

## *Information Technology: Selling to the U.S. Federal Government*

- **DOD spending on commercial services to remain over 2 1/2 times DOD hardware and software spending!** Between FY1989 and FY1994, spending on hardware and software (capital investment) and spending on commercial services declined, but at very different rates. Hardware and software purchases declined by 5.5% while commercial services spending declined by over US\$1 billion, a decrease of 18.1%. During the next five years, both markets are expected to increase slightly. In FY1999, DOD purchases of commercial services are forecasted to total almost US\$5 billion, over two and a half times greater than DOD total spending of US\$1.9 billion on hardware and software.

- **Equipment leasing no longer considered an option by DOD.**

In FY1989, the DOD leased US\$188 million worth of hardware and software, representing 2.3% of all DOD contracting obligations. In FY1999, however, the equipment leasing is forecasted to be only US\$38 million or half a percent of all contracting obligations. It seems clear that the DOD no longer considers equipment leasing to be an option.

**Table 6: Breakdown of Civil Agency IT Budgets -- FY1989 to FY1994**

(in millions of constant 1994 US\$)

Fiscal Year	In-House	% of Total	Contracted-Out	% of Total	Total	% Change
1989	\$3,199	24.0%	\$10,135	76.0%	\$13,334	N/A
1994	\$3,894	24.8%	\$11,828	75.2%	\$15,722	17.9%
1999	\$3,755	23.2%	\$12,421	76.8%	\$16,176	2.9%

- **Growth in civil agency contracting opportunities to exceed the growth in their budgets.**

As noted above, the growth in the civil agency IT budgets is forecasted to slow significantly to only 2.9% during the next five years. During that period the in-house obligations are actually expected to decrease. However, contracting obligations are expected to increase faster than the IT budgets, to over US\$12.4 billion in FY1999, an increase of 5.0%.

**Table 7: Breakdown of Civil Agency Contracting Obligations -- FY1989 to FY1999**

(in millions of constant 1994 US\$)

Fiscal Year	Capital Investment	% of Total	Commercial Services	% of Total	Equipment Lease	% of Total	Total	% Change
1989	\$3,082	30.4%	\$6,493	64.1%	\$560	5.5%	\$10,135	N/A
1994	\$3,991	33.7%	\$7,489	63.3%	\$348	2.9%	\$11,827	16.7%
1999	\$4,126	33.2%	\$7,974	64.2%	\$321	2.6%	\$12,421	5.0%

- **Capital IT acquisition strongest in the civilian agencies.**

During fiscal years 1989-1994, civilian hardware and software purchases (capital investment) gained significantly on the civilian commercial services market, gaining 4.1 percentage points. While the forecast for FY1999 suggests that spending on hardware and software will lose some of the gains it made during the previous five year period, it will still account for 33.2% of all civilian agency contract obligations. This compares to the DOD hardware and software spending which, in FY1999, will only account for 27.2% of all DOD contract obligations.