

A Publication from INPUT's Federal Information Technology Market Program

## Federal Outsourcing Market Needs Vendor Encouragement

Federal agencies need help implementing new technology, downshifting functionality, responding to tighter budgets and implementing business process re-engineering according to INPUT's latest study on the *Federal Outsourcing Market, 1992-1997*. Vendors have started improving their image and need to do more.

It's no surprise agencies lack internal personnel to accomplish all of the above. Agencies have relied on contractors for a long time because of a lack of full time equivalent (FTE) positions. Current trends or needs are intensifying the needs for contractor services, specifically using outsourcing forms of contracts.

Outsourcing is a process through which customers contract parts of their IS operations to outside vendors on a long term basis. It is a contracting method that encompasses a variety of the following services:

- *Systems operations* - contracting for either platform or applications operations.
- *Network operations* - contracting for operations and management of the computer related telecommunications network, transmitting data, voice, images, text, and LANs and WANs.

- *Desktop services* - contracting for any variety of services associated with a customer's PC/workstation environment: purchasing consultation, product supply, maintenance, installation services, LAN management, help desk/user services, training, inventory management, and network interface management.
- *Applications management* - the vendor develops and maintains all applications systems a customer uses to support a business operation.
- *Applications maintenance* - the vendor only maintains particular applications software associated with a business function.

Federal agencies are well acquainted with platform operations, applications maintenance, applications development and maintenance, PC maintenance, and user-training contracts. However, federal agencies with the exception of NASA and Department of Energy sites rarely have contracted for all of these services through one contract.

INPUT's view of outsourcing is shown in Exhibit 1.

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## CUSTOM CONSULTING

Many vendors leverage INPUT's proprietary data and industry knowledge by contracting for custom consulting projects to address questions about their specific market strategies, new product/service ideas, customer satisfaction levels, competitive positions and merger/acquisition options.

INPUT advises users on a variety of IT planning and implementation issues. Clients retain INPUT to assess the effectiveness of outsourcing their IT operations, assist in the vendor selection process and in contract negotiation/implementation. INPUT has also evaluated users' plans for systems and applications downsizing.

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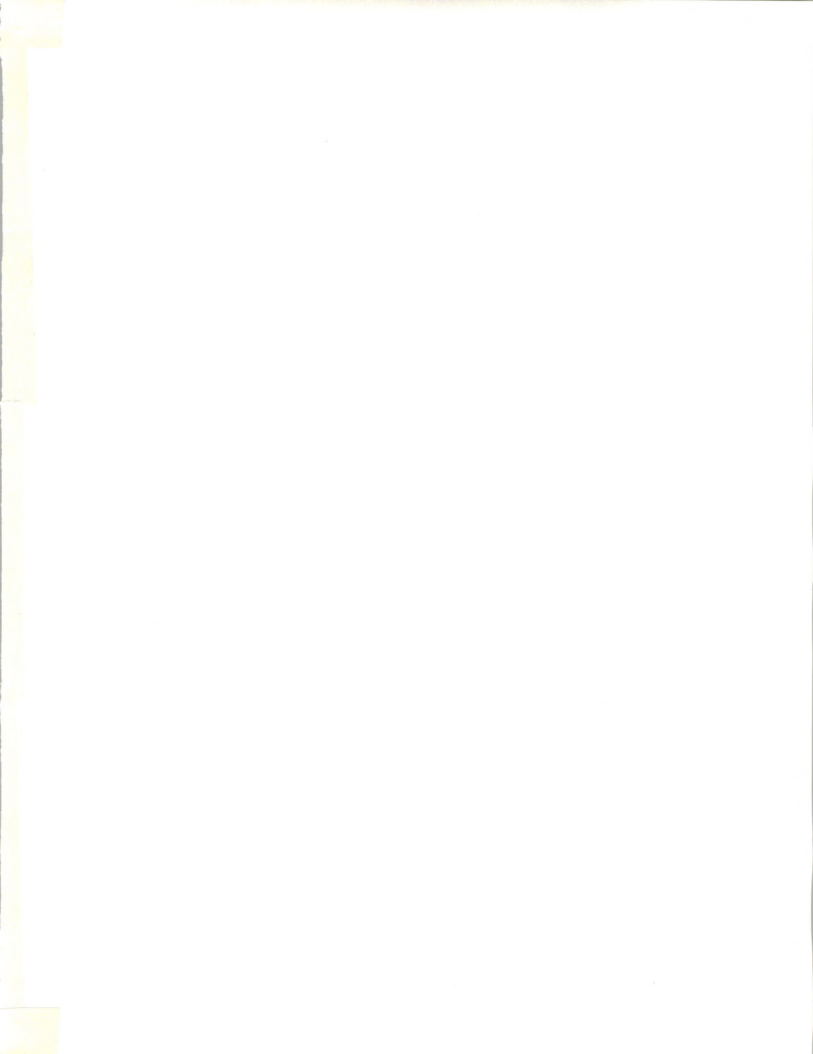
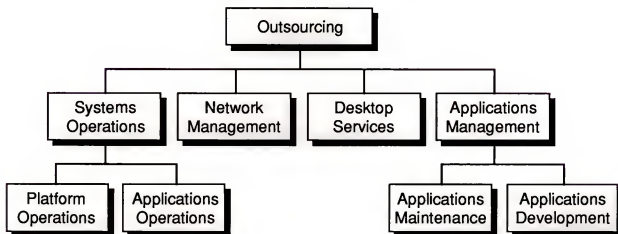


Exhibit 1

## Types of Outsourcing



Source: INPUT

### New Technology Means New Approach

New technology affords agencies alternative ways to perform mission and administrative functions, hopefully resulting in lower operational costs. However, agencies find it impossible to keep up with the new advances in hardware, software and networks that are rapidly appearing in the marketplace. They lack expertise to develop and maintain new technology-based systems. Specific technologies that usually necessitate contractor support include: supercomputers, relational DBMSs, networking, servers, GISs and imaging systems.

Downshifting functionality to new platforms may entail re-engineering the work flow and developing new solutions, based on new software developed expressly for downsized environments.

The complexity of the downsized/distributed environment is driving agencies to seek more services from vendors. Agencies lack the skills to design and implement a multitude of devices from numerous manufacturers locally or across dispersed locations.

Business process re-engineering projects are being actively pursued at DoD agencies because of the Corporate Information Management (CIM) initiative. Civilian agency respondents in INPUT's study of the Federal Outsourcing Market, report business process re-engineering is not applied as much as it probably should be among those agencies. Agencies expect to step up efforts in this area in response to the Clinton Administration's emphasis on improving services to the citizens, and overall budget cuts.

### Vendor Strategies

Vendors should gear up to capitalize on intensifying agency needs for contractor support. Marketing efforts should be directed at alleviating agencies' qualms about outsourcing and stimulating their move to new technology and associated vendor services.

Specific recommendations for vendors are listed in Exhibit 2.

It is time to enhance the image of the vendor community into one that agencies can trust, one that agencies will not fear turning over greater IS and mission functionality to. Aggressive





Exhibit 2

### Vendor Recommendations

- Stop the protest circus
- Market service capabilities
- Suggest alternative technologies
- Promote success stories

Source: INPUT

marketing campaigns to change how agency personnel view outsourcing and the vendors that provide these arrangements are needed.

An ITAA (Information Technology Association of America) Committee recently published a document entitled "The ITAA Guide to Outsourcing in the Federal Marketplace". INPUT worked closely with the committee to develop the material. The document has been made available to government and ITAA members at no cost, and is available to anyone else for the nominal fee of \$9.95. It is a well-prepared first step in the education process and needs to be supplemented by more "missionary" work by the individual vendors.

### Need for Mutual Trust

Trust, communications, and partnership attitudes must prevail for outsourcing to be viewed as an effective solution for mission contracting by government agencies. The level of protest activity launched by many losing vendors today in all IS service areas, furthers the skeptical view that many vendors hold of the vendor community. Calling a halt to the

protest circus can only strengthen overall vendor/agency relations.

Vendors should step-up marketing efforts of their intrinsic technical and managerial capabilities. Agencies are faced with rapid technology changes, expanding service and mission requirements and further budget cuts. Agencies have less resources today to manage their environments. Letting agencies know "who has the capability" should certainly induce further outsourcing activity, and possibly predispose them toward certain vendors.

Suggesting alternative technologies to improve business functions and mission deliverability will enhance an agency's perception of a vendor. It also serves as a measure of the vendor's commitment to the agency.

Active promotion of success stories with other agencies serves two purposes. First, it influences which vendor wins a contract. Agencies are paying more attention to a vendor's contract performance history during the vendor selection process.

Second, if the Government Performance and Results Act is passed, agencies are expected to feel additional pressures to improve IS performance. A strong reputation goes a long way to improve business opportunities.

This Research Bulletin is issued as part of INPUT's Federal Information Technology Market Program for the information services industry. If you have questions or comments on this bulletin, please call your local INPUT organization or J.P. Richard at INPUT, 1953 Gallows Road, Suite 560, Vienna, VA 22182, Telephone (703) 847-6870, Fax (703) 847-6872.

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  - Forecasts
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### CUSTOM PROJECTS

For Vendors—analyze:

- Market strategies and tactics
- Product/service opportunities
- Customer satisfaction levels
- Competitive positioning
- Acquisition targets

For Buyers—evaluate:

- Specific vendor capabilities
- Outsourcing options
- Systems plans
- Peer position

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