

Legislation to Alter Federal IT Services Procurement

Shift to performance-based contracts would increase flexibility for vendors

BY DAN VERTON
WASHINGTON

The Senate last week passed a bill that's poised to significantly alter the way federal agencies procure IT services.

The Defense Authorization bill includes the Services Acquisition Reform Act, also known as SARA. Introduced earlier this year by Rep. Tom Davis (R-Va.), SARA would move the government away from costly "time and materials" contracts. The bill is now being prepared for President Bush to sign.

A key section of the SARA provisions offers incentives for agencies to use performance-based contracts, a shift that analysts and industry executives said will force IT product and services vendors to change the

way they do business with the federal government.

Most IT service providers will likely benefit from the legislation because it will give them flexibility to choose the best commercial technologies to use under a contract, rather than having to build custom products to meet government specifications, said Jim Howard, CEO of CrownPeak Technology, a Los Angeles-based Web content management service provider that counts many agencies among its customers.

The legislation would also benefit the government by ensuring that money isn't spent on products and services that aren't doing what it needs them to do, he said.

"With the [performance-

based] software service model, in which you pay for what you use, the vendor is taking the chance that the software will work well for the customer, as opposed to the government paying a lot of money to make it work and then betting that the entire enterprise will use it," Howard said.

Risky Business

SARA is also likely to have a significant impact on systems integrators that do custom work on an hourly basis, Howard said.

Some large systems integrators have historically shied away from performance-based contracts, which they consider a risky approach to business, said Mike Barbee, president and general manager of WamNet Government Services Inc., a Herndon, Va.-based company that's helping

to build the U.S. Navy's \$6.9 billion intranet.

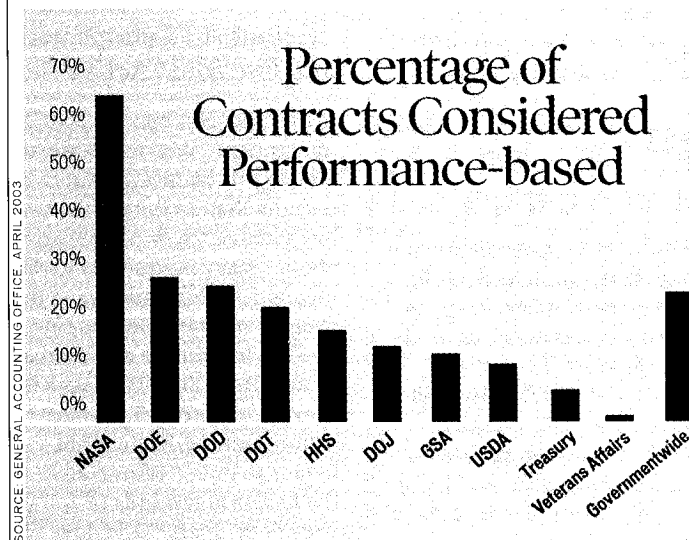
"The big systems integrators are relatively inexperienced at this and are risk-averse. So there's a question if they will embrace this," he said.

On the government side, performance-based contracting "really requires a lot of upfront planning on service-level agreements by the agencies involved," said Barbee. "And some agencies view the re-

quirement to define the end state as risky. They will ask themselves, 'What if we're wrong?'"

But all agreed that performance-based contracting will have clear benefits for the government.

"They pay for what they get," said Barbee. "With time and materials contracts, the bill comes in every month, regardless of what was accomplished." **42832**



CIOs Detail IT Cost-Cutting Moves

Tech chiefs lower expenses through small steps, overhauls; some face resistance

BY LUCAS MEARIAN
COLUMBUS, OHIO

Sam Coursen, CIO at NCR Corp., last week said he has saved more than \$20 million in IT expenses over the past year or so by eliminating what many of the company's end users previously considered fixed-cost items.

For example, scrutinizing who gets company-funded mobile devices such as cell phones, handhelds and laptop computers as opposed to desktop PCs has saved NCR millions of dollars, he said.

Coursen was among more than 150 CIOs who attended a symposium here that focused on guiding IT departments through turbulent economic times. The conference was hosted by the Columbus Tech-

nology Council and the Center for Information Technologies in Management at Ohio State University.

Dayton, Ohio-based NCR was spending \$7 million per year on voice conferencing alone, an expense that Coursen said he was able to cut dramatically by looking at how the technology was being used and by whom.

But limiting the use of new technology by end users isn't the only way NCR is reducing its IT costs. Coursen said the technology vendor is rolling out a global ERP system and has migrated to a shared-ser-

vices model for IT as part of the project, producing about \$100 million in annual savings. "We don't do any projects anymore that don't have a one-year payback," he noted.

Not everyone is finding it so easy to take the kind of steps cited by Coursen. During a

panel discussion, Brad Dunnington, senior vice president of strategy at Edwards Industries Inc. in Columbus, said he has had a hard time setting up shared IT services across a decen-

tralized group of operating companies whose managers tend to fight over how the services are allocated to their individual departments.

Mike Curtin, president and CEO of The Dispatch Compa-

nies Inc., which owns *The Columbus Dispatch* newspaper, said he counts on his IT department to determine which projects are most valuable to the company as a whole. "We rely on the IT team to be the honest broker between departments," he said.

Buy or Lease?

Ohio's state government has saved more than \$15 million in annual costs by switching from buying software to leasing the technology and then renegotiating its contracts with several key vendors, said Greg Jackson, the state's CIO.

For example, Microsoft Corp. cut \$12 million from its software contract with the state, Jackson said. He added that BMC Software Inc. reduced its contract by \$2.5 million and Cognos Inc. dropped \$3.4 million from the cost of its deal.

"We also examined utilization of data center space and found 20% of it was being

used for office space," Jackson said, noting that he asked the workers to vacate the premises and find more appropriate office locations.

Savings aside, Jackson said one of the most difficult issues he has faced is convincing his superiors that spending money on IT in hard economic times can save money in the long run. Building a reputation of successfully managing projects is the best way to win their confidence, he said.

However, Jackson said some newly hired IT executives have the advantage of lacking a track record that includes any failed systems work for their new bosses. "Your first six months as CIO, you're on your honeymoon," he said. "That's the time to obtain results." **42844**

TOUGH TALK

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