

# DoD ESI Celebrates its 10th Anniversary

*More than \$3 billion in cost avoidance achieved by ESI in first decade*

By Chris Panaro

When the Department of Defense Enterprise Software Initiative (ESI) working group met for the first time in the fall of 1998, little did they know that 10 years later they would be responsible for more than \$3 billion in cost avoidance for the DoD. In acknowledgment of its 10th anniversary, the ESI working group went back to some of those early ESI visionaries and some current users to get their thoughts on the initiative over the years.

ESI began as a collaborative effort among the DoD chief information officers (CIOs), but it has turned into an award-winning, DoD-wide initiative with more than 75 enterprise software agreements (ESAs) with more than 50 software publishers for thousands of software products and services.

"ESI changed how the entire department acquires and licenses commercial software," said Dave Wennergren, Deputy CIO for DoD. "Without ESI, we would never have leveraged our buying power, understood our department-wide requirements, significantly reduced the labor required to manage software licenses, or have achieved the dramatic reduction in costs of several billion dollars. I applaud the ESI team for its success and contributions over the past 10 years."

During the first DoD CIO conference in July 1998, CIOs from across the military departments and defense agencies discussed ways to reduce the amount spent across the department on commercial software. At this meeting, the CIOs made a commitment to acquire and manage commercial software as an enterprise asset, consolidate requirements, coordinate acquisitions and present a unified front to the software industry. Figure 1 on the next page illustrates the ESI timeline from its inception.

Four core goals were established to guide the ESI mission:

- ▶ Obtain buy-in for DoD enterprise-wide software agreements;
- ▶ Reduce the acquisition and support costs of software by leveraging DoD buying power;
- ▶ Provide the best, most flexible suites of Joint Technical Architecture-conforming software to the DoD enterprise; and
- ▶ Create a funding mechanism that incentivizes the use of DoD-wide software initiatives.

To guide ESI efforts, a governance structure was established to include a steering group and the ESI working group. The steering group established operating principles for ESI, and the working group carried out the ESI mission on a daily basis.

"Our core operating principles allowed us to make progress quickly and focus on tangible results rather than bureaucratic issues," said Rex Bolton, the first chairman of the ESI working



group and former team leader in the Commercial IT Policies Directorate, Deputy CIO Staff, in the Office of the Assistant Secretary of Defense for Networks and Information Integration (ASD (NII)).

"Our mission was clear — we needed to save money on commercial software, and we could all do it better if we worked together. From day one, we fostered a collaborative atmosphere on the team to overcome biases and preferences and avoid duplicative effort. Good culture and teamwork were our top priorities. It was hard going at first, but with perseverance and enlightened leadership, it paid off."

"The first ESA we signed was in 1999," noted Floyd Groce, current co-chair of the ESI, team lead for enterprise IM/IT planning for the Department of the Navy CIO and part of the ESI working group since 1998.

"This set in motion our process to identify, acquire and manage enterprise software licenses and maintenance agreements on behalf of the entire DoD. Since the start, we've relied on expertise and resources contributed from across the military departments and defense agencies to serve on the virtual ESI negotiation and management team."

To help guide its effort, ESI commissioned a study to identify the best practices for the acquisition and management of enterprise software agreements within the DoD and industry. The 23 best practices yielded from this research have been used throughout the ESI tenure, guiding each negotiation and acquisition.

"In the early stages of ESI, product categories were assigned to a software product manager (SPM), who would be familiar with all the products and associated licensing practices within that category, such as databases," Bolton recalled. "The SPM would advise customers and help them negotiate more effectively for all products in that category. As we grew our inventory of enterprise agreements, the role of the SPM has become less specialized, as they manage agreements that include all assigned software companies' products, rather than just software in product categories."

Licensing experts and dedicated SPMs ensure that ESI agreements continue to provide best value to customers.

"Our best practice research dictates that we only use experienced and knowledgeable license experts in negotiating enterprise licenses," Groce said. "Our team of SPMs stays in constant contact with each other through regular team meetings to share information and lessons learned and discuss trends. They've established templates for ESAs and checklists and guides for negotiation with software publishers. To stay on top of industry trends and practices, our team regularly meets with technology providers and third party analysts."

## ESI TIMELINE – ONE DECADE STRONG

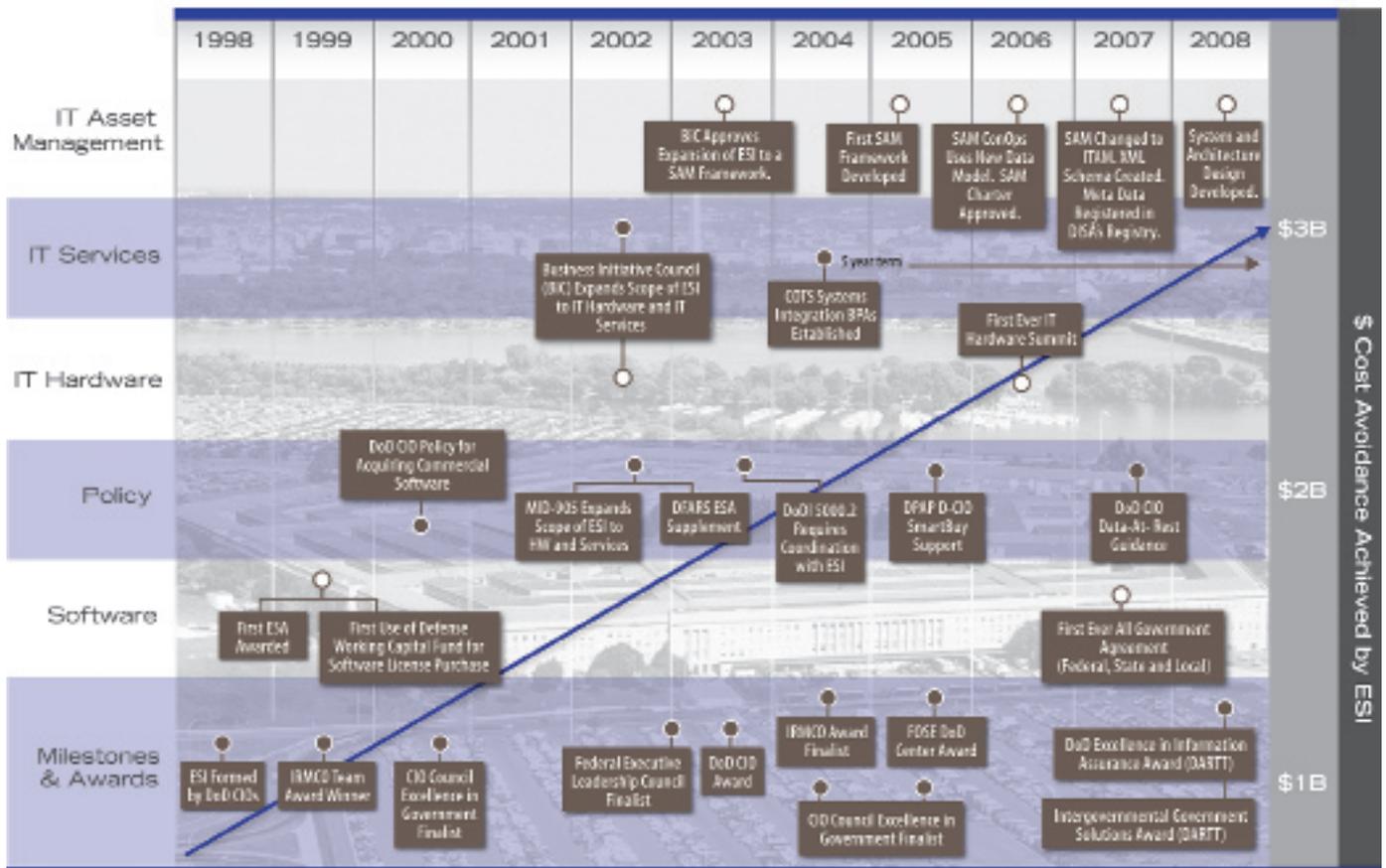


Figure 1. The ESI Timeline.

Many DoD programs have come to rely on more than 75 pre-negotiated software and service agreements, as well as an inventory of licenses, all available on the ESI Web site ([www.esi.mil](http://www.esi.mil)).

### Using ESI Saves Time and Money

Many DoD programs have come to rely on more than 75 pre-negotiated software and service agreements, as well as an inventory of licenses, all available on the ESI Web site ([www.esi.mil](http://www.esi.mil)). The ESAs provide favorable terms and conditions for the department as an enterprise — not just as a one-time buyer. Most ESAs allow licenses to be transferred between users within the DoD component, and many also permit transfer of licenses across the DoD.

Almost all ESI agreements include the right to deploy needed software during a period of national emergency for a specified period of time at no extra cost. The ESA requirement for software publishers to regularly report their sales under the ESI allows DoD to identify the software it licensed through the ESA.

“Managing license inventory is the result of ESI’s initial software asset management effort,” said Jim Clausen, co-chair of ESI and the IT specialist for ASD (NII). “Over the years, our effort broadened to all IT assets through our ITAM (IT Asset Management) program, identifying and making available licenses and other IT assets that have been paid for but are not being used. Managing this inventory wisely through IT asset management helps satisfy requirements and avoid duplicative, wasteful purchases.”

ESI leverages the DoD’s Working Capital Fund to secure short-term bridge funding for purchases on a reimbursable basis. This enables a larger number of participants to take advantage of scheduled purchases, even if funds are not immediately available to that program. This facilitates more rational buying behaviors during the fiscal year and makes scheduled buying the norm rather than the exception.

Richard Cromley, director of the Contracting Services Office for the Defense Logistics Agency, has used ESI agreements repeatedly for both software and systems integration service acquisition. “The orders placed against ESI contractual instruments have definitely saved DLA dollars through reduced product prices and labor rates,” Cromley said.

ESI negotiates an initial discount off General Services Administration (GSA) schedule pricing as a starting-point price level. Individual customers and program offices that use an ESI vehicle are encouraged to seek further discounts based on transactions and cumulative volume size, as well as market conditions and timing.

“The use of the ESI contractual vehicles saves time and effort of contracting personnel and reduces the procurement lead-time to acquire needed products and services,” Cromley said. “The major benefit is having both pricing and usage terms

and conditions pre-negotiated with a variety of sources for both products and services.”

### ESI Expands to Include Hardware and Services

ESI agreements extended to include technology services and hardware in 2002 at the request of the Business Initiative Council. In a collaborative effort with DoD Enterprise Resource Planning (ERP) programs and the Office of the Secretary of Defense, the first blanket purchase agreements for information technology services were awarded for systems integration projects using commercial software packages.

“ESI did such a great job negotiating commercial software licenses that DoD leadership asked ESI to secure relationships with hardware vendors and IT service providers who implement commercial software,” Bolton said.

“This coincided with the business transformation effort by DoD ERP programs spending billions of dollars to modernize DoD back-office systems. Establishing relationships with IT service providers made a lot of sense because the cost of licensing commercial software is just a fraction of the cost to get the software up and running throughout the enterprise,” Bolton added.

The ESI systems integration BPAs secured more than just labor hour discounts from service providers. The BPAs incorporated commercial best practices by capturing a firm’s implementation methodology and enabling fixed-price methodologies for each phase and deliverable that led to results-based pricing, not just time-based pricing.

“Having access to the systems integrators’ methodology and pricing framework for a software implementation project made us much wiser buyers when it came to choosing and negotiating with an implementation partner,” Cromley said.

### ESI Paves the Way for Federal-wide Software Licensing

One of the most significant changes for ESI was its expansion to support the federal SmartBUY initiative. When the Office of Management and Budget (OMB) decided to create a similar initiative for the rest of the federal government through GSA in the fall of 2003, ESI participated in GSA’s SmartBUY launch team to share ESI’s lessons learned and best practices.

“GSA launched the SmartBUY program to leverage the software buying power of the entire federal government,” said Tom Kireilis, acting deputy director of the Office of Infrastructure Optimization, in GSA’s Federal Acquisition Service. “We knew that ESI achieved similar objectives for DoD and realized that the federal government could benefit from many of the disciplines and practices that ESI already had in place.”

Since ESI and SmartBUY joined forces to collaborate, they have established 22 ESI/SmartBUY co-branded agreements that allow all federal agencies to procure software, leveraging the collective negotiating power of the federal government.

“OMB further raised the bar on the co-branded SmartBUY/ESI agreements when they decided in 2007 to include state and local government in the solicitations for products to protect data at rest,” said Dr. Margaret Myers, former principal director for the DoD Deputy CIO. “The DoD-GSA team successfully overcame many challenges to make this happen and awarded the first-ever agreements that include state and local governments.”

In September 2003, the director of Procurement and Ac-



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DoD Deputy CIO Dave Wennergren

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quisition Policy for the DoD and the DoD CIO jointly signed a SmartBUY policy to designate the DoD ESI as the implementation agent for SmartBUY throughout the DoD. This policy was updated in December 2005.

### ESI Achieves Central Role for IT Asset Management

From the inception of ESI in 1998, the ability to manage technology assets across the entire DoD has been a key objective. Just as investors must know and manage financial assets to be successful, the DoD must have an accurate inventory of its IT assets to make better, faster and smarter strategic sourcing decisions — and to make available ESAs that support the warfighter and ultimately help to “optimize the enterprise.”

The ITAM program managed by ESI will use a net-centric service oriented architecture solution that allows DoD asset data to be pulled into a single repository that will include software and hardware (desktops, laptops, servers and routers).

Industry analysts predict that organizations that systematically manage the life cycle of their IT assets will reduce the cost per asset by as much as 30 percent in the first year and between

5 and 10 percent annually during the next five years. To make this happen, ESI provides policy and guidance and is developing a net-centric proof of concept to aggregate and report asset data.

ESI and the DoD components are working together through an ITAM integrated product team to develop a net-centric ITAM framework that will be the foundation for making components' IT asset data visible and discoverable using Web services and XML standards.

This will allow ESI to report on IT assets at the DoD and federal government level to make better decisions for current and future expenditures, as well as support the goal of lowering DoD's total cost of ownership on IT investments.

### The Look Ahead

The first 10 years of ESI have proven to be very successful, and the next 10 years should yield even greater results. To do so, the ESI will need to enhance and maintain the right skill sets and knowledge given anticipated technology changes and evolving licensing and pricing models, such as software-as-a-service, software-on-demand and software capability delivered under a service oriented architecture (SOA).

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DON CIO Rob Carey

Already, the ESI is coordinating the development of net-centric software licenses to allow DoD components to share information with any potential authorized user, regardless of the user's organization. The DoD and the Office of the Director of National Intelligence (ODNI) adopted this approach to manage software licenses that give authorized IT users the license rights for immediate, unobstructed access to information. The aim is to eliminate information-sharing roadblocks, such as institutional boundaries or license limitations.

“This effort leverages the collective bargaining power of DoD and the intelligence community to ensure that our nation realizes the significant operational benefits of information sharing at a reasonable cost,” Wennergren said.

The push is for a paradigm shift from the traditional model of purchasing agreements.

“A major challenge for ESI is to transition the DoD from enterprise agreements to enterprise licenses,” Myers explained. “Most of the ESI agreements today work like corporate discounts: ESI negotiates the ESA and any DoD purchaser can request the DoD

price. Each vendor has multiple DoD customers, so the vendors' overhead costs are included in the price the customers pay.

“If ESI could negotiate a single agreement with a single DoD point of contact, the vendors' overhead costs would be significantly reduced and DoD would avoid additional cost. ESI successfully negotiated an Oracle enterprise license for the Navy, but it took more than a year to transition all of the legacy contracts to one common license. The potential impact of doing this for all of DoD is huge, but extremely challenging,” Myers concluded.

To stay ahead of these challenges, ESI will be undertaking a

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Lean Six Sigma effort aimed at improving DoD's software licensing processes, according to Groce. “This effort should result in streamlined and improved enterprise software licensing practices used across the entire DoD,” he said.

DON leadership support for ESI remains strong. “DoD ESI is essential to delivering effective and efficient information technology capability across all mission areas at least cost,” said DON CIO Rob Carey. “ESI must continue to flourish as we transform and rely on commercial software more than ever to run the business of the DoD.”

ESI's success can be attributed to the visionary leadership of the CIOs within DoD, its focused and dedicated working group, hardworking and smart SPMs, and the ability to make good things happen despite no central funding source. Congratulations to the entire ESI team and best wishes for continued success for many years to come!

For more information, go to the ESI Web site at [www.esi.mil](http://www.esi.mil) or turn to the CHIPS Under the Contracts section beginning on page 69.