

IN THE HIGH COURT OF JUSTICE

CHANCERY DIVISION

B E T W E E N:

JOHN ALFRED DONOVAN
Plaintiff

- and -

SHELL UK LIMITED
Defendant

(by Original Action)

AND B E T W E E N:

SHELL UK LIMITED
Plaintiff by Counterclaim
-and-

(1) JOHN ALFRED DONOVAN
(2) DON MARKETING UK LIMITED
(3) ALFRED ERNEST DONOVAN

Defendants to Counterclaim
(by Counterclaim)

WITNESS STATEMENT OF
ANDREW JOHN LAZENBY

D J Freeman
43 Fetter Lane
London
EC4A 1JU

Ref: JXM/
ID: LC.31363

Solicitors for the Plaintiff

CHANCERY DIVISION

B E T W E E N:

JOHN ALFRED DONOVAN

Plaintiff

- and -

SHELL UK LIMITED

Defendant

(by Original Action)

AND B E T W E E N:

SHELL UK LIMITED

Plaintiff by Counterclaim

-and-

- (1) JOHN ALFRED DONOVAN**
- (2) DON MARKETING UK LIMITED**
- (3) ALFRED ERNEST DONOVAN**

Defendants to Counterclaim

(by Counterclaim)

**WITNESS STATEMENT OF
ANDREW JOHN LAZENBY**

I, ANDREW JOHN LAZENBY of Shell UK Limited, Shell-Mex House, Strand, London

WC2R 0DX WILL SAY as follows:-

- 1. I joined Shell in October 1987 as a graduate. Prior to this I completed my degree in Engineering Science at Oxford University. My first appointment with Shell was as a retail representative in Glasgow. I then moved to the Commercial Division as a business analyst. I then worked in the Retail Diesel Strategy Unit before joining the Promotions Department of Shell UK Retail in February 1992 as National Promotions Manager. I was moved to the Promotions Department to**

replace Alan McNab who was moving to another position within Shell. Alan McNab had worked for David Watson, who was Advertising and Promotions Manager and in this role headed up the advertising and promotions unit. David reported to the Retail Marketing Manager. I had worked with David Watson previously in the Commercial Division. The promotions unit was made up of Paul King, Tim Hannagan and myself. Jacqui Freeman and Liz Proctor were assistants in the department. David Watson's immediate superior was Graham Sweeney, Retail Marketing Manager. Graham Sweeney was replaced by Frank Leggatt in September 1992. Frank Leggatt has since retired from Shell.

2. I was involved in what subsequently became the SMART scheme between February 1992 and my departure from the promotions department in May 1994. Project Onyx, the forerunner to Project Hercules (which eventually became the SMART scheme), was already under way when I joined the department. At that stage, before I had ever met John Donovan, Project Onyx already bore many of the features that Mr. Donovan now claims as his own.
3. In its progression from Project Onyx to the SMART consortium, many lessons were learnt from the successes and failures of other people's loyalty programmes and from our own market analysis and research; the project evolved accordingly. Along the way, the project consumed tens of thousands of hours of management and consultant time, hundreds of files of paper and over £15 million. During the whole of that time no element of the scheme was taken for granted - the whole project was under constant review. And yet Mr Donovan still appears to maintain

that the entire SMART scheme originated from the information on two pieces of paper which he sent to me in the latter half of 1992.

4. In order to refute the serious allegations made against me and other Shell UK staff by Mr. Donovan it is necessary to demonstrate exactly how the SMART scheme was developed, entirely without reference to Mr. Donovan's suggestions. I must in effect prove a negative. Unfortunately this entails a detailed analysis of large numbers of documents and of every stage of the chronological development of SMART.

The Chronological Development of SMART

5. When I started in the promotions department I had not run promotions before but I had been involved in implementing them in other departments within Shell. Before moving into the position, I had a short interview with David Watson. This was an introduction to the job rather than a selection process. My handover from Alan McNab consisted of a short period when I shadowed what he was doing, rather than a formal briefing. He had been dealing with the tail end of the Collect and Select promotion and with short term promotions. When I joined the department, I dealt with short term promotions. We had a number of such promotions 'on the go' at any one time. I was aware that Tim Hannagan was working on a report about the use of technology in promotions. I became aware that this investigation went under the name of Project Onyx. Whenever I mentioned the use of technology in promotions David Watson suggested that I speak to Tim Hannagan, as David was anxious to ensure that work was not being

duplicated where the technological ground had already been covered by previous Shell in-house projects.

6. From about March 1992 I gradually began to become involved with Project Onyx. On 16 March 1992 there was a meeting with GHA Powerpoints Limited ('Powerpoints') organised by Brian Barberton and attended by myself and David Watson. I was present at this meeting although I cannot recall in detail what was discussed. David Watson also attended this meeting. I can recall their proposal in general. GHA were a Sales Promotions Agency introduced to Shell by Brian Barberton of NCH Promotional Services at this meeting. NCH had assisted Shell with the Collect and Select promotion. NCH were a fulfilment and mailing agency and I had an ongoing business relationship with them. They had been a key supplier for our short term promotions. GHA founded Powerpoints to develop the concept of integrated customer recruitment and customer retention service to be offered to retailers, other service providers and manufacturers. The idea was to have a network which would include major retailers and other service provider groups who would constitute appropriate partners in non-competitive market sectors. The purpose of the initial meeting was for Powerpoints to present an outline of the concept to Shell. In brief the proposition from Powerpoints contained the following elements:

- Powerpoints (a separate company) would organise a network of members through the provision of hardware, software, publicity and rewards;
- only one member would be permitted per sector (e.g. supermarket, chemist, DIY, hotels, petrol forecourt);

- an electronic points system would be used by each member;
- each retailer would have its own branded card;
- each retailer would issue and redeem points on any Powerpoints card.

The Powerpoints scheme was a fully-worked up 'package' presented to Shell as a fait accompli. Shell were invited to participate, but this was always subject to Powerpoints' ultimate control.

7. Following the meeting with Powerpoints, David Watson went to discuss Powerpoints with Graham Sweeney on 26 March 1992. I was not involved in those discussions and was still playing a limited role in Project Onyx. David Watson was very interested in the Powerpoints scheme and the fact that Peter Miles of Powerpoints had indicated that Tesco might sign up if an oil company signed up.
8. During 1992, customer loyalty schemes were popular. Many of our competitors (in particular Mobil and Total) were running loyalty schemes in connection or partnership with third parties and/or using card technology. Mobil and Argos were cooperating in the Premier Points scheme and Total was offering its customers vouchers on purchases at Marks & Spencers and Boots. We received unsolicited mail from agencies and suppliers such as Sheard Thomson Harris and The Sales Machine about such long term loyalty schemes involving third parties. During April and May 1992 this unsolicited literature was normally forwarded to Tim Hannagan rather than me as Tim was still the main contact for Project Onyx

while my role required me to remain primarily involved with the continuing short-term promotions.

9. On 27 April 1992 I received a letter from John Donovan introducing himself. I had never met or even heard of Mr Donovan before receipt of this letter. The letter referred to previous promotions Mr Donovan and his company Don Marketing (UK) Limited had been involved in. Mr Donovan suggested running further promotions for Shell. My standard practice on receiving such a letter was to ask around the office to see what people thought of the agency. I did this in relation to Don Marketing and I went on to arrange a meeting with Mr Donovan for 12 May 1992. John Donovan and his colleague Roger Sotherton were present. At this meeting John Donovan produced a copy of his proposal for forthcoming promotions. I have seen a copy of this proposal with manuscript notes from Roger Sotherton on page 3 and 8 and I have referred to my notes of this meeting. The promotions we discussed at this meeting were Megamatch and a Football Pools Promotion. Megamatch was essentially an expansion of the Shell Make Money concept (involving matching halves of promotional currency) to include third parties in non-competing trades such as breweries and video outlets and newspapers.
10. I have considered the manuscript notes made by Roger Sotherton on his copy of the proposal and note the manuscript reference to a multibrand loyalty card. I have absolutely no recollection of anyone mentioning multibrand loyalty cards. It was my practice to keep comprehensive notes of meetings with agencies and suppliers. My notes of this meeting contain no reference whatsoever to any

discussion about a multibrand loyalty scheme. This was not a subject that had been considered in conversation, otherwise I would have made a note of it. If (contrary to my clear recollection) the idea of a multibrand loyalty scheme was mentioned at all, it could only have been in passing. Following the meeting, Mr Donovan sent me a copy of his proposal dated 23rd October 1989. I do not recall requesting the document or reading it at the time. My focus remained very much on short term promotions at that time and I was not overly concerned with long term promotions.

11. The only proposal of his that I was interested in was Megamatch. John Donovan suggested a preparation time of 6 weeks for this promotion. I knew this estimate was far too short and as a result I had doubts about the credibility of Don Marketing. Shell usually planned a significantly longer preparation period for a promotional launch.
12. On 14 May 1992 John Donovan informed me that he would contact potential parties for the Megamatch proposal. I have seen a letter John Donovan wrote to Boots on 19 May 1992 which confirms that he envisaged a "Megamatch" game with game pieces given out by different retailers. On 10th June 1992 John Donovan wrote updating me on his progress with third parties in relation to the Megamatch game.
13. Throughout May 1992 David Watson continued negotiations with GHA Powerpoints while Tim Hannagan was researching Tagcards and pursuing investigations into other potential suppliers for a long-term promotion. I had no

involvement in any of this. From this point onwards Nick Bradshaw (who was part of the Shell information technology team) became involved with the negotiations in relation to the Powerpoints scheme.

14. On 4 June 1992 I received a letter from Mike McMahon of Concept Systems who supplied Shell with an outline quotation for setting up and administering a smart card based loyalty system. This was in response to a telephone conversation I had with him on 26 May 1992 in which I asked him to confirm his proposal in writing. I passed his letter to Tim Hannagan to deal with, as a result of which Tim then spoke to Mr. McMahon on 11 June 1992. Mr. McMahon told Tim that he was also talking to a number of other retailers about producing similar cards.
15. Also on 11 June 1992, David Watson reported to Graham Sweeney about Project Onyx. I was involved with the preparation for this meeting. By now I was having discussions with David about the strategy for the longer term on which he and I agreed. David Watson recommended to Graham Sweeney that a decision should be made between leaving national promotions altogether or setting up a long term collection scheme. David maintained that any such scheme should be electronic and involve other retailers.
16. On 15 June 1992 Tim Hannagan had a meeting with Tony Wightman of The Sales Machine (an advertising and promotions agency). Tim introduced me to Mr. Wightman. His agency, The Sales Machine, were suggesting that we run an electronic Make Money game incorporating a "spend and save" loyalty function and the involvement of several third parties.

17. On 2 July 1992 I had a long conversation with Mike McMahon of Concept Systems, who were also in negotiations with Texaco about a loyalty card. I confirmed that we would be interested in a deal they were setting up and said we would endeavour to get a letter of intent to him by the end of August. On 30th July David Watson and I had a meeting with him at which he told me that he had 'joined forces with' Fortronic (a subsidiary of De La Rue) and that Fortronic were interested in supplying the technology for a long term loyalty card. This is significant in the context of Mr Donovan's claim that it was he who first suggested the involvement of Fortronic to Shell, some four months later in November 1992.
18. Even though I was now working with Tim on Project Onyx, short term promotions needed to be found for the first half of 1993. In July 1992 Shell commissioned Conquest Research and Consultancy Limited to conduct some research into potential promotions for 1993. Eight different promotions were considered including Megamatch, the proposal put forward by John Donovan. Despite John's daily telephone calls extolling the virtues of Megamatch, Megamatch only came in third after 'Comic Relief' and 'UK Travel', two promotions that had been put forward by an agency with whom we had not worked previously called Option One. By 28 July 1992 I had told John Donovan verbally that we were not going to be running Megamatch, I confirmed this in writing on 4 August 1992. In that letter I stated that I would bear Megamatch in mind for a promotion later in 1993 or 1994.
19. By the start of August 1992 Tim and I had seen and spoken to a number of potential suppliers of technology for a long term loyalty scheme. On 4th August

Tim produced a note putting forward 14 possible suppliers for running Project Onyx. I had met with some of these suppliers on previous occasions. The suppliers at the top of this list had more developed schemes or were organisations with which we had more detailed discussions. I added AT&T Istel to this list as they had recently contacted me with their plans for a ready-made points scheme along the lines of Powerpoints and they had a connection with the Air Miles scheme. Senior King and GHA were among the 14 suppliers listed. David, Tim and I considered each of the suppliers and decided upon six as potential candidates to be short listed for our long term loyalty scheme. The six were as follows:-

- Senior King
- Sheard Thomson Harris
- Geoff Howe & Associates
- Concept Systems
- McCorquodale Security Cards Limited
- AT&T Istel

20. I then drafted a marketing brief to be given to the short listed candidates. In this brief I set out the essential elements of any long term scheme Shell would run, which I saw as being:

- a scheme that could be differentiated from any other long term loyalty scheme run by the competitor oil companies.
- a multi promotional scheme with different rewards appealing to different customer groups.

File missing
21.22

- rewards sourced from third parties.
- I thought Shell should approach third parties directly.

21. I considered various third party retailers at this stage. All the large supermarkets were thought to be developing electronic loyalty schemes of their own. I knew that Graham Sweeney was also against link ups with supermarkets as we did not know which of them would be competing with us as petrol retailers. In particular we would not want a partnership with Tesco as they were already an oil retailer in their own right to a significant extent. A third party scheme where points were issued may have also been difficult for supermarkets themselves due to the requirement for points to be issued at every till. Tesco had previously had bad experiences with Green Shield Stamps.

22. On 4th September I wrote to each of the six short listed suppliers indicating that they had been identified as potential suppliers. These six were supplied with the briefing note that I had drafted, which set out the basic promotional and marketing requirements of the Project Onyx system and the six were asked to prepare a response to discuss the way forward to implementation. This was not intended to be a technical specification. The promotional requirements were as follows:-

- multiple promotions - the scheme needed to be able to run several different promotional activities at the same time.
- redemptions - either for merchandise at Shell stations or by mail order or from participating third parties.
- customer recognition - individual customers needed to be recognisable.

- time rewards - the ability to encourage customers to shop at different times of the day and week.
- promotion endings - any system must be able to manage promotion closure.
- volume/value - the system needed to work in both units.

The marketing requirement was for a long term loyalty card which was better than our competitors and was highly flexible. A link up with third parties was to be considered and also needed to be flexible.

23. During September I organised meetings with each of the six potential suppliers. After each of these briefings I made notes. There was a list of things I was particularly interested in. These were as follows:-

- costs
- timescale
- in which areas the supplier was better than their competitors
- in which areas the supplier was perceived different from what was in the market at the time
- would this scheme leapfrog schemes run by our competitors
- lock out - how easy would the scheme for our competitors to copy
- technology
- promotion

24. Both Tim Hannagan and I were present at each of the meetings with the six suppliers. We analyzed each of the suppliers against the categories above.

AT&T had the advantage of already being connected with Air Miles, but this aside the two suppliers who fared best were Senior King and GHA. McCorquodale fell out of the running at this stage, as they were primarily hardware suppliers and had nothing like a worked up product and no real grasp of the marketing aspect.

25. I also did an analysis of the paths Shell could take. At this stage Shell had no set plans. We were very flexible and considering many options and the possible market conditions. I set out the advantages and disadvantages of the following options:-

- (1) the whole oil industry coming out of promotions
- (2) Shell stopping all promotions
- (3) Shell taking part in short term promotions
- (4) Shell taking part in long term promotions:-
 - hi tech (i.e. using Smartcards)
 - lo tech (i.e. using magstripe cards or similar)
 - no tech (not using technology i.e. paper vouchers)

I also set out the position as far as I could in relation to our competitors. This was used as a briefing note for David Watson.

26. Senior King wrote to me on 14 October 1992 summarising their presentation, but at this stage we had not reverted to any of the six potential suppliers. On 23 October I had a discussion with David Watson about the outcome of our interviews. Our decision was to press ahead with Senior King and GHA but to

keep our options open in relation to the other suppliers. I wrote letters to the six agencies on 27 October 1992. Only Senior King and GHA were told that they had been selected for further involvement in Project Onyx.

27. On 28 October I sent two notes to David Watson. The first one dealt with the rationale for the rejection of the four unsuccessful candidates from the short list selection. This was for internal use within Shell. My second note related to Sainsburys as a potential promotional partner. The idea for Sainsburys as promotional partner came from a meeting I had at Air Miles when Sainsburys were present. David Watson then telephoned his contact at Sainsburys, David Noble. This was followed up with a letter dated 30 October 1992 in which David Watson confirmed that Shell would be interested in co-operating with Sainsburys in a joint promotion. A number of different ideas were put forward. The two promotions Shell were most interested in were an Air Miles link up or a joint "points promotion". It was left so that Sainsburys would come back to us if they were interested. As far as I can recall Sainsburys never came back to us.

28. Throughout November, firms like AT&T which had been put on hold as potential suppliers were still corresponding with Shell. On Tuesday 10 November Tim Hannagan and I had a meeting with Michael Pettit at Fortronic. Michael McMahon of Concept Systems had also been present at the meeting. These suppliers were trying to collate the extra information we had requested in our letter of 27th October.

29. I continued to speak to and see John Donovan because Shell were still looking for short term promotions. Shell still needed such promotions during the run up to any long term scheme.
30. On 24 November 1992 I had a meeting with John Donovan. At this meeting we discussed two new promotions that he put forward, Hollywood Collection and Make Merry. As usual, I made a note of this meeting. I understand from Mr Donovan's Statement of Claim that he alleges that he left me a copy of a July 1990 letter that he had written to Sainsburys at this meeting. I have no recollection of ever requesting, discussing or seeing that letter and there is simply no reason why he would have brought it along to the meeting, let alone handing it to me in the context of this meeting. My meeting note makes no reference to any discussions on this subject. Moreover, the letter would have added nothing to our already existing thinking on loyalty schemes as at November 1992. This meeting was followed up with a letter from John Donovan on 3 December 1992 in which he refers to the November meeting, mentions Make Merry and Hollywood Collection, but makes no mention whatsoever of any multibrand loyalty programme or the letter to Sainsburys.
31. I have seen Mr. Donovan's copy of the Sainsbury's letter as disclosed in these proceedings. At some point before this version of the document was disclosed to Shell's lawyers in about 1997, manuscript notes have been added to it. These handwritten notes (e.g. "Meeting with A.L. 24/11/92", "Copy of this letter left with A.L.") are self-serving and do not tally with the notes I made at the meeting.

32. On 16 December 1992 David Watson made a note of our options for Project Onyx. I then expanded this and produced a note for Frank Leggatt and David Watson dated 24 December. We had in mind a potential launch date of 1 October 1993 for a long term scheme. My note developed all the options available to us and set out our competitors' position. I was asking in quite strong terms for a mandate to continue with our plans for a long term loyalty scheme. Although there was no formal response to that note, we did get approval in principle to continue the development of such a scheme.
33. On 11 January 1993 I had a meeting with David Watson, at which we discussed the four tracks we were going to follow in relation to Project Onyx. David and I were going to keep Frank Leggatt (the then Head of Retail Marketing) informed. Frank Leggatt was not a detail person but now wanted to be informed on what was happening in the project. David Watson and I arranged to see Powerpoints and Senior King to decide which of these electronic schemes was the one to recommend to Shell. David and I decided to undertake a major research project, testing customer reactions to electronic or paper tokens for a loyalty scheme. We also decided to consider different types of electronic promotions, including rewards through catalogues and third party retailers offering "money off" vouchers; and to explore options for the marketing of such a scheme and begin talking to possible third party retailers directly. One idea that was discussed during the meeting was to involve Option One, who had designed a number of short-term promotions for us and who had also raised in discussion the options for long term promotions. At this stage Comic Relief was currently in operation and UK Travel was in

development and I was impressed with Option One's original ideas, strategic vision and implementation performance.

34. On 15 January 1993, David and I had a further meeting. We had considered Powerpoints' and Senior King's proposals further and while we were still interested in pursuing those ideas, we were not wholly convinced about either of them. Powerpoints' proposal was a ready-made package and could not be flexible about Shell's needs. Senior King were no longer working with Hughes Electronics and we were concerned that they were too small to deal with such a large project. We again thought about using Option One who were a substantial marketing agency with a proven track record. We thought that Option One would be able to assist with promotional advice, as well as PR and design, but we did not want them to start acting as general strategic consultants. The downside of Option One was that they were not cheap. However, we did already know Jeremy Taylor and Tim Bonnet and enjoyed working with them. Option One also had a far greater number of contacts than Senior King and would be a good intermediary to approach third parties as promotional partners. We therefore decided to brief them to produce a strategic plan, an implementation plan of the marketing offer and means to present that offer. This offer could be electronic or could be paper. The idea was to have several third parties who at least expressed serious interest in principle in becoming promotional partners within the coming months. The launch should take place on 1 October 1993 even if the promotion had some way still to evolve. We proposed a budget for Option One of between £20-30,000 for the three month project of producing the plans we required.

35. At the same time, David Watson and I also arranged to go and see Powerpoints for an update on what they were doing. That meeting eventually took place on 25 January 1993 when David Watson and I attended. Although we were introduced at that meeting to Peter Bell, who claimed to have devised the first electronic loyalty scheme in the UK for the Co-op in the Midlands, we did not feel that Powerpoints were going to provide a scheme which met our requirements. By this time, we felt sufficiently confident in our understanding of our own market, the other loyalty programmes in the market and the potential use of technology that with the help of Option One we could produce a scheme specifically designed for our requirements.
36. I drafted a project briefing for Option One on 19 January 1993. This explained that we had been involved in short-term promotions since the closure of Collect and Select in March 1991. There had also been discrete, longer promotions, each lasting for a fixed term, targeted specifically at truckers. The Air Miles promotion was being targeted at high mileage, predominantly car drivers in the higher socio-economic groups. There were a number of problems with running these different types of promotions including the amount of strain put on Shell staff.
37. The brief went on to say that competitive moves in the market place indicated that all our competitors were staying in promotions for the foreseeable future and that there was a general trend towards higher technology. There was also a movement towards strategic alliances with third party retailers. I pointed out that Air Miles at this stage was the only multi-retailer loyalty scheme with a variety of participating companies, all issuing mutual points. The strategy was a marketing

opportunity for reconsidering our promotional activity with a view to significantly improving the Shell promotions, possibly capitalising on technology and taking a lead in the market. I explained that for the last two years we had been keeping a watching brief on the market place with a view to technological developments and I set out the background to our previous discussions with possible technology suppliers.

38. I also set out our vision for the next generation of strategic loyalty promotions. We briefed Option One to act as our promotions agency to review this vision, to participate in our market research exercise, to achieve contact with promotional partners with a view to the joint promotion and to select the correct mechanical and technical supplier, using the experience which Shell had already. At this stage we still did not have a definite blueprint for Project Hercules. Quite fundamental questions such as whether the project should be electronic or paper still remained unresolved.

39. On 20 January I had a meeting with Frank Leggatt to bring him up to speed on the state of play. I explained the nature of the market research that we needed to do and the brief that we had given Option One. Frank Leggatt had some ideas about the potential launch of the scheme and in particular suggested cashing Esso points as a possible launch promotion. Our main objective throughout the whole scheme was that Shell should do something different. Our long-term plan was to involve third parties, but we prepared initially to go ahead on our own with a long-term loyalty scheme on the basis that the product could be sold to third parties at a later

date. The project would therefore have to be set up so that third parties might join at any stage.

40. On 22 January, we had our first meeting with Option One to present our brief to them. It was agreed at that meeting that I should further brief them on all I had learned about electronic technology from our work on Project Onyx. I also explained to them the history of Collect and Select, which highlighted some of the problems that can arise on long-term schemes.
41. By the beginning of February Option One had started producing schedules of the work to be carried out. One of the early decisions we took was that, now we had moved into the implementation phase, the codename for the project should be changed. The name I chose was Project Hercules. The works schedules therefore came to be entitled "The Labours of Hercules". The first envisaged a full strategy agreement by 22 March 1993. We also envisaged that by 26 April 1993 all orders would be placed for a technical supplier, a final target list of third parties would be agreed, the reward structure would be finalised and the strategy and implementation would be signed off. Unfortunately, it proved wholly impossible to keep to anything like this timetable. Meanwhile, Option One produced a list of various points to be included in our market research brief.
42. On 1 February 1993 I briefed Option One, as arranged, on what we had learned about the technological side of the proposed project. I mentioned our discussions with other manufacturers and explained that these had ultimately come to nothing. However, Shell had learnt about the present state of technology and its

applications. We discussed the question of whether any potential participants would like to join a system owned by Shell. The key action was to identify the correct hardware technology, because the technology dictated when and how we could involve third party participants.

43. By 3 February 1993, our own marketing team had produced a first draft of the research brief, including such issues as whether we should have third party participants at all and, if we should, who these participants should be and how the system should work, e.g. should participants just redeem points, as in the Mobil Premier Points Scheme or should they be able to issue them as well, as in the Air Miles Scheme. This research brief was finalised by 11 February 1993 and a company called The Qualitative Consultancy were asked to carry out the research.
44. On 10 February 1993, David Watson and I had a meeting with Option One. We gave Option One all of our previous in house research work from Project Onyx and supplied them with a list of Shell retailers to whom Option One were to talk in order to determine the sort of promotions that were popular at a 'grass roots' level. At this stage, I was leading the project under David Watson's overall supervision and was liaising with Option One on a daily basis.
45. Senior King wrote to me on 26 February 1993. It was apparent from their letter that they were disappointed to learn that Option One had been asked to help to develop a Smart Card system, but they were particularly concerned that in their researches Option One had contacted Schlumberger, whom Senior King obviously regarded as "their" supplier. This led to some correspondence with David Watson

but in their further letter of 1 March 1993 Senior King confirmed that they and Schlumberger were prepared to work with Shell and any other agency.

46. On 2nd March 1993 Option One supplied their first major paper entitled "The Shell Vision - Outline Response". No strategy statement had yet been agreed upon, but the ideas put forward by Option One were intended to provoke discussion. It had not yet been decided how to use third parties in this project and it was acknowledged that a fully integrated plan would be difficult to achieve from the beginning. Other retailers would be likely to want to watch Shell's experience for a while before joining. Indeed, Option One stressed the significant risk involved in entering into negotiations with third parties, which were likely to be extremely protracted and littered with unforeseen problems. They also highlighted the increasingly prevalent risk for negotiations to proceed excellently to final contract stage only to be turned down by the Chairman, sometimes on a whim.

47. The three main objectives set out by Option One were seen as being to strengthen loyalty, to encourage customers to switch from other brands and to achieve the first two objectives within a controlled cost, free of long term liability risk. Paper tokens and magnetic stripe cards were still being considered although the data collection advantages of the smart card were recognised. The pros and cons of each medium were set out. The section on the potential rewards programme identified various rewards including a long term catalogue, short term tactical promotions, charities, games and gambling, as well as third party offers.

48. While Option One advised caution in relation to third parties, they appreciated that Smart card technology would potentially permit an unprecedented degree of involvement between Shell and the participants in the scheme. On my copy of the Option One paper, I wrote alongside that comment a note about Air Miles in Canada, of which Shell is a member and which was organised on the basis of a true partnership along the lines Option One were discussing. In fact, the SMART scheme even to the present day has never been organised on those lines, and nor has it managed to attract the "three or more retail giants" that Option One considered necessary to build a partnership of this nature.
49. On 5th March 1993 at a meeting David Watson and I had with Option One to discuss their paper, we considered whether it would be possible to have a dual launch with card and paper. It was agreed that Option One would produce two refined shortlists of third parties, one for "low key tie up" (i.e. probably smaller redeemer-only retailers) and the second for potential "full" partners. A particular third party to target was Argos, because of their involvement in Premier Points and their catalogue interests. Option One agreed to approach the third parties with whom they had relationships. The timing of the project was tight and I asked Option One to recommend a promotion to run for the last quarter of 1993 in case this was required.
50. On 9th March 1993 Jeremy Taylor and Tim Bonnet of Option One and I visited Fortronic at their factory near Edinburgh. Our contact there was Mike Pettit. At this time he was running a pilot smart card loyalty scheme for the Index group (another catalogue retailer) and was very knowledgeable about smartcards and their

use in loyalty schemes. Jeremy and Tim agreed to revert to Fortronic to do a more detailed feasibility study, working towards a timescale of July for a pilot project and 1 October 1993 for launch. I was then planning to work up a detailed technical specification which could be put out to other suppliers. My view was that Fortronic was a very strong candidate.

51. A list of primary, secondary and reserve targets for possible retail participants was drawn up by Option One and while I was on holiday for the week commencing 14 March 1993 Tim Bonnet and Jeremy Taylor started to make contact with some of them. On my return Option One reported on progress with Woolworths, Boots and W H Smith with whom they were trying to set up meetings. They also informed me that they had been in contact with David Noble at Sainsburys and he had been extremely lukewarm.
52. On 23rd March 1993 David Watson and I had a meeting with Nick Mercer, Nicola Talfourd-Cook and June Carter of Air Miles. No mention was made of our proposed scheme. I did mention that Shell were about to embark on a retailer survey to ascertain what Shell should run as their next tactical promotion. We were nervous as to how Air Miles would respond to what they might well regard as a competitor to their own scheme and I wanted to get our own ideas into a clearer form before I discussed the matter with them.
53. On 24th March 1993 I wrote a note to Frank Leggatt summarising where we were vis a vis third parties. Safeway seemed to be the most promising supermarket at this stage as we believed that they were convinced of the need for a loyalty

programme. I explained in my note that we were arranging to speak to our primary targets at meetings hosted by Shell, accompanied by Option One personnel. This gave us the opportunity to outline in principle the basis of Hercules as a long term loyalty programme, probably technology-based and including third parties either as reward providers or giving out reward points or both. I emphasized that all this was subject to approval by the Shell board. I then reported on the main target companies and sectors.

54. On 25th March 1993 I received the results of the market research. This showed that while different sectors of the market had different priorities, the ideal promotion would be a flexible one, which offered a good choice of rewards, including instant gifts on site and longer term higher value items, including discounts from third party retailers. The Premier Points/Argos scheme had broken new ground but now the choice of retailers was very important for any scheme involving third parties. There was a recommendation for the use of a plastic card system.

55. On 29th March 1993 Option One and I had outline discussions with Nick Wells of Woolworths. He said they were not willing to become part of a scheme involving use of a smart card due to the cost. However, there was a possibility they would be interested if Shell considered using a magnetic stripe card. We met with Steve Austen of Boots on 1st April 1993. Boots were interested in being an issuer rather than a redeemer. Mr. Austen's experience of promotions was that the rewards generally cost more than the increased business received. On 2nd April we had a meeting with Querida Williams, National Account Manager at