

# The Freedom to Modernize IT without Boundaries

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How Agencies Can Gain  
Flexibility to Evolve  
Technology for Mission  
Success



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## Background

In 2003, the Government began contracting for capacity-based services for their data centers. In 2007, they started the process of contracting for more capacity-based services – Storage-as-a-Service; Servers (Processors)-as-a-Service; Networking (Communications)-as-a-Service. And ten years later in 2017, the dynamic has changed yet again. Price is and always will be an important Government criterion for capacity-based service, but choosing the lowest price can actually lead to greater risk for the overall agency mission. The experience of the provider, flexibility of the solution and responsive, effective support are also critical to the success of the contract. If a provider falls short in any of these areas, it can leave the Government exposed to a risk far more costly than an initial contract may indicate. What factors are at play in 2017 and what risks have surfaced since 2007?

In 2007, there were 5 key tenants to the Government's contracting strategy:

1. Using a Statement of Objectives (SOO) in lieu of a Performance Work Statement (PWS)
2. Omitting quantities (units of capacity) to be purchased as part of its published evaluation model
3. Seeking a true "partnership" with their service provider
4. Stating flexibility and choice as an outcome of a capacity-based solution
5. Evaluating options against pre-set criteria to determine best value



## Arguably, the first round of capacity service contracts was more successful than any of the subsequent follow-on capacity-based procurements.

What made the Government's use of these tactics so impactful?

- 1. SOO vs. PWS** – By specifying outcomes in lieu of detailed specifics, the Government placed the burden on each offeror of capacity-based services to describe how they would achieve the desired outcome. In this way, the Government had increased latitude in assessing risk to mission; determining ease of use of the offeror's solution; and more importantly, providing insight into the offeror's understanding of the services.
- 2. No Quantities** – This allowed the Government to place the risk on the offeror in terms of how much capacity would be purchased over the life of the contract. This also had the effect of leveraging the Government's buying power to the maximum extent possible. Each offeror assumed the greatest quantities possible to achieve the lowest cost of goods in composing capacity-based unit prices.
- 3. A "partnership"** – The Government recognized the importance of contractor partnering, not in the legal sense, but in a programmatic and operational sense to ensure the success of the acquisition strategy. The "on-demand" or "just-in-time" nature of capacity-based services the Government envisioned was one Key Performance Indicator (KPI) of a successful Government/Contractor partnership. The Government had a number of other Key Performance Indicators for capacity-based services. These included:
  - Reducing the acquisition lead time associated with adding compute and storage capacity within its data centers;
  - Minimizing the operational impact (new installations, upgrades and outages) of just-in-time capacity increases and decreases;
  - Moving from a CAPEX model to an OPEX model thereby reducing the annual expenditure of funds;
  - Eliminating excess capacity and thereby further reducing the annual cost of required capacity;
  - Normalizing the technology refreshment of compute, storage and networking equipment with its datacenters.

The Government knew that unless the contractor was committed to doing whatever it took to support the Government instead of exactly following the written word in a PWS or statement of work, the Government was at risk of not achieving its KPIs. And if the capacity provider didn't provide prompt, effective engineering and break-fix support of the products it offered as capacity-based services, the Government was similarly at risk.

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- 4. Choice of Solutions** – The Government needed technical alternatives to providing capabilities within its datacenters. Having access to multiple Original Equipment Manufacturer (OEM) technologies that essentially do the same thing and/or solutions from multiple OEMs for specific solution requirements provides the Government with a choice of alternatives to solve problems and/or adapt to changing environments. Offerors who provide multiple OEM technology understand the Government’s need for flexibility and choice in technical solutions as a means of mitigating technical and operational risk.
  - 5. Best Value Evaluation** - The Government evaluated the offerors’ technical solution; price/cost; service offerings; and past performance. Additionally, the Government assessed the risk of the technical solution and service offerings using a high, medium, and low risk assessment scale. The Government truly wanted an easy to use service as well as a technical solution or range of solutions that provided the Government the lowest risk to mission and greatest opportunity for success. The Government needed ease of use in the service offerings. They wanted a method of ordering and provisioning capacity that was fast, accurate and efficient while offering transparency of the contractor’s logistics and installation operations.
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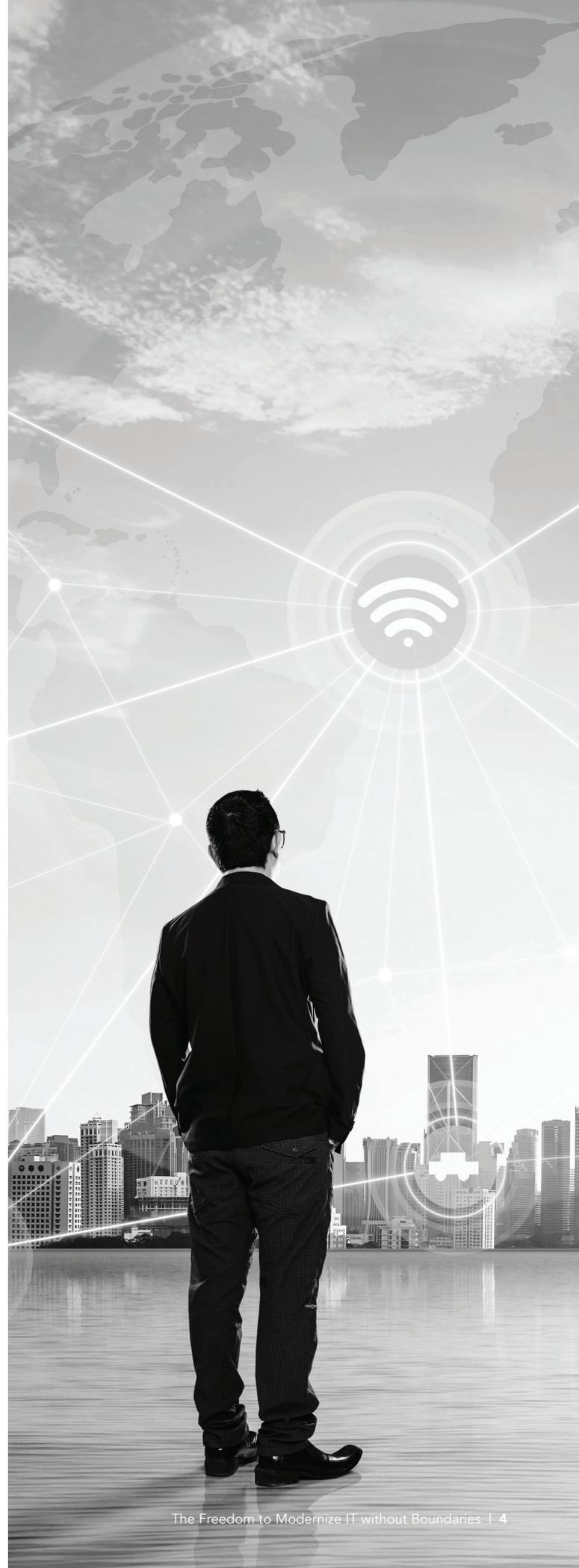
# The Consequence of Change

For subsequent, follow-on capacity-based contracts, the Government made several changes that have neither worked entirely as planned nor to its advantage. First, the Government replaced the SOO with a PWS. In doing so, the Government transferred programmatic risk from the service provider to the Government. By describing services instead of asking what service the offeror would propose to achieve an outcome, the Government assumed the risk that their description was accurate and without ambiguity. This means the offerors' technical solutions and service offerings had to conform to specific Government requirements. The winning service provider delivered the "Government-defined" technical solution and service offerings; and where the Government's requirements were encumbered by ambiguity, inaccuracy or incongruity, the Government created an open invitation for the service provider to ask for contract changes and consideration to remediate defects in the service/solution design.

Second, when the Government began proscribing the orderable services (service offerings) as well as the quantity of each in their cost model, it limited the creativity of the offerors and limited the Government's potential buying power. This change, from the first round of procurements in 2007, truly restricted offerors' creativity and innovation in designing capacity-based services to achieve a desired outcome. Consequently, the Government's service design reduced its ability to determine best "value" of the service offerings among offerors. This also means the Government's ability to take advantage of innovation in service designs and technology was similarly limited.

Lastly, the Government's changes in procurement strategy seemed to favor lowest price. The goal of achieving the lowest price for capacity-based services overshadows and negates the value of "partnership" and the Government's ability to realize a reduction in overall risk. So too, "flexibility," "choice," and "best value" are muted in favor of lowest price — all reasons why the Government was so successful with its first round of capacity service contracts.

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# System Integrators (SI) Provide the Total Package

## *Flexibility, Technology Options and Support Services*

The Government's motivation for flexibility and choice of technical solutions is born out of its requirement for just-in-time delivery, operational stability and performance of capacity-based services. Unlike traditional direct to manufacturer relationships, providers that offer a range of technology solutions (vendor agnostic) provide agencies with the breadth and depth to solve their critical operations challenges without being limited to a specific line of solutions. This type of prime contractor is better aligned to the Government's objectives and this like-minded approach ensures a better outcome. The right system integrator provides customized solutions to meet the agency's specific needs or mission versus fitting the customer into a short list of available technology. An experienced SI also understands life cycle services and support as well as how flexibility and choice reduce risk for capacity-based services built from one Original Equipment Manufacturer (OEM) or many.

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## What about Price?

### *The reality of unit pricing for capacity services*

Generally, OEMs have a price advantage in the cost of goods over resellers of its own products. However, the Government is buying units of capacity as a service. As such, an initial cost of goods advantage over a systems integrator is lost when purchasing units of a capacity-based service. An OEM's advantage in cost of goods doesn't always translate into a unit price advantage. The price of each unit of capacity includes hardware, software, service (installation, initial configuration, break-fix maintenance, other Government proscribed services) and financing costs. The Unit Price represents the service design. Also, the unit price is heavily influenced by the offeror's decision on the cost recovery period (i.e.- Quantity X Unit Price X Some Number of Months of Consecutive Billing Status = offeror's Total Invested Cost of the Asset). The Government knows the services it desires and its requirements have more to do with an assurance of ease of use, flexibility, availability, consistency, risk to mission and dependability of the capacity service provider than the price of the underlying technology.

With a systems integrator, the Government can gain a more responsive, consistently superior and highly available service where the service provider doesn't have the same vested interest as an OEM when it needs to meet the Government's requirements.

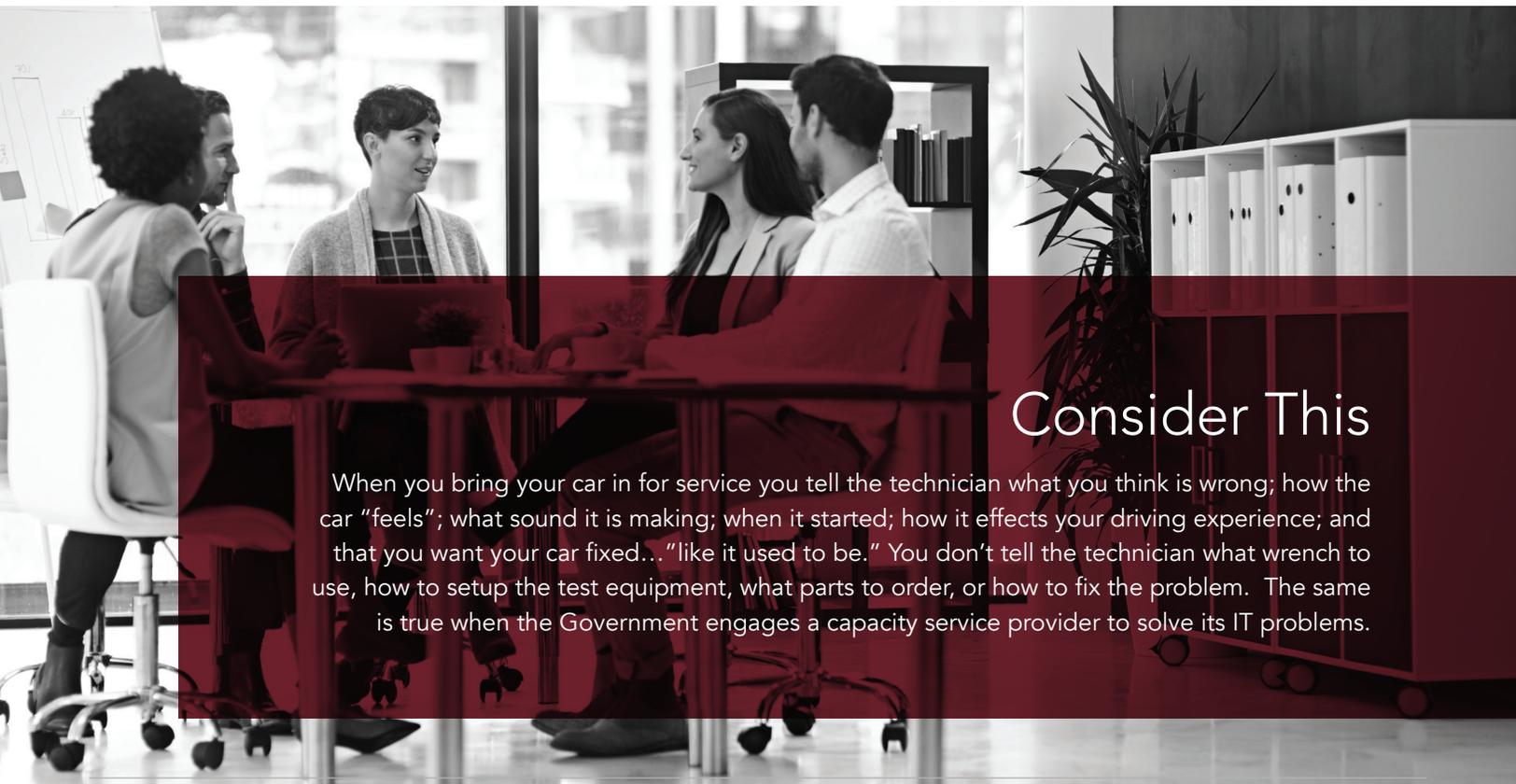


## Conclusion

Contracting for a capacity-based service upon which the Government will rely on to furnish capacity and support for its data center IT infrastructure is truly more of a partnership between the Government and the service provider than the typical IT product supplier relationship. Selecting a capacity service provider requires careful consideration. The Government's choice of service provider will have a direct impact on data center operations and the mission(s) the data center supports, both positive and negative, according to the actions and inactions of the service provider.

Price is an important Government criterion in evaluating an offeror's capacity-based service, but the Government is equally challenged in considering how low price offerings are advantageous to the Government and its mission success. Price is not the most important attribute of the service when comparing service offerings. Risk to mission is the Government's biggest concern. The service provider's experience; the service provider's business motivations; the Government's option to choose among technologies or easily add technologies to the contract

post-award; and objective quantitative and qualitative measurement of the service all contribute to risk and the Government's decision as to the service provider. Wherever possible, the Government should use an SOO to describe results and/or outcomes. This will lower risk and compel service providers to describe their service design, what they know about delivering the capacity-based services and how it will achieve the Government's desired outcomes. Whenever the Government uses a PWS to "spec out" a service" it unintentionally increases risk – procurement risks, protests, elongated acquisition cycles, cost, etc.— by compelling providers to respond directly and specifically to the Government's service design. And this design may not be efficient for the service provider; it may not be free of defect or ambiguity; and it may not achieve the desired outcomes. A service provider with past performance/experience providing capacity-based services may be the single best way for the Government to ensure the best alignment of the service providers business objectives with Government's own objectives/outcomes.



### Consider This

When you bring your car in for service you tell the technician what you think is wrong; how the car "feels"; what sound it is making; when it started; how it effects your driving experience; and that you want your car fixed..."like it used to be." You don't tell the technician what wrench to use, how to setup the test equipment, what parts to order, or how to fix the problem. The same is true when the Government engages a capacity service provider to solve its IT problems.



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