

Annexure MMAM06



MEMORANDUM

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To: Siyabonga Gama, Group Chief Executive (GCE)

From: Garry Pita, Group Chief Financial Officer (GCFO)
Makano Mosidi, Group Chief Information Officer (GCIO)
Edward Thomas, Group Chief Supply Chain Officer

Subject: **RFP No. GSM/15/08/1310 for Provision of IT Data Services – Request for approval of contract award of IT Data Services to T-Systems South Africa (Pty) Ltd**

PURPOSE OF SUBMISSION:

1. To request the Group Chief Executive (GCE) to:
 - a) Approve the award of business to T-Systems SA (Pty) Ltd;
 - b) Grant approval to issue a Letter of Intent (LOI) to T-Systems SA (Pty) Ltd as the preferred bidder on this RFP;
 - c) Sign the Letter of Intent (LOI) for the preferred bidder (See Annexure A); and
 - d) Sign letter of regret for the eight (8) unsuccessful bidders (See Annexure B).

BACKGROUND:

2. The current five (5) year T-Systems contract for Information Technology (IT) Outsourcing was established through a sale agreement of Arivia.kom to T-Systems in 2009. The contract was extended for two (2) years and it expires on 31 December 2016.
3. All Transnet Operating Divisions (ODs) make use of this contract for their IT Data Services requirements and the contract is managed at Group level by Enterprise Information Management Services (EIMS) previously known as Group Information and Communications Technology (ICT).
4. The IT Data Services sourcing strategy and RFP were prepared by the Cross Functional Sourcing Team (CFST) that consisted of technical representatives from all Operating Divisions (ODs). This sourcing strategy was approved by the Board on 27 August 2015.

DISCUSSION

5. The Board sub-delegated authority to the Group Chief Executive (GCE) to approve the RFP, issuing of the RFP to the market as well as, conducting due diligence and post tender negotiations (See Annexure C).

6. The GCE approved the issuing of the RFP on 18 November 2015 (See Annexure D) and it was advertised on the National Treasury e-tender portal, as per the National Treasury Instruction Note 1 of 2015/2016 (Advertisement of bids and the Publication of awards on the e-tender publication portal). Transnet issued the IT Data Services RFP to the market from the 23rd of November 2015 and the tender closed on 26 January 2016.
7. The tender was advertised on the National Treasury's e-tender portal website at no cost to bidders. A compulsory briefing session was held on 09 December 2015 and fifty (50) bidders attended the briefing session. Only nine (9) bidders responded to the invitation to submit responses.
8. The IT Data Services Cross Functional Evaluation Team (CFET) started with the evaluations on 28 January 2016 and completed the evaluations on 09 March 2016.
9. The received bids were evaluated against specific and predetermined criteria as set out on the RFP. Initially five (5) bidders passed stages 1 to 4, but after Transnet Internal Audit's (TIA) High Value Tender (HVT) team conducted a High Value Tender Gateway 3 review, it was discovered that two bidders, Bidder 2 (WIPRO Technologies South Africa) and Bidder 3 (Mobile Telecommunication Networks (MTN)) were erroneously disqualified at stage 2 (Substantive responsiveness) on the technical prequalification criteria. The HVT team recommended that these two bidders advance to the next stage (Stage 3). The substantive re-evaluation of the above two bidders, allowed them to progress to stage 3 (technical evaluation stage).
10. Subsequent to the second technical evaluations for bidders 2 and 3, all seven (7) bidders passed stages 1 to 3 and reached stage 4. A total of seven (7) bidders advanced to stage 4 (commercial and preference evaluation stage) and they were:
 - Bidder 1: Ubuntu Technologies
 - Bidder 2: Wipro Technologies South Africa
 - Bidder 3: MTN
 - Bidder 4: EOH Mthombo
 - Bidder 5: T-Systems South Africa
 - Bidder 6: Business Connexion (BCX)
 - Bidder 7: Gijima Holdings
11. The table below indicates the number of bidders that reached and passed each of the evaluation stages.

Evaluations										
Stage 1		Stage 2		Stage 3		Stage 4		Stage 5		Stage 6
Administrative Responsiveness		Substantive Responsiveness		Technical Evaluation		Commercial Evaluation		Due Diligence incl. Post Tender Negotiations		Contract award
Bidders at this stage	Bidders that passed stage	Bidders at this stage	Bidders that passed stage	Bidders at this stage	Bidders that passed stage	Bidders at this stage	Bidders that passed stage	Bidders at this stage	Bidders that passed stage	
9	8	8	7	7	7	7	2	2	1	TBA

Table 1: Evaluation Stages

12. The Administrative responsiveness stage (Stage 1), evaluated the bids in terms of:
- Submission within the stipulated date and time; and
 - Submission of complete and valid returnable documents.

13. The Substantive responsiveness stage (Stage 2), evaluated whether bidders complied with the technical and Supplier Development (SD) prequalification criteria. At this stage bidders were also evaluated on the presence of a priced offer and their commitment to a successful transition from the current service provider to the new service provider in line with the RFP Service Level Agreements (SLAs). The mandatory transition period was a maximum period of six (6) months.

14. The technical evaluation (Stage 3) prescribed a threshold of 70%, as per the criteria in table 2 below. All seven (7) bidders passed the technical threshold.

Technical Criteria	% Weightings
Service Provider Assessment	20%
Technical Service Towers	70%
Service Credits	10%
Total Weighting:	100%
Minimum qualifying score required:	70%

Table 2: Technical Evaluation

15. As mentioned above on paragraph 10 and 11, seven (7) bidders progressed to the Commercial evaluation stage (Stage 4), where they were evaluated on price and preference (B-BBEE). A number of bidders had made numerous assumptions on their initial bids regarding Transnet's requirements, the assumptions on the bidders' pricing workbook made it difficult for the Cross Functional Evaluation Team (CFET) to evaluate bids on a comparative basis. The bidders were then invited to the IT Data Room, where they had a view of Transnet's Information Technology (IT) landscape, to get a better

understanding of Transnet's environment. Subsequent to the visit to the Data Room, all bidders were invited to a "closing the gap session", which was a session to clear all assumptions, in order to enable bidders to provide Transnet with a revised pricing workbook. The bidders submitted their revised prices on 06 June 2016, after which the second commercial evaluation was conducted.

16. Subsequent to the commercial evaluation on 15 July 2016, the GCE approved that negotiations and due diligence exercises to be conducted with the top two (2) ranked bidders [T-Systems (bidder 5) and Ubuntu Technologies (bidder 7)], (See Annexure E). These two bidders scored the highest overall points against their counterparts on price and preference (See Annexure F).
 - The first (1st) ranked bidder (T-Systems) achieved a total score of 99% and the second (2nd) ranked bidder (Ubuntu Technologies) achieved a total score of 86.2%.
 - There was a price variance of 12.8% between the first and second ranked bidder. Whilst, the price variance between the first and third ranked bidder was 19.79%.
17. Due to the fact that the RFP validity period was close to expiry, Transnet advised all nine (9) IT Data Services bidders of its intention to extend the validity period by a further 120 business days. The tender validity period was extended with an additional 120 business days after approval was sought and granted from the GCE on 15 July 2016 (See Annexure G). This means that the tender offers are still valid until 11 January 2017.
18. The bidders were also requested to confirm that their prices will remain valid for the duration of the extended validity period.
19. On 19 July 2016, Transnet communicated with T-Systems and Ubuntu Technologies that post tender negotiations and due-diligence exercises needs to be undertaken on July/August 2016. Subsequent to the receipt of the above notification from Transnet, the second (2nd) ranked bidder (Ubuntu Technologies) sent to Transnet their formal letter withdrawing from the bidding process, citing the reason that their strategic partner (Hitachi Data Systems) had indicated that it is not able to keep its prices firm during the extended validity period of 120 business days (See Annexure H). Ubuntu Technologies could have opted to amend their prices, as per paragraph 6.2 of the General Bid Conditions, which allow bidders to amend their prices in line with changes in the market. Ubuntu Technologies instead opted to withdraw from the bidding process without exercising the option to amend their tendered prices. The General Bid Conditions were issued together with the RFP document (Appendix I of the RFP) and Ubuntu Technologies had signed at the bottom of each and every page of the RFP document, to indicate their acquaintance with the contents of the General Bid Conditions.
20. The due diligence and post tender negotiations continued as scheduled with T-Systems on 25 and 27 July 2016 respectively. The third (3rd) ranked bidder (Gijima) was added on the shortlist, to replace the second ranked bidder (Ubuntu Technologies) in order to maintain competitiveness in the bidding process.

21. The inclusion of the third ranked bidder was necessitated by the withdrawal of Ubuntu Technologies (second ranked bidder) from the bidding process. The GCE approved the addition of the third ranked bidder for due diligence and negotiations on 11 August 2016 (See Annexure I).
22. The due diligence and post tender negotiations on the third ranked bidder were conducted on 11 and 12 August 2016.
23. The due diligence on both bidders comprised of bidder reference checks and site visits. In the RFP document on paragraph 3 of section 3, the bidders were requested to submit details of three (3) client references in their RFP submission, where they offered similar service towers comparable in size and complexity to Transnet. The Cross Functional Evaluation Team (CFET) contacted two (2) of the three (3) references, for both bidders. The second part of the due diligence included site visits to the offices of the bidder and their Tier 3 Data Centres (DC). The CFST visited bidders' premises for an assessment of their Data and Operations Centres. The site visits also included "face to face" interviews with the bidders' Relationship and Senior Technical Managers which were conducted at the bidder's offices. Due diligence was conducted as a capacity validation tool and risk mitigation exercise.
24. After the conclusion of the due diligence and post tender negotiations with T-Systems and Gijima, the bidders were requested to submit their Best and Final Offers (BAFOs) on 17 August 2016. Gijima (bidder 7) provided the lowest priced bid in the BAFO stage, scoring a final score of 99%. T-Systems (bidder 5) scored a final score of 85.07%, (See Annexure J).
25. The bidders were also requested to submit their high level transition plans and their final Master Services Agreement (MSA) mark-ups together with their BAFOs. The MSA mark-ups were requested in preparation for the final contract negotiations with the preferred bidder and the high level transition plans were requested to get a better understanding of how the bidders will approach their respective transition periods.
26. A report was compiled by the CFET, which gives a comprehensive overview of the due diligence process. The due diligence report gives an overall score of both bidders and the second part of the report is a risk report (See Annexure K). The first ranked bidder (Gijima) achieved an overall score of 71.26% and the second ranked bidder (T-Systems) achieved an overall score of 71.59%, without factoring in any identified risks. The due diligence report scores were based solely on the site observation and client reference checks. The risk report delved deeper into the business risks that were identified by the CFET on both bidders and the overall impact on Transnet.
27. The bidders were informed that a maximum period of six (6) months for the transition period still applied and it was also emphasized during the commercial negotiations that after the six (6) months transition period, Transnet requires to be operating on Full Mode of Operation (FMO) in order for operations to be stable with no major ICT transformational activities for at least eighteen (18) months.

28. After the BAFOs were submitted and reviewed, it was noted that Gijima indicated in their transition plan that after the six (6) months transition period, Transnet will still be in their Current Mode of Operation (CMO), which poses a major risk to Transnet due to the fact that it will require ICT transformation projects to reach the FMO. The ICT transformation projects will require additional resources (time, people and money) to implement, after the first six (6) months. Moreover, Transnet will be paying for FMO services scope and service levels prior to the service provider achieving same.
29. On the initial submission Gijima had accepted the transition period condition, but on their high level transition plan that was submitted with their BAFO on 17 August 2016, it stated the following: "*Gijima understands the complexity of a transition project. It is therefore imperative that we transition the AS-IS (CMO) environment during the proposed 6 months. Enhancements and improvements (CMO+) will be done after the transition and stabilisation period*". This means that Gijima will continue providing Transnet with the Current Mode of Operation (CMO) services after the 6 months transition period. The requirement was for Transnet to operate at FMO after the six (6) months transition period has been finalised. The above statement by Gijima, poses significant business and financial risks to Transnet.

PROJECT RISKS

30. The purpose of the due diligence report was to highlight all the business risks that were identified during the due diligence process in order to minimize Transnet's operational risks after contract award. The risks which were highlighted by the CFET on the due diligence report can be summarized as follows (See Annexure K).

Bidder 5 (T-Systems)

- The bidder intends to conduct a considerable infrastructure equipment refresh during the six (6) months transition period in order to keep the environment modernised. This poses a minimal risk as it will be undertaken as part of business as usual.
- Transnet and the bidder need to commit the required number of skilled resources in order to be able to manage the transition period within the stipulated timeframe. Failure to commit the required number of adequately skilled resources by both parties, will result in delays in finalising the transition period.
- Apart from the above two risks, no major risks were identified on this bidder.

Bidder 7 (Gijima)

- There is a risk in that the Vodacom Data Centre (DC) that Gijima will be using to host Transnet as it still needs to be built i.e. cages, power racks, servers etc. There is still outstanding equipment which still needs to be procured from the overseas Original Equipment Manufacturer (OEM). The standard DC equipment shipping time is 8 to 12 weeks excluding the customs inspection and clearance timelines. Once delivered to the DC, the equipment needs approximately two (2) months to be built before data

transfer to the new Data Centre can commence. This might result in Gijima not being able to complete transition within the maximum stipulated period of six (6) months which poses significant operational risks for Transnet.

- The CFST team identified a security risk in that Gijima does not have a dedicated Security Operations Centre (SOC) but this risk was considered marginal as they do have qualified security personnel who are operating from their Customer Contact Centre.
 - The CFST team identified a major risk with regards to the transition from the current service provider as Gijima only committed to CMO migration within the first six (6) months transition period, instead of the required CMO to FMO. Transnet's experience with this is that this requires focused projects during Business as Usual (BAU) that require resources from both parties and it is costly. Moreover, Transnet would be paying for FMO services scope and Service Level Agreements (SLAs) prior to reaching FMO. This change in transition commitment has resulted in a fundamental change in the RFP submission of Gijima.
 - Transnet and the bidder need to commit the required number of skilled resources in order to be able to execute the transition period within the stipulated timeframe. Failure to commit the required number of adequately skilled resources by both parties will result in delays in finalising the transition period.
31. Based on the risks that were identified on Bidder 7 (Gijima), Group Strategic Sourcing sent a request for clarification to Gijima on 05 September 2016, in order to give them an opportunity to advise Transnet on how they will address the identified risks. In the letter, clarity was requested on the IT Data Centre Facilities, Business Requirement-Transition Scope, Scope and Contract as well as Transition project and Contract Delivery. The letter was very explicit on the points that needed clarity from the bidder (See Annexure L)
32. The bidder (Gijima) responded back to Transnet in writing on 07 September 2016 (See Annexure M). Gijima's response did not adequately address the risks that were addressed and as a result, the CFST requested that Group Legal provide counsel on the way forward. Group Legal indicated that the correspondence that was sent to Gijima was very clear on the points that were identified as risks, further reiterating the requirement of six (6) months transition from CMO to FMO. Gijima was given an opportunity to indicate how they will mitigate the identified risks and their response was still vague, as they did not explicitly indicate how they will transition to FMO after the six (6) months transition, as well as provide a plan on how they will mitigate the risk of procuring and installing equipment in their Data Centres, as well as mitigating the data from the current incumbent's Data Centre to their Data Centre within the six (6) months transition period.
33. Gijima did not provide a strategy on mitigating these risks and as a result the CFST had reservations in selecting Gijima as the preferred bidder for this tender, as the risks identified are material. By selecting Gijima with their current proposition, Transnet runs the risks of not being at CMO and FMO within six (6) months. Furthermore, there is also a risk of the transition project over-running, which means that the current incumbent may

continue to service Transnet for some of the services that are not fully transitioned, which will be costly for Transnet.

34. iSCM Governance's counsel was also sought on the requirements of using objective criteria to recommend the second ranked bidder (T-Systems) as the preferred bidder, due to the major risks that were identified on the first ranked bidder (Gijima). The use of objective criteria was covered in the IT Data Services RFP as a standard clause, in Section 1. Paragraph 10 (disclaimers) of the RFP. The recommendation from Governance was for Transnet to send a request for clarification to Gijima, in order for them to make representations on how it intends to manage the risks that were identified by the CFST, in the event, where Gijima fails to properly address the identified risks, the CFST may award the tender to the second ranked bidder, only where it is lawful, reasonable and procedurally fair to do so. Furthermore the risks that were identified must be material in order to justify the use of objective criteria (See Annexure N).
35. The conditions stated by Governance, satisfies the need to apply objective criteria in the award of the contract to T-Systems as Gijima has already been provided with an opportunity to make representations on the identified risks and they failed to adequately address the identified risks. This is further supported by Group Legal's opinion regarding the identified business risks. Group Legal's opinion was that the use of objective criteria by the CFST to recommend award to the second ranked bidder is allowed as the process that was followed in arriving at that recommendation was lawful and procedurally and administratively fair, (See Annexure O).
36. Based on the identified business risks, the CFST decided that Gijima should not be recommended for award, due to the significant risks that have been identified to Transnet and that T-Systems should be recommended for contract award.
37. The Tender Evaluation and Recommendation Report (TEAR) (See Annexure P), provides detailed information on the tender evaluation process that was followed from stage one (1) up to stage five (5).
38. Transnet Internal Audit (TIA) was part of the IT Data Services RFP evaluation process including due diligence and negotiations and they issued satisfactory audit reports for High Value Tender (HVT) Gateway 3 and 4, (See Annexure Q). The satisfactory TIA reports on both Gateway 3 and 4 confirm that the evaluation process which was followed by the CFST and the recommendation made on this project were in line with the Transnet Procurement Procedures Manual (PPM) and the High Value Tender (HVT) process and therefore fully complies to the prescripts of the Preferential Procurement Policy Framework Act, No. 5 of 2000 (PPPFA).
39. The Group Chief Supply Chain Officer further requested the Transnet Group Risk and Compliance department to conduct an independent risk assessment based on the residual risk that exists on the IT Data Services project due to the fact that the recommendation for award that was done by the CFST was based on objective criteria due to the business risks that were identified on bidder 7 (Gijima) who were the first ranked bidder. The independent risk assessment that was conducted by Group Risk and Compliance

confirmed that the IT Data Services CFST has adequately applied its mind and was justified in recommending award of business to the second ranked bidder (T-Systems) based on the business risks that were identified with the first ranked bidder (Gijima), (See Annexure R).

40. Table 4 below indicates project timelines for the remaining activities to complete this procurement event for the acquisition of IT Data Services RFP:

Item	Activity	Planned Completion Date
1	Stage 1 (Administrative Evaluations and Moderation)	Finalised
2	Stage 2 (Substantive Evaluations and Moderations)	Finalised
3	Stage 3 (Technical Evaluations and Moderations)	Finalised
4	Stage 4 (Commercial Evaluations and Moderations)	Finalised
	-Data Rooms	Finalised
	-Clarifying assumptions for revised pricing workbook	Finalised
5	Stage 5 (Due Diligence and Post Tender Negotiations)	Finalized
6	-Bidders submit Best and Final Offers (BAFO)	Finalized
7	Submit final contract award to the GCE as per the new DOA	08 December 2016
8	Stage 6 Issue LOI to the preferred bidder	Issue LOI upon GCE's approval
9	Discuss Implementation Plan with the preferred bidder	To be negotiated after issuing LOI
10	Negotiate and sign Master Services Agreement (MSA) during the transition period	To be negotiated after issuing LOI

Table 4: Project Timelines

SUPPLIER DEVELOPMENT:

41. The recommended bidder (T-Systems) has committed to spend 57.31% of the IT Data Services contract value on Supplier Development (SD) initiatives. The requested minimum SD commitment on the IT Data Services RFP was 40%.

APPROVALS AND DELEGATION:

42. As per the Board resolution passed on 27 August 2015, the GCE was delegated with the authority to approve the RFP for issue, negotiate and sign-off all the relevant documentation in line with the approved sourcing strategy. As per the delegation of authority framework effective from 01 September 2016, the approval of this award falls within the mandate of the GCE. The GCE has already provided the following approvals:

- (a) Approval to issue the IT Data Services Request for Proposal (RFP) for a period of five (5) years with an option to extend for a further two (2) years to the open market;
- (b) Approval to conduct due diligence and negotiations with the top two ranked bidders (T-Systems and Ubuntu Technologies and subsequently between T-Systems and Gijima).

- (c) Approval to extend the RFP validity period by a further one hundred and twenty (120) business days.
- (d) Approval for addition of the third ranked bidder for due diligence and negotiations after withdrawal of the second ranked bidder from the bidding process.

43. Separate memoranda will be written to the Transnet Acquisitions and Disposals Committee (ADC) and the Board of Directors (Board) for them to note the contract award, after approval of this recommendation for award by the GCE.

FINANCIAL IMPLICATIONS:

- 44. The final tendered pricing for the recommended bidder over a period of five (5) years (T-Systems) is R1, 545,181,620.76.
- 45. The estimated savings over a period of five (5) years on this contract based on the current five-year contract spend of R2,5 billion is R954,818,379.24 which is equivalent to a monthly saving of R15,913,639,654.00
- 46. The CFST will negotiate further cost savings and SD obligations with the preferred bidder during contract negotiations, after issuing of the Letter of Intent (LOI).

BUDGET IMPLICATIONS:

- 47. All Transnet OD's have budgets available for their respective IT Data Services requirements.

RECOMMENDATION:

48. It is recommended that the Group Chief Executive (GCE):

- a) Approve the award of business to T-Systems SA (Pty) Ltd;
- b) Grant approval to issue a Letter of Intent (LOI) to T-Systems SA (Pty) Ltd as the preferred bidder on this RFP;
- c) Sign the Letter of Intent (LOI) for the preferred bidder (See Annexure A); and
- d) Sign letters of regret for the eight (8) unsuccessful bidders (See Annexure B).

COMPILED BY

RECOMMENDED / NOT RECOMMENDED

Reetsang Modise
Commodity Specialist: Group Strategic Sourcing
Date:

Macdonald Maluleke
Category Manager: Group Strategic Sourcing
Date:

RECOMMENDED / NOT RECOMMENDED

RECOMMENDED / NOT RECOMMENDED

Fanie van der Walt
Executive Manager: Group Strategic Sourcing
Date:

Martin Sehlapelo
Executive Manager: Office of the GCIO
Date:

RECOMMENDED / NOT RECOMMENDED

RECOMMENDED / NOT RECOMMENDED

Rishana Sunderlall
Acting Executive Manager: Governance
Date:

Ndiphiwe Silinga
Group Executive: Legal Services
Date:

RECOMMENDED / NOT RECOMMENDED

RECOMMENDED / NOT RECOMMENDED

Edward Thomas
Group Chief Supply Chain Officer
Date:

Makano Mosidi
Group Chief Information Officer
Date:

RECOMMENDED / NOT RECOMMENDED

APPROVED / NOT APPROVED

Garry Pita
Group Chief Financial Officer
Date:

Siyabonga Gama
Group Chief Executive
Date: