

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE  
COMMAND, CONTROL, COMMUNICATIONS AND INTELLIGENCE  
3E 240, The Pentagon, Washington, D.C. 20301-3040

☎ 703-614-0548  
✉ 703-614-0599

June 6, 1992  
To: Mark Scher  
From: Paul A. Strassmann  
Subject: Legacy Outsourcing

Many thanks for your, as usually, thoughtful commentary of 6/5. My reactions:

1. Keeping DoD Honest: I never go to war with the idea of losing. If we find that a significant share of MILDEPS market share is migrating to the commercial sector, such as 25%+ because of DITSO failure, we will just get ourselves different managers to run DITSO.

2. Avoiding Capital Investments: There is no such thing as free lunch and therefore we will end up paying for commercial capital anyway. It just happens that the Government's cost of capital is about one third to one fourth of a commercial computer service enterprise. We also own large capital assets, especially data centers, which are not convertible into other assets. Lastly, I want our small number of mega centers to locate at garrison occupied bases on account of security. Therefore, I do not think that we can avoid capital costs by getting rid of what we already have.

3. DITSO Transition Tool: Moving computing capacity to a commercial site and then moving it again back to DITSO overlooks the human element of a trained and motivated work-force. We will just lose people as we juggle the workload. Since we are going to cut back anyway through consolidation, I see not reason to aggravate the negative impact on people and morale. good

4. Surge and Disaster Recovery: A good point, and we should pursue this, but only for a "contingency" scenario of resumption of large scale mobilization of resource for global war. I propose that we configure DITSO for support of low and medium intensity warfare out of CONUS sites, but not more.

5. A-76: It looks like this will not hold up. The latest House Defense Bill specifically prohibits conducting A-76 studies!

Mark, I trust I answered your questions and explained my previously stated reservations against outsourcing legacy computer operations.

*Paul*

cc: D.Brown, Cavallini, Erwin, Fischer, Kendall, Jeffcoat, Short

NOTE TO: MR. PAUL STRASSMANN

SUBJECT: Legacy Outsourcing

1. At Ms. Kendall's Program Review on 3 April, the subject of legacy outsourcing was raised. You reacted negatively and indicated that the matter was better discussed off-line. This E-mail note revisits the issue.

2. The focus here is on data center outsourcing services and not services for software design or end-user support. In the mid 1990's, I assume that most of DoD's processing and applications will still be in legacy environments. Consequently, DoD might obtain the following advantages by putting in place an indefinite quantity outsourcing contract for data center services in multiple legacy environments:

a. It keeps DoD honest. We have stated a DoD objective of developing "World Class" data centers. If we succeed, legacy outsourcing won't be competitive. However, if both the MILDEPs and DITSO fail to achieve that goal, our customers (who will be acquiring service on a fee-for-service basis) will have another option. Without a centrally managed contract, individual customers would outsource piecemeal with the attendant multiple procurement actions, without a volume discount, and with a 1-2 year acquisition lead time penalty.

b. It avoids up-front capital investments. If the funding cutbacks in DoD become too severe, we may not be able to obtain the investment capital needed to continually modernize our data centers. In theory, customer fees paid into the DBOF would accumulate in a capital account for data center modernization. However, the comptroller can choose to raid the account.

c. It can be a powerful transition tool for use by DITSO. It allows DITSO to rapidly acquire processing business from inefficient data centers, concentrate that work at an outsourcer, and then migrate it onto the DITSO computing utility as additional DITSO capacity is acquired. Moreover, it allows us to use the staff of the outsourcer to perform the labor-intensive tasks of planning migration from the original data center and modifying idiosyncrasies of the applications to run in a large volume data center. This allows us to conduct more data center closures in parallel.

d. It can be used as a surge or disaster recovery option.

With adequate preplanning and lead times, the outsourcer might be able to provide alternate processing centers as part of a broader disaster recovery concept. In time of war, this same capability could be used to off-load business processing if it made sense to use our in-house capacity for wartime surge requirements.

e. It is government policy under OMB Circular A-76.

This policy requires the government to use commercial services where appropriate and cost effective. Data processing is explicitly cited as an appropriate service for outsourcing.

3. Mitigating against proceeding with a legacy outsourcing service is the anxiety that may be generated among the MILDEPs now conducting DMRD 924 consolidations. Several months of preplanning for an outsourcing contract could be performed quietly; but sooner or later we would need to issue RFI's or other public announcements. Consequently, the political impact of initiating a legacy outsourcing contract must be considered before we proceed very far. (It may be possible to disguise the acquisition under a surge or disaster recovery rubric.)

4. Finally, I expect it would require 18-24 months to put such a contract in place and have the vendor ready to receive business. Consequently, if we wish to have an outsourcing option available in 1994, we must begin this year. Since the award would be for an indefinite quantity, we would need to guarantee a minimum amount of business; but we need not use the contract beyond that minimum if the consolidations and utility were proceeding well.

5. In light of the advantages cited in paragraph 2, I would appreciate a better understanding of your reservations about creating a DoD-wide legacy outsourcing option.



MARK P. SCHER