

Opening Remarks for the 39th Annual Federal Networks Conference

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Good morning.

Welcome to the 39th annual Federal Networks Conference

This year, the information technology marketplace is undergoing an unprecedented transformation. The massive industry expenditures on artificial intelligence infrastructure and models are starting to deliver extraordinary capabilities while introducing unprecedented risks, and the government is paying close attention.

As the government takes its first tentative steps on the AI regulatory front, there is a near-term need to protect the government's core networks and applications from vulnerabilities, especially zero-day bugs, such as those uncovered by Anthropic's Claude Mythos. O&M processes and procedures that had been a matter of routine operational hygiene, such as patch management, have taken on a new level of urgency. They must be handled at scales and speeds that the government and their contractors have never had to deal with before. The potential impacts are orders-of-magnitude greater than those from recent generations of cyber threats, and the mitigation strategies and tactics are getting unprecedented levels of attention from top civil and defense agency leadership.

If the bad news focuses on the new generation of cyber risks, there's plenty of good news. The sudden acceleration in the pace of development of new and emerging AI capabilities is creating real, near-term possibilities for significant improvements in operational efficiency, effectiveness, visibility and control in areas including software development, IT system modernization and maintenance, offensive and defensive cyber operations, modeling, simulation, predictive analytics, command and control, and network management.

This is not just a good news/bad news story. Because AI offers the potential to be dramatically transformative in terms of both technical capabilities and operational impacts, it is also resulting in significant marketplace disequilibrium that calls into question many of our steady-state assumptions at the heart of the government's acquisition strategies and industry's processes for designing winning solutions to address the government's requirements.

The government's evaluation strategies tend to be inherently conservative. To quote well established and widely accepted evaluation language, the government is always looking for "an exceptional



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approach and understanding of the requirements”, but this is counter-balanced by their desire that “the risk of unsuccessful performance is low.” They determine the strengths of technical solutions based on proven past performance, on the use of well-documented and field-tested processes and procedures, and the selection of reliable, well-established systems and tools. The uncertainty and disequilibrium in the IT marketplace brought on recently and suddenly by the AI labs calls into question the superiority of technical solutions that have proven effective in the recent past. Many of the “black belt” processes and government procedures that help assure strong, consistent performance on today’s contracts may make it difficult to innovate at speed by applying the latest AI models to re-engineer our approaches to challenges like network modernization. And many of the platform, infrastructure, and software systems that have proven their worth in fields as diverse as enterprise resource planning, customer relationship management, financial operations, and human resource management are now at risk of becoming obsolete due to the power of AI models that enable the rapid, low-cost development and customization of tailored replacements.

The challenges brought on by the marketplace AI revolution will also require bidders to re-invent well-established strategies, processes, and tools for winning contracts. A huge part of the challenge in assessing the government’s requirements, the primary job of industry’s business development specialists, is to develop a clear understanding of the government’s practical and perceived constraints. The availability of AI tends to fragment the government’s decision-making, with some government executives and organizational components eager to leverage the transformative power of AI to achieve both dramatic cost reductions and rapid operational enhancements, while others focus on the potential disruptions and risks from AI automation. It’s the old maximin/minimax dilemma. Do you maximize the minimum returns on investment, or do you minimize the maximum potential risks and negative outcomes?

On top of the challenges for industry in requirements assessment, there’s a whole new set of challenges in solution development. AI has expanded the range and quality of technical and management solutions available to optimize mission support and modernization solutions. As the decision-space has expanded, the analysis of alternatives has grown more complex. How much optimization is too much? How do we retool operational processes and procedures to allow for greater AI decision-support and more automation? Which systems and tools are going to continue to deliver high-quality results, and which ones will fall victim to marketplace consolidation and obsolescence brought on by AI? Which architectures will work best to maximize the benefits of AI solutions?

Then we come to the executives and spreadsheet-jockeys responsible for developing pricing strategies, building price-to-win models, and putting together the price proposal. It’s hard enough to price bids in normal times. Industry is just starting to figure out how to get control over the costs for AI tokens. How

will they be able to project these costs over the life of a 5-year or 10-year government contract when the AI marketplace is so immature and unstable? The AI labs have virtually cornered the market for memory chips, resulting in extraordinary price increases for data storage. How can industry negotiate pricing with their OEMs who need to build in a buffer to account for the uncertainty of chip pricing over the life of a contract?

And for the toughest challenge of all: How to estimate the Level of Effort (LoE) required for next generation solutions that leverage AI? Greater automation and improved decision support through the application of AI should reduce the need for the number of government and industry personnel involved in more routine tasks. What basis will industry provide for claiming adequate labor hours in their staffing plans when there's so little real data to underpin fair and reasonable Level-of-Effort estimates? And what basis will government evaluators use to distinguish between proposals that make legitimate claim to improvements in efficiency by leveraging new AI technologies and those who hide behind AI to low-ball their bids?

There are no easy answers for how government and industry should navigate the turbulence that AI has introduced into the federal marketplace. The AI shock is so recent, technical developments are so fast paced, and the commercial IT markets are so unstable, that it's hard to develop strategies that won't become outdated in a matter of weeks, when the AI labs announce their next breakthroughs and the impacts ricochet through corporate America and our government and military IT hierarchies. The Federal IT marketplace has always demanded decision-making under uncertainty, but we've never experienced a time with such extreme levels of unpredictability.

First and foremost, this is a time to explore new approaches that have the potential to help our agencies, military services and departments benefit from the awesome potential from recent advances in AI, while protecting from the growing list of major risks. Let's start with the basics. We all need to get smart and stay up-to-date about how the AI marketplace is changing. On the government side, market research is a built-in requirement for every acquisition, but we need to do more than issuing a Request for Information shortly before developing an acquisition strategy and formulating a Request for Proposal. We need to make a stronger commitment to maintaining open communication between government and industry so that we can both get smarter about the growing number of technical options and how both sides are adapting to a radically changed decision space.

In addition to participating in forums like this conference, agencies should be committing more time to creating brown bag lunches, multi-vendor, in-depth briefing sessions, and site visits to assess the user experience from early commercial and government AI implementations. The government needs to hear first-hand from the OEMs and Cloud Service Providers (CSPs) who are working at a furious pace to develop new AI offerings and incorporate AI features into established products. Don't overlook the

system integrators, consulting firms, and Value-Added Resellers (VARs) who are designing and refining tools that will help with AI Governance, network and operational performance impact assessments, and FINOPS cost management optimization.

No doubt about it, the hype cycle is at the peak of inflated expectations, and industry is cranking out plenty of old IT wines in new AI bottles. If there weren't so many potential benefits – if AI didn't offer so many ways to improve decision-making, automate routine operations, protect against the sudden explosion in the number of serious new cyber threats, it might be a time to step back and let the dust settle. Instead, we should be maximizing the level and quality of communication between government and industry so the government can make better decisions during a period of marketplace turbulence, and industry can do a better job of investing their scarce resources in solution development that will deliver significantly higher levels of tangible benefits while protecting against serious new risks.

A huge challenge facing the government in this time of marketplace turbulence is the need to build frameworks to guide AI adoption. The TM Forum, for example, created a roadmap for "... building an industry standard architecture that enables self-healing, self-optimizing network domains, readying the network for autonomous "Zero-X" (zero wait, zero touch, zero trouble) operations," which they have labeled Autonomous Network Management (ANM). Their Autonomous Networks Project created "a six-step taxonomy that CSPs can use to measure their AN progress. Each level has a set of characteristics describing the evolutionary stage of the CSP's journey from fully manual to fully autonomous operations." The levels are: Manual Operations and Maintenance (Level 0), Assisted Operations and Maintenance (Level 1), Partial Autonomous Network (Level 2), Conditional Autonomous Network (Level 3), Highly Autonomous Network (Level 4), and Fully Autonomous Network (Level 5). Major players in industry are applying this framework for infrastructure management, and it's worthy of the government's attention.

Of course, the government's networks have unique requirements, including heavy duty availability, reliability, and security standards, but the ANM architecture provides a useful model to help us refine and standardize our approaches to network modernization. This would help the government accelerate development of its acquisition strategies, reduce the time needed for developing RFPs, improve the quality of proposals, and establish more consistent standards for post-award contract management.

I would like to end with the question: Is an expanded, in-dept government/industry dialog on the rapidly evolving AI marketplace worth the effort? The government is working under serious constraints these days, with fewer personnel available to perform critical technical, operational and acquisition functions. Should they leave the effort to the CDAO and the Chief Data and AI officers? Much of industry is under similar constraints, with companies cutting back on payroll and investing in AI products and application development. Should they leave the work to their Chief Technology Officers?

You may have guessed that my answer to both questions is no – we can't leave this to the CDAOs and CTOs. The turbulence in the IT marketplace brought on by the rapid acceleration and commercialization of capabilities from the AI labs offers the potential to transform every aspect of government and military operations and every segment of industry that supports them – for better and for worse. The AI revolution has brought our technology from the back offices and rear echelons to the front lines of delivering service-to-the-citizen and conducting military and peacekeeping operations.

We need to be all in, on the government, military, and industry sides, to figure out where we can and should draw the lines between autonomous and human-in-the-loop operations, between hype cycle claims and real capabilities, between leveraging new AI tools to build streamlined, optimized program management organizations and risky hollowing out of mission-critical support and delivery teams.

The steps that I have recommended, mostly focusing on greater participation by both sides in the federal acquisition market research process, will require a significant investment of time and resources on both the government and the industry sides. We have to add to this the increased burden that will be involved not only in preparing and evaluating proposals leveraging AI technologies, but the additional post-award levels of effort that will be required on both sides to get results. An August 21st article in the Wall Street Journal mentioned the 9-9-6, "referring to founders who post online about working 9 a.m. to 9 p.m., six days a week." This wasn't referring to the effort required to build new AI applications, but the effort required supporting those who are using the AI applications.

So even though we're targeting technologies that will save time by automating coding, eliminating much of the time required for performing routine processes, and shortening analysis of complex data sets to identify action alternatives for important tasks like root cause analysis, it will take both industry and government dedicated time, intense focus, and loads of effort sweating the details to get targeted results. We will need to leverage the enterprise level agencies with the heft of DISA and GSA who have the engineers and acquisition specialists to do the heavy lifting needed to minimize the load on end user agencies, services, and department. But, as I have said, we're all in this together, and, despite the power of AI technologies, we can't outsource our brains or our decisions, and we can't dodge our responsibility to navigate today's turbulent markets to deliver meaningful results for the American people.

Thank you.

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