Forte. She told me that Forte were interested in both issuing and redeeming. However at these initial meetings it was rapidly becoming apparent that the length of time necessary to conclude any deals with third parties would be extremely long.

56. Product Plus, a promotions consultancy specialising in providing merchandise for promotions, gave an unsolicited presentation on 31st March 1993. This was a timely approach by Product Plus as we were beginning to consider sourcing of rewards for the scheme. Ultimately, they became involved as part of the mail order side of the rewards package.

57. On 6th April 1993 I updated Frank Leggatt with a summary of the current position as to technology. I explained that no firm commitment had been given to any technology supplier at this stage, but that a lot of work had been done with Fortronic. I also reported on the discussions with third parties. I told him that positive responses had been received from Boots (as potential issuers of points) and Index as third party participants. On 13th April 1993 I had a meeting with Tim Osler of Safeway. He told me Safeway were committed to loyalty programmes on a tactical basis, but were conscious of the cost. He said Safeway were considering magnetic stripe cards but were not keen to get into a technologically complex promotion.

58. On 15th April 1993 Jeremy Taylor and Tim Bonnet of Option One produced a discussion document on the reward structure. They highlighted three broad types of reward structure, a system of offering points against a conventional reward

scheme (a "Collection") supported by short term tactical offers, travel offers (the "Holiday Mile"), and the possibility that third parties could provide rewards, subject to them coming on board. At our meeting on that day, we discussed the importance of being innovative but also that we should not keep reinventing the wheel. The innovation would be primarily in the card and the mechanics of the promotion. Meanwhile, meetings continued with potential third parties such as Beefeater and Threshers.

59. On 16 April 1993 I had a discussion with Ian Sutcliffe, at that time the Fuels Manager and later to succeed David Watson as Promotions and Advertising Manager. His view was that we should consider the relative importance of different categories of customers. High Mileage customers were the most important, followed by mid range drivers and then the low mileage drivers. This line of thinking supported Option One's suggestion that we should consider a smart card for high mileage, and a magnetic stripe card for mid mileage and any low mileage drivers who were interested.

60. Tim Bonnet and Jeremy Taylor of Option One were producing a number of discussion documents. Some of these arose from queries that I had raised while others were produced at their own initiative. On 19 April 1993, they wrote a paper targeting the offer, which considered a multi-layered promotion with smart cards being restricted to high mileage customers and possibly using paper tokens for low mileage customers. I was against this proposal. I thought we would have the problems of running two promotions and in effect would end up concentrating on our high value customers. In Collect and Select we had experienced problems

with management of paper vouchers and I did not want to risk repeating this. I suggested that we should continue to follow the universal smart card option with a fallback scheme in case the first option did not work.

61. On 20th April 1993 I had a meeting with the Ken Liversidge, managing director of Premier Incentives, who was ultimately in control of the Premier Points scheme. He told me that Mobil's exclusivity within the scheme applied only to England and Wales and Premier Points were looking for a petrol retailer outside England and Wales. I raised this possibility in a note that day to Frank Leggatt and David Watson.

62. By 21 April 1993 I wrote to Frank Leggatt a note dealing with proposed rewards. I also sent a copy to David Watson and circulated it to the promotions team, asking for comments. At that stage, my aims in relation to available rewards were fairly modest. In the long term, I was recommending a reward structure encompassing encashment of points at a limited range of third party retailers (I gave Dixons, Threshers and Marks and Spencer as possible examples), together with a full travel offer, lower value on-site rewards and possibly gambling and charity donation opportunities. However, on the basis of a 1 October 1993 launch date, it was impractical to expect all this to be in place and we would possibly have encashment at one or two third party retailers (more likely by way of vouchers than directly) alongside a travel offer with an on-site reward structure in place for Christmas 1993. The Promotions Department was working on many projects at this stage: we were running Air Miles, short term promotions and dealing with the day to day management of the department.

63. Also on 21 April 1993, we received from Option One the paper setting out their recommendations. This partly consisted of putting into one document the views which they had previously put to us in a series of discussion documents. It was intended to set out the basis of the proposed scheme in full so that we could then seek the necessary approvals from senior management. Option One recommended that smart cards were the preferred way forward. The possibility of a "multi-layered" promotion (i.e. one with more than one level of operation, depending on level of mileage) was still being suggested. The paper proposed that Shell should launch the project without third parties but make it adaptable enough so that third parties could join at a later date. The paper also recommended that Shell should consider a separate company to run the scheme to avoid Data Protection Act complications and to make the scheme more attractive to third parties.

64. On 23rd April 1993 I had a meeting with Frank Leggatt. We agreed to work towards a final presentation to David Pirret, the head of retail, on 7th May. Frank's main concerns were that we exploited any information obtained about customer spending habits, what rewards were to be offered, whether we could handle the technology, and how we would launch. I was asked to consider the possibility of a non-electronic launch for 1st October, using paper tokens.

65. On 26th April 1993 I produced a file note summarising the lessons to be learnt from the customer interface of the Collect and Select scheme in the preparation and development of Project Hercules. I was concerned with stock levels, the handling of retailer queries and complaints, security problems and bad debts. I

was determined to ensure that these mistakes were not repeated and was looking for ways to achieve this.

66. On the same day I faxed an action list to Jeremy Taylor at Option One setting out tasks that they needed to do. These included a note on the rationale for using smart cards as well as a summary of how they saw the rewards structure at launch. I put together a full costs spreadsheet comparing the use of paper tokens with electronic points and trying to define the launch costs.

67. On 27 April 1993, Tim Bonnet and I went to Milton Keynes for a meeting with 23 of Shell's own retailers to hear their own views on what promotions worked best from their point of view. They confirmed our thinking that we should be going for a long-term scheme based on secure electronic technology with instant on-site rewards as well as gifts by mail order or Argos type discounts. They also stressed that Air Miles was a strong reward incentive and we should not lose it.

68. On 30th April 1993 I had a further meeting with Frank Leggatt. Frank was impressing on me the need to justify the extra expenditure of £5-10m which we thought the scheme would cost to implement. Frank and I considered whether Shell could share the initial set up costs, asking customers to pay to enter the scheme or going back to using paper tokens. We also considered the launch date for the promotion. At a meeting later that day with Jeremy Taylor and Tim Bonnet of Option One, they expressed the view that a launch at the beginning of 1994 would avoid the Christmas rush and would give us cheaper media time. I wrote a note to Frank Leggatt on 4th May 1993 recommending a 1 February 1994

launch date and explaining that we needed to have a pilot scheme to test the working system.

69. On 5th May 1993 I wrote three memos to Frank Leggatt copied to David Watson and Ian Sutcliffe, one was about interim rewards (i.e. for the period immediately after launch) and another was about points conversion, i.e. the possibility of starting the project with paper tokens and converting to electronic points. I advised against the use of any such tokens and did not recommend conversion. My third memo was about the launch date; I suggested 1 February 1994.

70. I produced a short agenda for the 7th May 1993 meeting with David Pirret. I was going to present our objective, a summary of the history, our strategy for the scheme and cost estimation. In fact, the meeting was postponed and did not take place until 10 May 1993. Apart from David Pirret and myself, David Watson and Frank Leggatt were also present. We decided to proceed with the project with a launch date of 1 December 1993 to aim for. David Pirret agreed to attempt to obtain the agreement of David Varney (the managing director of Shell UK) and John Collins (the chairman of Shell UK).

71. The meeting on 10 May 1993 did not however conclude whether we might initially launch with paper tokens or with electronic media. I drafted a flow chart to show the various options and comparing the pros and cons of each. During the run up to the final decision being made about whether we should use paper or electronic

means, Frank Leggatt acted as the "man on the street" to consider what the layman's view on technology would be.

72. On 12th May 1993 I had a discussion with Tim Hannagan about design for the project. As a result, he approached two design companies (Storyboard and Greenwich Design) to design the card for use with Project Hercules. Greenwich Design were ultimately selected to do the necessary design work.

73. On 14 May 1993 I left for a brief holiday. During my absence David Watson continued to progress matters on Hercules. On 21 May 1993 Option One produced an IT brief setting out proposals for how Hercules would work on launch at 1 December 1993. I read the brief when I returned to the office at the end of May.

74. I had a meeting with Option One on 1 June 1993 to review where matters stood. That meeting focused primarily on immediate practical issues, such as the question of the name and the related design issues, the position on technology on rewards and in relation to database and marketing. The question of third parties was not really in the forefront of our minds at that point as we had implicitly recognised that there would be only a limited role for third parties at launch and there were other very much more substantial practical issues that needed to be dealt with if a 1 December launch was to be achieved. For example, in relation to the issue of the name, we decided to embark on yet another research project to try and assess possible reactions to different names. At our meeting we discussed the timetable

for doing this and producing a short list of names from which a decision could be made.

75. On my return from holiday I also saw a note dated 28 May 1993 from Ogilvy & Mather who had recently been appointed the main advertising agency for Shell. They were asked to give a view on Project Hercules from that perspective. They saw the key question as being whether Project Hercules was seen as a Shell promotion, building loyalty to Shell service stations, or whether it would become a separate promotional brand along the lines of Green Shield Stamps with multiple retail suppliers. Their view was that once launched as a Shell promotion it would be highly unlikely that any other retailer would be willing to co-operate. While this view did not affect Shell's thinking on the proposed structure of the scheme at launch, it was obviously something which we took into account so far as the branding of the scheme was concerned.

76. On 7 June 1993 we issued invitations to tender to a number of prospective technology suppliers. The following day I had a meeting with Air Miles, the first which had taken place since David Pirret had given his approval in principle to proceeding with the scheme. I therefore gave Air Miles for the first time a fairly full account of what we were proposing. I indicated that we proposed to give customers the choice of collecting either ordinary scheme points or Air Miles and we had some discussion as to the methodology of how we might do that. Generally I felt that Air Miles received the news of our plans positively, although they obviously remained cautious as to how their relationship with Shell might be affected.

77. During this period I was engaged on a number of different aspects of Hercules. I was involved in various meetings with technology suppliers responding to the invitation to tender. I was putting together a note summarising the thinking behind the scheme, which could be shown to senior management with a view to getting the approvals that David Pirret had told me were necessary. I was involved in reviewing the research which took place into the prospective names for the card.

78. The data capacity of Smart cards meant that there was a tremendous potential for accumulating information about customers. However, from a technical and legal point of view we still had a long way to go. On Shell's behalf, Option One sought advice from O&M Data Consult, a subsidiary of Ogilvy & Mather. However, we had heard that they might have some linkage with AT&T who were still trying to put together a multiple retailer loyalty scheme. We therefore secured an assurance from Ogilvy & Mather that any connection they might have had in that programme had been terminated before we instructed them. They duly gave that assurance. They were therefore engaged on 15th June 1993.

79. On the same day I received from Option One their evaluation of the various candidates for supplying mail-order rewards. They had seen and reported on a considerable number of companies. We then selected a short-list who, on 21 June, received a brief to prepare a proposal to meet our requirements for mail-order rewards. The companies short-listed were Argos, Freemans and Product Plus, the last named being linked to Granby Marketing Services Limited (a direct marketing company).

80. On 22 June 1993 Option One produced some proposals on advertising and promotional activity that we might undertake prior to the launch to try and maximise the number of customers enroling in the scheme at the outset. This was an issue to which I gave continuing attention over subsequent months. By this stage David Watson and I were becoming concerned as to whether the necessary authority to proceed would be obtained in sufficient time to enable us to achieve a launch date of 1 December 1993. David Watson wrote a note to Frank Leggatt on this subject on 23 June 1993. The possibility still existed that if a launch did have to take place on that day it might be on the basis of paper vouchers but on the same day David Watson wrote another note to Frank, the thrust of which was that "it is possible to do this but it is messy".

81. By 2 July 1993 I was able to finalise a note to David Pirret summarising our proposals for him to use as a briefing paper for other senior management. I explained that a 1 December launch was still possible but that this required immediate approval of funds and carried with it significant risks. I then summarised the rationale for the scheme, how it worked, the risks and a possible contingency plan if we could not launch by 1 December. One of the risks that I identified was that Shell might not be able to get any third parties to participate, bearing in mind that the plan at launch was simply to have instant gifts on site and mail order catalogue, as well as Air Miles.

82. By early July we were also receiving responses to our design brief, responses to our brief for sourcing of mail order rewards and were beginning to evaluate the tenders for technology supply. In relation to the last of these issues, we took a

decision to proceed with Fortronic, although we then had to deal with an increasingly irate response from one of the other contenders, Bull, who believed that their own cards offered better security. This was true but their cards were in fact more sophisticated than we needed for the purposes of our scheme. Nevertheless quite a bit of time was wasted on this aspect as they sought to raise the issue at higher levels in the organisation, having initially failed to convince David Watson and myself. They wrote to David Pirret on 19 July but they did not divert us from our intention to go with Fortronic, with whom a preliminary contract was signed on 5 August 1993.

83. On the question of the name of the scheme, no clear favourite emerged but a consensus developed in favour of the use of the name "SMART". This, however, in turn raised issues as to how the name should be used, which were addressed by a paper from Option One on 30 July 1993. In relation to the mail order side of the operation, we evaluated the short-listed contenders and decided in favour of Product Plus/Granby, with whom I had a meeting on 26 July 1993 to inform them that we proposed to place the contract with them pending final authorisation. We were therefore now in a position of getting our main suppliers into place but we still did not have the requisite approval of the scheme within Shell.

84. Meanwhile, various additional queries and problems continued to arise, which delayed matters without any resultant alteration to the scheme. One such query was whether we should increase the functionality of the smart card to include a facility for use as a payment card. I did a lot of work on this, leading to my submitting a note to David Pirret and Frank Leggatt on 23 August 1993. My view

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was that to include this possibility would radically change the scheme, increase the costs very significantly and put us back by about 12 months without any significant benefit. In the event Shell did not proceed along these lines.

85. The process of gaining approval for such a large marketing project within Shell was unclear and rather cumbersome. On 4 August David Watson set out in a note to Frank Leggatt his understanding of the rules for getting authority. Meanwhile in the absence of authority there could be no certainty about any aspect of the scheme. On 4 August 1993 I also had a meeting with David Watson at which the whole question of whether we should have a smart card scheme or a paper scheme was discussed. Ian Sutcliffe (the then fuels marketing manager) had never been wholly convinced of the merits of a technologically-based scheme. It was agreed that a paper should be produced on the subject and that Ian, David, Frank Leggatt and myself should get together to try and agree (again) on where we were going. I eventually wrote my note to the other three on 17 August 1993. Although this was tedious it was obviously important as we needed to get maximum backing for our ideas if they were to win approval at higher levels of the organisation. By this time the launch date had already been put off to 1 February 1994 but Fortronic were emphasising that even that date could not be achieved unless we could make a firm commitment to them in respect of the main contract in the very near future. The preliminary contract with them had not committed either party to proceed to the main contract for the supply of terminals and cards. In order to achieve our objective there needed to be a continual process of education within Shell itself and on 18 August Option One produced a document entitled "Hercules, A Generic Description", intended to assist in this task. Until approvals were obtained there

was no alternative but to continue to work in the expectation that the scheme would come into operation. Also on 18 August Option One produced a discussion document on how scheme points might be used to benefit schools and local community or charity projects. On 20 August Ian Sutcliffe circulated the note reiterating his concerns about the mechanics of the promotion and setting out his preference for "a reward-driven paper-based promotion". There was then a meeting on 23 August with Ian, David Watson and David Pirret, at which I believe Ian's concerns were satisfied. Certainly David Pirret remained in favour of proceeding with the scheme.

86. On 6 September I had a meeting with Charlie Fox and Amanda Nicholson. I was preparing a note updating the team on where we had got to. I asked Charlie and Amanda to assist me with the preparation for this note. We discussed all the usual issues, such as the advantages of long-term and short-term promotions and of electronic points over paper vouchers. We also discussed the possible timetable for launch, bearing in mind the slippage of time. We were thinking about a possible target launch date of 1 April 1994 and to cover that the further gap after the previous planned launch date of 1 February 1994 there was discussion about the possible reintroduction of Make Money, one of our most successful promotions of the past. This was thought to be a profitable way of helping to boost the number of customers in the immediate run-up to launch. There were a number of issues that I knew senior management might be concerned about. For example, there was the problem that had existed with Collect and Select about the substantial and unknown contingent liability for unclaimed rewards. We needed to be able to explain how the Smart scheme was different from Collect and Select because

of the central control which enabled us to monitor how many points at any one time remained unclaimed. There was also the question of whether the scheme would be open to fraud, as the Argos/Premier Points scheme had received some adverse publicity in that respect. At around this time one of the ideas that came up was that we should have a discussion with Alan Davis who had previously been with Esso and was well known to some of our senior management. It was felt by David Pirret that if he were able to review what we were proposing and give it his approval, this might carry some weight with Shell management. After this I briefed Alan Davis on the project, and Alan was brought in to check the robustness and workability of the plans.

87. On 7 September I had a meeting with Frank Leggatt to review matters. We discussed steps that might be taken to help gain the approval of John Collins. He suggested that it might be helpful if Mr Collins can see how a terminal might work in practice, presumably to convince him that the process of using a card would not be too slow or difficult and thereby run the risk of alienating customers. It was also suggested at the meeting that Mr Collins might be more likely to be excited about the scheme if there were a substantial retailer, such as Sainsbury's, involved but I recognised at that point that this was not a realistic proposition.

88. On 9 September I instructed our internal lawyers in the various legal agreements that needed to be concluded. I gave them the generic description document that Option One had prepared, together with a summary of the terms included in the various agreements. In relation to third parties, the position at that time was that we were hoping to have contracts with various third parties to accept points in

payment for their goods. I indicated that we were seriously talking to UCI Cinemas, Block Buster Video, Dillons Bookshops and Burger King. There was also the possibility of retailers issuing points but the only party with whom this was even a possibility at that stage was UCI Cinemas.

89. On 13 September I produced my note summarising the reasons in favour of the proposals we were putting forward. I set out the pros and cons of electronic against paper vouchers, the smart card instant magnetic swipe card and a long-term against a short-term promotion. I also dealt with the risks, including the risk of not getting a large retail participant and dealt with issues such as the difference from Collect and Select. I did an additional note summarising the various pieces of market research that we had already carried out on the scheme and the ones still in the pipeline.

90. On 17 September 1993 I received Frank Leggatt's first draft of the note he was proposing to submit to gain necessary financial approval. It now appeared that this would need to be done by way of inclusion in the retail department's budget request (or 502 as it was known) for 1994. This was worked on by David Watson and myself and David produced a further draft on 21 September. He was still hoping at that point that approval might be received by the end of that month but this was becoming an unrealistic prospect. The delay remained a matter of concern to those of us most closely involved in the scheme and on 23 September I circulated a note considering the option of launching with paper vouchers and then moving to an electronic basis. Although this was something that I had always set my face against, I felt that the continuing delay made it something that we had

to reconsider, although I still saw, and listed in my note, considerable problems about going down that route.

91. Also at this time I met with Alan Davis and outlined the scheme to him. I left the generic description document with him. His conclusion was that the concept of the long-term promotion was a very good one and met a perceived weakness that Shell had in the promotions field, but that there were a number of points to be resolved with which he felt he could help. He offered us his services in this regard.

92. Meanwhile, discussions continued with all our preferred suppliers trying to get as much detail as possible agreed in the expectation that we would eventually receive approval of the scheme within Shell. On 27 September I had a meeting with Option One and UCI Cinemas to talk about their proposed involvement in the scheme. They appeared to remain keen to be in at the launch, at least as a redeemer of points, with the possibility of having a pilot scheme as an issuer with a view to full national roll-out at some later stage. UCI were keen to know who the other participating retailers were as there were some with whom they would have difficulty associating for image reasons, eg. those linked with alcohol. Negotiations in fact continued with UCI over a considerable period and they did indeed join the scheme at launch as redeemers of points, although they never became a points issuer. Other parties with whom we were talking seriously at that stage were Blockbuster Video and Thresher who we met on 8 October 1993. Neither of these however joined the scheme at launch.

93. In fact, in the Promotions Department in early October 1993 we were still finalising our thinking as to the basis upon which we should reach financial arrangements with proposed retail partners. I wrote a note on 11 October to Tim Bonnet and Les Jackson of Option One, setting out the various issues that needed to be considered, depending on the level which the third party retailer decided to enter the scheme, eg. as redeemer only, redeemer and issuer but without issuing their own cards, or a redeemer and issuer who also issued cards. One of the issues that very much concerned us was how we could recover some part of our set-up costs from retailers who subsequently might wish to join the scheme.

94. We were proposing to engage Ogilvy & Mather Data Consult with a view to advising on the logistics of various aspects of implementation of the project. On 12 October 1993 they wrote to Phil Crane, Shell's applications manager, with a copy to me (among others) setting out details of what was proposed in relation to their involvement. Meanwhile we were having problems with Fortronic. I spoke to them on 13 October at which time they were very concerned because they had had a development team of up to 15 people working on the project for three months and although we had been paying them sufficient to cover their costs, it was still unclear as to whether the project would go ahead and, if it did, whether they would get the main contract. They were finding it difficult to continue to commit that level of resource without some certainty as to the outcome. At the same time we were trying to deal with points that were being raised on our 502 submission. To some extent this involved going over ground that we had extensively investigated previously. For example, the question of why a smart card should be used at all and whether we could utilise existing terminals or cards

accounting software to try and cut down on cost. It was a difficult process to try and educate people coming to the scheme for the first time in matters with which we had been living for many months.

95. Additionally, no one at Shell had fully appreciated the foreign exchange implications of what was being proposed. We were purchasing an enormous number of cards which were priced in French francs. We were having to order merchandise, much of which would be in American or Hong Kong dollars, but which would be denominated in pounds when offered to the public. The sums involved were such as to make the foreign exchange implications of these arrangements very significant and it was necessary to consider how to hedge the foreign exchange risks. I therefore raised this with our finance department and spent a lot of time working on the necessary cover needed to protect Shell.

96. Discussions were continuing with Alan Davis as to the basis upon which he might assist us. I wrote him a briefing note on 15 October setting out the areas on which I thought it would be helpful for him to concentrate. At the same time, David Pirret was pressing to know whether terms of reference had been set up with Alan Davis and I reported the position to him. Alan Davis was well known to Steve Miller. Mr. Miller was in charge of budgetary decisions at Shell International and was part of the group that would ultimately have to approve the 502. I had mentioned to Alan the frustration that we were feeling about the approval process in the hope that he might take the opportunity of mentioning this to Mr Miller.

97. Meanwhile, I was still trying to ensure that we took advantage of all the information that we had collectively within Shell. Also on 15 October I had a meeting with Simon Hathrell who told me that he had been involved in a very similar Shell in-house project, called Project Nova, five years previously. Mr. Hathrell explained how Project Nova had envisaged the use of a Smart card. One of the results of this is that smart card functional Dassault terminals had been in Shell forecourts in the late 1980s. His view of Project Hercules was that we should definitely have a pilot scheme so as to flush out any technical problems. We discussed security issues and the current state of the market in relation to card suppliers and card accounting systems.

98. Also on 15 October 1993 I had a further discussion with Mike Pettit of Fortronic in an attempt to resolve their concerns. I had been given authority to agree that we would pay them for all work done up to a maximum of £600,000, even if approval for the scheme did not come through. I put this proposal to them in our conversation.

99. On 20 October 1993 I had a further meeting with Alan Davis to discuss what action could be taken to persuade SM (the supply and marketing function within Shell International, which ultimately approved the 502) to give its approval to our proposals. From the discussion that Alan had had it appeared that there was concern as to the pay-back in the short term from the investment we were proposing to make and concern as to whether we had made an adequate risk assessment and analysed the sensitivities of the project to changes in the assumptions we were making. The big question was whether the increases in

market share would cover the investment that we were proposing to make. Alan felt that there were areas on which further reassurance could be given. At the same time we continued to get enquiries directly from SM which we endeavoured to deal with. What I agreed with Alan Davis was that he should write a letter to Tony Brierley of SM, broadly supporting our proposals. On 26 October he sent me a draft of the letter that he proposed to send. I had a few comments on it which were incorporated into the draft and the final version was sent by Alan Davis on 29 October.

100. I continued to have discussions with Mike Pettit of Fortronic about their concerns. Eventually the agreement we reached was that we would pay them a sum of £300,000 simply to keep them on board until the end of 1993. Our reasoning was that by that time we would surely know whether our 502 was going to be approved or not. That sum would in any event be deducted from the value of the main contract as and when that was finalised. The arrangement was confirmed by a letter to me from Michael Pettit of Fortronic dated 29 October 1993. The conclusion of this agreement at least enabled me to have some confidence that notwithstanding the delays we could keep our key suppliers on board long enough to make the scheme viable.

101. While the delays caused difficulties with our suppliers, they did at least give an additional opportunity to try and recruit further third parties to the scheme. We pursued discussions with Welcome Break with whom we had a meeting on 3 November. On the previous day I had written to Air Miles concerning the question of the relative branding of the SMART logo and the Air Miles logo.

Although Air Miles readily agreed to integrate with the SMART scheme, issues of this sort were continually arising. The schemes were inherently competitive in nature and there were a number of potential problems. For example, Air Miles wished to be assured that we would work with, say, a major supermarket that came into their scheme even if we were to have a rival supermarket as part of our scheme. We wanted exclusivity on petrol in addition to the flexibility to negotiate with any supermarkets on the SMART programme. The position was complicated by the fact that we were at that time negotiating a new agreement with Air Miles which caused even more focus to be directed to these issues than would otherwise have been the case.

102. Another consequence of the delay was that the market in loyalty schemes was growing and we were in danger of falling behind our competitors. I have already mentioned AT&T's efforts to get a multiple retailer scheme set up, which received a fair amount of publicity in the press. So did Texaco's plan to launch the first electronic scheme by a major oil retailer. Also in November 1993 we learnt of a pilot scheme that Tesco were running in Kent for what became their Club Card scheme. Bearing in mind that Tesco were themselves becoming an important player in the petrol retailing field, this was a development that we could not ignore. At the same time, Simon Hathrell, who had become very interested in the scheme after my discussion with him and was at that time based in The Hague, was urging me to extend the scope of the SMART scheme to cover other countries in Europe. My reaction at that point was that I would simply like to see the scheme up and running in the United Kingdom before we decided whether, and, if so, how, to develop it into other countries.

103. The implications of the delays on the prospective launch date needed to be considered. On 17 November 1993 I wrote to Frank Leggatt saying that a launch date of 16 May 1994 was possible, including a three month live pilot of the customer interface and a one month live pilot of the full operating system. However, to achieve that date some interim work needed to continue to be done, even though full approvals had not yet been received. I estimated that a sum of £130,000 would be needed to cover the work. Alternatively, we could delay the launch still further, which would give us more time to arrive at a full agreement with Air Miles and to pull together deals with prospective retail participants. However, it would also carry with it the risk that our competitors (who by now we suspected all had a pretty good idea of what we were planning) would jump in ahead of us. As a result of this memo I got authority to spend the interim monies on the basis that no other or longer commitments were entered into. I was also thinking ahead to the tendering process that would be necessary following full approval of Hercules. On 19 November I wrote a note setting out my analysis of all the contracts that would be necessary to enter into, together with a summary of where we stood in relation to the tender process. This proved to be a very considerable list showing contracts in relation to start-up costs, having an estimated value of close to £11m, and contracts in relation to operational costs, having a value in excess of £21m.

104. I had a further meeting with Alan Davis on 22 November 1993. We discussed various aspects of the scheme and he expressed the view that sign-off of the project by Steve Miller should mean that the go-ahead for the plan was approved. There was unlikely to be anything else that would hold it up. I mentioned to him

that we had a few days earlier received a note from Jane Frost of Shell International raising yet further queries on the marketing plan and suggesting that there should be a round table meeting to review this and provide a good deal of further information. As a result of our discussion, Alan Davis wrote a note to Jane Frost indicating that he had seen a detailed financial justification for the promotion and was satisfied that the risk assessment had been carefully calculated and checked. He also explained what was proposed in relation to the timetable and database management. In relation to brand positioning, he expressed the view that Shell would be doing well if it stopped losing market share and that if it actually gained any share it would be a double benefit. Our meeting with Jane Frost took place the following day against the background of that note and I believe that her concerns were laid to rest. There was some discussion about our brand strategy, which we agreed to think about further. Following the meeting, David Watson and I had a discussion on this subject to try and work out how a promotion can best sustain a brand image. Our conclusion remained that the Hercules-style promotion gave us the best chance of doing so.

105. On 26 November 1993 we held what we described as a devil's advocate day. This had been suggested by Frank Leggatt and was intended to flush out any concerns that people had about the scheme and to identify what competitors might do to stall our plans, adversely affect the launch, produce rival schemes. We were also to look at potential flaws in the system and how we would deal with them. The meeting was attended by Frank Leggatt, David Watson, Andrew Blazye (our advertising manager) and myself, as well as a number of representatives from

Option One. While I believe that it was a useful exercise, I did not think that it threw up any new problems of significance.

106. Our discussions with Air Miles about the new contract continued. However, towards the end of November we received an addition to a re-drafted contract, a further document described as an "understanding" between Shell and Air Miles, which was apparently not intended to have binding, legal effect but nevertheless seemed it in its wording to have potentially significant implications. It struck us that it was an attempt by Air Miles to keep us strongly committed to promoting the Air Miles partnership and to prevent our doing anything in relation to SMART which would enable it to be a full competitor. While we remained very committed to Air Miles and recognised that if they wanted an "understanding" of this sort, we would have to agree something and we felt that the document was very much drafted from an Air Miles perspective and I said so at a meeting I had with them on 30 November. I undertook to re-draft the document in a more acceptable form.

107. In addition to other types of reward, the possibility of using points by way of donation to charity had always featured as one of the scheme options. Discussions had been held with a number of charities but by December the front-runners that were emerging were Save the Children Fund, The British Heart Foundation and The National Trust. I was sent a presentation document from Save the Children on 1 December 1993 and had a meeting with The National Trust on 6 December. Despite occasional attempts by senior management to get us to reconsider their own particular favourite charities, those three remained the charities involved with the scheme at launch.

108. The mechanics of launch were still under consideration. There had been a suggestion that we might implement the scheme region by region. On 10 December 1993 I wrote to Frank Leggatt indicating that this was possible but setting out some of the problems that it would cause and arguing in favour of a full national roll-out once a pilot testing scheme had been put into operation. The most significant disadvantage as I saw it was that introducing the scheme in this slow manner would enable our competitors to catch up with us and allow them to implement actions to combat our full national roll-out. In particular, they might try out prospective retail participants for schemes of their own. We were not in fact at that stage making very much progress with third party retail participants although on 30 November 1993 we had had a good meeting with HMV who were very interested and keen to join the scheme at launch. Those discussions progressed well and HMV did indeed become a redeeming member of the scheme at launch.

109. Finally, on 16 December 1993, I reported to other members of the retail marketing team, which was chaired by David Pirret, that approval of the 502 had been given and that Shell could move ahead to launch Hercules as soon as possible. In order to achieve launch in mid-June we needed to place orders via letters of intent (which had already been prepared) prior to Christmas, failure to do so would mean that we would lose three weeks and revert to a July launch. These letters were sent out before Christmas. Meanwhile, David Watson was preparing to leave his position at the end of December, his functions in relation to Hercules being taken over by Ian Sutcliffe. Prior to this Ian Sutcliffe had been Fuels Manager.