

SKY-HIGH STAKES

For Federal Tech Contractors

71
PERCENT OF EXPERTS THINK THE CLOUD WILL TAKE OVER COMPUTING

71 percent of experts agreed with the statement: "By 2020, most people won't do their work with software running on a general-purpose PC. Instead they will work in Internet-based applications such as Google Docs, and in applications run from smartphones. ... Most innovative work will be done in that domain, instead of designing applications that run on a PC operating system."

SOURCE: PEW RESEARCH CENTER

2,000
NUMBER OF DATA CENTERS THE FEDERAL GOVERNMENT OWNS

The U.S. plans to close 800 of its more than 2,000 data centers by the end of 2015 as part of former Chief Information Officer Vivek Kundra's Federal Data Center Consolidation Initiative. Its goal is to consolidate and eliminate redundancy.

SOURCE: OFFICE OF MANAGEMENT AND BUDGET

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25 PERCENT OF THE FEDERAL GOVERNMENT'S INFORMATION TECHNOLOGY BUDGET MAY BE DEVOTED TO CLOUD COMPUTING

The federal government estimates that \$20 billion of its \$80 billion information technology budget will be used to migrate to cloud computing.

SOURCE: OFFICE OF MANAGEMENT AND BUDGET

BY DAVID SALEH RAUF

To the ranks of billion-dollar federal contracts for fighter jets and vaccine development, add cloud computing to the list of Uncle Sam's most hotly contested procurements.

The biggest names in the tech business are believed to be in the running for a piece of General Services Administration contracts capped at \$2.5 billion to provide cloud-based email accounts for federal workers across departments.

"We got healthy competition coming in for it — the usual players you would suspect and others, as well," David McClure, the GSA's associate administrator of the Office of Innovative Services and Technologies, told POLITICO. "That, to me, indicates there is a healthy market and a great deal of interest."

It's also an indication of something else: The newest battleground for tech firms competing in the cut-throat arena of government contracting is the cloud, where Internet-based services can displace mainframes and other expensive hardware.

The competition is being fueled by a White House policy adopted in December that requires agencies to replace formerly custom-designed legacy computing systems with cloud-based solutions. Such services offered by the private sector are often lower in cost than buying hardware and software.

A throng of tech firms is lining up — and in some cases, throw-

ing each other under the bus — for the chance to sell services accessed over the Internet to the government. The federal cloud play has helped pave a path for innovative tech companies like Google and Amazon, which have limited government experience, to land federal contracts in a sector long dominated by entrenched firms and huge telecommunications companies.

It's still too early to determine winners in the federal cloud space, experts say. But this much is crystal clear: The stakes are high — sky-high.

The Obama administration set a target to spend roughly \$20 billion, more than a quarter of the total estimated federal information technology budget, to move systems across the government into the cloud, though analysts

hard in the marketplace are taking no prisoners when it comes to the procurement battle royal. Google, for example, sued the federal government, alleging the bidding process for a \$59 million contract to move 88,000 Department of Interior users to the cloud favored rival Microsoft.

Cloud providers are also seizing on momentum created by the administration by beefing up their presence in Washington.

Salesforce.com, a California-based firm that boasts it now sells cloud-computing services to half of all Cabinet-level agencies, said its federal sales team is "healthy and growing" in part because of the federal focus on cloud computing.

"We continue to ramp up. Everyone agrees that government adoption of the cloud is inevitable," said Dan Burton, Salesforce.com's senior vice president of global public sector.

Amazon launched a D.C. office about 1½ years ago for its cloud-computing division, which is called Amazon Web Services. The company followed that late last year by hiring away one of Microsoft's top federal point people, Teresa Carlson, and creating a new position for her to lead its cloud-computing push in the public sector.

The firm's Washington-based sales team now is "dramatically expanding" to meet increasing demand from federal clients, said Adam Selipsky, vice president of product management and developer relations for AWS.

"Our focus on federal has increased significantly," Selipsky said.

"Everyone is jockeying for position. We're getting to that stage where competitiveness in the federal market is increasing significantly."

— Deneice Peterson
Analyst, Deltek

As a result, it's set the stage for a showdown of new technology contractors versus old.

Established tech providers — including AT&T, Microsoft, IBM, Dell, HP and Verizon — find themselves vying for cloud contracts with upstart Internet firms like Salesforce.com. In addition, some of the government's largest defense contractors, including Lockheed Martin and Raytheon, now offer their own cloud products.

"Everyone is jockeying for position," said Deneice Peterson, an analyst for government contract consulting firm Deltek. "We're getting to that stage where competitiveness in the federal market is increasing significantly."

said it will take years to reach that figure.

Nonetheless, there's still a wealth of federal contracts up for grabs.

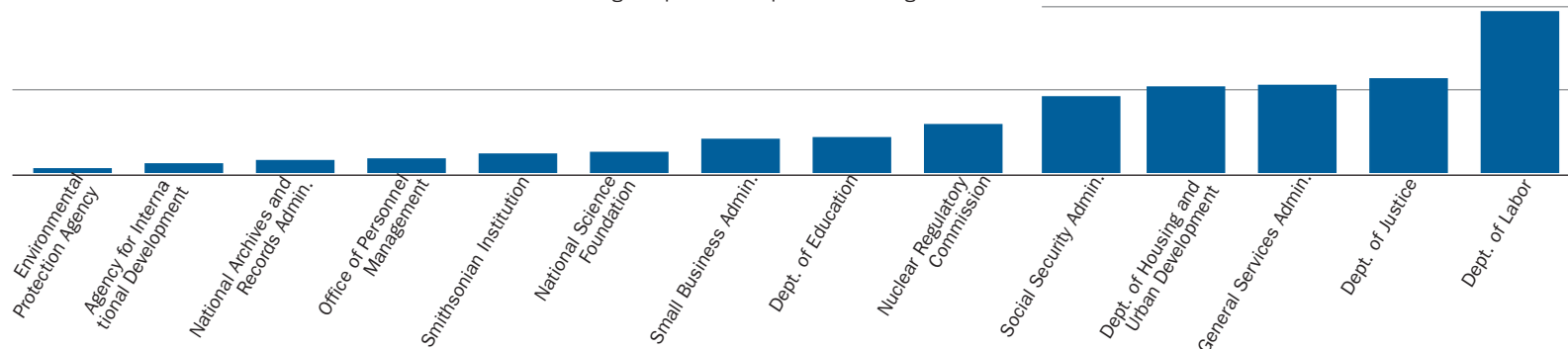
The GSA's May solicitation for up to \$2.5 billion in cloud computing contracts is a prime example. Those awards — which will give agencies a government-wide vehicle to bid for cloud-based email services — won't be made until a pair of bid protests lodged with the Government Accountability Office are resolved, McClure said.

The GAO has set Oct. 17 as the date for its decision, according to the agency's online bid protest docket.

Tech companies that battle

POTENTIAL SPENDING ON CLOUD COMPUTING BY AGENCY

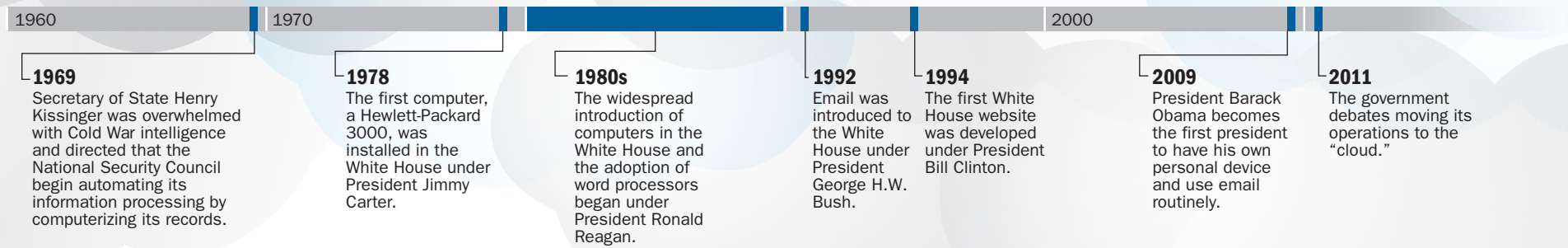
The Department of Homeland Security and the Department of Treasury top the list of potential spending on cloud computing. Altogether, the migration to cloud computing could cost an estimated \$20 billion of the federal government's \$80 billion information technology budget. While costly, cloud computing will save the government money in hardware and software maintenance and upgrades, according to former U.S. Chief Information Officer Vivek Kundra. It is also more time efficient since it takes advantage of private companies' existing infrastructure.



SOURCE: OFFICE OF MANAGEMENT AND BUDGET

HISTORY OF COMPUTING IN THE WHITE HOUSE

The White House has faced a series of challenges with growing technology, the most important being security issues. Cloud computing is a big step in a White House that doesn't yet allow wireless Internet connections.



SOURCE: WHITE HOUSE HISTORICAL ASSOCIATION

KRISTEN LONG — POLITICO

IBM also chalks up cloud computing as one of its burgeoning government sectors.

And Verizon earlier this year shelled out \$1.4 billion to buy Terremark, an established government cloud provider, to give it a stronger foothold in the market. Cloud computing now is one of the company's three best-selling services to the government, said Susan Zeleniak, group president of Verizon Federal.

The company doesn't name federal clients, but online documents show its Terremark subsidiary was recently awarded a \$3.9 million base contract to provide a suite of cloud-based services to help states create the first phase of health insurance exchange technology models.

The cloud has also opened up new government avenues for lesser-known companies.

"If I have five years of experience with cloud computing that's the same, if not more, than a Fortune 100 company," said David Lucas, the chief strategy officer for GCE, a small Reston-based firm that supplies the Labor Department with a cloud-based financial management system.

In its simplest form, cloud computing is generally characterized as a combination of technologies and computing services that can be delivered via the Internet, instead of from a direct connection to a server.

The Obama administration's "cloud-first" policy requires federal agencies to move three IT services to the cloud within 18 months of its December launch.

Former federal Chief Information Officer Vivek Kundra preached the gospel of the cloud louder than just about anybody in the administration, but he departed for academia in August. Newly minted CIO Steven VanRoekel, a former Microsoft executive and managing director at the Federal Communications Commission, has inherited that role.

"It's going to take a serious change agent and someone to keep their foot on the gas to keep the momentum going under these budgetary conditions," said Deltek's Peterson.

In May, the administration announced plans for 78 cloud projects for the largest 25 federal agencies. Web hosting and email top the list of projects.

For example, the Department

of Homeland Security is planning to award a contract soon to a cloud-computing provider to host the agency's array of public websites.

The Department of Agriculture tapped Microsoft and Dell for a contract worth \$27 million to move its 120,000 government workers to the cloud.

This summer, GSA migrated its entire 17,000-person staff into a cloud-based email system using Google's services and expects to save \$15.2 million over five years.

But email and website hosting alone won't allow agencies to reap the cloud's full cost savings, experts say. And the reluctance

of some agencies to deploy more mission-critical applications to the cloud because of cybersecurity and other concerns could drag down the market size.

Deltek's Peterson estimates federal spending on the cloud will increase from about \$600 million to \$1.7 billion from fiscal years 2011 to 2016.

That's a far cry from the administration's forecast of spending \$20 billion, but Peterson noted "\$1.6 billion or \$1.7 billion — that's nothing to sniff at."

MEET THE PLAYERS

Here is just a sampling of the wide range of companies vying to provide the federal government with cloud computing technology.

- | | |
|--------------|---------------------|
| Amazon | GTSI |
| Google | Dell |
| Microsoft | Hewlett Packard |
| IBM | Lockheed Martin |
| Salesforce | Raytheon |
| Verizon | General Dynamics |
| AT&T | Autonomic Resources |
| Red Hat | Apptis |
| Harris Corp. | Savvis |
| GCE | Eyak Tech |
| CGI | |

FEDERAL CLOUD COMPUTING CONTRACTS AWARDED

While companies vie for deals with the federal government, billions of dollars' worth of contracts have already been awarded.

\$59 million

DEPARTMENT OF THE INTERIOR

Department of the Interior tapped Microsoft for a five-year contract to upgrade its email system. There is a pending lawsuit filed by Google.

\$27 million

DEPARTMENT OF AGRICULTURE

USDA picks Microsoft and Dell for a contract to migrate 120,000 email accounts to the cloud.

\$3.9 million base

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Four one-year options at \$3.4 million per year. HHS selects Verizon-owned Terremark to help states develop the first phase of their health exchange IT models.

\$6.7 million

GENERAL SERVICES ADMINISTRATION

Over a five-year period. GSA chooses Google and Unisys to win a contract to move its email to a cloud-based system.

\$76 million

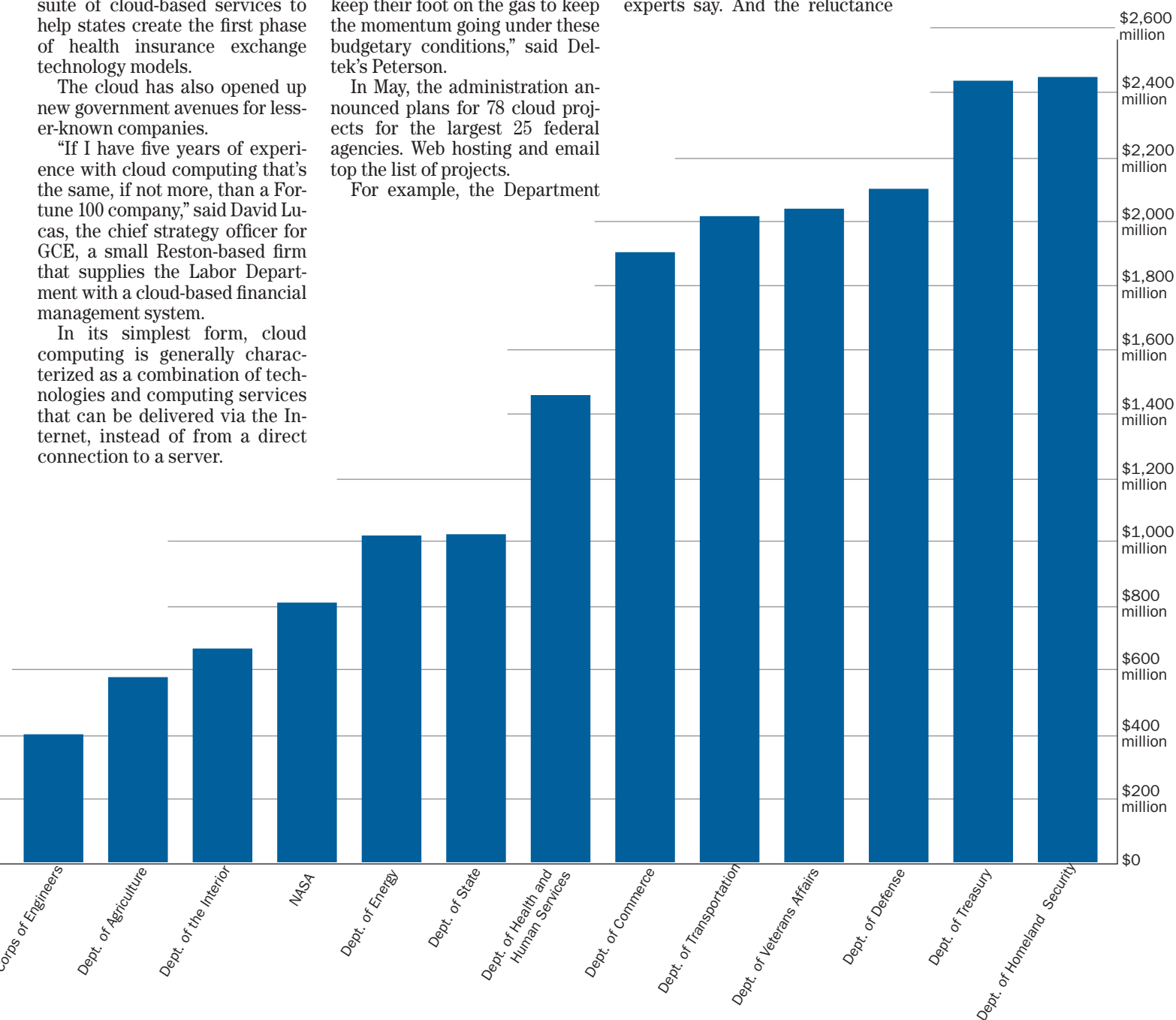
GENERAL SERVICES ADMINISTRATION

GSA awarded a blanket purchase agreement to 11 vendors for infrastructure-as-a-service cloud tools.

\$2.5 billion

GENERAL SERVICES ADMINISTRATION

GSA plans to award multiple contracts through another blanket purchase agreement for email-as-a-service cloud tools.



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