EXECUTIVE OVERVIEW

Federal Government Professional Services Market 1985-1990

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To Our Clients:

This summary is an excerpt from a full research report, Federal Government Professional Services Market, 1985-1990 issued as part of INPUT's Federal Information Systems and Services Program (FISSP). A complete description of the program is provided at the end of this Executive Overview.

If you have questions or comments about this report, please call INPUT at (415) 960-3990 and ask for the Client Hotline.

REPORT ABSTRACT

INPUT believes that the federal market demand for professional services will continue to sustain a 19% average annual growth rate in the 1985-1990 forecast period. This market is now expected to increase from $2.8 billion in 1985 to $6.8 billion by 1990.

The federal professional services market has become increasingly competitive in the past few years, with substantial pressure from small business and minority-owned firms as well as aerospace firms. In addition, the market continues to be highly price sensitive, with progressively narrower margins and more tightly controlled overhead. The professional services portions of the report analyzes agency plans for the future use of professional services. The report also discusses vendor status, future market plans, and selection criteria; vendor performance characteristics; contracting policy and preference; and major contract opportunities in this period.

The revised report now includes INPUT's analysis of the federal software and related services market, which is expected to sustain a 20% average annual growth rate in the forecast period. The combination of programming and analysis and software products should increase from $1.4 billion in 1985 to $3.4 billion in 1990. The federal agencies expect the demand for mission-oriented software to grow faster than general purpose software. Both civil and defense agencies believe that contract software maintenance will increase for both custom and packaged software products.

OVERVIEW CONTENTS

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A. OVERVIEW

- The federal government professional services market prospects for the remainder of the 1980s continue to be strong. The need for the government to steadily improve both the quality and quantity of ADP-supported services presents a unique opportunity for growth.

    - The federal workforce is heavily committed to maintaining existing software systems and inadequately staffed to develop new systems.

    - Pressure to reduce the federal budget deficit makes efficiency and innovation a key factor.

    - Executive directives require federal agencies to utilize contractors, rather than perform the work in-house, if this is proven to be cost-effective. An example is OMB-A-76.

    - Technology, particularly in the area of microprocessor hardware and software, is advancing at a rate that requires the importation of expertise to solve problems.

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EXHIBIT II-1

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STRONG PROFESSIONAL SERVICES MARKET PROSPECTS

- Federal Commitment to Maintain Existing Software
- Pressure to Increase Efficiency
- Directives to Use Contractors
- New Solutions Through Technology

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B. MARKET FORECAST: PROFESSIONAL SERVICES

- INPUT estimates that the federal government professional services market will increase from $2.8 billion in 1985 to $6.8 billion by 1990, at an average annual growth rate of 19%.

  - The growth rate will be fairly constant throughout each of the years.

  - Reductions in maintenance costs resulting from the upgrade of existing ADPE inventory and standardization of higher level languages will probably not have a significant impact during the forecast period.

- The fastest growing category is that of education and training for both professional staff (such as programmers and analysts) and user staff. Many users are being exposed for the first time to computer systems (personal computers, departmental computers, and information centers) that allow them to develop their own applications. Users are in need of a great deal of training in the startup and continuing operation phases.

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EXHIBIT II-2

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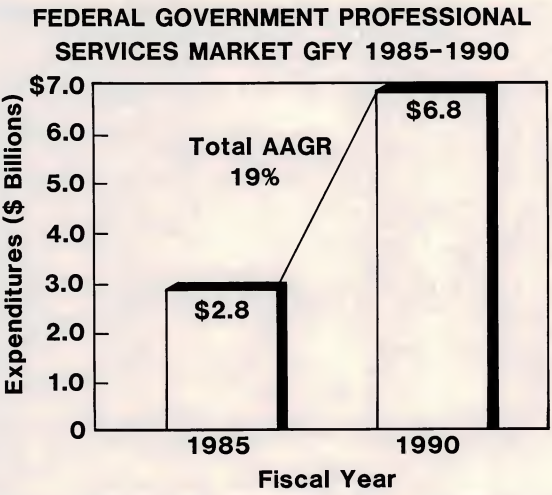

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C. MARKET FORECAST: SOFTWARE AND RELATED SERVICES

- Of the \$8.4 billion in contracted inforamtion technology services listed in the proposed GFY 1986 budget, INPUT estimates that \$1.4 billion will be expended for software and related services. By 1990 these expenditures will have grown to \$3.4 billion, an average annual growth rate of 20%.

- Approximately 70% of the 1985 expenditures will be for contract programming. The remainder will be for "off-the-shelf" software products.

- Forty-four percent of the expenditures will be for applications software, with the remainder for systems software (27%) or contract maintenance (29%).

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EXHIBIT II-3

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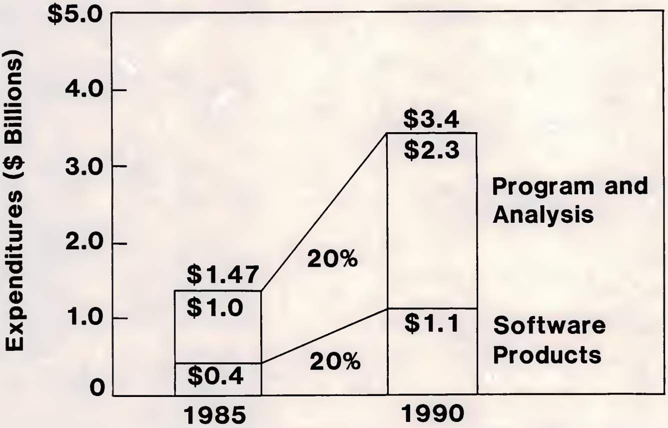
FEDERAL GOVERNMENT MARKET SOFTWARE AND RELATED SERVICES



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D. COMPETITIVE FORCES

- The federal government professional services market has become increasingly competitive in the past few years, with substantial pressure from small business and minority-owned firms as well as aerospace firms like Martin Marrietta, Boeing, McDonnell Douglas, and Lockheed.

- The professional services market has become highly price sensitive. The winners are working with progressively narrower margins, more tightly controlled overhead, and reduced management structures.

- Bid selection reviews now require in-depth presolicitation intelligence gathering and earlier executive management involvement. Companies that have failed to accurately assess their prospects for winning have found themselves wasting proposal budgets on increasing numbers of failures.

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EXHIBIT II-4

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COMPETITIVE FORCES

- New Competitors
  - Small Businesses
  - Minority-Owned Firms
  - Aerospace Companies
- Price Sensitivity
- Presolicitation Intelligence

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E. AGENCY AND VENDOR RANKINGS OF SELECTION CRITERIA DIFFER

- INPUT recommends that vendors assist potential agency customers with their missions, functions, and problems. Vendors should not modify the problem to meet an available solution.

- INPUT recommends that vendors improve their pre-bid and proposal strategic planning to increase award prospects. They must become more aware of what the federal government is seeking in a professional services vendor and adapt strategies to match.

    - There are significant differences of opinion as to the relative importance of vendor characteristics.

    - Government agencies consider support a very important characteristic. Vendors considered it the least important.

    - There are other significant differences shown in the table. These differences should be examined in more detail by each vendor. For example, hardware experience is much more important for DoD agencies than it is for vendors.

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RELATIVE IMPORTANCE OF PROFESSIONAL SERVICES VENDOR CHARACTERISTICS

Comparative Rankings		
Civil Agencies	**DOD Agencies**	**Vendors**
Staff Experience	Price	Applications Experience

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F. MARKET OPPORTUNITIES

- Several trends in federal government acquisition and application of information services are apparent and supported by the present administration. End-user computing, employing a range of personal computers and small business minicomputers, will experience strong growth.

- The education and training area presents a substantial opportunity to qualified vendors. However, this is a highly specialized, price-competitive area and should only be entered if the vendor has a good understanding of the vagaries of producing quality educational courseware.

- The leading software application prospects are graphics and office automation, both packaged and customized, with potential for continued growth throughout the remainder of the decade.

- The trend away from custom development and away from one-of-a-kind, nontransferable applications has created an opportunity for federal government professional service vendors who can make efficient use of software tools and other means of reducing software costs. Vendors must now make use of state-of-the art development methodologies, such as self-documentation, embedded DBMSs, prototyping, work-benches, etc.

- Software productivity tools and aids represent an area of growing importance in the federal sector. With much attention on cost efficiency, agencies will be looking for software that will make the jobs of developing, integrating, using, and maintaining easier. Vendors must, however, expect to spend a considerable effort in educating agencies on these tools and on their applicability to the agency's ADP objectives.

- INPUT recommends that vendors who have expertise in hardware or software maintenance plan to take advantage of projected increases in these areas. Although maintenance services are omitted from market figures, the research did investigate the hardware maintenance issues.

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EXHIBIT II-6

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MARKET OPPORTUNITIES

- End-User Computing
- Education and Training
- Graphics and Office Automation Software
- Cost Effective Custom Development
- Software Productivity Tools

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G. RECOMMENDATIONS

- INPUT recommends that vendors identify the conditions under which they can accept fixed-price contracts since the federal government has a growing preference for fixed-price contracting, a trend that shows no sign of reversal.

- INPUT recommends that vendors guard to protect their reputation when doing business with the federal government. This factor was considered to be extremely important to government agencies, especially the civil agencies, in their evaluation and selection of a vendor. In fiscal 1984, nearly 200 companies were debarred or suspended from doing business with the federal government.

- INPUT recommends that vendors emphasize their marketing in areas that are politically popular. In election years, Congress reacts to programs that gain or hold votes.

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RECOMMENDATIONS

- **Know Your Risk Levels**
- **Protect Your Reputation**
- **Market the Politically Popular**

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FEDERAL GOVERNMENT PROFESSIONAL SERVICES MARKET, 1985-1990

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FEDERAL GOVERNMENT PROFESSIONAL SERVICES MARKET, 1985-1990

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Federal Information Systems and

Billions of dollars will be spent by the federal government on information systems and services during the next few years.

The majority of those dollars will go to vendors who know enough about federal procurement practices to sell effectively in the government marketplace — who can penetrate the incredible maze of different agencies' plans and policies and *make it work for them.*

INPUT's Federal Information Systems and Services Program (FISSP) can help your company penetrate that maze.

The program includes detailed reports, data base access, and guidance from experienced Washington consultants to help you identify and track major procurements from the time they are conceived to their eventual award or cancellation.

With this kind of market research support and objective information on field activities, you avoid the dead-ends in the federal maze. Your sales force is more effective, and you get the best possible return on the money and energy you invest in bidding on government contracts.

Tactical Planning and Sales Support

INPUT's FISSP is the only subscription service that gives you:

- **Contract Intelligence** — INPUT tracks the major contracts for information systems and services (including information on duration, type, options, etc.), and helps you identify your competition.
- **Demand Forecasts** — The program gives you an accurate forecast of information systems and services demand by agency *and* by type of service.
- **Expenditures Trends** — FISSP includes data on the information systems expenditures of specific agencies, categorized by type of system or service.

In short, INPUT's FISSP is an invaluable tool for those companies serious about selling in the federal marketplace.

Procurement Intelligence

The backbone of the program is a series of *Procurement Analysis Reports* that analyze more than 350 major information systems and services acquisition plans of executive agencies over the next five years. These acquisitions include multiple procurements and will account for over $11 billion this year.

For each procurement plan, the report pinpoints:

- Size and timing of projected awards;
- Competitive environment;
- Background of the acquisition;
- Impacts of related contracts;
- Future demand for software, hardware, telecommunications, training, site preparation/operation, maintenance, and management.

Specific Market Intelligence

The program also provides a series of five reports on specific federal information service mode markets:

- **Systems Integration Report** — Includes both integrated systems and systems integration services.
- **Processing Services Report** — Covers primarily RCS, including that portion under TSP. Also covers user services hardware systems, and forecasts directions of TSP through 1985 and 1986.

- **Professional Services Report** — Covers I.V. & V. (independent verification and validation), software and hardware maintenance, and site preparation, as well as programming and analysis, consulting, education/training, and code conversion.
- **Facilities Management Report** — Covers both the prime and major subcontract positions, including TPM, for processing facilities management (COCO: contractor owned, contractor operated) and professional facilities management (GOCO: government owned, contractor operated).
- **Embedded Systems Report** — Includes software and hardware for field-deployable mission-essential systems.

These reports zero in on particular vendor opportunities, and include analyses of: major competitors in each agency; contracting trends; agency selection criteria and preferences; agency plans to replace existing resources; impacts of new technology, and more.

Continuous Research Support

In addition to these publications, INPUT provides four kinds of ongoing research support:

- **Hotline Inquiry Service** — If you have a question related to a procurement in the government marketplace, the Hotline staff will give you rapid and accurate response.
- **Data Base Access** — If you need to see the original information we use in our reports, you can review our data base of agency interviews. Only program subscribers have this privilege.
- **Library Access** — The Washington office of INPUT has an expanding library of information on federal procurement activities that you can use at any time.
- **Company Data Base Access** — FISSP subscribers will be able to tap INPUT's proprietary data base of over 4,000 companies for subcontractors to perform tasks for major procurements.

Client-Directed

To ensure that this massive data gathering and analysis operation is giving you the answers *you* need, on the questions crucial to *your* success, INPUT management will meet with you each June to decide on the research program for the following year.

Answers

Who are the major competitors for contracts in any given program?

Which Defense programs will be affected by the congressional mandate on buying, rather than leasing, automated data processing equipment?

For any given new information system, which software language will be required?

Which Small Business firms have experience in this system's functional area?

Only INPUT can give you the answers to these and a host of other questions about specific activities in the federal information systems and services marketplace.

Only INPUT's interview and document research program is comprehensive, penetrating, and completely reliable.

Reap the benefits. See the enclosed authorization form or give us a call today.

About INPUT

INPUT provides planning information, analysis, and recommendations to managers and executives in the information processing industries. Through market research, technology forecasting, and competitive analysis, INPUT supports client management in making informed decisions. Continuing services are provided to users and vendors of computers, communications, and office products and services.

The company carries out continuous and in-depth research. Working closely with clients on important issues, INPUT's staff members analyze and interpret the research data, then develop recommendations and innovative ideas to meet clients' needs.

Clients receive reports, presentations, access to data on which analyses are based, and continuous consulting.

Many of INPUT's professional staff members have nearly 20 years' experience in their areas of specialization. Most have held senior management positions in operations, marketing, or planning. This expertise enables INPUT to supply practical solutions to complex business problems.

Formed in 1974, INPUT has become a leading international planning services firm. Clients include over 100 of the world's largest and most technically advanced companies.

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