



GovServices IT

Mark Stoneham looked out the window at the tour boat that was heading up the Potomac River. It was an unusually cool July afternoon—a perfect day to be a tourist in Washington. He had lived in the DC area for the last 15 years. While he had seen a lot of the museums and other tourist spots, he'd never taken the boat trip up the Potomac. It sure looked like a great way to spend the afternoon, he thought to himself.

Mark also knew that there wouldn't be very many opportunities to relax and be a local tourist for the next month. The Operations Committee for GovServices IT, which was a Division of Federal Systems, Inc., had just given him and his team just over 30 days to put together his solutions transformation plan. He has asked for 60 days, but the Ops Committee cut it in half. The plan was now due by August 30, which would give the Committee 30 days to consider it and build any of Mark's recommendations into the 2009 planning budget.¹ He had known that this was becoming a priority to some members of the Committee, but he hadn't realized that it had moved to the top of the Committee's agenda items.

Turning away from the window, Mark sat down at his computer and started to click through his Solutions Transformation folders. As a senior member of the Strategic Planning team, Mark had been advocating for the need to create a strong solutions capability within the division ever since he arrived at GSIT. He had almost given up, concluding that the executive team would never agree to look at the types of changes in the business operations that would be required to improve their solutions capabilities. He had learned his lesson -- changes at large, government-oriented companies come in small increments, and take a long time to implement. After experiencing a number of roadblocks in changing the company's direction over the years, Mark had recently begun to describe GSIT as the "anti-Cisco." While Cisco Systems, one of the largest companies in the IT networking business, grew in staff and business operations every year, it had been successful in maintaining its entrepreneurial culture, its flexibility and its innovation. There were many examples of technological innovation inside of GSIT, but he doubted that anyone would describe how the GSIT Division does business as entrepreneurial or agile.

Realizing how little time he had to put together a coherent document for the committee, Mark started to review the list of personnel across the BU's to identify who would be the best candidates for his core planning team. As he scanned the list, he realized that the criteria for choosing his team members weren't so obvious. Nevertheless, he figured that he needed

¹ GSIT operated on the same fiscal year as the US government, which runs from October 1 to September 30.

three to five days to decide who to invite, get their commitment, and have his first team meeting.

Mark stopped for a second and looked back out the window at the Potomac. No tour boat ride today, he thought. No trip to the zoo, attending his kid's soccer games, or nights out to dinner. He resigned himself to the fact that for the next 30 days, his activities would be essentially confined to the conference room and his office, and his "family" would be the people he puts on his team list.

The Operations Committee Planning Meeting

Mark knew that taking the day off for a boat tour was clearly a pipedream—an escapist reaction to a difficult assignment. An hour earlier, the Ops Committee had ended a six-hour meeting by deciding that the Division needed to develop a solutions plan. Depending upon what the proposals in the plan would be, they would then make decisions concerning what they would and would not be willing to change. Mark had attended the entire meeting, and was surprised that they had finally made a positive decision on the topic of solutions. In the past, any proposals to significantly change how the company dealt with its "go to market" model were quickly shot down.

The meeting was attended by the Senior Leadership Team (SLT) for GSIT, comprised of the Senior Directors from each of the five Business Units (BU)—Defense, Civilian, State & Local, Commercial, and International. Other key players on the committee were the IT Director, the Marketing Director, the Division Managing Director, the Director of R&D, and the Finance Director.

If Mark were asked to rank the meeting attendees in terms of their support for moving to a solutions business model, he would put them in the following order from most supportive to least supportive:

- Jim Sandburg—Managing Director
- Marsha Garcia—Senior Director, Marketing
- Steve Hooper—Senior Director, Commercial
- Sandip Sanjuran—Senior Director, International
- Ajit Maikra— Senior Director, R&D
- Jane Corn— Senior Director, IT
- Mary Sullivan—Senior Director, Civilian
- Dan Forsman—Senior Director, State & Local
- Kevin McCarthy—Senior Director, Defense

Thirty days, Mark thought to himself. Thirty days to come up with a plan to transform a very traditional systems integrator that operates primarily in the government market that is effectively five independent BU's under one division banner into a more integrated enterprise.

Federal Systems, Inc.

GSIT was a Division within a large conglomerate that primarily served the federal government sector. The parent company, Federal Systems, Inc., had revenues of \$24 billion in 2007. It was divided into seven major business sectors: Aerospace, Network Systems, Information

Technology, Shipbuilding, Air Traffic, and Security, Surveillance. The revenue breakdown by company was:

Federal Systems, Inc.			
Divisions	Revenues (\$B)		
	2007	2006	2005
Aerospace	\$5.1	\$5.4	\$5.4
Information Technology	\$4.7	\$3.8	\$3.1
Security	\$4.4	\$3.9	\$3.6
Air Traffic	\$3.6	\$3.3	\$3.1
Network Systems	\$3.3	\$3.1	\$2.9
Surveillance	\$3.1	\$2.9	\$2.7
Totals	\$24.2	\$22.4	\$20.7

The Division had grown steadily since 2001, fueled by increased government budgets aimed primarily at national security. While the commercial sector has been spotty over the same period, the government budgets have grown at a steady pace. What was once considered an unattractive market sector had now gained wide appeal among nearly all IT vendors.

Within the federal contractor market, Federal Systems ranks second in revenues. Lockheed Martin was the clear market leader, and was widening the gap between itself and Federal Systems. More concerning to Federal Systems was the rapidly shrinking gap between itself and its nearest competitors. It was only a couple of years ago that the company had a very comfortable lead over both Boeing and Northrop Grumman. However, both of them had made up significant ground and were now within striking distance of Federal Systems. The company was especially concerned about the number of contracts that it had lost to these competitors, especially on "re-competes," which were extensions of existing contracts. Normally, these deals were considered as untouchable by competitors since the incumbent company would have built such strong relationships and the cost of switching to new IT systems and products was seen as prohibitively expensive. Lately, however, Federal Systems' competitors had been bidding on the re-competes—and winning many of them.

Company	2007 Revenues (\$B)
Lockheed Martin	\$33.1
Federal Systems	\$24.2
Boeing	\$22.7
Northrop Grumman	\$20.5
General Dynamics	\$12.2
Raytheon	\$10.9
KBR	\$5.9

While there hadn't been much change in terms of new entrants within the top ten companies, the real movement in the government industry sector was with the commercial companies. Systems integrators and IT companies that offered the full breath of products and services such as IBM, CSC, EDS/Hewlett-Packard, Fluor, and General Electric were aggressively investing in their government businesses and grabbing market share across the board. While

none of them had cracked the “Top Ten” list yet, they were clearly growing their government business at a far greater rate than the traditional companies in the sector.

GSIT’s Business Units

GSIT had total sales of \$3.5 billion in 2007. The relative size of their business is reflected in the chart in Exhibit 1. The characteristics and the technology needs of the businesses were:

- **Civilian**—This BU was comprised a very broad range of government agencies that provided services to the civilian population at large. Some of the major agencies that they sold to were the Postal Service, the Department of Justice, Treasury, NASA, and the Department of Transportation.

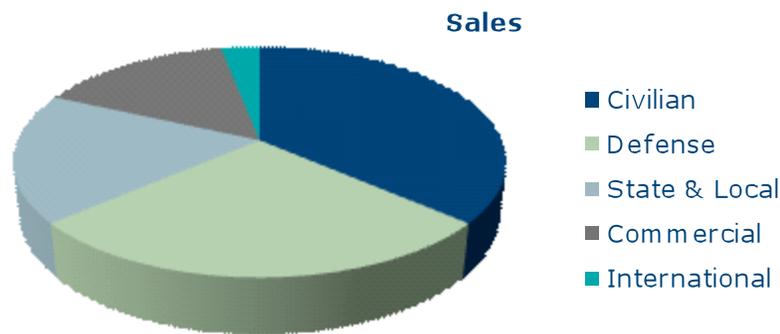
The Civilian BU was the next most natural fit to the GSIT business model. With all of its revenues tied to federal contracts, it enjoyed continuous long term growth. In recent years the budgets of Health & Human Services and Homeland Security had risen much faster than other government departments and agencies. Getting a solid footing inside each of these could virtually guarantee a banner year for the group.

- **Defense**—This BU had been growing faster than the others. The Iraq war and overall concern for national security kept the federal budgets strong in this area. GSIT was especially strong in its relationships and contracts with the Air Force and the Army, and weaker with the Navy and Marines. The key to success was to have former senior military officers on staff who had deep and long relationships with the top brass within the armed services.

The senior team in this BU was the most conservative of all of GSIT. Very few of them had worked for another company outside of GSIT, having been recruited away from a high level military position by the company. They were most comfortable with a chain-of-command organizational structure, with clear authority and responsibilities, and had lived nearly all of their professional lives within a military culture and operating structure.

While this BU had done quite well, there were signs that the days of high single and double digit growth would soon end. With the presidential elections coming up, both parties were targeting the military as an area where significant cost savings could be made. The major investments in traditional military hardware was going to be hit hard. The only positive information that was being heard at the Pentagon and in Congress, however, was the critical need for better “cyber” programs for both offensive and defensive purposes.

Exhibit 1: Breakdown of GSIT Revenue by BU's



Source: Solutions Insights, 2009

- State & Local**—The third major BU that served the government market, State and Local, was in many ways the most complex. S&L services were provided to all of the government organizations and agencies below the federal level. This included the 50 state governments, cross-state organizations, and city and county governments. While the margins at these levels were surprisingly attractive, they were difficult to serve because they were so diverse and spread out. Compared to the multi-billion dollar contracts that were often awarded by the federal government, many of the deals at this level were only a fraction of the value. Moreover, the coverage model tended to be more expensive than at the federal level since there was such a wider distribution of customers across the country. In addition, the number of people involved in the decision-making process was very large when compared to the size of the contracts.

Due to the dynamics described above, the S&L BU had struggled in recent years. It had been reorganized five times over the past ten years, with six different Senior Directors coming in with new ideas. While it was an organizational headache for the Division, the potential size of the business at the state and local levels, as well as the potential margins, were so large that NGIT was committed to fix it instead of remove it.

- Commercial**—The commercial business was significantly smaller than the government focused BU's. GSIT felt that it should look to leverage its IP that it developed with its government customers and sell it on to the commercial sector. The main attractions of this sector were that it allowed GSIT to diversify away from being so strongly government dependent, and the margins with private sector customers could sometimes be extremely attractive. While some projects were so highly competitive that a 5-6% net was considered good, most of the contracts ran into the 15-20% range. This was nearly double what the other government-dependent contracts could support. The downside of running this practice was that it needed to approach the market very differently in terms of its go-to-market strategy.
- International**—This was the smallest of the five BU's. GSIT had always seen this market as being non-strategic. Nearly all of its relationships and experiences were within the United States, and it was clear that this would continue to be its primary field of play. However, it decided to look at the international market opportunistically. There had been more and more occasions where GSIT had been asked to bid on projects sponsored by foreign governments where it had a competitive advantage technologically. The customers were generally organizations that were similar to those in the civilian sector in the U.S. In addition, other large government contractors had approached GSIT to partner with them on large, international procurements. This was

increasing in the military sector, where GSIT couldn't be the prime contractor but made an excellent subcontractor.

The Managing Director of the Division, Jim Sandburg, felt that the International BU would always be the smallest of the five. However, there was a lot of room for it to grow, and the new BU Senior Director was confident that he could nearly double it every year for the next three to five years.

Core Services Delivered

According to GSIT planning documents, the Division had nine core areas of services that it delivered to its customer base. Some of these spanned across all of the BU's, while others were confined to only one or two of them.

Exhibit 2: Business Units and Core Services Delivered

Business Units				
International	Defense	Civil	State/Local	Commercial
Partners				
		Education		
	Military			
Health				
Energy				
Enterprise Business Applications Practice				
	Security & Cyber Protection Practice			
Infrastructure Management				
Networks & Communications				

Source: Solutions Insights, 2009

The service offering categories were determined by the Strategy group. However, there was no single group or individual who was responsible for the development and maintenance of the methods, tools, products, and resources that were required to deliver the offerings. Each BU, in effect, had its own team and version of the same type of offering. The upside was that there was added creativity with each BU looking at the problems and potential services independently. The downside was the lack of sharing of resources and capabilities, which led to frequent redundancy. In fact some of the subject matter experts (SME's) felt that creativity was stifled as a result of the lack of coordinated research and development.

While there were reasonably solid business opportunities in all of the nine areas, the two that were getting the most attention were Energy & Security and Cyber Protection Practices. The Energy opportunities appeared to be due to the growing demand by the public that the

country wean itself off its dependence on foreign oil and develop and grow renewable energy sources. Congress was getting the message loud and clear, and it appeared that, regardless of who would win the Presidential elections in 2008, the 2009 national budget would include significantly larger amounts of government funding for aggressively developing renewable energy supplies.

The other area of significant growth seemed to be cyber-based programs. For an IT group such as GSIT, this would be a natural "sweet spot." There were only a handful of companies that had the deep IT expertise and knowledge of the government systems well enough to be effective in this area. While the cyber issue was just beginning to get full exposure in public forums as well as in the halls of Congress, the signs were pointing to this as possibly the #1 threat to national security over the next 10 years.

The Business Model

GSIT had been a traditional government contractor. The characteristics of these types of companies are:

- **Independent Operations**—GSIT had traditionally been a highly decentralized company. It let its BU Senior Directors basically call their own shots. They decided which customers to go after, how to go after them, and what offerings it could provide. There was little or no sharing of resources across the BU's. This had led to a lot of duplication of effort since the BU's had often created very similar offerings. However, there was a curious and somewhat logical upside to this redundancy. The duplication of outputs had obviously led to more expensive projects and programs. Instead of re-using assets and capital that had already been developed, each BU would re-create it. Since much of their business was based upon T&M (Time and Materials) contracts instead of Fixed Price contracts, it was generally more profitable to have large staffs of programmers, engineers, and program managers build the same offerings from the ground up even though another BU may have already had done something similar for another customer.
- **Approach to Business Development**—In general, GSIT was reactive in how it looked for and developed business opportunities. Nearly all of its business development activities revolved around responding to proposals. The sales cycle was as follows — keep in touch with key constituents within the customer organizations, gain intelligence about the future release of Request for Proposals (RFPs), and then mobilize internal resources to respond to the RFP. While leading companies in the private sector were looking for ways to "shape" the market and create niches of differentiation for themselves, the large government contractors tended to be reactive to buyer needs. This approach had major implications for how GSIT was organized, and how it invested in everything from R&D to marketing to sales enablement.
- **Role of Marketing** – Similar to most of the large systems integrators in the government space, GSIT did not value marketing in the same way that commercially focused companies did. In general, the term "marketing" meant marketing communications, and marketing communications meant collateral, website and the occasional trade show. Marcia Garcia, the head of the group, had never worked outside of GSIT. She had a small fraction of the budget that her commercial counterparts had, and a total of 5 people on her staff. The hiring of Mark Stoneham was a real anomaly, and in fact it wasn't her idea. The Managing Director of the Division strongly suggested that she hire a senior, more strategically oriented person, and provided the extra funding for it – which made it a "must" hire.

Changing Developments in the Market

As Mark continued to collect information about the industry and the market sectors that were important to GSIT, he started to get more and more feedback from the division's key customers that GSIT's traditional approach to doing business may be acceptable in the future. While the government market normally changed less frequently and dramatically than the commercial market, there were signs that many of the government agencies and departments were considering new practices and models. One of the major shifts was the change in buyer behavior. The government purchasing and procurement officers, similar to their counterparts in the private sector, were becoming less tolerant of buying technology systems that were untested and unproven. Too often, in both the private and public sectors, the technology companies would see products or systems that proved to be ineffective once they were deployed within the customer's environment. There were literally dozens of stories of how systems that cost in the hundreds of millions of dollars never made it to full-scale operations. The buyers were now insistent that the technology that was introduced into their IT environments deliver the benefits that were promised them during the sales process.

The other change in buyer behavior was the need to economize and stretch the IT budgets. This was especially true within the Department of Defense and related agencies. Bidders who could show that they could present offerings that had a high probability of operating the way they were intended, with a minimum of new development work and customization, had a competitive advantage. In addition, companies that could implement within a tight schedule also had an advantage. One of the reasons for this change in attitude was attributed to the fact that many government agencies concluded that their technology needs weren't that different from private sector buyers, and that there were commercial companies willing to bid on major government projects with pre-developed and proven technologies that could be implemented faster and easier than ones that needed a high degree of customization and development.

The Evolution of the Solutions Issue

GSIT had been aware of the solutions concept for nearly a decade. There had been early meetings on the topic in the late 1990s on improving its solutions business, but no significant actions had been decided upon. A few workshops had been organized around the issue, some of the marketing collateral emphasized the company's solutions capabilities, and the title of Solutions Engineer was created by the Division's HR department. Beyond these actions, however, there hadn't been much serious attention paid to solutions.

The concept of "solutions" was still very fuzzy at GSIT. There was no consensus across senior management even about what it was, or how the term should be used. There was even less of an understanding of what it meant to be able to develop and deliver real solutions.

Through workshops and discussions with outside experts, however, there was a general concept of what the attributes would be for a solutions company be:

- An ability to identify and articulate customer wants and needs, sometimes better than the customers can do it themselves
- A flexible, matrixed organizational structure that allows for rapid deployment of internal resources to address customer wants and needs through
- A system of capturing existing IP, assets, and resources so they can be customized and re-used in building new technology offerings for other customers

- A marketing approach that emphasizes buyer benefits and an integrated approach to problem-solving in its marketing messages
- A focus on more “pull” marketing techniques than “push” methods
- A sales force that is consultative in its approach and fosters co-creation of innovative answers to customer problems

While some of the GSIT leadership team felt that the organization already had all of these attributes, others recognized that there were large gaps that needed to be addressed.

Mark Stoneham—Change Agent

Mark had been recruited away from IBM in 2003, where he had spent 18 years in a variety of sales, marketing, and strategy roles. He was part of IBM’s push into the solutions game, and was aware of the reasons to do it, the difficulties in getting the changes accepted, and the ultimate benefits of moving to a solutions model. He had been very vocal since arriving at NGIS about the need to make the move, but had received virtually no senior level support.

Mark saw many of the same corporate characteristics within GSIT that he had seen at IBM. He made his case for an investment in solutions based upon:

- Change in buyer behavior
- A need to sell using fixed price contracting vehicles instead of the more traditional Time & Materials method
- The constant recreation of implementation processes and software code development since no systems exists to capture and re-use them
- The inability to match the implementation periods that other companies were willing to commit to
- The lack of coordination and collaboration across BU’s that would allow for more effective and creative proposals and deliverables

In his position as a Director in the Marketing group, Mark had been able to get the ear of nearly everyone at the senior levels in GSIT. His boss, Marcia Garcia, the Senior Director of Marketing, was initially lukewarm to his ideas but allowed him to continue to present his case anyway. His greatest supporter was the Senior Director of the Commercial group who had recently joined the company from Accenture. Mark had learned that he needed to personally “sell” his ideas to the key players within the division—one person at a time.

In the five years that he had been at GSIT, Mark was successful in getting most of the senior team to at least be open to the idea of improving their solutions capabilities. Now the challenge was to get everyone to have the same perspective of what it meant to develop and sell solutions. Three years ago he had conducted a simple survey and asked the senior team what they thought a solution was. He wasn’t at all surprised at the results—the perceptions and definitions were all over the board.

Exhibit 3: Definitions of Solutions from a CIO Survey

"Solutions are a combination of products and services that are focused on solving a business problem."

"A solution is looking at the project from a customer's point of view and ensuring that the customer gets value."

"Solutions are custom designed configurations of services and/or products that specifically meet a customer's needs."

"In the IT services industry we believe a solution is defined by a service offering that has repeatable processes and/or intellectual property that ultimately addresses a customer business issue."

"A solution is a combination of your vision and strategy, products and their business benefits, services and their business benefits, partners and their complementary solutions, and your understanding of your customers' business goals."

"Solutions is a marketing term for services."

"A solution is anything that solves a customer's problem."

"I really don't know what a solution is—I hate the term!"

"Solutions are a clever way for companies to try and hide what they actually deliver and charge a premium to do it".

"Solutions are any product or service that meets a customer need. Sometimes it means you have to combine the product and the service."

Source: Solutions Insights, 2009

Solutions Challenges

To some within GSIT, dark clouds were appearing on the horizon. The Business Development specialists were starting to report on the change in buying behavior. They also noticed that the competitive landscape had changed, and GSIT was facing commercial companies more and more frequently. In addition, the cost of delivery was rising while competition was finding ways to reduce the costs. Finally, there was strong evidence that the government budgets would be shrinking. All of this added up to the fact that GSIT would have to find ways to develop and deliver offerings faster, cheaper, and with guaranteed results.

While the executive team had asked Mark to put together a solutions feasibility plan, it was clear to him that the team was not uniformly in support of the request. His major concerns were:

- **No burning platform**—GSIT had performed reasonably well the last few years. Three of the five BU's had hit their financial targets, and were compensated appropriately. Steve Hooper had grown his business considerably, Mary Sullivan passed her numbers by nearly 4%, and Kevin McCarthy came within a hair of hitting his targets. Without any pain, Mark felt, it would be difficult to get them to get on board with a major change program—especially one that might take them out of their comfort level and impact their compensation.
- **Unequal impacts**—The BU's had very different customer bases, and a couple of them operated quite differently than the others. Rumors were bubbling up that the BU Senior Directors were nervous about a plan that would look to centralize activities without taking into consideration the differences between the groups.

- **Roles, responsibilities, and accountabilities**—Regardless of the uniqueness within each of the BU's, there were signs that some of the Senior Directors may resist change simply because it would force them to give up some of their independence and force them to be more collaborative across the BU's. They all realized that a shift in roles and responsibilities would be unbalanced, creating new organizational winners and losers. "Upsetting the applecart" was becoming a common phrase heard in the corridors.
- **BU collaboration**—Mark and his team had concluded that he would face several other major challenges in moving the company to a solutions model. Some appeared to be addressable, while others struck him as extremely daunting. At the heart of the problem was the need to break down the BU silos. Technology and people were very, very difficult to share across BU lines. There were no incentives for doing so, and he felt that he could quickly put together a long list of disincentives. The BU's continuance to be isolated in how they developed their opportunities, created new offerings, and recruited and placed staff to deliver the offerings would be the primary cause for GSIT to become increasingly uncompetitive.
- **Knowledge management systems**—Another major challenge that Mark would have to address was the fact that there wasn't any way in which the company could capture and manage its intellectual property (IP). There was no significant repository in place where they could codify and catalogue the unique processes, methodologies, software code. If a key skills resource was required for a proposal, or a particular approach to a problem, the person in charge of finding out what was available would have no other recourse than to make a series of phone calls to see who knew what, and who else he or she should contact. It was a slow, sloppy, and inaccurate process to find the jewels inside of the company that were need to build the next customer deliverable.

Mark's Dilemma

Now, as GSIT approached the close of FY08, Mark realized that he had made some important headway but had a long way to go. The Committee was interested enough to ask him for a plan to transform the company to a solutions model. The main purpose of the request was to have Mark explain what this would entail—what did it mean to be better at developing and selling solutions? What would GSIT have to do differently? Who would need to be involved? What were the cost implications? What would the benefits be, when would they be realized, and how would they measure them? Mark realized that his role as the "Solutions Educator" was just beginning.

Mark now understood the old expression of "be careful what you wish for." He had been pushing the idea of transforming GSIT into a company that could build and sell solutions better. Now it seemed the executive team had called his bluff—he had to prove to them that it was worth the time and investment to make this major change. In less than 30 days, he and his team had to work a minor miracle.

Questions

Be prepared to answer the following questions:

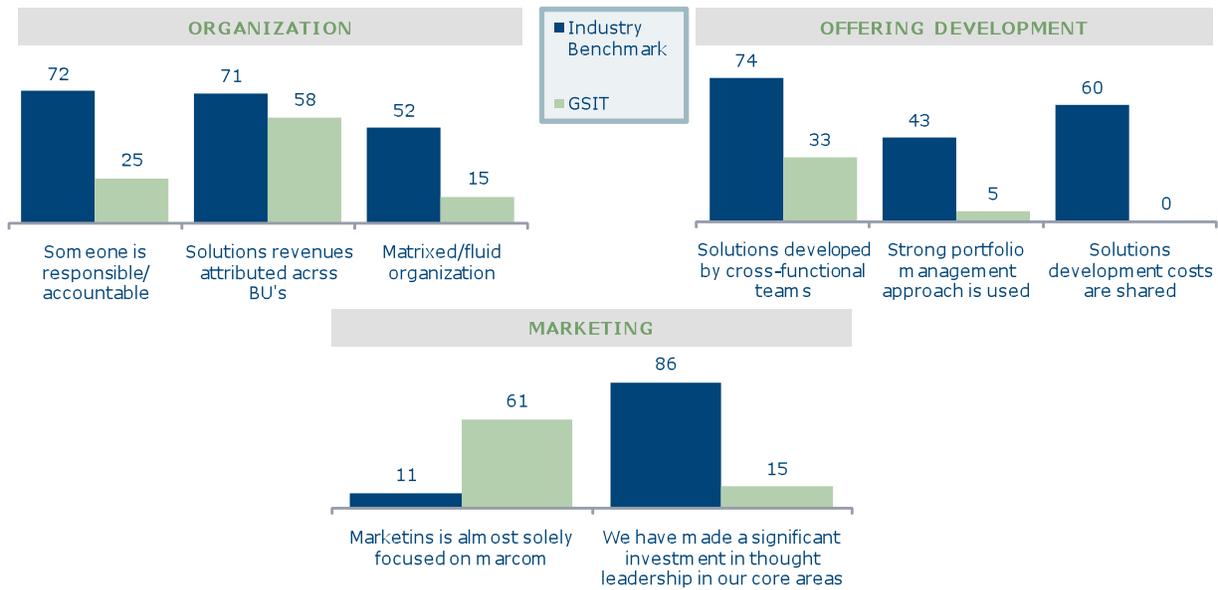
- Describe the company's business environment. Who are its customers and competitors? How does it go to market?
- What differentiates GSIT from a real solutions company?
- What will Mark's major challenges be?
- What are the benefits for GSIT of becoming a solutions company? Are the benefits compelling enough to overcome the organizational challenges?
- What are the risks to Mark personally by taking on this challenge?
- What is the impact of not having a fixed set of horizontal offerings? Why is this important?
- How would you structure the cost and benefits analysis of moving to solutions?

APPENDIX

Exhibit 4: Solutions Assessment Results

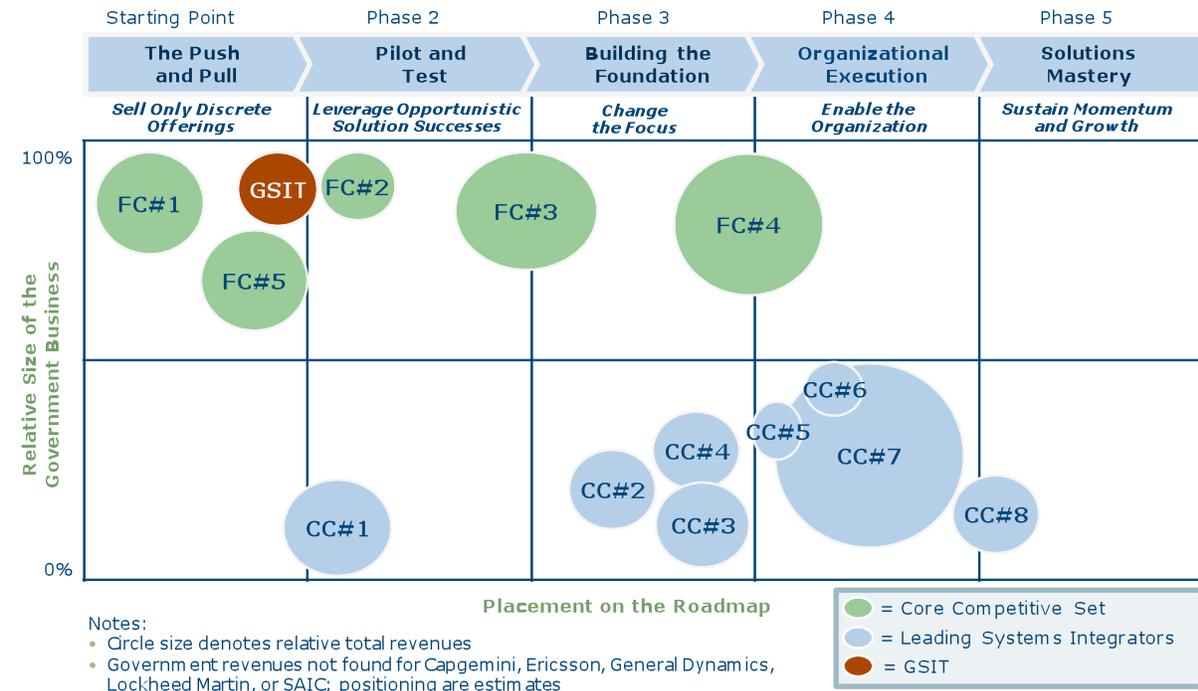
Solutions Roadmap Survey Analysis: GSIT vs. Leading Systems Integrators

Industry Respondents: N = 7 companies
 Industry respondents: N = over 150 individuals
 GSIT Respondents: N= 40 individuals



Source: Solutions Insights, 2009

Exhibit 5: Competitive Positioning for Solutions



Source: Solutions Insights, 2009

Exhibit 6: GSIT Organization Chart



Source: Solutions Insights, 2009