

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

federal government, the contracting obligations are the federal IT market. Between FY1989 and FY1994, federal government IT contracts increased by almost US\$400 million, or 2.2%. During this period, contracting obligations increased at approximately the same rate as the total federal IT budget. However, between FY1994 and FY1999, contracting obligations are forecasted to increase by US\$775 million, or 4.2%. This is seven times faster than the rate of growth of the total federal IT budget (0.6%). As a result, the contracting obligations' share of the federal IT budget will increase from 72.4% in FY1994 to 75.0% in FY1999.

Table 2: Breakdown of Federal Contracting Obligations -- FY1989 to FY1994
(in millions of constant 1994 US\$)

Fiscal Year	Capital Investment	% of Total	Commercial Services	% of Total	Equipment Lease	% of Total	Total	% Change
1989	\$5,046	27.8%	\$12,334	68.0%	\$748	4.1%	\$18,128	N/A
1994	\$5,846	31.6%	\$12,274	66.3%	\$401	2.2%	\$18,521	2.2%
1999	\$5,993	31.1%	\$12,944	67.1%	\$359	1.9%	\$19,296	4.2%

Table 2 breaks down the total federal contracting obligations into three categories: capital investment, commercial services, and equipment lease. Capital investment consists of hardware and software purchases. Commercial services are professional services, operation and maintenance services, studies, and communications services. Equipment lease is, of course, the leasing of hardware and software.

• **Capital investment growth slows, while commercial services rebound.**

Between FY1989 and FY1994, capital investment experienced significant growth of 15.9%. Commercial services, on the other hand, declined slightly by 0.5%. However, during the next five years commercial services are forecasted to grow much faster than capital investment. In FY1999, federal purchases of commercial services will be over US\$12.9 billion, an increase of 5.5%. Federal purchases of capital investment will total almost US\$6 billion, a five year increase of only 2.5%. **The federal commercial services market will remain over twice the size of the capital investment market.**

• **Decline of equipment leasing slows, but continues.**

During fiscal years 1989-1994, equipment leasing declined by almost half. In 1994, it accounted for only 2.2% of all federal contracting obligations. During the next five years, equipment leasing will continue to decline. In FY1999, it will only total US\$359 million, representing 1.9% of federal contracting obligations.

Table 3: Comparison of DOD and Civil Agency IT Budgets -- FY1989 to FY1994
(in millions of constant 1994 US\$)

Fiscal Year	Defense	% of Total	Civil	% of Total	Total	% Change
1989	\$11,782	46.9%	\$13,334	53.1%	\$25,116	N/A
1994	\$9,862	38.5%	\$15,722	61.5%	\$25,582	1.9%
1999	\$9,560	37.1%	\$16,176	62.9%	\$25,736	0.6%