MSI SERVICES

COMMERCIAL ANALYSIS

VIRGINIA IT AGENCY

Symbio ecosystems

DECEMBER 1, 2022

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VIRGINIA
IT AGENCY

EXECUTIVE SUMMARY

Summarizes all sections of the Commercial Analysis Deliverable at a high level for executive leadership to understand the purpose of the deliverable.

MSI SERVICES COMMERCIAL ANALYSIS

| Section	Description
Financial Spend Analysis	Detailed financial and staffing model of current MSI operations by expense category based on data gathering conducted as part of the assessment, supported by an Excel financial model.
Market Pricing Comparison	A market comparison analysis to assess the cost of services against the market, consisting of government pricing data that reflects current market-based rates from Tier 1 service providers backed by service levels.
Business Model Analysis	A review of the existing pricing structure and chargeback methodology to identify anomalies, identify opportunities for improvement, and better align incentives between the stakeholders.

Other Symbio Deliverables:

Deliverable	Description
Baseline Assessment (12/1)	MSI services strengths and opportunities, baseline assessment findings, MSI sourcing charter, and assessment approach and methodology
Acquisition Plan (12/15)	MSI scope and sourcing plan, requirements recommendations, revised base case, risk management, implementation roadmap
Governance Readiness (1/5 and TBD)	Current state assessment, MSI change impact assessment, recommendations and roadmap

VIRGINIA IT AGENCY

FINANCIAL SPEND ANALYSIS

Detailed financial and staffing model of current MSI operations by expense category based on data gathering conducted as part of the assessment, supported by an Excel financial model.

FINANCIAL SPEND ANALYSIS

MSI Spend by Category/Function (Dec 2021 – Nov 2022)
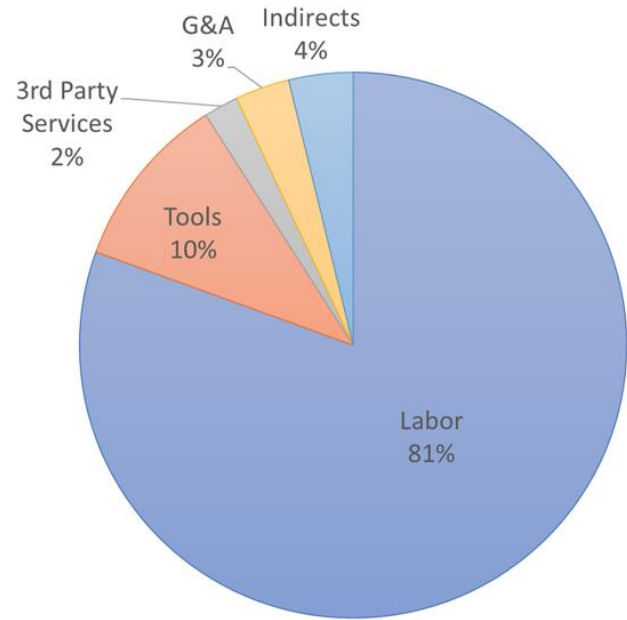
Expense Category	Spend	%
Labor	$ 27,534,577	81%
Tools	$ 3,554,991	10%
3rd Party Services	$ 698,233	2%
G&A	$ 1,100,000	3%
Indirects	$ 1,295,337	4%
Total Service Charges	**$ 34,183,137**	**100%**
Transition	$ 3,322,768	
Total Base Year	**$ 37,505,905**	

GTA		
Expense Category	Spend	%
Labor	$24.5	75%
Non-Labor	$8.4	25%
Total Service Charges	**$32.8**	**100%**

DIR		
Expense Category	Spend	%
Labor	$11.3	62%
Non-Labor	$6.9	38%
Total Service Charges	**$18.3**	**100%**

Function	FTEs	Loaded Rate	Extended
MSI-Account Management	2.1	$479,588	$ 1,007,134
MSI-Strategy Generation and Management	0.4	$314,213	$ 119,401
MSI-Financial Management	5.5	$143,325	$ 788,288
MSI-Service Portfolio Management	1.3	$165,375	$ 206,719
MSI-Demand Management	3.0	$242,550	$ 727,650
MSI-Business Relationship Management	13.0	$253,575	$ 3,296,475
MSI-Design Coordination	3.4	$220,500	$ 749,700
MSI-Service Level Management	2.0	$181,913	$ 363,825
MSI-Availability Management	1.0	$242,550	$ 242,550
MSI-Capacity Management	0.7	$242,550	$ 177,062
MSI-IT Service Continuity Planning	1.2	$181,913	$ 209,199
MSI-Security Management	6.0	$203,963	$ 1,223,775
MSI-Risk Management	9.3	$203,963	$ 1,886,653
MSI-Change Management	2.0	$148,838	$ 297,675
MSI-Change Evaluation	2.0	$148,838	$ 297,675
MSI-Release and Deployment Management	0.5	$214,988	$ 107,494
MSI-Service Asset and Configuration Management (SACM)	4.5	$165,375	744,188
MSI-Knowledge Management	4.5	$220,500	992,250
MSI-Contract Management	1.0	$286,650	286,650
MSI-Service Desk (Leaders)	3.0	$192,938	578,813
MSI-Service Desk	55.4	$44,100	$ 2,444,974
MSI-Incident Management	5.0	$44,100	$ 220,500
MSI-Major Incident Management (Leader)	1.0	$264,600	$ 264,600
MSI-Major Incident Management (Leads)	2.0	$181,913	$ 363,825
MSI-Event Management	0.5	$137,813	$ 68,906
MSI-Problem Management	3.3	$137,813	$ 454,781
MSI-Request Management and Fulfillment	3.0	$363,825	$ 1,091,475
MSI-Service Measurement	1.1	$165,375	$ 178,605
MSI-Service Provider IT Operations	1.0	$187,425	$ 187,425
MSI-Access Management (Lead)	1.0	$192,938	$ 192,938
MSI-Access Management	4.0	$44,100	$ 176,400
MSI-Continual Service Improvement	1.3	$200,559	$ 250,698
MSI-Current and Ongoing Projects and Solution Requests	2.0	$48,620	$ 97,241
MSI-Improvement Planning	1.8	$221,116	$ 386,953
MSI-IT Technology Management	0.3	$286,650	$ 85,995
MSI-On-Going Programs	2.0	$248,063	$ 496,125
MSI-Program Management Office	15.4	$248,063	$ 3,827,926
MSI-Service Catalog Management	2.0	$110,250	$ 220,500
MSI-Service Delivery Management	3.0	$330,750	$ 992,250
MSI-Technical Currency	2.5	$227,115	$ 567,788
MSI-Technical Innovation	2.0	$330,750	$ 661,500
Total	**175.8**		**$ 27,534,577**

VIRGINIA IT AGENCY

MARKET PRICING COMPARISON

A market comparison analysis to assess the cost of services against the market, consisting of government pricing data that reflects current market-based rates from Tier 1 service providers backed by service levels.

MARKET PRICING COMPARISON

	VITA	GTA	DIR
MSI Annual Charges			
Gross	$ 37,505,905	$ 32,832,427	$ 18,260,169
Less: BRMs	$ (2,440,681)	$ (7,015,617)	$ -
Less: Service Desk (a)	$ (3,023,786)	$ (3,030,000)	$ (361,496)
Net Charges	$ 32,041,438	$ 22,786,809	$ 17,898,673
MSI as % of Total Spend			
Estimated Program Spend	$ 215,662,145	$ 133,516,348	$ 223,000,000
MSI as % of Total Spend	15%	17%	8%
FTEs			
Gross	176.8	184.0	62.0
Less: Service Desk	(58.4)	(69.0)	(6.2)
FTEs less Service Desk	118.3	115.0	55.8
Program Spend			
Mainframe	$ 8,484,571	$ 9,405,126	$ 29,000,000
Server	$ 58,610,607	$ 30,141,663	$ 124,000,000
Print	$ 4,875,454	$ 5,697,738	$ 15,000,000
Security	$ 24,080,997	$ 4,242,289	$ 13,000,000
Network	$ 56,467,325	$ 61,119,999	$ -
EUC	$ 48,767,945	$ 22,909,532	$ -
Messaging	$ 14,375,247	$ -	$ -
TSS	$ -	$ -	$ 9,000,000
ADM	$ -	$ -	$ 12,000,000
Texas.gov	$ -	$ -	$ 21,000,000
Total	$ 215,662,145	$ 133,516,348	$ 223,000,000
Est. Service Desk Rate/FTE	$51,740	$43,913	$58,400
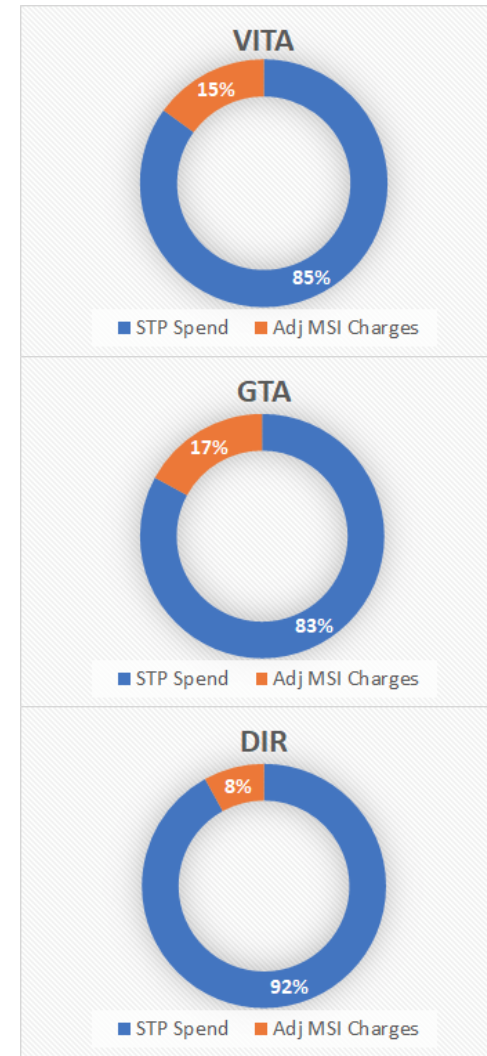
VITA
15%
85%
■ STP Spend ■ Adj MSI Charges

GTA
17%
83%
■ STP Spend ■ Adj MSI Charges

DIR
8%
92%
■ STP Spend ■ Adj MSI Charges

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BUSINESS MODEL ANALYSIS

A review of the existing pricing structure and chargeback methodology to identify anomalies, identify opportunities for improvement, and better align incentives between the stakeholders.

CURRENT MSI PRICING MODEL

| MSI Resource Unit	Contract Year 4		Metric	Banding Range	ARC/RRC Rate
Service Desk User	$ 329,655	1%	Users	25%	$ 0.21
Full Service Authorized Users	$ 24,276,971	73%	Users	25%	$ 26
Chargeback Invoices	$ 1,373,566	4%	Invoices	25%	$ 858
Suppliers Managed - Tier 1	$ 961,497	3%	Suppliers	25%	$ 6,009
Program Management FTPs	$ 2,856,546	9%	FTPs	3 FTP	$ 20,559
Business Relationship Management FTPs	$ 1,933,832	6%	FTPs	3 FTP	$ 15,310
eVA KSE Ongoing Maintenance	$ 200,003	1%	Monthly		$ 16,667
Annual fee for ServiceNow Integration Hub	$ 76,546	0%	Annual		$ 76,546
PRIV-STANDARD-USER-SAAS	$ 1,036,530	3%	Users		$ 115
Total Recurring Base Charges	$ 33,045,146	100%			
ServiceNow Integration Setup	$ 400,092		1 Time		
CyberArk Setup Costs	$ 308,610		1 Time		
Total Base Charges	$ 33,753,848				

- Current ARC/RRC model is 100% variable but requires a renegotiation if volumes breach the banding range
- Market has moved to tiered unit rates or fixed unit rates plus a fixed charge
- Authorized User RU (73% of charges) not seen as equitable by customers, doesn't account for basic or light users
- Chargeback Invoices RU has been problematic for customers that require multiple invoices

MSI PRICING ASSESSMENT AND RECOMMENDATION

Assessment

- The current RUs do not align with the MSI cost structure and the ARC/RRC model is dated
- Significant amount of MSI charges are fixed within wide range of shared service consumption
- MSI services vary across service towers and require different levels of effort (e.g., asset mgt)
- Capacity to program manage "plan-build" activities should be required and in service charges

Recommendation

- Variable charge for select services
- Charges based on % of STS spend plus FTP RUs
- RFP to request fixed charge based on current environment with instruction to convert to % prior to contract execution

Pie chart with two segments: Variable (orange) and Fixed (blue)
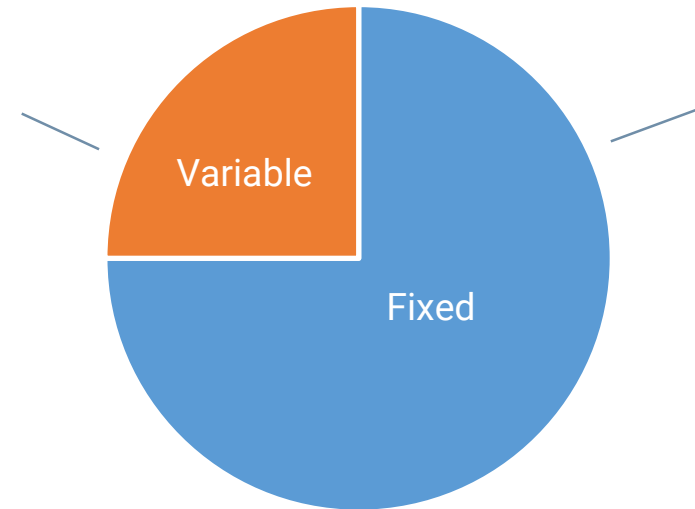
- Fixed charge for set of services
- Wide boundary to be established (~50%)
- Fixed at enterprise or tower
- Charges may vary by tower
- Methodology and parameters to price new program fixed charges to be established as part of RFP and procurement process

ALTERNATIVE MSI PRICING MODEL

- RFP charges organized by fixed, variable, and unique (e.g., FTPs, Optional Services) charges
- Similar to Base Charges, RFP will request fixed charges to support current "baselines"
  - Charges to be provided by MSI service category (e.g., Change Management)
  - MSI service categories to be designated as:
    - Enterprise – only adjusted when negotiated band is breached (e.g., 50% change in aggregated STS spend)
    - Tower – adjusted when negotiated band is breached and/or when the number of towers changes
- Variable charges in the RFP are per MSI service category but adjusted to % of aggregated STS spend
  - Aggregated STS spend normalized to exclude HSC, SSC, Transition Charges, other pass-through or 1x charges, etc.

Fixed Charges:

Enterprise:
- Account Management
- Strategy Management
- Portal / Service Catalog / Communications
- Outreach and Growth
- Change Management
- Major Incident Management
- Operational Reporting
- MSI Shared Services Systems and Processes

Tower Services:
- Event Management
- Security Management / Risk Management
- DQM / CMDB / Asset Management / SWLM
- Service Delivery and Capacity Management
- Service Level Management / Availability
- Financial Management

Variable Charges:

% of Spend Basis:
- Service Desk / Incident / Request / Access
- Cloud Management and Workflow Orchestration
- Project Management
- Service Portfolio Management
- IT Service Continuity Management
- Customer Relationship Support

FTP Basis
- Business Relationship Management (BRM)

- RFP/Contract
    - Reduce initial base term to 4 years with multiple one-year options
    - Eliminate termination charges and retain right (not obligation) to acquire assets
    - Business case opportunities:
        - Eliminate Shared SLAs and reduce earnback period
        - Build automation requirements into SOWs and remove low/no value services
    - Considerations: eliminate PPM and build COLA into Charges
- Base Case:
    - Use traditional financial base case (current spend) for agency impact analysis
    - Use financial forecast model (based on automation requirements and market research) as base case for negotiations
    - Do not release financial base case to offerors until down select to test efficiencies
- Other
    - Chargeback MSI charges to all benefitting STS services
    - Pay off transition and service evolution charges in Year 1