cost savings to the Canada Post Group in five years. For Canada Post alone, application support costs have decreased by 20%, while infrastructure cost have decreased by 30%. These cost savings have been achieved with no 'off shoring' of on-going IT services and no increase to daily rates for Innovapost application development work since 2003.
- Consolidated IT spend within Canada Post and Purolator and made IT costs more transparent to customers.
- Staffed up to nearly 800 employees. All application support and 50% of application development work is conducted by Innovapost employees. Innovapost employee turnover has been below industry average.
- Built new capabilities including Change Management, Business Consulting, Technology Strategy, Rapid Application Development, and Mobility.
- Met or exceeded earnings targets every year, and has been profitable since inception.
- Contributed almost \$100M in dividends to Canada Post and commercial partner shareholders
- Leveraged crown-to-crown asset sharing policies and agreements between Canada Post and federal government departments to share Canada Post and Innovapost assets and capabilities
- Ranked as the leading technology company in the National Capital Region on a per capita basis in support of the United Way.

VI. Turning a Cost into an Asset

The approach has had a tangible impact on IT service delivery at Canada Post, and has turned IT service delivery from a cost into a corporate asset. The business model that gave rise to Innovapost presents an interesting alternative for government, while the experience gained by implementing this business model presents a wealth of knowledge and insights, tools and capabilities that can be leveraged by government entities as they look to drive more business value from their IT functions.

Regardless of the IT service delivery 'model' adopted by an organization, Innovapost's experience highlights a necessary focus on a handful of fundamentals. These are:

1. **Set and measure clear *business* goals for IT service delivery** to help provide focus and alignment with your IT customers. Cost savings, service improvement, customer integration, employee engagement, infrastructure modernization are examples of tangible business goals.
2. **Consider a commercial model for IT service delivery** driven by profit or cost recovery to drive discipline and help focus scarce resources on the right business and technology issues. Organizations can achieve this type of model through the adoption of a structured governance model, creating IT service offerings, establishing Service Level Agreements with customers, adopting charge-back or pricing models, and working in a more innovative way with private sector IT providers.
3. **Attract and retain top talent** by establishing a value-based, performance driven culture that provides rewarding career paths, high levels of employee engagement. Attaining high levels of employee engagement will ensure your employees are as committed as you are.

IT as a business should be the foundation upon which an organization approaches its relationship with the IT function. When IT is thought of in this manner, it can be a key business enabler that will drive tangible business value.

Governments can make significant strides toward delivering real business value if they adopt and track clear business goals, move to a commercial IT service delivery model, and proactively manage the career paths of your IT professionals.

VII. Further information

For more information about Innovapost, please visit our website at www.innovapost.com or contact Laura Matthews, Director, Innovapost Communications (613) 270-6532.

www.innovapost.com

Innovapost and the Innovapost logo are registered trademarks of Innovapost Inc. Innovapost assumes no responsibility for the accuracy of the information presented, which is subject to change without notice.

© 2008 Innovapost Inc. All rights reserved.

