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Forrester's Top Government Predictions For 2005

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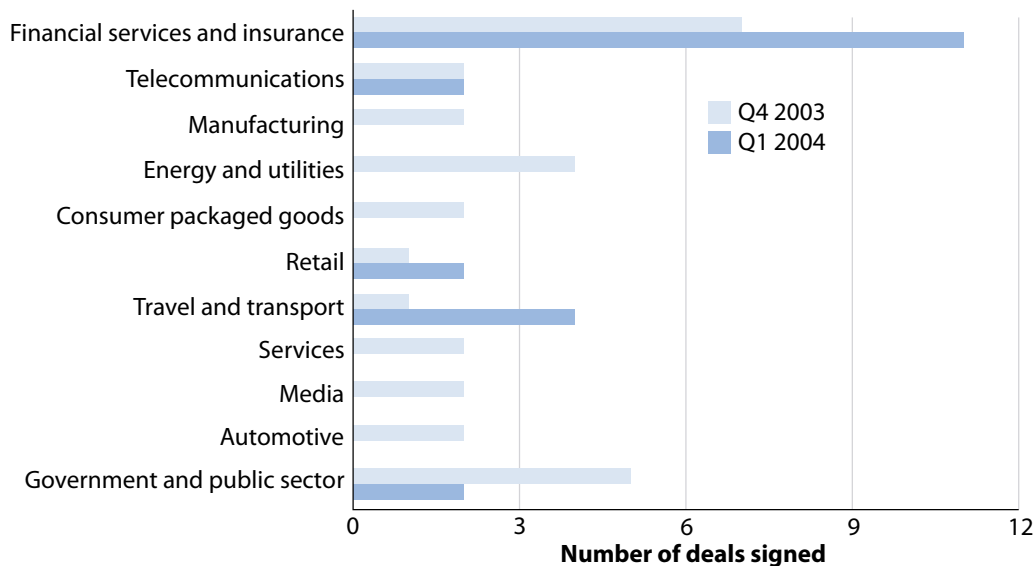
EXECUTIVE SUMMARY

Government IT continues to be a focal point for a public-sector transformation, as agencies respond to rising demands for online services from a varied constituency, data integration challenges across organizational stovepipes, and continued pressure on the ratio of program funds to overhead costs. Forrester predicts what government agencies and the vendors that support them will do in 2005 as both respond to demands for increased IT value and effectiveness.

GOVERNMENT-PRIVATE SECTOR PARTNERSHIPS WILL INCREASE IN 2005

Government agencies made innovative use of technology in 2004, providing extensive online services to citizens, improving the technology capabilities of government service providers — law enforcement personnel in particular — and improving the flow of information across organizational boundaries. Agencies also looked for innovative ways to partner with the private sector to augment their internal capabilities. What changes does 2005 hold for government IT? Forrester predicts that:

- **US federal agencies will begin at least five new gain-sharing projects before September 2005.** The opportunities are significant, the needs are great, and the blanket purchase agreement and guidance from GSA provide the means that US federal agencies have been waiting for.¹ So far, agencies have submitted 45 business cases for gain-sharing projects to the Office of Management and Budget (OMB). OMB has not yet communicated its selection criteria, but it will issue budget management guidance in the coming weeks. Forrester expects that at least five projects will initiate successfully in 2005, and that agencies with gain-sharing contract experience — such as the Environmental Protection Agency and the Departments of Energy and Education — will lead the way.
- **The US legislature will extend the gain-sharing deadline in the 2002 eGovernment Act.** The eGovernment Act enabled gain sharing in the US federal government to move beyond the experimentation stage by easing the requirements for funding early terminations. But the act explicitly terminates fiscal authority for gain sharing on September 30, 2005. Forrester expects that the administration's push for a results-oriented government and Congress' recognition of the opportunities in creative sourcing will result in agencies' obtaining the statutory authority necessary to continue gain sharing in federal projects beyond that deadline. Look for Congress to extend the deadline before September 2005.

Figure 1 The Government Is An Active Sector In European Outsourcing

Source: May 27, 2004, Trends "Tracking Europe's Outsourcing Stampede"

Source: Forrester Research, Inc.

- Offshore vendors will hit barriers in government RFP processes.** Software vendors with a significant portion of offshore employees will encounter problems during the RFP process, as local, state, and federal RFPs begin to contain detailed questions about the location of bidders' employees. The public backlash against outsourcing and offshoring will influence which vendors win government business as constituents put pressure on elected officials to stop spending US tax dollars offshore. Look for software vendors to begin to make concessions and special staffing arrangements to avoid being shut out of bidding for government contracts in 2005.
- European government will continue to be a major customer of IT outsourcers.** Headed by the massive — more than €4 billion — deal won by Capgemini and its partners in the UK's Inland Revenue, public sector and government stood as the second most frequently represented sector in Forrester's 2004 study on European outsourcing trends (see Figure 1).² As European governments decrease total IT spend in 2005, look for this trend to continue with five more significant outsourcing deals.
- Hosted applications will begin to make the grade.** Forrester expects increased adoption of hosted applications in government — particularly for local government CRM systems — with hosted vendors like RightNow Technologies and UniPress finding their way on more shortlists. Look for a 25% growth in vendors' hosted government applications in 2005. Although adoption of hosted enterprise applications is on the rise in the private sector, government organizations

have been slower to adopt.³ The hosted model has had a hard time fitting into government IT environments because existing IT guidelines at some agencies prohibit housing constituent data outside of internal IT shops. According to Brian K. Miller, vice president - finance and treasurer at Tyler Technologies, the barrier to hosted solutions is often a matter of perceived risk — local governments that opt for external hosting find that the vendors have better security and business continuance capabilities than the internal shops.⁴ The growing number of large, successful, hosted implementations in the private sector with enticing ROI stories, especially in application areas like customer service and self-service, will finally pave the way for more government organizations to consider hosted alternatives, with their faster go-lives and relatively low startup costs. For an early indicator, check the government references of RightNow Technologies, a hosted CRM vendor, whose customers include the State of Colorado Department of Revenue and the State of Michigan Department of Natural Resources.

- **Consultants will start to pitch innovation projects based on previous government work.**

Private-sector demands for innovation have increased, as firms raise their discretionary IT spending for new projects and business users become more interested in growth initiatives.⁵ But while commercial clients are still getting warmed up, the US government has been on the forefront of innovation — particularly in the Departments of Defense and Homeland Security. In projects like CSC's award-winning work with the Air Force Office of Special Investigations to transform rather than simply automate case management, innovation-minded service providers are applying out-of-the-box thinking and producing results well beyond initial expectations. As a result, look for the top players like Accenture, CSC, and Unisys to parlay innovative government projects into bids for private-sector prospects. Expect these firms to focus initial innovations on supply chains and the application of RFID to business problems.

- **US Federal eGovernment will grow, but modestly.** As the US federal government's original Quicksilver initiatives mature, agency-reported performance metrics will begin to demonstrate the business value of these projects. Positive results should encourage additional eGovernment development. But how much will eGovernment be able to grow over the next year? Federal agencies have been forced to absorb increasing personnel costs — pay rate increases and increased benefits costs — over the past five years. Add to that increased homeland security spending and the costs of the Iraq war. With the White House trying to hold total discretionary non-defense spending to a 1% increase over 2004, there is very little room for significant growth in IT budgets or the rapid expansion of eGovernment programs. Despite the fact that these programs can be a very cost-effective way to provide government services, Forrester expects only 3% annual growth for US federal eGovernment spending, from approximately \$4 billion in 2004 to \$4.2 billion in the FY 2006 budget.

- **OMB will push the fee-for-services model forward.** To date, OMB has focused on reducing redundancy in administrative systems. 2005 will be the year that OMB turns its attention to more programmatic systems as laid out in the Business Reference Model (BRM).⁶ OMB will be

hindered in this effort by the Congressional committee structure, which favors funding single-agency solutions over governmentwide systems, but OMB will take on the battle. Forrester predicts that OMB will initiate three major programmatic efforts to reduce redundancy. It will use a fee-for-service model, with user agencies paying the core provider. In the next three to five years, OMB will pursue a modular framework for governmentwide system development and implementation that will accelerate the effort to reduce redundancy and increase the number of fee-for-services systems.

ENDNOTES

- ¹ Gain-sharing projects are those for which government agencies make minimal investment — industry partners take on the financial risk. Industry recoups its investment and gains its profits by project-generated funds. See the December 27, 2004, Market Overview “Gain Sharing: Transformational Procurement.”
- ² With seven deals in total in this vertical, Forrester concluded that major services vendors like BT, Getronics, and Steria had reaped the rewards of an upgraded focus on public-sector opportunities, as commercial sectors like technology and telecom suffered under the economic downturn. See the May 27, 2004, Trends “Tracking Europe’s Outsourcing Stampede.”
- ³ Hosted CRM has a lower upfront cost and is quicker to implement than traditional licensed software. But which option is more cost-effective in the long run, and which option is the best choice for your firm? See the September 27, 2004, Best Practices “Hosted Versus Licensed CRM: Cost And Implementation Tradeoffs.”
- ⁴ Tyler Technologies is a well-entrenched vendor of software for local governments. In a briefing with Forrester, Brian K. Miller, Tyler’s vice president - finance and treasurer, stated that he had expected more customers to choose the company’s hosting option, but acceptance has been slow. Miller expects more local governments to opt for hosting as successful case studies from the public sector demonstrate its viability.
- ⁵ Firms are interested in IT not as the driver of innovation but as an enabler, while they are grappling with trends like the globalization of the workforce and increased regulations. See the December 13, 2004, Trends “Innovation-Hungry Firms Need Consultants.”
- ⁶ The Federal Enterprise Architecture (FEA) is comprised of five reference models designed to facilitate intra- and interagency analysis to find consolidation and collaboration opportunities. These are the performance, business, service component, technical, and data reference models. See <http://www.feapmo.gov/fea.asp>.