

Privatization Recommendations and Business Opportunities for North Carolina's State IT

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North Carolina CIO Jerry Fralick has quickly followed up on his announcement at the GovWin Raleigh State and Local Executive Breakfast on 4/14/11; the state looks to be moving forward on INSA recommendations for privatizing portions of the state's IT infrastructure with upcoming RFPs and RFIs. The INSA recommendations from Technology Partners International (TPI) and initial plans for soliciting information and following through with projects were published today by CIO Fralick. This is great news for the state, which projects to save roughly \$76.2 million through the potential implementation of the top four projects. However, the news is notably sublime for contractors interested in doing business with the state, as the scope of these top four potential projects is now on the table (\$446.6 million in current state operations and capital expenses as a base case, with \$18.74 million in one-time implementation and transition costs). The initial four projects and related processes are outlined below.

The Projects

Recommendation #1: Outsourcing Mainframe Services. \$206.15 million base case (current operating and capital expenses over the next 5 years). \$37.21 million in projected savings over the next 5 years. \$10.08 million in projected one-time project costs. The procurement and transition phases of this project are estimated at 9 months. **Details:** External service provider provides mainframe services from their facilities and data centers using their equipment and staff, including all hardware, software, associated support functions, and mainframe disaster recovery. The project's intended benefits are upgrading of service levels to market norms, eliminating challenges of staffing, and elevating operational maturity and process discipline.

Recommendation #2: Outsourcing WAN Services. \$107.73 million base case (current operating and capital expenses over the next 5 years). \$6.25 million in projected savings over the next 5 years. \$4.96 million in projected one-time project costs. The procurement and transition phases of this project are estimated at 6 months. **Details:** External service provider provides managed networking services including the following: 1) network monitoring and management; 2) planning and design services; 3) network connectivity and operations; and 4) network provisioning management. The project's intended benefits are upgrading of service levels to market norms, enhancing network monitoring, improving detection and resolution of network issues, enhancing network security, eliminating staffing challenges, and the evolution of embedded technology.

TPI's Critical Success Factors to Sourcing Recommendations (#1 and #2): Support for outsourcing must be evident in both the Governor's Office and the General Assembly. In addition, a comprehensive communication and change management program must be developed and implemented from the start of the procurement activity. Staff responsible for delivering the services to be outsourced must remain accessible through the services transition period (for improved knowledge transfer to an external service provider). A dedicated procurement core team must be established (e.g., subject matter experts and key stakeholders). A formal vendor and/or sourcing management organization (SMO) must be established well in advanced of contract award.

Recommendation #3: Consolidate into ITS Service Desk from Selected Agencies (Dept. of Revenue, Employment Security Commission, Wildlife Resources Commission, Dept. of Environment and Natural Resources, and Crime Control and Public Safety). \$13.39 million base case (current operating and capital expenses over the next 5 years). \$8.99 million in projected savings over the next 5 years. \$0.94 million in projected one-time project costs. The procurement and transition phases of this project are estimated at 7 months. **Details:** The project will consolidate service desks to a common framework. Also, it will utilize existing processes to affect consolidation. The project's intended benefits are leveraging existing ITS resources, consolidating staff, optimizing staff skill sets, and increasing volume of incident and service request data to serve as GovWin to continuous improvement programs.

Recommendation #4: Consolidate into ITS Servers from Selected Agencies (Employment Security Commission, Crime Control and Public Safety, Dept. of Health and Human Services, Dept. of Transportation, and Wildlife Resources Commission). \$117.39 million base case (current operating and capital expenses over the next 5 years). \$23.77 million in projected savings over the next 5 years. \$2.77 million

in projected one-time project costs. The procurement and transition phases of this project are estimated at 18 months. **Details:** The project will transfer service management responsibilities to ITS including: 1) server monitoring and operations management; 2) planning and design services; and 3) server provisioning management. The project's intended benefits are to leverage existing ITS resources, aggregate staff, create opportunities for optimizing requisite staff skill sets, and enable physical consolidation into an ITS data center.

TPI's Consolidation Recommendation Success Factors (#3 and #4): All participating agencies' IT infrastructure services must be consolidated to achieve the benefits. In addition, existing consolidated agencies' customer satisfaction levels must be improved. Larger agencies must be consolidated first. Non-consolidated participating agency staff must remain accessible through the services transition period. A comprehensive communication and change management program must be developed and implemented prior to starting consolidation

TPI's Cross-Cutting Implementation Considerations: While there are no identified and inherent interdependencies across the recommendations, synergies may be achieved in sequencing the implementation of the recommendations. One suggestion is concurrent execution of the mainframe and WAN outsourcing procurements may lower transaction costs and enable the possibility of a single (or multiple) external service provider solution.

An overarching governance framework for IT shared services should be established, either through the reconstitution of the Information Technology Advisory Board, or the creation of a successor body, to provide advice and guidance to the CIO and ITS with regard to planning, implementing and delivering IT services.

Finally, in conjunction with implementing the recommendations, a comprehensive communication and change management program must be developed and implemented to facilitate organization alignment with recommended goals and affect the changes needed to attain identified benefits

GovWin's Take The potential business impact of the privatization of large portions of the state's IT functioning is significant; a good prognosis for IT business with the state seems warranted. CIO Fralick's announcement at the GovWin Raleigh State and Local Executive Breakfast about upcoming RFIs and RFP's is materializing in the near future. Despite the possibilities, interested vendors should still approach these opportunities intentionally and with the understanding that these recommendations are just that, recommendations. The distinct likelihood exists that the finalized funding for these projects will never materialize. As CIO Fralick indicated at the GovWin event, one of his most important jobs moving forward will be securing funding for these projects through legislation. As identified previously by GovWin and by the INSA recommendations, opportunities exist for both large and small vendors; partnerships will likely be important in developing the creative solutions necessary to capture this business. Even in recessionary times, state government is still conducting business and procuring goods and services. To maintain a competitive advantage, follow GovWin's upcoming additional research and content on the INSA recommendations that will include Pre-Opportunities, Tracked Opportunities, and in-depth analysis of other potential projects to come (available to GovWin State and Local subscribers).

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