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## Vertical Markets: Pursuing the Public Sector

*From the White House to town hall, government is big business. Here's a guide to the top IT opportunities and how to get in on them.*

by Rich Freeman  
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In October 2006, newly released projections from INPUT, a Reston, Va.-based research firm that covers the U.S. government market, made a brief splash in the tech-industry trade press. According to INPUT analysts, the value of the federal government's top 20 new IT contracts would be 50 percent lower in the 2007 fiscal year than in fiscal year 2006, heralding leaner times ahead for government technology providers.

And how much would that smaller pool of contracts be worth? Try roughly \$120 billion, down from \$240 billion the year before.

Even by Microsoft standards, \$120 billion is a mighty big number. By the standards of most Microsoft partners, it's positively gargantuan. Meanwhile, analyst firm Gartner Inc. of Stamford, Conn., predicts that IT spending by state and local governments in the United States will reach nearly \$55 billion by next year.

So what if federal IT budgets aren't setting records lately? Federal, state and local governments are still rich sources of revenue for IT providers of every description. "The government market is obviously very large, so there's opportunity for vendors at all levels," says Kate McCurdy, a government technology analyst with Datamonitor PLC, a U.K.-based IT research firm with U.S. headquarters in New York City. "And because the government does so many different things, there are opportunities for many different types of vendors as well."

Still, government clients have unique needs -- few private businesses spend heavily on homeland security solutions, for example -- and government decision-makers think, buy and behave differently than their commercial sector counterparts. The public sector can be a lucrative place to do business, say veterans of the government market, but you've got to understand where the opportunities are -- and exactly how to compete for them.

### The Financial Flow

INPUT's data aside, opportunities still abound at the federal level. Though the total value of the biggest IT contracts is dropping, overall federal IT spending has held steady in recent years.

In fact, the Bush administration's 2008 budget request calls for an increase in IT spending of roughly 3 percent -- though Congress is likely to eliminate most of that before the budgeting process wraps up, according to Teresa Bozzelli, COO and managing director of Government Insights, a division of Framingham, Mass.-based analyst firm IDC. "The war effort has reduced any frivolous spending, so everything considered discretionary is looked at very strongly," Bozzelli says. "Our expectation is [that the budget] will be flat."

Still, agencies tied to important initiatives will probably see their technology budgets rise next year. For example, with health-care costs mounting and the U.S. population aging, INPUT expects federal outlays on health-care technology to climb about 4 percent annually for the next five years. "Clearly, there's a recognition [in Washington] that information technology can really facilitate an architectural and economic change in health care," says Howard Stern, vice

president of business development at LCG Systems, a Gold Certified Partner in Rockville, Md., that focuses on solutions for health and social services agencies. In Stern's view, the recent power shift on Capitol Hill will only increase the flow of federal dollars into health care programs: "Democratic Congresses tend to be very oriented toward health care."

As long as terrorism remains a threat, homeland security will see heavy federal IT investment, too. "Politicians always have to protect their people," notes Greg Stiff, vice president of sales and marketing at Convergence Communications, a St. Louis, Mo.-based Registered Member that makes command-and-control solutions for use in emergencies and during major public events such as the Super Bowl. Sensor and surveillance systems are attracting particular interest at present, he says, as are technologies that help emergency management teams work remotely from disaster sites and anything related to pandemic flu preparedness.

Still, IT spending is growing modestly, if at all, at the federal level. At the state and local levels, by contrast, IT outlays are rising sharply. Bozzelli expects state and city governments to augment their technology budgets 6 percent to 7 percent annually over the next few years. Much of that money, she and others say, will go to solutions that help government agencies provide better service, such as CRM applications. "City managers, mayors [and] government officials get elected by the public, and if the public doesn't have a good experience interacting with the city, they may not re-elect the mayor next year," notes John Schloemann, vice president of software solutions at Gold Certified Partner Eskel Porter Consulting Inc., a Sacramento, Calif.-based integrator with an extensive public sector practice. "That creates an opportunity, because technology is certainly the driving force behind the ability to provide better service."

E-government solutions are especially popular with state and local agencies seeking to boost service levels. "Putting services online so people don't have to go to a government office is a trend that we're seeing a lot," McCurdy says. That trend has already profited Gold Certified Partner TiBA Solutions LLC, a solutions provider in Greenville, S.C., which earns roughly 75 percent of its revenues from state government projects. Currently, TiBA is helping the South Carolina state government create Web portals that simplify processes involving multiple bureaus, such as when residents set up new businesses. Rather than interacting with a series of separate Web sites, citizens can now go to a single site that walks them through all the licenses they need and information they must file. "We've reduced the time [required] to get into business by over 12 days," says Dave Friedline, TiBA's channel development manager.

Solutions that improve public safety are another state and local priority, particularly systems that help emergency service providers collaborate and share information. "We have situations [today] where first responders report to a scene and they're not able to communicate because they lack interoperability," notes McCurdy, citing the situation in New York City following the Sept. 11 terrorist attacks as a classic example. Accordingly, Datamonitor predicts that spending by U.S. state and local governments on communication technology for first responders will jump from \$3.2 billion in 2006 to \$4.4 billion by 2011.

### **Focus and Target**

Figures like that hold obvious appeal for most IT companies, but partners new to the public sector should be prepared for some adjustment. The most important thing to understand: Government clients and private sector organizations have little in common.

For example, with their every action under a microscope, many government decision-makers are allergic to risk. "Private-sector businesses are often very receptive to new technology and new efficiency gains, but government and their agencies can be very status quo oriented," says Friedline. Combine that cautious attitude with convoluted, legally monitored procurement processes and you get sales cycles that routinely last 18 months or more. "[Government agencies] can't just go out and buy something that meets their needs," says Suresh Shenoy, executive vice president at IMC Inc., a solution provider and Gold Certified Partner headquartered in Reston, Va., which collects about 85 percent of its revenues from clients in the federal government. "They want to be doubly sure that whatever they buy is going to be something they're going to use, and sometimes that's a very laborious process."

Furthermore, because government agencies aren't expected to turn a profit, their leaders measure a new technology's benefits differently than their peers in the private sector. "It's more about return on value than return on investment," says Bozzelli. "If I invest \$10,000 in this new system, what type of better housing assistance can I provide to the citizen? Am I able to put 100 more families in homes?" To complicate matters, most government solutions involve a variety of stakeholders, ranging from department CIOs to elected officials, each of whom typically has different goals and priorities. "The vendor really needs to understand where each stakeholder is coming from and what their requirements are," McCurdy says.

Vendors must develop a thorough understanding of how governments are organized as well. "Selling [in government] is a little bit different than saying 'I want to target a certain agency,'" notes Bozzelli. Functions such as emergency management and law enforcement touch multiple departments, so partners with relevant solutions need to know who all of the potential buyers are.

They must also know who the decision-makers are at those agencies. On strategic IT projects, such as e-government and CRM initiatives, approval authority tends to reside at senior levels, so pitching a mid-level manager may be a waste of time. "The mistake a lot of people make is, they come in too far down in

the organization," says Tim Sparks, CEO of C-Lutions LLC, a Registered Member and vendor of contract lifecycle management software based in Flower Mound, Texas. Conversely, however, pitching an Office upgrade or hardware buy to a policymaker is also a bad idea. "If you're selling server boxes, then you don't aim high," Friedline advises. "You go straight to the people concerned about servers, because from a policymaker standpoint that's a nit" -- that is, a minor item not worthy of a top gun's attention.

If wide-ranging knowledge of the government's organizational landscape is critical, so too is a thorough understanding of each agency's issues and challenges. "You have to understand the domain you operate in," says Stern, of LCG Systems. For example, LCG has deep in-house knowledge of the Health Insurance Portability and Accountability Act (HIPAA), a federal law that imposes stringent data privacy and security requirements on any entity that deals with patient records, including Medicare and Medicaid bureaus. "It's that domain knowledge of the health care environment that we believe is a differentiating factor and gets us business," Stern says. "The key message is to focus and target," he adds. "If you're new to the marketplace, you really need to pick an area and get to know it well."

#### **Hit or Miss**

Microsoft's focus areas in government begin with its traditional preoccupations: desktop products and volume licensing. Pushing Windows Vista and Office 2007 is a top current priority, says Scott Suhy, a general manager in charge of government sales and marketing in Microsoft's U.S. industry unit. So is driving adoption of the Enterprise Client Access License (CAL), he adds. Introduced last October, the Enterprise CAL is designed to simplify end user licensing by providing consolidated access rights to a cluster of Microsoft server products.

But Microsoft's goals for the public sector extend beyond the usual suspects. Suhy cites unified communication and collaboration, business intelligence and business applications as further priorities, indicating a heightened focus on solutions as opposed to products. Friedline welcomes the shift, but questions how far it will ultimately go. "Microsoft makes money by selling SKUs, and I don't think they're ever going to get far away from that," he says.

Meanwhile, Schloemann, of Eskel Porter Consulting, says that at least in the state market, Microsoft has a way to go before most customers view it as a potential source for solutions. Often, "state government doesn't really know that Microsoft has solutions," he says, adding that state executives are typically "excited" and "flabbergasted" when they learn about the Dynamics product family. "That tells me Microsoft needs to do a better job of getting the word out," he says.

Still, Schloemann is one of many channel executives who give Microsoft high marks for its


channel offerings. "The co-marketing opportunities they give to partners are just phenomenal," says David Kingsbury, executive technical director for U.S. government and transportation at Intergraph Corp., a Gold Certified software-maker based in Huntsville, Ala. Kingsbury says that Intergraph, which serves clients in the public safety and homeland security markets, among others, regularly co-hosts seminars and Webinars with Microsoft.

Marketing programs aren't the only way Microsoft supports its partners. Providing leads is a top priority, too. "Everything we do in public sector has a partner attached to it," Suhy says, noting that every salesperson on his team is responsible for including a partner in at least 75 percent of their opportunities. Still, as Friedline sees it, working with Microsoft account teams can be a hit-or-miss affair. "Six months of the year, they're very strategic, and then the second six months of the year, they're all tactical because they want to make their numbers," he says. And when they're thinking tactically, he adds, Microsoft sales reps have little interest in the complex deals TiBA pursues, which can take as long as two years to close. "We don't get a whole lot of attention," Friedline says.

Suhy offers two nuggets of advice to partners seeking more attention from Microsoft. First, ISVs should profile their wares on Microsoft's Public Sector Partner Solution MarketPlace (Partnermarketplace.com). "The [solution specialist] teams constantly look up there for new companies," he notes. Second, government-focused partners of all varieties should attend Microsoft's public-sector partner events. "Our teams all go to those," says Suhy, adding that attendance is mandatory for many employees. "Nothing is better than meeting someone face to face."

Kingsbury agrees. In fact, he says, succeeding in the government market ultimately comes down to personal connections. "Governments want to have a trusting relationship with their vendors," he says. "It's important in the private sector as well, but if you have the technology that they absolutely need, a private [business] will act on it immediately."

In contrast, he says, government agencies won't make a move until you've established a degree of intimacy with them.

Bottom line: Technologies come and go, but when it comes to doing business with the government -- any government -- the importance of pressing the flesh remains timeless. 

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