



Washington TECHNOLOGY

Market Convergence: Part I — Clash of the Titans

Until recently, the competition in the federal information technology marketplace followed the rules of technological détente. The telecommunications carriers owned the transport. The integrators owned the applications and the application infrastructure. The demarcation point to the building, campus or base represented the technological iron curtain.

Each side had its own sphere of influence, and everyone tacitly accepted this stable world of marketplace equilibrium.

A big change now threatens this equilibrium. Federal customers have begun wrapping their transport and application requirements into one big bundle and putting the whole shebang out for bid. The most important example — in some ways the watershed event — was the award of the Navy-Marine Corps Intranet project last year to Electronic Data Systems Corp. of Plano, Texas.

The NMCI award has given a single vendor total end-to-end responsibility for engineering, implementation, operation, maintenance and technology enhancement for the Navy's telecom infrastructure and IT infrastructure, and for the utility applications that reside and ride on this infrastructure.

Industry lately has been making a lot of noise about convergence, which generally refers to the provision of voice, data and video on the same platform. Convergence almost always focuses on merging technologies, with particular emphasis on the provision of real-time applications, such as voice and video over IP networks.

The NMCI program, however, represents a different type of convergence: the convergence of the telecom and integrator market segments. We might call this market

convergence to make a clear contrast with technology convergence.

My bet is that this market convergence will have a far greater, near-term impact on our industry than technology convergence.

The fall of the iron curtain between the application and telecom segments of the federal marketplace occurs at a time when the carriers are in a desperate search for a solution to a major, across-the-board financial downturn. Revenues are down. Earnings are off. Stock prices have plummeted.

The carriers are trying to fix their earnings problems by moving up the value chain. They are putting fewer resources into low-margin residential markets and more into higher-margin corporate markets. They are moving away from the sale of commodity voice services, and they are trying to pump up the sale of higher valued data solutions.

They are emphasizing new offerings, such as e-business, Web hosting, application service provider support and managed network services.

These changes in offerings, and the associated reallocation of resources, represent a work in progress, and the results are far from clear. But the intent is obvious.

The carrier side of the industry is engaged in a desperate search for higher ground. They're looking for a new mix of services that represent greater value to customers and that will generate new revenue and higher return for shareholders. And this new mix of services is moving them

into areas traditionally dominated by the systems integrators and IT consulting community.

The integrators and IT consulting firms are facing their own sets of challenges. They have a large hole to fill that has been created by the collapse of the e-business gold rush in the corporate world. Just a year ago, the dot-com start-ups were willing to pay whatever it took to roll out new Web sites and the related back-office Web infrastructure.

The traditional brick-and-mortar competitors were just as desperate to counter the emerging competition with their own Web sites and infrastructure. This extraordinary surge in demand for integration and IT services has vaporized at Internet speed, and many are now trying to fill this hole with outsourcing services.

The stage is now set for a clash of the titans. The carriers and the integrators are both strongly motivated to capture the high ground in the newly converged federal market.

In the next issue, I'll discuss what it takes to win as the government asks for total, end-to-end solutions that wrap network and application requirements together.

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