Prime Contracts

Many firms new to the federal IT market assume that their success will hinge solely on their ability to win prime contracts. Table 9 proves that this is, in most cases, incorrect. The top 15 federal IT companies won 42% of the federal IT market in FY1994. The next 85 firms enjoyed a market share of 31%. Therefore, the top 100 IT firms control almost 75% of federal IT prime contracts (subcontracting provides an excellent opportunity to develop significant federal business - see below). They are huge firms, usually systems integrators, collecting revenues in the billions of dollars. Their advantage is size. They are able to devote the extensive resources (labour, time, and money) that are needed to win and deliver on huge, complex, multi-million dollar government contracts. The contracts often involve developing and implementing complete information systems on a giant scale. Very few firms can compete with the size and resources of the top 100. Unless you team with the top 100 (see "Subcontracts," below), you should expect to enter the federal IT market in the *middle class* (sandwiched by the top 100 prime contractors and the 8(a) firms). For most firms, then, the prime contracting government sales channel provides access to the middle class portion of the market; 2500 small to medium-sized businesses competing fiercely for the remaining US$5 billion worth of prime contracts or 20% of the federal IT market.

Pros
- This channel represents 20% of the market.
- A well developed marketing strategy and a sufficient investment of resources into procurement proposals can result in a substantial payoff.

Cons
- Fierce competition means that winning prime contracts involves investing lots of time, labour, and money into the effort.

Subcontracts

Fortunately, the 75% of the market controlled by the top 100 is accessible to smaller companies. The large size and complex nature of the federal contracts won by the top 100 requires that a substantial portion of the work be subcontracted. Subcontracting, then, provides a channel for smaller companies to gain access to the almost US$20 billion controlled by the top 100 firms. In addition, teaming with *middle class* firms with complimentary needs can increase your firm's share of the over US$5 billion controlled by the *middle class* (2500 firms).

The prime is ultimately responsible for ensuring that the contracted work meets certain minimum standards and is delivered on time. However, since subcontracting provides access to such a large portion of the market (84% market-coverage) and can offer substantial dividends, competition is just as fierce among subcontractors as it is among primes. Winning a subcontracting agreement involves investing considerable resources into marketing to the prime contractor and government end-users and often requires making huge concessions to the prime. Since the prime contractor has already invested extensive resources into winning the contract, it will usually pass many of its responsibilities and risks to the subs. In addition, and maybe most important, since a subcontracting agreement is not entirely binding, since it is only a *gentlemen's* commercial agreement, primes often *swap-out* one or more of their subcontractors for a better offer; a process called *technology refresh* (explained on page 28). Obviously, subcontracting involves as many, if not more risks, than any other government sales channel, but it also offers the highest potential returns.

Pros
- This channel provides 84% market coverage.
- Subcontracting provides access to the big government contracts that large primes know how to win.
- The potential payoff is huge.