

Citizens Property Insurance Corporation

The Business Case for an Integrated ERP Solution Executive Summary

June 7, 2016

The Business Case for an Integrated ERP Solution

An integrated Enterprise Resource Planning (ERP) solution replaces fragmented and independent applications of individual departments – Accounting, Human Resources, Purchasing, Vendor Management and Project Management – with an integrated solution that cohesively bundles applications.

As discussed in the Citizens ERP Strategy document published in September 2014:

- There are significant risks associated with Citizens' current administrative environment, which are not readily mitigated
- Multiple departments are considering purchase or internal development of additional applications to address short-comings in the current administrative environment
- The contract term for several key applications are ending and solicitations for replacement applications will occur over the next three years

Citizens is at a critical decision point and continuing the status quo is not a viable alternative given the procurement regulations that govern how Citizens operates.

The Business Case for an Integrated ERP Solution

There is a compelling business and financial justification to replace the current administrative environment with the Oracle Fusion Cloud Service, which has been selected after a rigorous competitive solicitation and negotiation process, as providing the best overall value to Citizens. With the assistance of Application Software Technology Corporation (AST), this application can be implemented in increments over the next 18 months.



- Revenues > \$38 billion
- More than 122,00 employees
- 1,200+ ERP Cloud customers



- Founded 1995
- Platinum Oracle Partner since 2010
- More than 240 employees

The remainder of this presentation is organized as follows:

- Background
- Alternative #1: Integrated ERP Solution
- Alternative #2: Other Path
- Business Justification
- Financial Analysis
- Recommendation

The Business Case for an Integrated ERP Solution

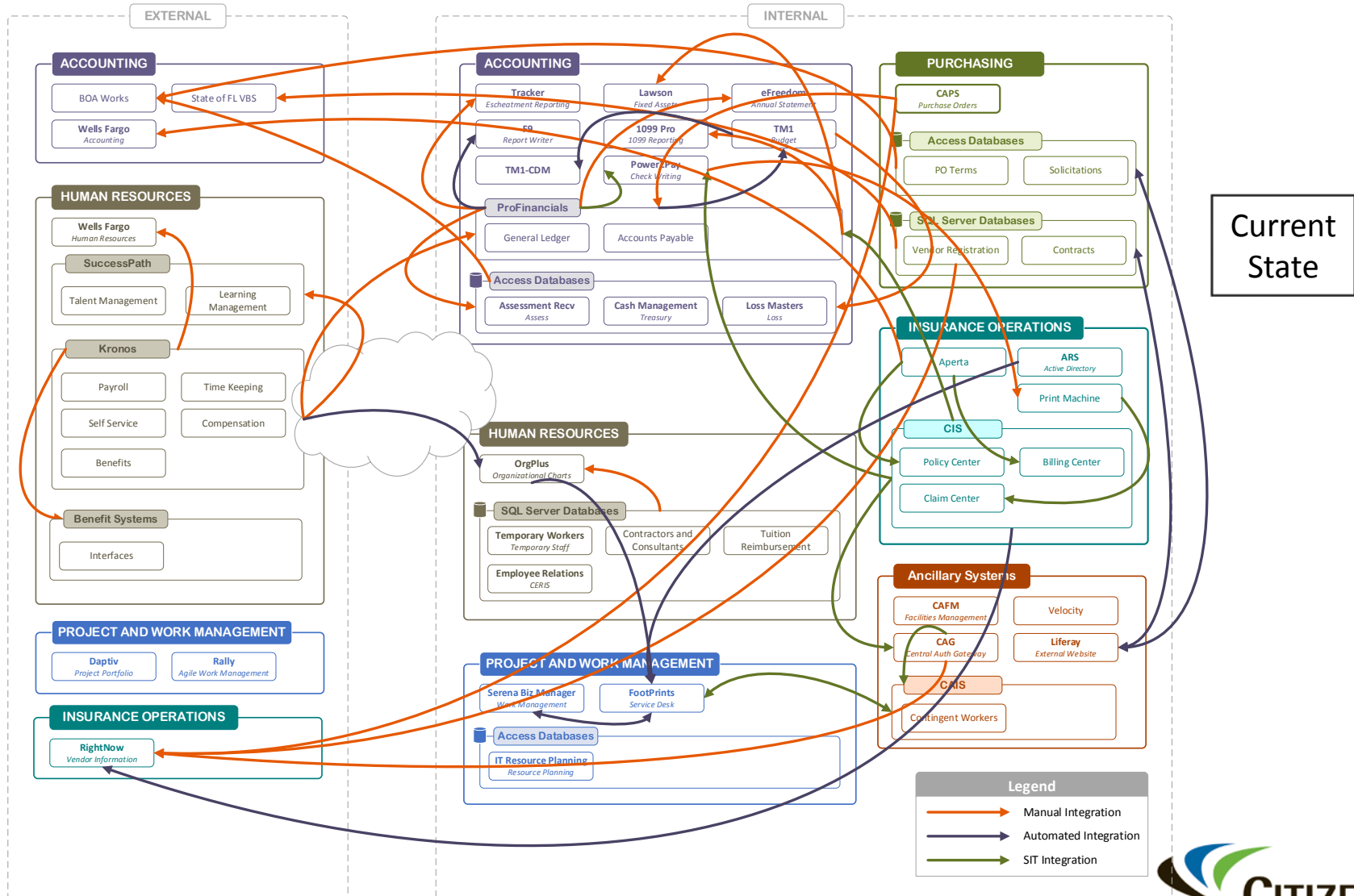
Background

The current administrative environment at Citizens is a collection of separate applications that were procured independently, driven primarily by individual departmental needs, rather than common corporate goals. A list of these applications is provided in the table below, along with a graphical representation on the next slide.

Application	Primary Functionality	Delivery Method	Contract Expiration
1099 Pro	1099 reporting	On-premises	Renewed annually
Lawson	Fixed assets	On-premises	Perpetual rights
ProFinancials	General Ledger, Accounts Payable	On-premises	09/30/2018
F9 Report Writer	Accounting reports	On-premises	09/30/2018
TM1	Budgeting	On-premises	08/31/2017
SuccessPath (Internal)	Recruiting, Performance Mgt, Learning Mgt	SaaS	09/26/2017
SuccessPath (External)	Learning Mgt (agents, independent adjusters)	SaaS	09/16/2016
Kronos	Payroll, time keeping, self-service, compensation, benefits	Vendor Hosted	04/30/2016
OrgPlus	Organization charts	On-premises	01/22/2017
CAPS	Purchase orders	On-premises	11/03/2016
Daptiv	Projects	SaaS	12/31/2016

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Background



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Background

As a result of this fragmented structure, which only partially satisfies the functional needs of individual departments, there are numerous issues with the current administrative environment:

- Many different vendor relationships, contracts and support agreements to manage
- Over 500 contracts currently in effect across the enterprise that are administered/managed via multiple spreadsheets and documents
- With data manually transferred and replicated among multiple applications there is often no single version of “the truth” or system of record
- Lack of automated controls to ensure compliance, forcing reliance upon numerous manual processes
- Reliance upon summary-level reports that require additional requests/efforts to drill-down to supporting detail
- Potential for errors and data loss due to reliance upon multiple “home brewed” solutions like Excel and Access

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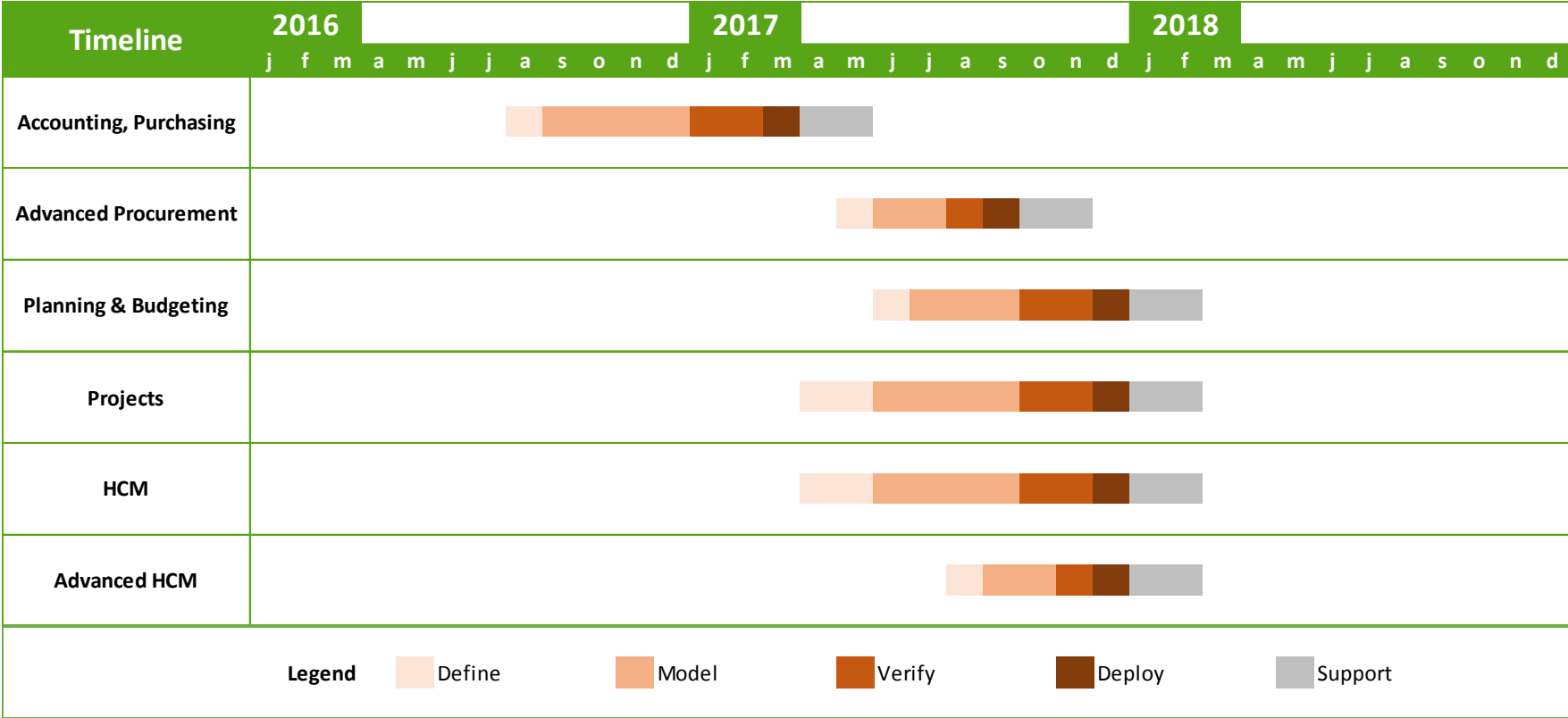
Background

- In support of Citizens' strategic goal to *ensure a strong financial operating environment* a 2014 annual plan initiative was established to define a long-term ERP Strategy.
- The ERP Strategy recommendation that Citizens initiate a project to solicit, select and implement an integrated ERP solution was presented and approved by the Executive Leadership Team (ELT), as well as the Information Systems Advisory Committee (ISAC - 09/12/2014 meeting). At its 09/24/2014 meeting the Board of Governors authorized staff to proceed with a competitive solicitation and approved an action item to engage a 3rd party to assist with its development.
- Gartner, Inc. was engaged to assist Citizens with the development of requirements, evaluation criteria and demonstration scripts to support the competitive solicitation of an integrated ERP solution.
- An Invitation to Negotiate (ITN 15-0012) was originally issued in May 2015. However, due to several vendors failing to comply with the instructions contained in the solicitation, the ITN was amended (ITN 15-0029) and issued in July 2015.
- A total of seven vendor demonstrations were conducted. Three vendor proposals were identified for focused negotiations, including reference checks.
- After all demonstrations and rigorous negotiation, the Negotiation Team held a public meeting on May 9th, 2016 and selected the Oracle Fusion Cloud Service and AST Corporation as the combination that represents the best overall value to Citizens.

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Alternative #1: Integrated ERP Solution

A multi-release approach to implementation will enable Citizens to replace its current administrative environment with Oracle Fusion Cloud Service over a span of 18 months.



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Alternative #1: Integrated ERP Solution

Increment	Modules
Accounting, Purchasing	Financials, Expenses, Financial Reporting Compliance, Transactional BI, Purchasing, Self-Service Procurement, Inventory Management, Automated Invoice Processing, Webcenter Forms Recognition, HCM Base, User Productivity Kit
Advanced Procurement	Supplier Portal, Procurement Contracts, Sourcing, Supplier Qualification Management
Planning & Budgeting	Planning & Budgeting, Enterprise Performance Reporting
Projects	Project Contract Billing, Project Financials, Project Management, Project Resource Management, Task Management
HCM	HCM Base, Global Payroll, Time & Labor, Workforce Compensation
Advanced HCM	Performance Management, Talent Acquisition, Talent Review & Succession Management, Goal Management, Learn - Internal, Learn - External, Scheduling

Key implementation deliverables include:

- Application configuration
- Reports
- Interfaces
- Conversion
- Business process redesign
- Knowledge transfer
- Organizational change management
- Business continuity and DR plan

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Alternative #1: Integrated ERP Solution

Traditional ERP Delivery Model

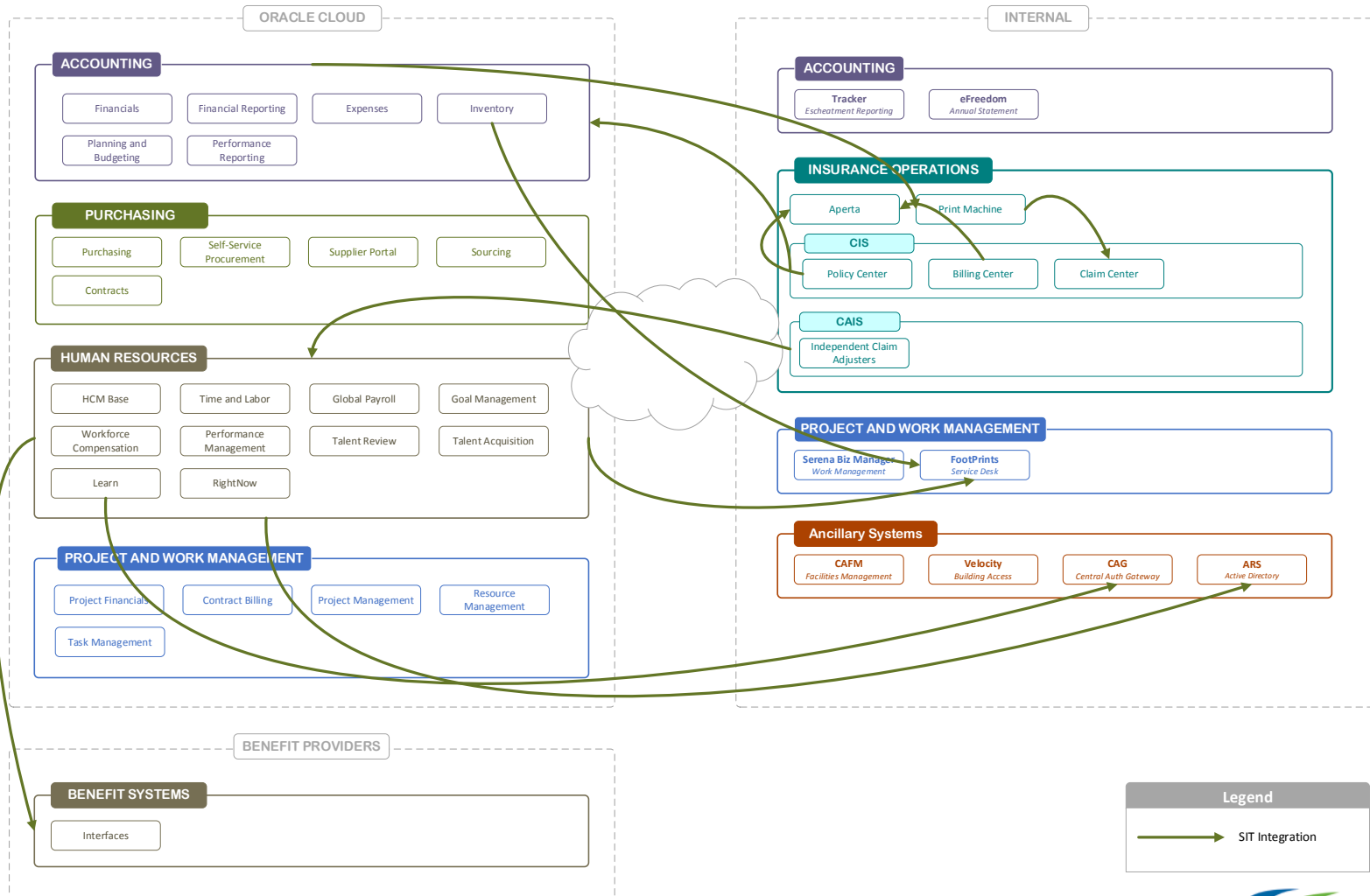
- On premises: application, database, middleware, operating system, servers, storage, networking, disaster recovery
- Customizations to fit how you do business
- Upgrades on our schedule, but can be expensive
- Attract and retain IT staff with requisite skill set
- Total control of security
- Total Cost of Ownership more than 2X SaaS solution in proposals received

SaaS ERP Delivery Model

- All-inclusive subscription pricing
- Next generation applications and user interface
- Single code line, no customizations
- More rapid and less expensive implementation
- Updates applied by vendors on their schedule
- Take advantage of new features faster
- Performance may be slower
- State of the art security – vendor’s business model depends on it
- Aligns with Citizens IT Strategy

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Alternative #1: Integrated ERP Solution



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Alternative #2: Other Path Approach

Should Citizens decide to not pursue an integrated ERP solution and instead continues an independent application approach for its administrative environment (the “Other Path Approach”), Citizens will still be required to invest in the administrative environment.

- Citizens’ existing financial systems must be re-solicited at the end of the current contract period (09/30/2018).
- Critical systems to better administer and manage vendors, solicitations, procurements, and contracts are urgently needed.
- Several of the applications currently utilized by Citizens were purchased through Federal GSA (General Services Administration) agreements or Florida STC (State Term Contracts). There is no assurance that the same vendors or products will continue to be available for Citizens in the future when these underlying agreements expire.
- Continuing along the Other Path Approach will require Citizens’ to engage in numerous and costly re-solicitation activities (each subject to protest). This is conservatively estimated to be in excess of 18,000 person hours over the ten year evaluation period, which is reflected in the financial cost-benefit analysis.

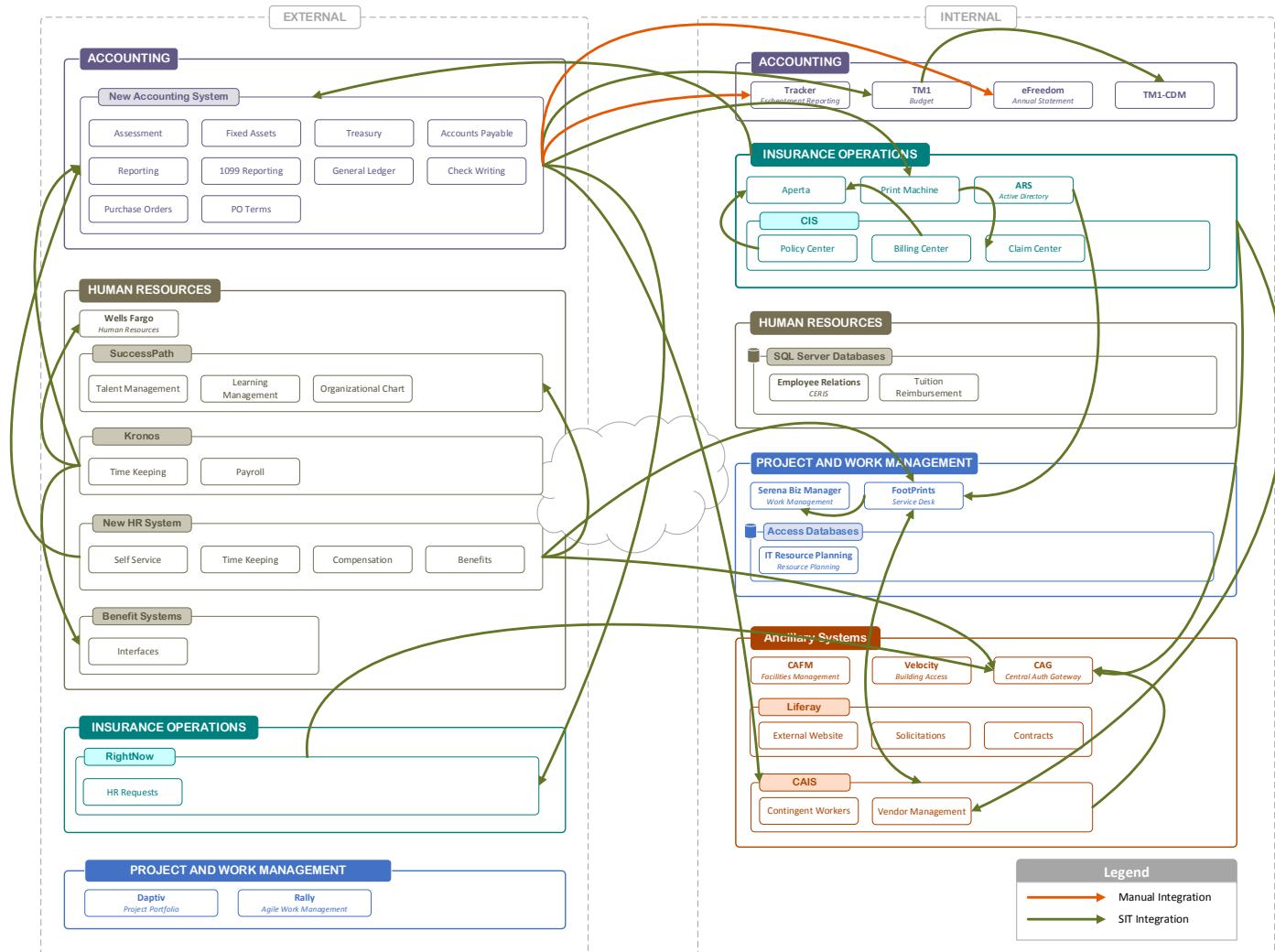
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Alternative #2: Other Path Approach

Timeline	2016					2017					2018					2019														
	j	j	a	s	o	n	d	j	f	m	a	m	j	j	a	s	o	n	d	j	f	m	a	m	j	j	a	s	o	n
Accounting & Purchasing	Solicitation					Implementation/Development																								
Vendor Management											Implementation/Development																			
Human Resources											Solicitation					Implementation/Development														
Learning Management											Solicitation																			
Projects											Solicitation																			
<p>Legend Solicitation Implementation/Development</p>																														
Accounting & Purchasing	Replaces: ProFinancials, CAPS, f9 Report Writer, and Lawson																													
Vendor Management	Internal development to extend CAIS																													
Human Resources	Replaces portions of Kronos and SuccessFactors, as well as OrgPlus																													
Learning Management	SuccessFactors retained after resolicitation)																													
Projects	Daptiv retained after resolicitation																													

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Alternative #2: Other Path Approach



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Business Justification

Even considering Citizens' declining policies in force and corresponding reductions in direct written premium, there are several compelling business and financial drivers supporting the recommendation to purchase and implement an integrated ERP solution:

- *Single system of record*: Key elements of information such as cost codes, authorized positions, and reporting relationships will always be in sync in one integrated system of record.
- *Automated workflows*: Transactions (such as invoices, travel requests, expense reports) are tied to electronic workflows that route requests to the appropriate approver(s) and automatically enforces authorization levels.
- *Automated on-boarding/off-boarding*: Requests for access to facilities and applications, along with assignment of resources, such as equipment, happen automatically when employees or contingent workers begin their assignment. Similarly, when they depart, requests will be automatically generated to terminate access and retrieve resources.
- *Consolidated view of vendors*: Seamless collection and evaluation of vendor information, such as performance and spend data, across the enterprise will allow Citizens to more effectively manage the hundreds of vendor relationships.
- *Improved expense management*: Provides ability to immediately drill-down to detailed transactional information, such as purchase orders, invoices, or payments, eliminating reliance on summary-level reports.

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Financial Analysis

Citizens' financial analysis compares the costs and benefits of an integrated ERP solution to the Other Path Approach. This analysis performs a comparison across four areas:

- **External Spend** (\$7.219 million - 10 year savings): “Hard dollar” expenditures to third parties for software licenses, processing fees, professional services, contingent staff and hardware.
After an initial increase in 2016 and 2017 due to implementation costs, annual external expenditures will decline from approximately \$900k/year to support Citizens current administrative environment to approximately \$500k /year to support an integrated ERP solution
- **Internal Support Staff** (\$2.345 million – 10 year savings): Estimated cost of internal staff time associated with the implementation or development of replacement or new applications
While there will be an initial increase in staff time during 2016 and 2017 in order to support the implementation of a new application, this is simply a reallocation of existing staff.
- **Productivity Improvements** (\$4.467 million – 10 year savings): Itemized staff time savings associated with improved automation of business processes
More than 70 individual productivity improvements have been identified, which will result in an estimated savings of more than 25,000 person hours per year once all ERP modules have been implemented
- **Other Tangible Benefits** (\$0.074 million – 10 year savings): Itemized external expenditures, such as mailing costs or vendor spend
Anticipated vendor spend cost savings opportunities are expected to exceed \$500,000 over the 10 year evaluation period, due to improved vendor spend management and oversight provided through an integrated ERP solution.

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Financial Analysis

Integrated ERP Alternative	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
External Spend												
ERP	2.421	5.705	1.863	0.508	0.509	0.515	0.526	0.536	0.547	0.559	0.305	13.995
Legacy	0.440	0.924	0.430	0.037	0.036	0.034	0.032	0.022	0.017	0.017	0.008	1.998
Internal Staff Dev/Support												
ERP	0.737	2.154	0.304	0.252	0.252	0.252	0.252	0.252	0.252	0.252	0.126	5.086
Legacy	0.072	0.140	0.061	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.274
Productivity Improvements												
ERP	0.000	(0.084)	(0.846)	(1.279)	(1.279)	(1.279)	(1.279)	(1.279)	(1.279)	(1.279)	(0.639)	(10.522)
Legacy	---	---	---	---	---	---	---	---	---	---	---	0
Other Benefits												
ERP	0.000	(0.014)	(0.054)	(0.055)	(0.055)	(0.055)	(0.055)	(0.055)	(0.055)	(0.055)	(0.027)	(0.477)
Legacy	---	---	---	---	---	---	---	---	---	---	---	0
Total	3.670	8.825	1.759	(0.536)	(0.537)	(0.532)	(0.523)	(0.523)	(0.516)	(0.505)	(0.227)	10.354

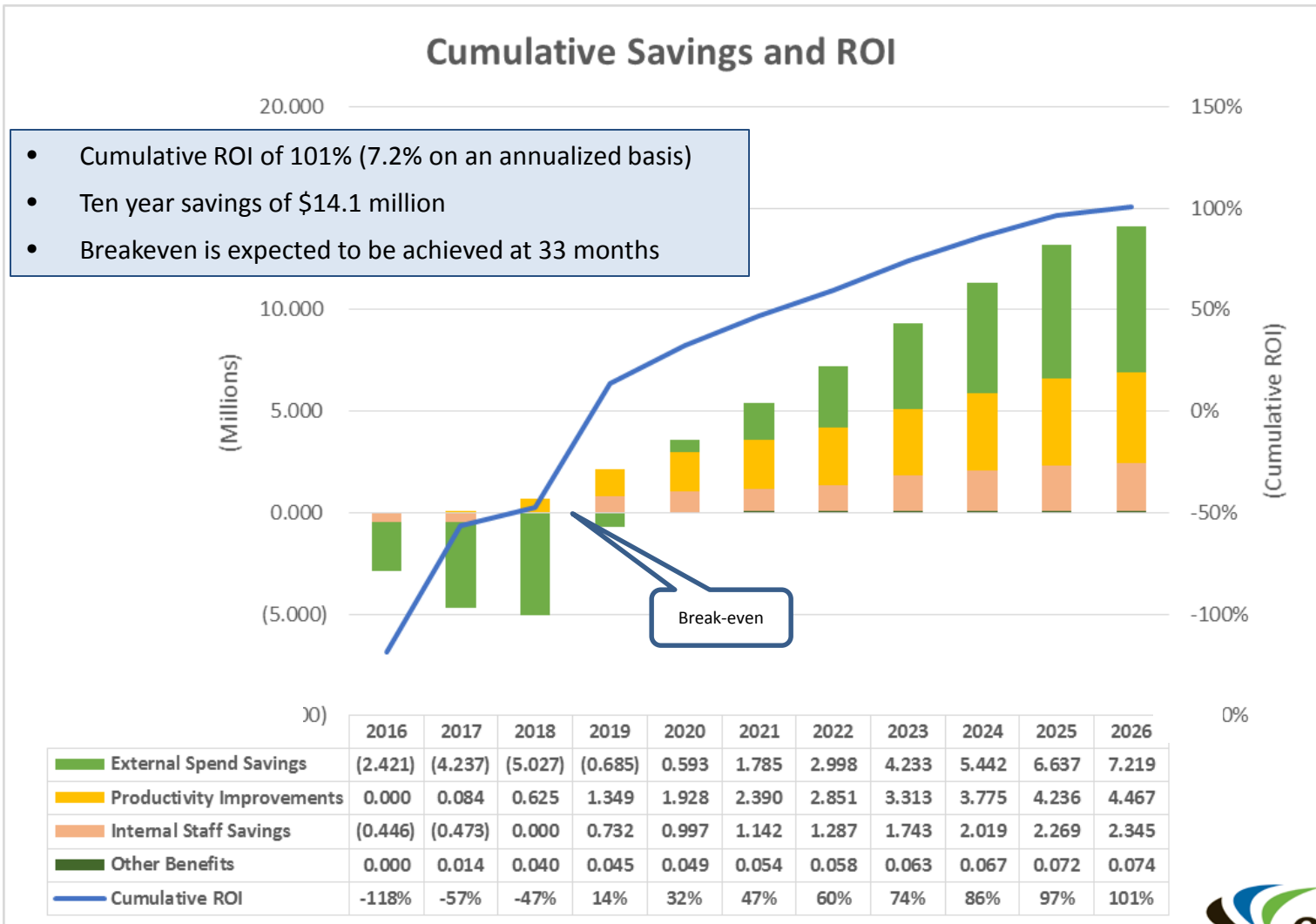
Other Path Approach	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
External Spend												
New/Replacement	0.000	3.858	0.624	4.074	1.062	1.062	1.062	1.062	1.062	1.062	0.531	15.457
Legacy	0.440	0.956	0.878	0.813	0.760	0.680	0.709	0.732	0.712	0.710	0.364	7.754
Internal Staff Dev/Support												
New/Replacement	0.290	2.122	0.328	1.247	0.415	0.309	0.309	0.621	0.440	0.415	0.158	6.656
Legacy	0.072	0.144	0.130	0.118	0.101	0.088	0.088	0.088	0.088	0.088	0.044	1.049
Productivity Improvements												
New/Replacement	0.000	0.000	(0.305)	(0.554)	(0.700)	(0.817)	(0.817)	(0.817)	(0.817)	(0.817)	(0.409)	(6.055)
Legacy	---	---	---	---	---	---	---	---	---	---	---	0
Other Benefits												
New/Replacement	0.000	0.000	(0.028)	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)	(0.025)	(0.403)
Legacy	---	---	---	---	---	---	---	---	---	---	---	0
Total	0.803	7.081	1.628	5.648	1.588	1.272	1.301	1.635	1.434	1.407	0.663	24.459

Savings	(2.867)	(1.744)	(0.131)	6.185	2.125	1.804	1.824	2.158	1.950	1.912	0.891	14.105
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Note: All 2016 and 2026 figures are for 6 months to match agreement effective and expiration dates.

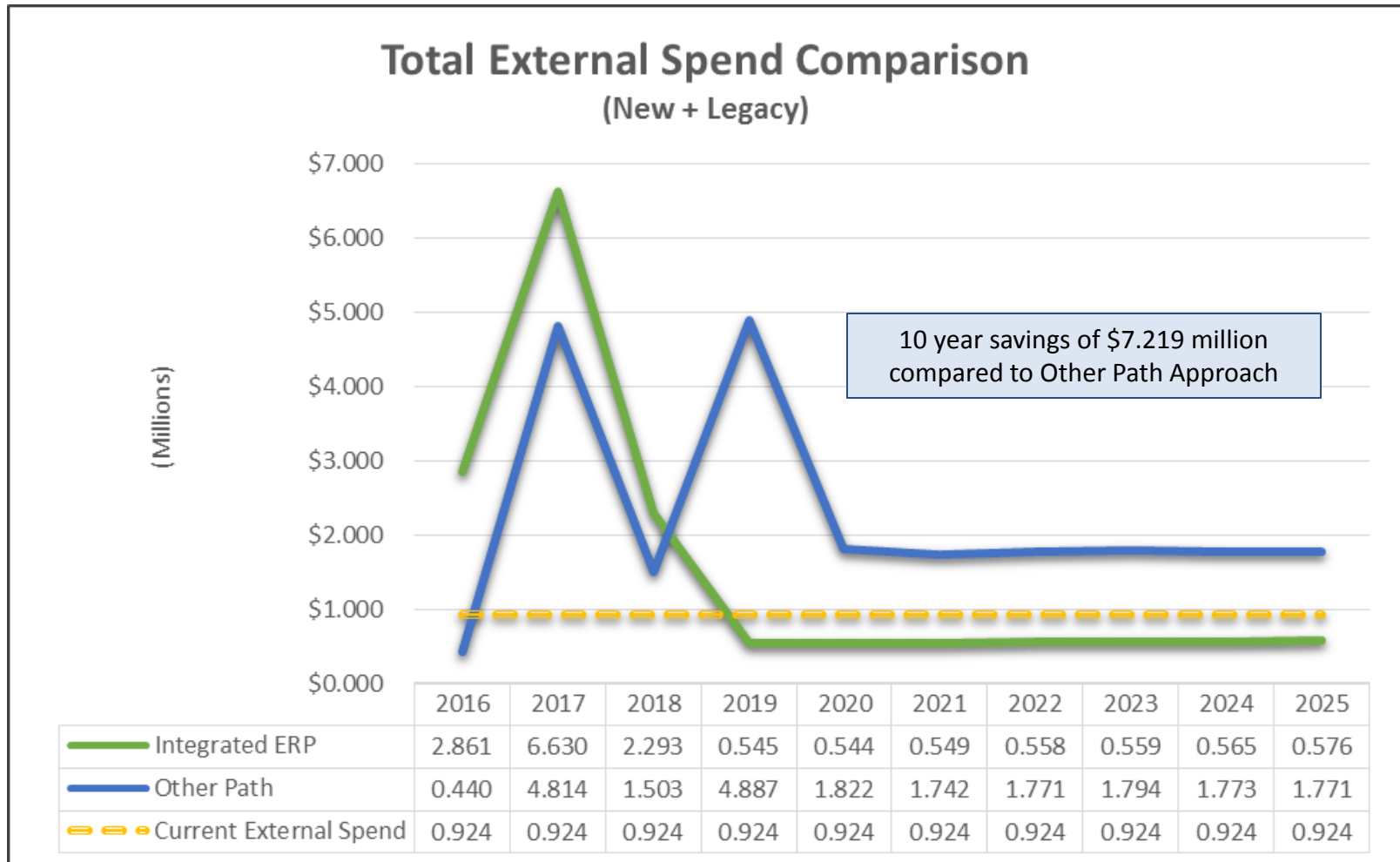
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Financial Analysis



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Financial Analysis



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Recommendation

Citizens' ERP automation needs can be best addressed with an integrated ERP solution. After a rigorous competitive solicitation and negotiation process, the negotiation team has determined that engaging AST Corporation to assist with the implementation of the Oracle Fusion Cloud Service represents the best value to Citizens. It is recommended that Citizens' Board approve the award to AST and authorize staff to proceed with appropriate and necessary action based on the contract amounts and terms described below.

Software Subscription Contract

• Subscription Services	\$4,528,865	
• Software Licenses	195,682	
• Contingency for additional subscriptions	452,887	
Total Costs for 10 years		\$5,177,434

Implementation Services Contract

• Implementation Services	\$6,586,200	
• Training Credits	40,320	
• Contingency for change orders	1,656,630	
Total Costs for 10 years		\$8,283,150

Legacy Systems Consulting Services **\$150,000**

Total Expenditures for 10 Years **\$13,610,584**

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2016 Budget Impact

Expense Category	2016 Budget	2016 Forecast	Difference
Contingent Staffing	\$0	\$176,000	
Travel & Meals	4,893	4,893	
Professional Services	2,259,000	2,021,920	
Software Maintenance & Licensing	10,000	223,241	
Total	\$2,273,893	\$2,426,054	\$152,1619

- * Cost of Contingent Staffing is included in the ERP business case, but expenditures are authorized under a separate action item.