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Uncle Sam Snubs Sprint

Why the telco was bested by rivals like AT&T and Verizon for government contracts worth as much as \$48 billion

by [Olga Kharif](#)

Of all the things Sprint Nextel ([S](#)) now needs—and there are many—losing out on a lucrative government contract is certainly not one of them. On Mar. 29, Uncle Sam announced which companies can bid on telecommunications contracts worth as much as \$48 billion in the next decade. Missing from the list: Sprint.

The General Services Administration (GSA), the federal government's powerful procurement arm, said Verizon Communications ([VZ](#)), AT&T ([I](#)), and Qwest Communications International ([Q](#)) are eligible to bid on the government's largest-ever telecommunications contract, called Networx Universal. Sprint, off the list for the first time in 18 years, set its prices too high.

AT&T, the largest U.S. telephone company, and Qwest, the main local phone company in a dozen or so Western states, weren't part of the prior 10-year federal telecom services contract, called FTS2001, which expired in December. Each company devoted hundreds of staff to their proposals for more than two years. Along with Verizon, they now get the chance to sell their services to more than 135 federal agencies, including current Sprint customers the Homeland Security Dept. and the FBI. The announcement is "somewhat of a blow to Sprint," Jessica Zufolo, senior policy director for telecommunications and technology at Medley Global Advisors in Washington, wrote in a Mar. 29 research note.

A BAD TIME FOR SPRINT

Sprint logged \$324.7 million in revenue from U.S. agencies in the government's latest fiscal year, which ended in September, according to the GSA. While that may sound like a sliver of the company's \$41 billion in 2006 sales, the defeat could leave Sprint at a disadvantage at a time when federal telecom spending is due to jump in coming years (see BusinessWeek.com, 3/23/07, "[Why \\$80 Billion for Sprint May Make Sense](#)").

The old FTS2001 contract was worth between \$3 billion and \$5 billion, based on various estimates, a fraction of the potential value of Networx. Losing out on it "undermines [the] Sprint market position relative to their competitive peers in the government procurement arena," according to Zufolo. The defeat comes at a bad time for a Sprint plagued by subscriber defections, and facing declines in net income and free cash flow (see BusinessWeek.com, 1/10/07, "[Sprint's Subscriber Woes Deepen](#)"). "You are looking at being effectively locked out of the federal telecommunications market for several years," says John Slye, a senior analyst at federal spending consultancy INPUT. "It's pretty staggering."

Tony D'Agata, vice-president for Sprint's government systems division, puts a brave face on the snub, saying the contract

centers on "legacy offerings," such as frame relay, a form of high-speed data transmission. "Sprint is about future technologies, such as IP [Internet protocol] and wireless," he says. Analysts say Sprint can't provide the services sought by the government as nimbly as peers. The company has undergone massive restructuring involving thousands of job cuts and the spinoff of its local phone business into a separate company, Embarq ([EQ](#)). "They may have hobbled themselves in terms of their ability to meet these enormous government contracts," says Doug Williams, an analyst at consultancy JupiterResearch ([JUPM](#)). Indeed, these services "are expensive to maintain," says D'Agata. "There's not material demand."

NO IMMEDIATE IMPACT

It's not like the Networx contract is the only telecom work for the government. In May, the GSA is due to award another huge telecom contract, called Enterprise, expected to be worth up to \$20 billion. "We do feel the offerings we'll be able to provide do align well [with that contract]," says D'Agata. "We are confident we'll receive an award." Sprint believes many federal agencies will evaluate vendors on more than price. In fact, on Mar. 30, D'Agata plans to meet with many federal agency clients to persuade them to stick with Sprint.

Indeed, Sprint won't lose its existing federal revenue right away. It will take months for the federal agencies to put out requests for proposal, pitting the three winners against each other. Neither AT&T nor Qwest expects to see revenues from the deal until early 2008. Meantime, Sprint will still deliver services under a two-year bridge contract to provide telecommunications services to federal agencies until the awardees ramp up. That contract also offers three chances for agencies to extend its duration by six months each. "We really don't see much of attrition to our existing business [in the short term]," D'Agata says.

But down the road, Qwest and the other bidders could be sitting pretty—at least as concerns the government. "[The win] is a validation of a pretty discerning customer," says Tom Richards, executive vice-president for the business markets group at Qwest. Echoes Don Herring, president for AT&T's government solutions business: "It's a really important, strategic contract for us." And the players set their prices accordingly. AT&T, Verizon, and Qwest went after some 48 services, including videoconferencing, unified messaging, and satellite communications, says John Johnson, assistant commissioner for integrated technology services at the GSA's federal acquisition service. The clincher, he says: "Favorable prices."

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