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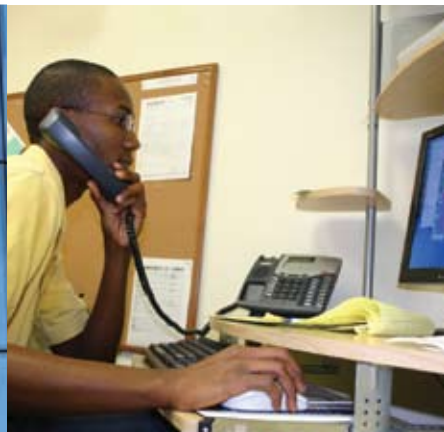
STRUCTURE AND DYNAMICS OF THE U.S. FEDERAL PROFESSIONAL SERVICES INDUSTRIAL BASE 1995-2009

DEFENSE-INDUSTRIAL INITIATIVES GROUP





Structure and Dynamics of the U.S. Federal Professional Services Industrial Base 1995–2009

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Acknowledgments

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Executive Summary

The U.S. government has a permanent and growing reliance on contracts with the private sector for a wide range of professional and support services. For the past five years, the CSIS Defense-Industrial Initiatives Group has tracked the trends driving the professional services industry since 1995. To account for the effects of inflation over this increasingly wide range of years, for the first time all dollar figures, with the exception of thresholds used to judge contract size, are in 2009 dollars.[1] This report analyzes the trends through 2009, the most recent year for which reliable data from the Federal Procurement Data System (FPDS) are available.

On the basis of this analysis, we conclude that the some of the macro trends of the past decade continued in 2008 and 2009. Since 2007, professional services contracting increased by about $30 billion, or some 12.5 percent, and it now stands just shy of $280 billion. Most of that rise occurred between 2008 and 2009. In fact, 2008 was the lowest point for professional services contract spending in the 1995–2009 time frame, as spending for professional services accounted for only 47 percent of total federal contract spending. Following renewed growth in 2009, professional services again accounted for a majority of federal contracting, at 52 percent of value.

Looking further back—the past 15 years (1995–2009)—we can see that the professional services industry expanded at a compound annual growth rate (CAGR) of 5.2 percent per year, from $137 billion in 1995 to $280 billion in 2009 [ ]. The past five years match this trend (5.0 percent) although they represent a slowdown from the 11.1 percent CAGR from 2001 to 2005.

On the policy level, recent years have witnessed a growing awareness on the part of policymakers of the industry's magnitude and importance. Congress, the media, and voices inside the executive branch have raised significant policy questions about the government's reliance on, and the roles of, private sector contractors. These policy concerns continued in 2010.

Contract Vehicles

This year's report integrates its coverage of award vehicles and indefinite delivery vehicles (IDVs) to provide a more complete picture of government contract vehicles used in the professional services sector. During the past 15 years, IDVs experienced a remarkable 13.3 percent CAGR and since 2006 have accounted for a majority of all professional service contract dollars. During the past five years, multiple-award indefinite delivery contracts (IDCs) have become a favored form of IDVs and now distribute $47.1 billion of contract funding compared with only $1.9 billion in 1995 [ ]. Growth in multiple-award IDCs has

1 2009 dollars are calculated using the implicit gross domestic product deflator from the U.S. Bureau of Economic Analysis.

remained robust in the last five years, achieving a 16.8 percent CAGR for contract value and a 13.6 percent CAGR for number of contract actions.

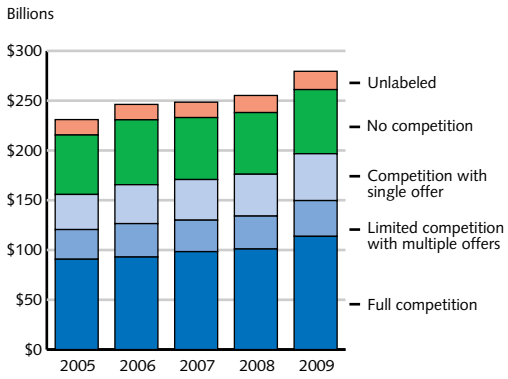
Contract Funding Scheme

We also assessed contract data by funding scheme: fixed price compared with cost based. Fixed-price contracts have experienced robust annual growth (by value) of 4.7 percent during the past 15 years compared with a slower 2.7 percent CAGR for cost-reimbursement contracts (by value). In the past five years, value growth for both types slowed, and the cost-reimbursement category's annual 2.7 percent growth has overtaken fixed-price contracts' anemic 0.9 percent CAGR. In the past five years, labor hours and time and materials contracts have done a bit better, with a 4.3 percent CAGR. The biggest growth has been in contracts that use a mix of funding schemes, called combination contracts; they have gone from no value in 1995 to more than $30 billion in 2009 [ ].[2]

Competition

In addition to contract vehicle and funding schemes, we categorized contract actions by the amount of competition held for their awards. The largest category, at nearly $114 billion in contract value in 2009, is awards with full and open competition involving at least two offers (which we refer to as "full-competition awards"). Limited-competition with multiple offers awards, which are not fully and openly competed, stood at more than $36 billion in 2009. Approximately $47 billion went to contracts that were competed but received only a single offer. The value of awards without competition (which we refer to as "no-competition awards") stood at $65.6 billion in 2009, with growth concentrated in awards that use the Federal Acquisition Regulation 6.302-1 uniqueness-based exceptions to justify the absence of competition.

Levels of Competition for Services Contract Actions, 2005–2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Contract Value

With the number of contract actions growing faster than the value of contracts awarded, the average value of contract actions has decreased from $518,000 in 1995 to $242,000 in 2009 [ ]. The value of the average contract has also dropped from nearly $1.5 million in 1995 to $373,000 in 2009 [ ]. The decline can be partly attributed to the inclusion

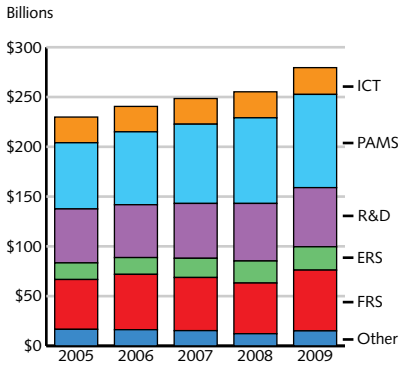
2 The amount for 2007 does not include some 2.3 million contract actions awarded by the Department of Veterans Affairs for rental of medical equipment, which would have drastically skewed the analysis. See full report for additional details.

of smaller contracts by FPDS after fiscal year 2003. In a reversal of a long-standing trend, the average values rose sharply in 2009 and now exceed the averages seen in 2005.

Market Segments

The fastest-growing segments during the past 15 years were professional, administrative, and management services (PAMS) and information and communications technology (ICT) services, with a 9.2 percent and 7.7 percent CAGR, respectively. During the past five years, however, the PAMS segment maintained a CAGR of 9.0 percent whereas the ICT segment dropped to only 1.0 percent. The equipment-related services (ERS) segment, likely driven by support for operations in Iraq and Afghanistan, became the second-fastest-growing segment in 2005–2009 (8.8 percent CAGR) although the compound annual growth over the entire 15-year period for this sector was only 4.5 percent.[3]

Services Contract Spending, by Segment, 2005–2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

PAMS

By far the largest segment within the federal professional services industry, PAMS accounted for $93.6 billion worth of contracts in 2009, up from $27.4 billion in 1995 [ ]. Given its large size and high growth rate, the PAMS segment is likely to remain the largest in the industry. It is also the segment that is drawing significant policy interest as the one with services most similar to those also provided by the federal government workforce. It is also worth noting that PAMS is the category where mid-tier companies win the greatest share of contracts (37 percent).

ICT

ICT services grew rapidly from $9.6 billion in 1995 to $26.9 billion in 2009 [ ] with a 15-year CAGR of 7.7 percent, although the annual growth rate during the past five years has been a mere 1.0 percent. The ICT sector is one of the biggest users of IDVs, with 85 percent of contract dollars assigned through such mechanisms and notably large shares going to specialized vehicles (Federal Supply Schedule contracts [FSSs], government-wide acquisition contracts [GWACs], blanket purchase agreements [BPAs], and basic ordering agreements [BOAs]). Small-business contractors win 27 percent of the market share in this category. This may be due to set-asides being aggressively used, as ICT makes heavy use of limited competition with multiple offers (19 percent market share).

3 A closer examination and more detailed analysis of the market segments will be available in a follow-on CSIS report planned for early 2011.

R&D

R&D, which accounted for $59.4 billion in 2009 compared with $35.7 billion in 1995 [ ], is a fairly specialized category as 71 percent of contract value is distributed through cost-reimbursement funding schemes, large companies have a 70 percent market share, and 66 percent of dollars use modified definitive contracts. Along with ICT, relatively few (31 percent) R&D contracts receive full competition, while a comparatively larger percentage are not competed under the FAR 6.302-1 uniqueness exception. Taken together, these facts suggest that R&D customers are highly dependent on a comparatively small number of contractors that have substantial revenues from other sources.

ERS

The ERS segment has grown from $12.7 billion in 1995 to $23.4 billion [ ] in 2009, with wartime purchasing by the Department of Defense (DOD) being the main driver. Large companies win 63 percent of ERS's market share, which is perhaps encouraged by the relatively high (43 percent) use of single-award IDC vehicles. In contrast, 43 percent of ERS dollars are fully competed, second only to facilities-related services (FRS) in percentage terms, which suggests that manufacturers have not entirely captured the follow-on services market.

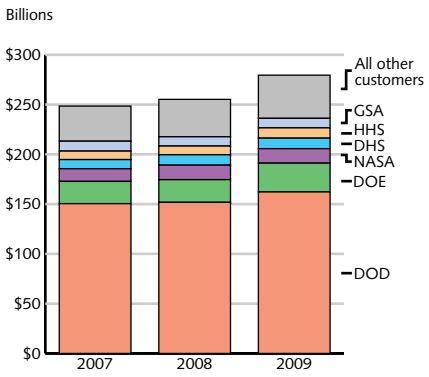
FRS

FRS, which grew to $61.0 billion in 2009—from $43.0 billion in 1995 [ ]—is the second-largest segment and the only one to be dominated by civilian spending. The Department of Energy (DOE) is a major buyer and heavily uses fully competed, cost-reimbursement funding schemes, modified definitive vehicles, and large contractors. Despite this, the majority of FRS dollars are assigned through fixed-price funding schemes, which suggests that non-DOE buyers of FRS use such mechanisms almost exclusively.

Government Customers

DOD remains the biggest procurer of professional services, accounting for nearly 60 percent of total federal dollars spent on professional services in 2007, 2008, and 2009. Another stable trend during the past three years has been that the DOD, DOE, and NASA have remained the top three government agencies in terms of value of professional services contracts awarded; they continue to account for just under three-quarters of the federal professional services market.[4]

Services Contract Spending, by Government Customer, 2007–2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

4 CSIS is planning a series of reports examining contract spending of top government customers. The first of these reports on DOD contract spending, for both products and services, is expected to be out in early 2011.

DOD

Spending $162 billion on professional services in 2009, the DOD is such a dominant customer that overall government trends tend to reflect DOD spending habits for statistical reasons. DOD dollars use a mix of vehicles, tend to be competed, and go to large contractors more often than not. The main exception to the similarity with the overall market is the FRS category, where DOD has less than a 35 percent market share. The situation is reversed for ERS, where DOD accounts for 90 percent of all spending. The other notable variance is that 16 percent of DOD contract awards use a combination contract funding scheme while the highest percentage for the large civilian customers is only 6 percent.

DOE

The DOE is the most consistent major government customer in terms of how it spends its professional services budget (nearly $29 billion in 2009): 95 percent of its contracts are modified definitive contracts, 83 percent of its budget goes to large contractors, and 77 percent of its budget is spent on FRS. In addition, some of its largest contractors work almost exclusively for DOE. For acquisitions reformers, DOE presents a mixed bag: 71 percent of its contract dollars were awarded using full competition; however, nearly 96 percent of these dollars were awarded as cost-reimbursement contracts, with only 13 percent of total dollars going to cost-plus-incentive-fee schemes.

NASA

The National Aeronautic and Space Administration (NASA) spends the majority of its professional services budget ($14.5 billion in 2009) on modified definitive contracts (72 percent), cost-reimbursement contracts (74 percent), and large contractors (62 percent). NASA devotes more than half (52 percent) of its dollars to R&D, with PAMS coming in a distant second at 29 percent. Of the biggest three civilian customers, NASA uses some form of competition for the smallest percentage of its contract spending (50 percent); however, a solid majority of the spending is fully competed when NASA uses competition. NASA's rate of competition is lower than that of the Department of Homeland Security (DHS) and the Department of Health and Human Services (HHS) only because it spends fewer dollars via limited competition.

DHS

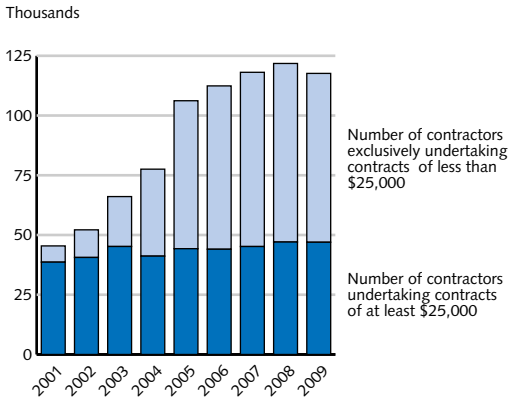
Perhaps because it was created by amalgamating many existing agencies, DHS does not have pronounced spending patterns for its $10.6 billion in professional services contracts. Unlike the big three government customers, only 13.1 percent of its contract dollars use any form of definitive contracts; instead, a range of IDVs is favored. Cost-reimbursement contracts are similarly uncommon (17 percent), with contract dollars instead going to fixed-price (40 percent) or to time and materials or labor hours contracts (21 percent). In another atypical trend, large contractors get only 38 percent of DHS's contractor dollars, with mid-sized contractors slightly edging out small ones. Finally, DHS has the highest percentage of competition with a single offer (27 percent) and the lowest aggregate percentage of full competition and limited competition with multiple bidders (44 percent). This may understate the level of DHS competition because a breathtaking 20 percent of the total value of DHS professional

services contracts lack key information about competitive procedures and the number of offers received.

Industrial Base

The number of organizations in the professional services industrial base remained almost unchanged, at 45,000 contractors, between 1995 and 2001. Between 2001 and 2009, however, the total number of contractors in the industry increased from nearly 45,000 to slightly fewer than 118,000 entities. A more detailed analysis of the contract base reveals that most of the growth has come from the entry of contractors undertaking small (under $25,000 in current dollars) contract actions. Between 2008 and 2009, however, the number of small contractors participating in the market dropped off for the first time in more than a decade as many suffered in the changing economic climate or were acquired by larger organizations.

Number of Contractors, 2001–2009

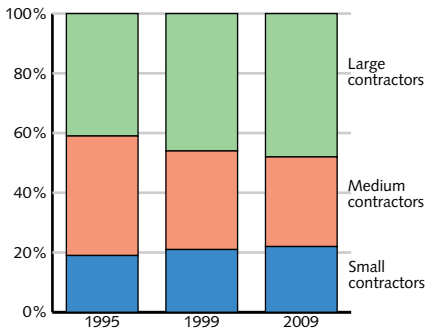


Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

An analysis of the 2009 data indicates that out of the more than 100,000 professional services contractors, 29,000 are not small companies (as defined by the Small Business Administration). Of these, more than 250 entities have $100 million or more of services revenue. By comparison, in 1995 there were almost 14,000 medium and large companies, and 154 with more than $100 million of services revenue; in 1999 there were some 13,000 medium and large companies, of which 141 received more than $100 million of services revenue. This may imply that the vast majority of contractors in the professional services industry are small or medium-sized entities that undertake relatively little federal professional services work relative to their overall corporate size.

The industrial base became more horizontally integrated during the past 15 years. Contractors in all segments of the industry have enlarged their presence in the PAMS segment; ICT companies have increased participation in the FRS segment; and the FRS providers expanded their presence in the ERS segment. This integration appears to have peaked in 2007 with small reductions in cross-sector participation common across the board since then. This reversal may be a result of new federal government policies aimed at preventing organizational conflict of interest.

Market Share of Small, Medium, and Large Firms by Value of Contract, 1995, 1999, 2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Critical mass is steady in the industrial base, with the top 20 companies capturing approximately 37 percent of the revenue in 2009, nearly matching the 37 percent in 1995. In 1995, the 20th-largest contractor had $650

million in professional services contract awards from the federal government, but in 2009 an entity needed some $2 billion of services awards to be the 20th-largest contractor. It is interesting, though, that the market share for the top five services contractors has remained relatively steady: in 1995 it was 20 percent (with $27 billion of revenue), and in 2009 it was still 20 percent (with close to $56 billion).

When the market shares held by the small (as designated by FPDS), large (with an annual revenue greater than $3 billion), and medium-sized (any organization with less than $3 billion in revenue that is not classified as small) companies in the industry are examined, it is clear that those in the middle tier have suffered an erosion of their relative share. In 1995, middle-tier companies captured 40 percent of the total value of federal professional services contracts. By 2009, the middle-tier companies were able to capture only 30 percent of that value. At the same time, small-business set-aside laws and other policies assisting small contractors have clearly worked in the professional services industry. Small companies have sustained a 19–22 percent market share in the value of prime contracts.[5] The large companies in this industry have been particularly active via mergers and acquisitions and have been able to increase their market share from 41 percent of the total market in 1995 to 48 percent in 2009. Thus, the middle tier has been squeezed from above by consolidation and from below by the slight growth in small contractors' share of the market. However, likely owing to steady growth in the total value of professional services contracts, this drop in market share has not notably reduced the number of medium-sized companies undertaking significant contracts ($25,000 current dollars or larger). This may change if the number of contract dollars available begins to fall.

The federal professional services market and the industrial base that supports it have experienced significant changes in past five years. Furthermore, there is nothing in the FPDS data analyzed in this report that suggests that things are going to change in the near future. The mid- to long-term analysis depends largely on developments in Iraq and Afghanistan. The impact of the troop drawdown in Iraq will become increasingly pronounced over the next few years but may be countered by the increased focus on Afghanistan and by DOD's need to reset its forces. This question remains open because we do not know whether the growth in business and past increase in the number of new players in the federal professional services market have been driven by the complex nature of the work or the larger amounts of money available for undertaking it.

5 This share of the market would likely be larger if the value of subcontracts were included.

List of Acronyms

ADP	automatic data processing
BOA	basic ordering agreement
BPO	blanket purchase agreement
CAGR	compound annual growth rate
DHS	Department of Homeland Security
DOC	Department of Commerce
DOD	Department of Defense
DOE	Department of Energy
DOI	Department of the Interior
DOJ	Department of Justice
DOL	Department of Labor
ERS	equipment-related services
FAPIIS	Federal Awardee Performance and Integrity Information System
FPDS	Federal Procurement Data System
FPDS-NG	Federal Procurement Data System-Next Generation
FRS	facilities-related services
FSC	federal supply classification
FSS	Federal Supply Schedule
GAO	Government Accountability Office
GSA	General Services -Administration
GWAC	government-wide acquisitions contract
HHS	Department of Health and Human Services
ICT	information and communications technology
IDC	indefinite delivery contract
IDIQ	indefinite delivery indefinite quantity
IDV	indefinite delivery vehicle
IRS	Internal Revenue Service
NASA	National Aeronautics and Space Administration
OFPP	Office of Federal Procurement Policy
OMB	Office of Management and Budget
PAMS	professional, administrative and management support
PPIRS	Past Performance Information Retrieval System
R&D	research and development
VA	Department of Veterans Affairs

CHAPTER 1

What Is the Professional Services Industrial Base?

In this chapter:

- Definition of the federal professional services industrial base
- Methodology of this study, including adjustment for inflation
- Description of primary professional services categories
- Definition of small, medium, and large companies
- Description of new and modified illustrations
- Discussion of reliability of data and dates of information

Definition of the federal professional services industrial base

For the purpose of this study, the U.S. federal professional services industry is defined as all companies and individuals providing contract services to U.S. federal government departments and agencies. Contract services include all types of contracts *except* those that are:

- Directly for products, such as supplies, weapons, and other goods;
- Related to the construction of facilities or structures; and
- Designed for the delivery of patient-related medical care or health care services.

Methodology of the Study

Most of the data used for this study were derived from the Federal Procurement Data System (FPDS). This government database covers all federal contract actions that have been awarded during a particular year by approximately 70 executive branch agencies (the largest exceptions are the U.S. Postal Service, the Federal Aviation Administration, and the Central Intelligence Agency). Initially created in 1979 by the Department of Defense (DOD), the FPDS has been managed by the General Services Administration (GSA) since 1980. In 2004, the database was significantly restructured and renamed FPDS-Next Generation (FPDS-NG).

The CSIS study team analyzed all federal contracts awarded between the fiscal years 1995 and 2009. Unless otherwise noted, all references to year in this report refer to the fiscal year (FY) based on the federal calendar. Because of the limitations of the online FPDS database, it was necessary for the study team to build a new database for the 1995–2009 period and

reconcile disparities in the data. The study team created a separate "professional services" database, comprising more than five million contracts, by eliminating those contract actions that were awarded for products as well as those that were awarded for services that were considered to be outside the scope of this study (construction and patient-related medical or health care services).

To obtain a better degree of granularity when analyzing the data, the team chose five primary services categories to represent broad areas of professional services types. The activity categories were created with the federal supply classification (FSC) codes. All services—including research and development work—are assigned by the federal government a four-digit code, sometimes referred to as an "A–Z code," which identifies 24 main categories of services. The list of all 24 FPDS services categories can be found in appendix A.

The five primary categories created by the CSIS study team for this study are:

- **Information and communications technology (ICT) services:** Automatic data processing (ADP) services and telecommunications services. This category includes all contracts with FSC codes in category D (ADP and telecommunications).
- **Professional, administrative, management services (PAMS):** Studies and analyses that are not considered research and development (R&D); architect and engineering services; quality control, testing, and inspection; and technical representative services. This category includes all contracts with FSC codes in categories B (non-R&D studies and analyses), C (architect and engineering), H (quality control, testing, and inspection), L (technical representatives), and R (professional, administrative, and management support) as well as selected codes within category A (includes only codes in category A that end with the digit 6, which designate R&D management and support).
- **Research and development (R&D):** Basic and applied research, experimental and advanced development, engineering, and operational systems development. This category includes all contracts with FSC codes in category A (R&D), except those ending with the digit 6 (digit 6 represents R&D management and support services, which are included in the PAMS category).
- **Equipment-related services (ERS):** Installation, lease or rental, maintenance, repair, and rebuilding and modification of equipment. This category includes all contracts with FSC codes in categories J (maintenance, repair, and rebuilding of equipment), K (modification of equipment), N (installation of equipment), and W (lease or rental of equipment).
- **Facilities-related services (FRS):** Purchase, lease or rental, operation and maintenance of facilities. This category includes all contracts with FSC codes in categories E (purchase of structures and facilities), M (operation of government-owned facility), S (utilities and housekeeping), X (lease or rental of facilities), and Z (maintenance, repair, or alteration of real property).

All contracts with other FPDS codes were included in the category of "other." These include services for natural resources management; social services; salvage services; photographic, mapping, printing, and publication services; education, training, and transport; and travel and relocation. However, they have been included in the calculations of total federal professional services.

Constant Dollars

All dollar amounts in this report are reported as constant FY 2009 dollars unless specifically noted otherwise. This is a change from previous iterations of this study, which reported all dollar amounts in current values. Dollar amounts for all years were deflated by the implicit GDP deflator calculated by the U.S. Bureau of Economic Analysis, with FY 2009 as the base year. This change in measurement allowed the CSIS team to more accurately compare and analyze changes in spending across time. Similarly, all compound annual growth values and percentage growth comparisons are based on constant dollars and are thus adjusted for inflation.

Small, Medium, and Large Companies

To analyze the breakdown of competitors in the market into small, medium, and large companies, the CSIS team assigned each contractor in the database to one of these size categories. Any organization designated as small by the FPDS database—according to the criteria established by the federal government—was categorized as such unless the contractor was a known subsidiary of a larger entity. In a possible data validity error in FPDS, an organization may be identified as small for one set of contract actions but not qualify in another. It is possible that at different times an entity may meet one contracting officer's criteria for being a small business while not meeting another's. As a result, we did not override these inconsistent entries when calculating the distribution of value by business size for Figure 3-12.

Companies with annual revenue of more than $3 billion were classified as large. This is an increase from the $1 billion threshold used in prior reports and is our attempt to provide a more granular look at the steadily rising market share of billion-dollar companies. This classification is made on the basis of their revenue in 2009 or in the last prior year for which revenue data were available. A joint venture between two or more organizations is treated as a single separate entity, and those with a large parent also qualify as large companies. Private holding companies, which may hold one or more companies undertaking contracts awarded by the U.S. federal government, are also treated as individual companies. When revenue data were not available for the privately held companies, we estimated revenue at 20 percent of the total holdings.

To better analyze the companies in the federal professional services market, the study team made significant efforts to consolidate data related to subsidiary companies and merged companies with their parent companies. For example, many of Boeing's subsidiaries and predecessor companies are listed separately in the FPDS, but they were combined into a single Boeing entry in the CSIS professional services database. The assignment of contractor revenue is done on an annual basis, and a merger must be completed by the end of March to be consolidated for that given fiscal year. This enabled the study team to analyze more accurately the professional services industrial base, the number of participants in it, and their level of activity.

This year, the study team applied a systematic approach to these aggregations by contractors. FPDS uses hundreds of thousands of D-U-N-S numbers from Dun & Bradstreet to

identify service providers but does not consistently provide parent-company codes. Supplementing our past efforts to find known large companies, we studied and classified all D-U-N-S numbers associated with more than half a billion dollars of contract revenue in any single year in 1995, 1999, or between 2007 and 2009. A small number of these codes involved classified or miscellaneous foreign entities, but the vast majority were identifiable. This approach allowed us to subtotal the contract data for a number of joint ventures, universities, and companies that are large providers in the professional services market. Contractor data for years prior to 2007 were rerun for 1995 and 1999 but not for other years.

New and Modified Tables and Figures

This year's study provides additional cross-tabulation of data from the most recent fiscal year. In addition to using the activity categories discussed above, breakdowns are now available for the top six services-acquiring government customers: the Department of Defense (DOD), the Department of Energy (DOE), the National Aeronautics and Space Administration (NASA), the Department of Homeland Security (DHS), the General Services Administration (GSA), and the Department of Health and Human Services (HHS). These eight new charts are found in chapter 2. The analysis of top contractors is now accompanied by Table 2-6, which breaks down the Top 20 overall contractors by government customer, and Table 2-7, Table 2-8, Table 2-9, and Table 2-10, which respectively list the Top 20 DOD, DOE, NASA, and DHS contractors.

Previous reports counted the number of contracts on the basis of the number of unique procurement identifiers. Closer examination of the data revealed that this method sometimes conflated multiple contracts that shared a code (e.g., 0001 rather than the typical 13-digit identifier) but were issued under different indefinite delivery vehicles. To avoid this undercounting, our team now uses both the procurement identifier and the indefinite delivery vehicle identifier when counting the number of contracts. This change influences Figure 3-8 and Figure 3-10 as well as Table 2-1.

Similarly focusing on indefinite delivery vehicles, this year's report uses new categories when describing the type contracting vehicle. Figure 3-4 and Figure 3-5 and the new Figure 2-2 and Figure 2-7 now use both the type of contract and the type of the referenced indefinite delivery vehicle in order to determine how to classify each action. This approach is closer to the analysis used before the database was restructured in 2004.

Changes have also been made to the classification of the funding schemes and the extent of competition. For funding schemes, Figure 3-6 no longer breaks out award fee contract actions because other CSIS research[1] and DOD statements[2] indicate that award fees do not appear to improve performance. Instead, two increasingly common contract types are now listed separately: (1) cost-plus-incentive-fee contracts and (2) contracts that include multiple

1 David Berteau, Joachim Hofbauer, Gregory Sanders, and Guy Ben-Ari, "Cost and Time Overruns in Major Defense Acquisition Programs" (Washington, D.C.: Center for Strategic and International Studies, April 2010), 11–12.

2 Robert Brodsky, "Defense Aims to Use Interagency Contracts Judiciously," Government Executive (National Journal Group), June 30, 2010, www.govexec.com/dailyfed/0610/063010rb1.htm.

funding schemes, called combination contracts. The CSIS research and DOD statements have also indicated that the limits placed on who can compete are often not as important as the resultant number of competitors. Our "full competition" category already required multiple competitors, but now Figure 3-7 breaks down limited competition on the basis of the number of offers received.

Data Reliability Notes and Download Dates

Any analysis based on the FPDS is naturally limited by the quality of the underlying data. Several Government Accountability Office (GAO) studies have highlighted the problems of FPDS.[3]

In addition, FPDS data for past years are constantly updated over time. While FY 2007 is long since closed, more than $100 billion dollars worth of entries for that year were modified in FY 2009 (this explains the discrepancies between the data presented in this report and those in previous versions). Such changes to FPDS may well be worthwhile but should be monitored and clearly identified because of the potential for misunderstanding and abuse.

Yet, despite its flaws, FPDS is the only comprehensive data source of government contracting activity and is more than adequate for any analysis that is focused on trends and order-of-magnitude comparisons.[4] To be transparent about weaknesses in the data, this year's report consistently describes data that could not be classified because of missing fields as "unlabeled" rather than including them in an "other" category.

The study team is happy to report that the number of contract actions from the Department of Veterans Affairs (VA) is now in line with the totals from other agencies and departments. Beginning in 2005, a department-wide initiative to provide more outpatient services via private contractors produced a flurry of contract actions awarded by the VA for medical equipment rental and maintenance. This caused a spike in contract actions reported by the VA in 2005–2008, primarily in the ERS category, which grossly inflated the number of aggregated contract actions government-wide. Although the VA standardized its contract reporting methods in 2009, pushing total contract actions back down, CSIS has chosen to exclude contract actions affiliated with certain ERS codes for the VA in 2005–2008 for Figure 2-1, Figure 3-1, Figure 3-5, and Figure 3-9.

The 2009 data used in this report are from the January 15, 2010, FPDS update. The government refreshes the 2007 and 2008 data less frequently and thus those years were last updated in October 2009. In addition, the online FPDS query tool (available at https://www.fpds.gov) was used in August 2010 to generate data for Figure 2-3, Figure 2-7, Figure 3-4, and Figure 3-5. All other data presented in this report had been retrieved for prior year's' reports, although the dollar values have been converted to 2009 dollars and in some cases, which are discussed above, the classification methods have changed.

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3 "Reliability of Federal Procurement Data," Document no. GAO-04-295R (Washington, D.C.: GAO, December 30, 2003); "Improvements Needed to the Federal Procurement Data System–Next Generation," Document no. GAO-05-960R (Washington, D.C.: GAO, September 27, 2005).

4 See Chapter 4 for recommendations on improving FPDS.

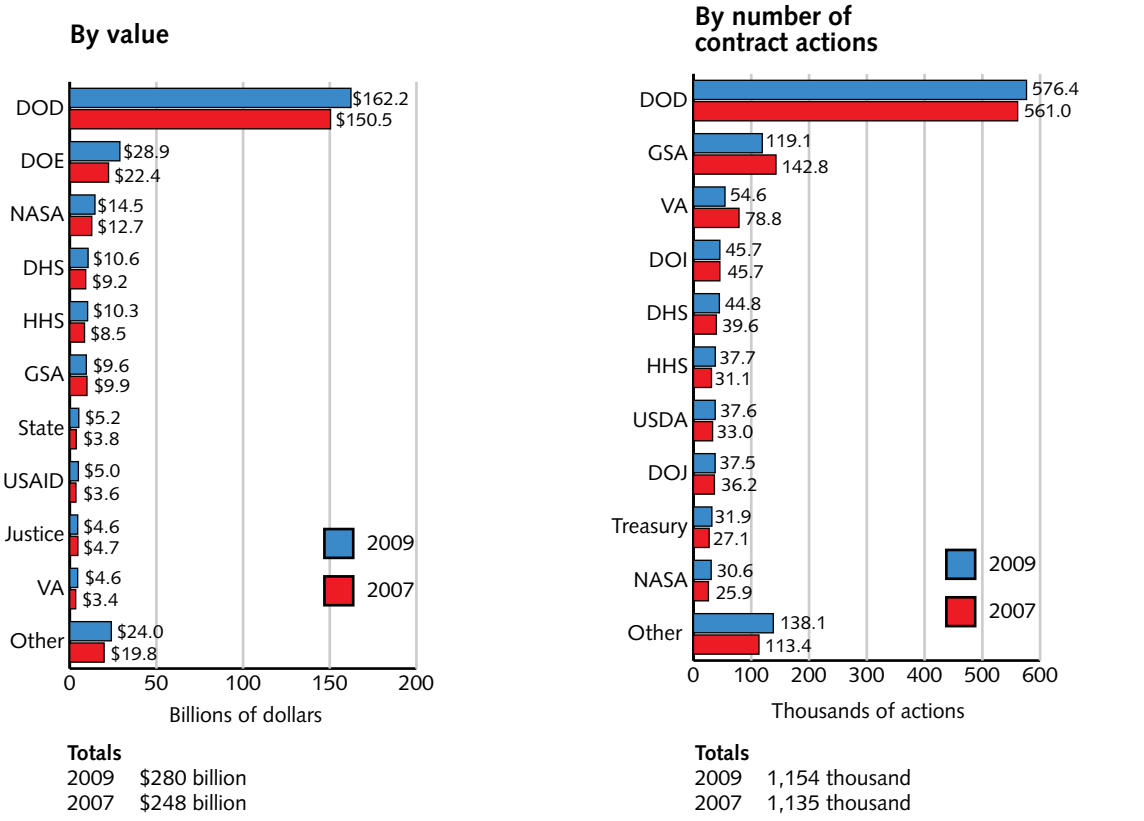
CHAPTER 2

Federal Professional Services Industry in 2009

In this chapter:

- 2009 data for federal professional services contracting
- Top 10 government customers
- Value of each professional services category for the top six government customers
- Cross-tabulation of contract data by professional service category and by the top six government customers for:
  - Type of contract vehicle
  - Contract pricing schemes
  - Competition

Figure 2-1. Federal Professional Services Market, by Customer, 2007 and 2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Note: Certain ERS codes ordered by the VA have been removed from the contract action data for the years 2005–2008 because of nonstandard reporting practices. See the methodology at the end of Chapter 1 for more details.

Professional Services Market in 2007 and 2009 — Figure 2-1

The purchasing of services by the federal government represented a significant market in 2009 and made up a substantial portion of annual U.S. federal expenditures.[1] In 2009, the federal government awarded $280 billion worth of contracts for professional services. This amount was awarded via some 750,000 contracts. In the years since 1995, professional services have consistently accounted for slightly more than half of all federal government contracting expenses. The only exception was 2008 at 47 percent, but by 2009 the total had rebounded to 52 percent.

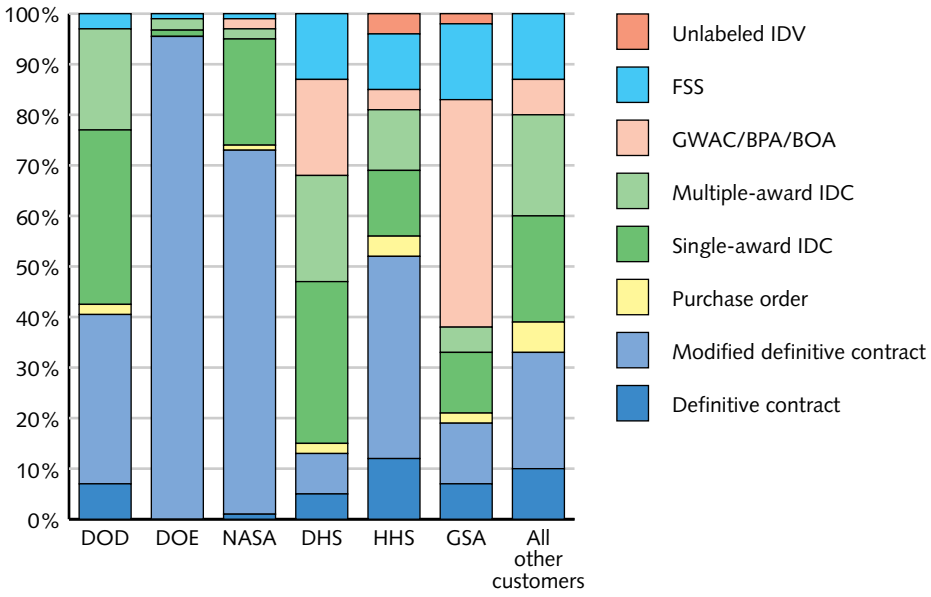
DOD continued to be the largest federal government consumer of services in 2009, with $162 billion worth of contracts, or nearly 60 percent of the total market. A distant second was the Department of Energy (DOE), with $29 billion or 10 percent of the market. NASA is the third-largest government customer and accounts for $14.5 billion or 5 percent of the market. By value, the top three customers make up 74 percent of the market. Compared with 2007, the

1 CSIS is planning a series of reports examining contract spending of top government customers. The first of these reports on DOD contract spending, for both products and services, is expected to be issued in early 2011.

government spent 12 percent more on federal services, with DOD growing by a comparatively modest 8 percent. DOJ and GSA were the only members of the top 10 to spend less in 2009 than in 2007.

By number of contract actions, the largest three awarders of services contracts are the DOD with more than 576,000 contract actions let (50 percent of total contract actions awarded), the GSA with 119,000 contract actions (10 percent), and the VA with 55,000 contract actions (5 percent of total). In 2007, before adjusting for accounting differences, the VA had more than 3.5 million contract actions.

Figure 2-2. Vehicles for Federal Professional Services Contract Actions, Value by Customer, 2009



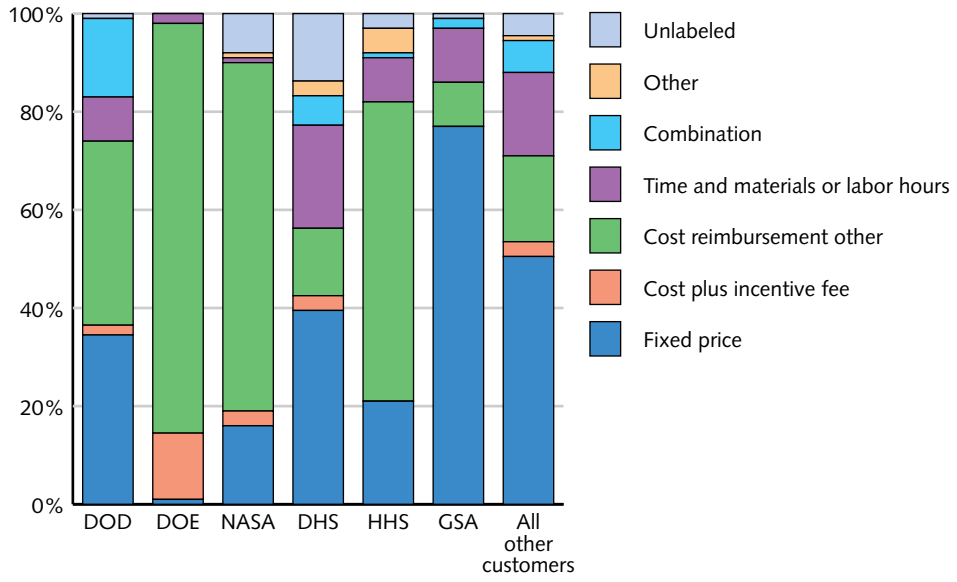
Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Contract Vehicle by Customer — Figure 2-2

The variation among contract vehicles used by different government customers is striking and suggests that there is no default mix of contract types. Modified definitive contract actions are strikingly common for the DOE and NASA. At the other end, both DHS and GSA prefer indefinite delivery vehicles, although each employs a different mix of those tools. The 45 percent GSA spends on government-wide acquisition contracts (GWACs), blanket purchase agreements (BPAs), and basic ordering agreements (BOAs) breaks down to more than $3 billion for BOAs, some $1 billion on GWACs, and more than $100 million on BPAs. DHS reverses that distribution by spending $1.9 billion on BPAs and less than $100 million on GWACs and BOAs.

The DOD, HHS, and the aggregate of all other customers show more balance between delivery orders and definitive contracts. However, DOD and HHS are rather different in one way that reflects a larger split. DOD and the second- and third-largest customers—DOE

Figure 2-3. Funding Scheme of Federal Professional Services Contract Actions, Value by Customer, 2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

and NASA—all spend less than 4 percent on Federal Supply Schedule (FSS) contracts and GWACs, BPAs, and BOAs. HHS and the rest of the government in aggregate all award at least 15 percent of their dollars through such vehicles.

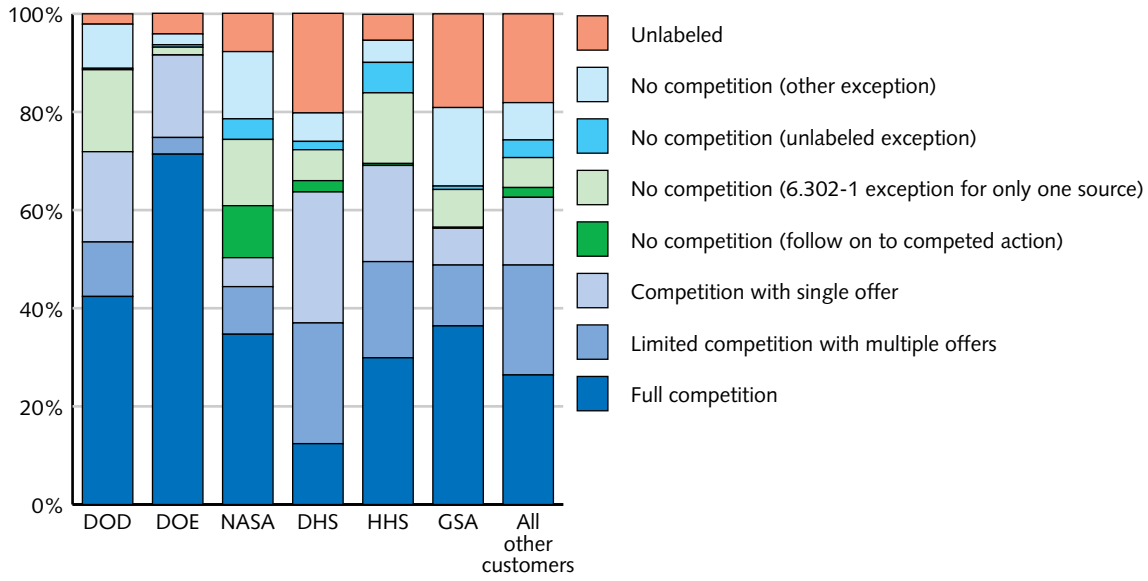
Contract Funding Schemes by Customer — Figure 2-3

Trends in funding schemes vary widely across federal agencies, with DOE, HHS, and NASA at one end using cost reimbursement contracts for more than 60 percent of their contract dollars. The DOE is the most prominent user at 96 percent. Cost-plus-incentive-fee contracts, while favored by some acquisition reformers,[2] represent less than $10 billion of contract spending. The DOE at 13 percent apportions the highest share of its contract dollars using cost-plus-incentive-fee contracts. However, that 13 percent is dwarfed by the 83 percent of DOE market share that goes to other forms of cost reimbursement contracts.

GSA is the largest user of fixed-price contracts, which account for more than three-quarters of its obligations. In the middle of the pack, DHS, DOD, and all other government customers use fixed-price contracts for 34 percent, 40 percent, and 50 percent, respectively. Combination contracts now account for 16 percent of DOD contract dollars and 6 percent for DHS and the remainder of the government. The rise of combination contracts unfortunately obscures the breakdown between different funding schemes. Worse yet, more than $7 billion in contract dollars do not have a funding scheme label. In absolute terms, DOD is the biggest

2 Robert Brodsky, "Defense Aims to Use Interagency Contracts Judiciously," Government Executive, June 3, 2010.

Figure 2-4. Extent of Competition of Federal Professional Services Contract Actions, Value by Customer, 2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

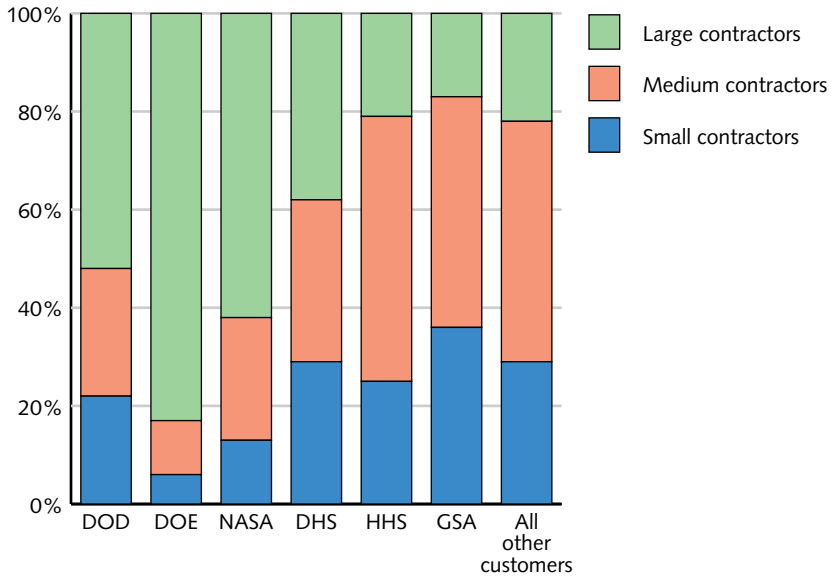
offender with more than $2 billion, but in relative terms DHS and NASA are far greater offenders at 14 percent unlabeled and 20 percent unlabeled, respectively.

Competition by Customer — Figure 2-4

Competition levels are uneven across federal agencies, with DOE awarding 71 percent of contract dollars with full and open competition with multiple offers ("full competition") and 92 percent with some form of competition. Both DOD and HHS manage to award about 70 percent of their dollars competitively but only 42 percent and 30 percent via full competition. The remainder of government customers awarded between 50 percent and 65 percent dollars via some form of competition.

One troubling observation is that three groups—DHS, GSA, and "all other government customers"—have failed to label the competition levels for 18–20 percent of their contract dollars. The three largest customers all manage to keep their unlabeled rate below 10 percent, which suggests that the quality of contract accounting varies greatly among different departments. DHS's failure to label the competition level for 20 percent of its dollars suggests that additional attention should be paid to the fact that DHS has the smallest market share of contracts with multiple offers.

Figure 2-5. Small, Medium, and Large Contractors Participating in the Federal Professional Services Industry, Value by Customer, 2009



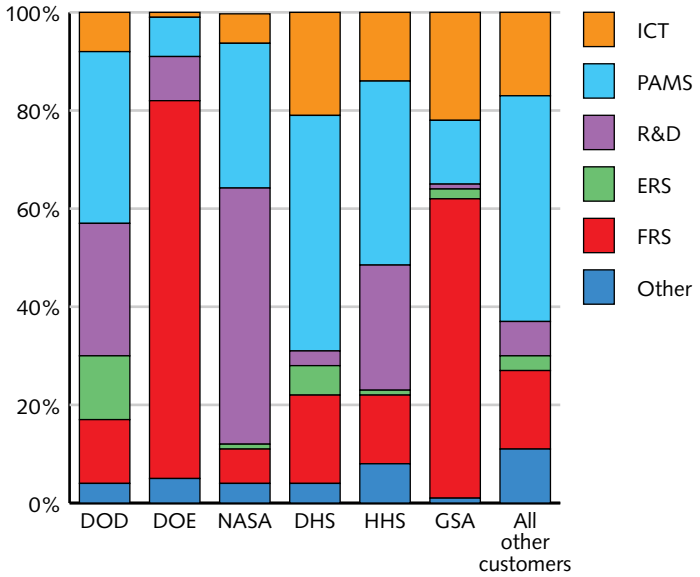
Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Size of Contractor and Market Share by Customer — Figure 2-5

Across the federal government, large contractors win the greatest percentage of agencies' contract award dollars. This is entirely driven by NASA and DOD, both of which devote more than a quarter of their contract dollars to research and development (R&D), and the DOE, which primarily buys facilities-related services (FRS). DOE's reliance on large organizations cannot be explained by its focus on FRS, as that activity category has ample small and medium-sized companies. Instead, the fact that DOE granted 83 percent of its contract dollars to large contractors and institutions is likely a result of its nuclear-focused mission.

Medium-sized organizations fare far better for smaller government customers, winning around half of contract dollars for HHS, GSA, and the rest of government. HHS also spends more than a quarter of its contract dollars on R&D, which may show that outside of the defense-aerospace sector R&D does not tilt as heavily toward large companies. Outside of the top three customers, small entities tend to win between one-quarter and one-third of contract dollars, with the GSA being a particularly favorable environment for small contractors. The opposite is true for NASA and DOE, which give comparatively fewer dollars to medium-sized entities and give only half of those meager shares to small organizations.

Figure 2-6. Top Government Customers for Federal Professional Services, Value by Category, 2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Top Government Customers by Activity Category — Figure 2-6

During the past four years, growth in the acquisition of professional services by the Department of Defense has slowed, while growth in civilian agencies has started to outpace DOD. Spending by civilian agencies shifted from a slow decline in 2006–2007 to a 5 percent growth rate in 2007–2009. Growth in DOD spending, by contrast, slowed to 4 percent in 2007–2009, only half of its 2006–2007 rate. This reflects a reversal of the trend of defense spending overshadowing civilian spending.

The two largest segments within the DOD in 2009 were R&D and professional, administrative, and management support (PAMS), accounting for 28 and 37 percent of the money spent on professional services, respectively. While PAMS saw a nearly $10 billion increase between 2007 and 2009, spending on R&D declined by $1 billion. Civilian agencies were also heavy users of PAMS in 2009, accounting for 33 percent of dollars spent. PAMS and R&D together also account for 33 percent of civilian department and agency spending, with the GSA and DOE prominent exceptions. FRS is more important on the civilian side, with the DOE spending more on facility maintenance than the DOD. Equipment-related services (ERS), information and communications technology (ICT), and other uncategorized services are less common across the six large customers, and their largest collective market stands at 34 percent.

Table 2-1. Overview of Federal Professional Services Market Segments, 2009

Category	Value ($, billions)	Number of actions	Average action ($)	Average contract ($)	Number of contractors
ICT	$26.89	110,870	$242,569	$509,282	8,322
PAMS	$93.64	353,015	$265,251	$408,377	43,723
R&D	$59.42	90,123	$659,322	$1,216,080	11,750
ERS	$23.41	157,309	$148,812	$229,080	21,055
FRS	$61.05	316,898	$192,636	$274,877	37,972
Other	$15.10	125,971	$119,848	$157,889	25,529
Total	$279.50	1,154,186	$242,166	$372,533	117,630

Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

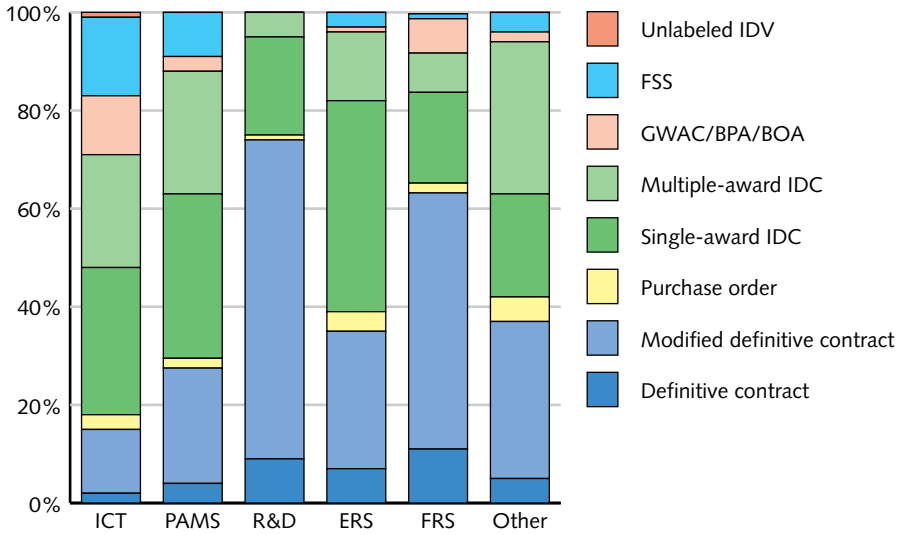
Table 2-1 provides key data for 2009, both overall and for each of the five main services categories. As noted earlier in this report, the largest segments by value are PAMS, R&D, and FRS, with $94 billion, $59 billion, and $61 billion worth of contract actions, respectively. The largest numbers of contract actions were awarded in the PAMS sector.

In addition, the FRS and ERS categories were two markets with large numbers of small tasks awarded. It therefore stands to reason that the sizes of the average contract actions in the ERS, FRS, and PAMS segments were at the lower end of the range, $149,000, $193,000, and $265,000, respectively. Although ICT has smaller average contract actions than PAMS, it is interesting that the average ICT contract is nearly $100,000 larger. The largest average contract actions were found in the R&D segment, at $659,000 per contract action, which is also an increase from previous years.

As in previous years, the largest numbers of participants were found in the PAMS and FRS segments, further highlighting the fragmented nature of these markets—many players pursuing large numbers of small contracts. The ICT sector represents the other end of the spectrum: relatively fewer players (approximately 8,300) chasing fewer but larger contract actions.[3]

3 A closer examination and more detailed analyses of the market segments will be available in a follow-on CSIS report planned for early 2011.

Figure 2-7. Vehicles for Federal Professional Services Contract Actions, Value by Category, 2009



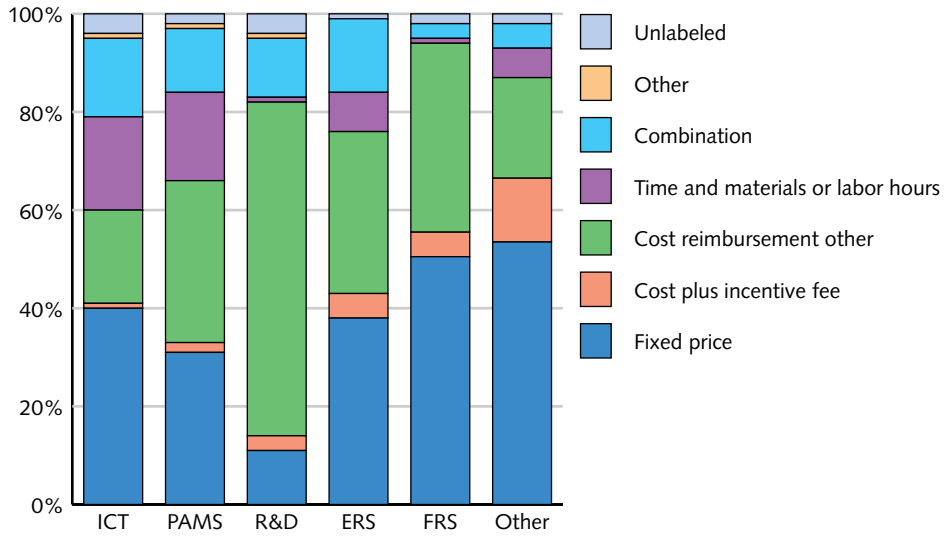
Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Contract Vehicles by Category — Figure 2-7

Modified definitive contracts hold the lion's share of direct awards but are not evenly distributed across the federal government. In the R&D category and to a lesser extent in FRS, these contract types get solid majorities of contract dollars. Indefinite delivery vehicles are predominant in all other professional services, with single-award indefinite delivery contracts (IDCs) responsible for a plurality of the dollars for ICT, PAMS, and ERS. ERS may be the top user of single-award IDCs because contractors win awards to maintain their proprietary systems.

The ICT category stands out as the only category in which more than 10 percent of the dollars are spent through either FSS, GWAC, BPA, or BOA vehicles. The PAMS and FRS categories also make some use of these contract types while R&D avoids them almost entirely.

Figure 2-8. Funding Schemes of Federal Professional Services Contract Actions, Value by Category, 2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

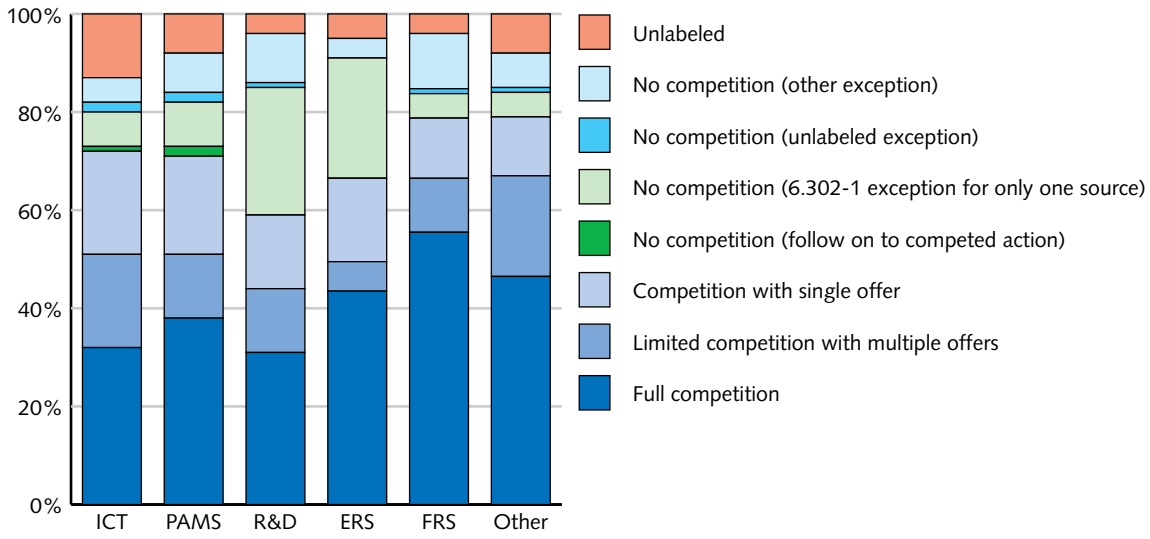
Funding Scheme by Category — Figure 2-8

Contract dollars with fixed-price awards are most prevalent in the ICT and FRS categories. For PAMS and ERS, cost reimbursement and fixed-price contracts have roughly equal market share. At the other end of the scale, cost reimbursement contracts capture 71 percent of R&D's market share. Investing in unproven or immature technology via R&D entails significantly greater risk than other types of contracts, and these contracts put that risk on the government side. Use of this funding scheme is driven by DOD, which accounts for 73 percent of federal contract dollars spent on government R&D services.

Another trend driven by DOD, but one affecting most categories, is the use of combination contracts that use multiple funding schemes. These combination contracts have a five-year compound annual growth rate (CAGR) of 124 percent. DOD accounts for 87 percent of the combination contract dollars, which explains why the civilian-focused FRS category has such a small share. Because additional granularity is lacking, it is impossible to say whether the various activity categories use this funding scheme in the same way.

Cost-plus-incentive-fee contracts, which give a higher fee for achieving certain quantifiable goals, do not achieve significant market share even in the categories that make heavy use of cost reimbursement contracts. Finally, PAMS and ICT are most likely to fund contracts based on time and materials or labor hours spent by the contractor. This approach is most prevalent for tasks involving skilled or semiskilled labor with clearly defined pay rates.

Figure 2-9. Extent of Competition of Federal Professional Services Contract Actions, Value by Category, 2009



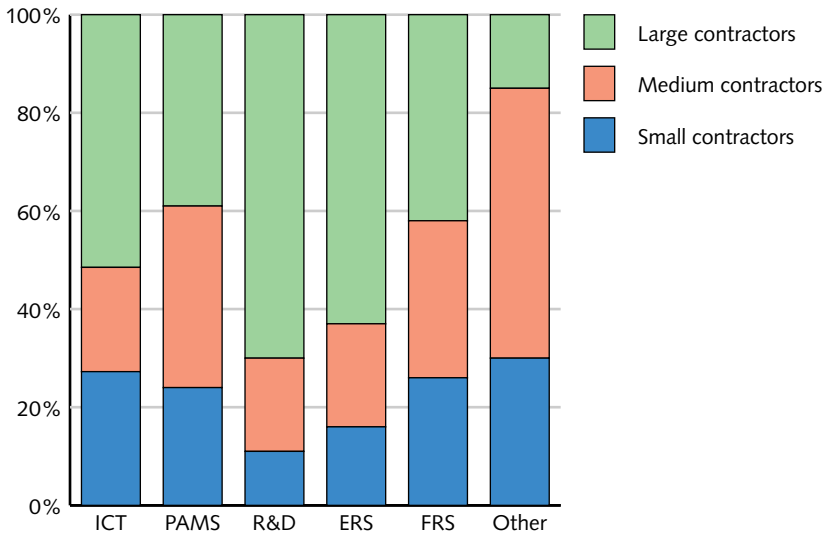
Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Competition by Category — Figure 2-9

Levels of competition are consistently high across most segments of the federal professional services market. FRS is the most competitive market segment, with the DOE being the largest and most competitive FRS customer. The R&D market segment is the most unfriendly to competition, especially from small and medium-sized businesses. In most cases, however, the majority of competed dollars were awarded under "full" competition, with the ICT sector being a prominent exception.

Contracts in the two least competitive activity categories, R&D and ERS, are less competitive owing to the proprietary information and equipment necessary to carry out the research, development, and maintenance work on unique technologies. Thus, because of Federal Acquisition Regulation (FAR) 6.302-1 uniqueness exceptions, the government is significantly constrained in selecting contractors in these market segments. Those two sectors award approximately 25 percent of their contract dollars using the uniqueness exception, while less than 10 percent of dollars in all other activity categories were not competed for that reason.

Figure 2-10. Small, Medium, and Large Contractors Participating in the Federal Professional Services Industry, Value by Category, 2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Contractor Size and Market Share by Category — Figure 2-10

Large firms and institutions are most dominant in R&D, followed by ERS and ICT. Their prevalence in R&D is to be expected, given their capacity to accept the risks of exploring unproven technologies and to buy up breakthrough start-ups. The prevalence of large companies in the ERS market is more surprising but can be explained by the fact that DOD accounts for 90 percent of the dollars spent in that category. This suggests that fleet maintenance and hardware support for civilian agencies constitutes only a fraction of the money earned in that sector.

Although medium-sized companies have a significant presence in terms of market share, when broken down by services category, medium-sized companies predominate only in the "other" category. However, mid-sized companies do come in second by a fair margin in four of the five categories. The exception is ICT, where small entities are far more successful at getting contract dollars. This squeeze might be a result of small contractors finding it easier to win ICT contracts, or perhaps large commercial ICT firms are more likely to enter the federal services market. Small and medium-sized organizations do best with uncategorized professional services, perhaps because large companies are less likely to chase after an eclectic sector that accounts for less than 6 percent of the federal services market.

Table 2-2. Cross-Category Participation by Federal Professional Services Contractors, 1995 and 2009

	1995						2009				
	ICT	PAMS	R&D	ERS	FRS		ICT	PAMS	R&D	ERS	FRS
ICT	100%	33%	19%	25%	9%		100%	45%	13%	22%	16%
PAMS	7%	100%	13%	6%	6%		9%	100%	9%	10%	11%
R&D	9%	30%	100%	9%	4%		9%	34%	100%	12%	14%
ERS	11%	13%	8%	100%	12%		9%	20%	7%	100%	19%
FRS	1%	4%	1%	3%	100%		3%	13%	4%	11%	100%

Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Cross-Category Participation by Contractors — Table 2-2

Many contractors provide the federal government with services in more than one category. Table 2-2 shows, as would be expected, that there is considerable overlap between contractors undertaking both ICT services and PAMS contract actions. In 2009, 45 percent of ICT contractors were also active in the PAMS category, an interrelationship that has increased continuously over the past decade. The other area of substantial and growing overlap, revealing the increased demand for third-party research and analysis, is between contractors undertaking both R&D work and PAMS services. This relationship only goes one way, however: only 9 percent of PAMS contractors do work with R&D. This discrepancy is possible because, at $93.6 billion, PAMS is the largest of our activity categories.

In some cases, this growth appears to have reached its limit. On a small scale, about one-fifth of ERS contractors undertake PAMS or FRS work, but this proportion is slightly lower than in 2007. Similarly, ICT companies are a few percentage points less likely to do ERS and FRS work. Overall, the past 15 years have witnessed the federal professional services industry become much more horizontally integrated, but that trend may now be reversing itself.

The Top 20 Contractors — Table 2-3

An analysis of the top 20 contractors (by value of contract actions) in the federal professional services industry further reveals how the industrial base has changed during the past 15 years. The top 20 companies in the industry had a 37 percent market share in 1995, and maintained a 37 percent share in 2009 (a slight increase from 35 percent in 2007). The top five companies have made small gains in their market share (20 percent in 2009, up from 19 percent in 2007) since 1995, although a significant decrease, from 21 to 17 percent, occurred in 2004–2005. Furthermore, the scale, range, and magnitude of critical mass has changed. In 1995, contract awards near a half billion dollars allowed a organization to be contractor number 20 in the top 20; in 2009 that ranking required annual awards of $1.9 billion.

The composition of the top 20 contractors also changed significantly between 1995 and 2009. The big five defense companies are prominent in both years, but in 1995 commercial conglomerate Westinghouse held the number two spot. Defense sector consolidation explains why they now hold the top four spots: Boeing and Northrop Grumman now possess prior top 20 companies McDonnell Douglas, TRW, and Newport News Shipbuilding. Since 2007, mergers and acquisitions have also put the Carlyle and Hewlett-Packard on the list after their respective acquisition of Booz Allen Hamilton's government contracting division and Electronic Data Systems.

Finally, there were two categories of new entrants to the top 20 since 1995. Heavy engineering and logistics support firms, which in 1995 accounted for just one of the top 20 (Bechtel), in 2005 included four (Halliburton, Bechtel, Fluor, and BWXT), but in 2009 the number fell to just two (Kellogg Brown & Root and Bechtel). Clearly this is a reflection of the Afghanistan and Iraq conflicts and most notably the LOGCAP III contract.[4] In addition, joint ventures were absent from the 1995 top 20, but the 2009 list contains Los Alamos National Security and Savannah River Nuclear Solutions. Those two organizations appear to have gained FRS market share at the expense of the California Institute of Technology and the University of California.

Details of Top 20 Contractors — Table 2-4 and Table 2-5

The types of services in which industry leaders have specialized have also changed over time. Fifteen years ago, Lockheed Martin received the bulk of its professional services contracts for R&D and FRS work. Today, R&D is still the largest of Lockheed Martin's services activities, but it does as much in ERS as FRS, and both are surpassed by a strong presence in the complex and skills-intensive PAMS segment. Northrop Grumman, the second-largest recipient of federal professional service dollars, has nearly doubled its activity in the R&D segment since 2007 although this has come at a cost to its once leading position in the ICT segment and its PAMS activities.

The preeminence of R&D also extends to the number three and four companies, Boeing and Raytheon. However, the next six companies in the top 10 all have PAMS as their top earning activity category. Kellogg Brown & Root is particularly noteworthy because it earned more in PAMS than any other contractor in 2009. Three FRS contractors—CH2M HILL, Los Alamos National Security, and Savannah River Nuclear Solutions—also stand out for their focus in a single sector. This is not surprising for the latter two companies because they are location-specific joint ventures. Tables 2-4 and 2-5 on the pages 16 and 17 provide further details about the top 20 contractors government-wide.

4 Gregory Sanders, "Contracting for Operations in Iraq and Afghanistan," DIIG Current Issues (Washington, D.C.: CSIS, November 5, 2009).

Table 2-3. Top 20 Federal Professional Services Contractors, 1995 and 2009

	1995		2009	
Rank	Company	Value of contract actions ($, millions)	Company	Value of contract actions ($, millions)
1	Lockheed Martin	13,590	Lockheed Martin	21,120
2	Westinghouse	4,490	Northrop Grumman	11,960
3	Boeing	3,980	Boeing	10,440
4	Northrop Grumman	3,510	Raytheon	6,720
5	University of California	2,710	SAIC	5,550
Subtotal for Top 5		**28,290**		**55,790**
6	Raytheon	2,650	General Dynamics	5,340
7	McDonnel Douglas	2,490	L3 Communications	5,010
8	Computer Sciences Corp.	2,000	Kellogg Brown & Root	4,550
9	Rockwell	1,970	Computer Sciences Corp.	4,130
10	Loral	1,900	Carlyle (including Booz Allen Hamilton and Arinc)	3,740
11	SAIC	1,670	CH2M HILL	3,250
12	General Electric	1,610	BAE Systems	2,920
13	TRW	1,570	Los Alamos National Security*	2,480
14	California Institute of Tech.	1,530	Dyncorp International	2,360
15	EG & G	1,250	Battelle	2,280
16	Dyncorp International	950	ITT	2,260
17	Newport News Shipbuilding	850	Savannah River Nuclear Solutions*	2,230
18	Battelle	780	Hewlett-Packard	2,190
19	Bechtel	670	Bechtel	1,940
20	Textron	650	URS	1,910
Total for Top 20		**50,820**		**102,380**
Total for all industry		**137,860**		**279,500**

Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

* Joint venture.

Table 2-4. Top 20 Federal Professional Services Contractors, by Activity Category, 1995 (dollars, millions)

Rank	Contractor	ICT	PAMS	R&D	ERS	FRS	Other	Total
1	Lockheed Martin	260	1,180	5,970	1,100	4,930	140	13,590
2	Westinghouse	0	140	310	30	4,000	10	4,490
3	Boeing	300	550	2,760	360	0	20	3,980
4	Northrop Grumman	670	1,060	1,400	270	90	30	3,510
5	University of California	0	10	370	—	2,330	0	2,710
Subtotal for Top 5		**1,220**	**2,930**	**10,820**	**1,770**	**11,350**	**200**	**28,290**
6	Raytheon	100	1,060	890	260	330	0	2,650
7	McDonnell-Douglas	—	330	1,630	520	0	10	2,490
8	Computer Sciences Corp.	1,210	390	170	40	190	0	2,000
9	Rockwell	0	260	1,030	630	20	30	1,970
10	Loral	370	230	800	280	200	10	1,900
11	SAIC	380	610	450	10	130	90	1,670
12	General Electric	0	210	820	310	260	10	1,610
13	TRW	40	420	730	20	350	0	1,570
14	California Institute of Technology	—	—	10	—	1,530	—	1,530
15	EG & G	0	420	20	10	790	—	1,250
16	Dyncorp International	100	270	10	330	240	0	950
17	Newport News Shipbuilding	—	160	10	670	0	0	850
18	Battelle	10	110	120	0	530	0	780
19	Bechtel	—	240	10	10	270	150	670
20	Textron	—	0	640	20	0	—	650
Total		**3,430**	**7,650**	**18,170**	**4,880**	**16,200**	**500**	**50,820**
Total for all industry		**9,560**	**27,460**	**35,680**	**12,650**	**43,080**	**9,420**	**137,860**

Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Table 2-5. Top 20 Federal Professional Services Contractors, by Activity Category, 2009 (dollars, millions)

Rank	Contractor	ICT	PAMS	R&D	ERS	FRS	Other	Total
1	Lockheed Martin	1,710	3,690	10,140	2,760	2,730	90	21,120
2	Northrop Grumman	1,230	4,160	5,080	1,300	110	70	11,960
3	Boeing	80	1,640	7,570	1,000	50	100	10,440
4	Raytheon	200	1,360	3,260	1,530	350	20	6,720
5	SAIC	1,490	1,800	820	630	770	40	5,550
Subtotal for Top 5		**4,700**	**12,650**	**26,880**	**7,230**	**4,010**	**320**	**55,790**
6	General Dynamics	720	1,550	1,400	1,340	10	320	5,340
7	L3 Communications	470	2,070	780	1,510	30	150	5,010
8	Kellogg Brown & Root	—	4,550	—	0	10	—	4,550
9	Computer Sciences Corp.	1,080	1,770	180	680	380	30	4,130
10	Carlyle (including Booz Allen Hamilton and Arinc)	550	2,260	750	50	20	110	3,740
11	CH2M HILL	0	480	0	0	2,710	70	3,250
12	BAE Systems	310	1,230	530	800	60	0	2,920
13	Los Alamos National Security*	—	—	—	—	2,480	—	2,480
14	Dyncorp International	40	1,260	250	510	300	0	2,360
15	Battelle	10	120	1,200	90	840	20	2,280
16	ITT	320	670	430	570	260	0	2,260
17	Savannah River Nuclear Sol.*	—	0	—	—	2,230	—	2,230
18	Hewlett-Packard	1,920	240	0	10	0	10	2,190
19	Bechtel	—	1,400	—	—	70	460	1,940
20	URS	0	950	80	460	210	220	1,910
Total for Top 20		**10,130**	**31,220**	**32,480**	**13,240**	**13,620**	**1,690**	**102,380**
Total for all industry		**26,890**	**93,640**	**59,420**	**23,410**	**61,050**	**15,100**	**279,500**

Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

* Joint venture.

Top 20 Contractors by Customer — Table 2-6

As one might expect, the biggest three customers—DOD, DOE, and NASA—are most represented on this list, which captures 45 percent, 52 percent, and 52 percent, respectively, of their market share. In the case of the DOE, however, this does not represent a single unified contractor market. Two of its biggest participants, Los Alamos National Security and Savannah River Nuclear Solutions, make less than a million from all their other customers. For the DOD, this is true only of Kellogg Brown & Root.

Top 20 DOD Contractors — Table 2-7

The big five defense contractors also hold the top five berths for professional services contracting and 28 percent of the market share. This fact reinforces the idea that buying services is a mainstream form of contracting and that well-established contractors treat it as such. Given DOD's substantial share of all professional services contracting, it's not surprising that four of the top five are also on the top 20 contractors' top five list. The one exception is that General Dynamics does not make the overall list because it was edged out by SAIC's work with civilian customers. As was mentioned in the discussion of the top 20 contractors, Carlyle and Hewlett-Packard are both newly prominent on this list thanks to their acquisition of Booz Allen Hamilton government contracting division and Electronic Data Systems, respectively. Finally, Table 2-7 shows the dominance of large organizations when it comes to DOD contractors: nearly 50 percent of contract value goes to these top 20 contractors.

Table 2-6. Top 20 Federal Professional Services Contractors, by Customer, 2009 (dollars, millions)

Rank	Contractor	DOD	DHS	DOE	GSA	HHS	NASA	All other customers	Total
1	Lockheed Martin	15,260	250	2,430	100	200	1,540	1,340	21,120
2	Northrop Grumman	10,660	150	10	190	180	370	410	11,960
3	Boeing	9,210	230	30	0	0	970	10	10,440
4	Raytheon	6,210	50	90	30	—	30	310	6,720
5	SAIC	3,600	250	30	330	790	350	210	5,550
Subtotal for Top 5		**44,930**	**930**	**2,580**	**650**	**1,160**	**3,260**	**2,280**	**55,790**
6	General Dynamics	4,720	310	0	140	10	0	160	5,340
7	L3 Communications	4,420	80	10	60	10	40	380	5,010
8	Kellogg Brown & Root	4,550	—	—	—	—	0	0	4,550
9	Computer Sciences Corp.	2,950	480	0	60	50	260	330	4,130
10	Carlyle (including Booz Allen Hamilton and Arinc)	2,700	290	10	140	100	10	480	3,740
11	CH2M HILL	330	70	2,640	0	—	—	210	3,250
12	BAE Systems	2,630	60	—	110	0	0	120	2,920
13	Los Alamos National Security*	—	—	2,480	—	—	—	—	2,480
14	Dyncorp International	950	0	—	0	—	—	1,410	2,360
15	Battelle	450	20	1,740	10	30	0	20	2,280
16	ITT	1,970	0	—	—	—	110	180	2,260
17	Savannah River Nuclear Sol.*	—	—	2,230	—	—	—	0	2,230
18	Hewlett-Packard	1,400	140	0	230	180	0	240	2,190
19	Bechtel	1,250	—	680	—	—	—	0	1,940
20	URS	1,660	30	50	10	0	130	30	1,910
Total for Top 20		**74,920**	**2,410**	**12,430**	**1,420**	**1,540**	**3,820**	**5,850**	**102,380**
Total for all industry		**162,230**	**10,580**	**28,920**	**9,570**	**10,310**	**14,540**	**43,370**	**279,500**

Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

*Joint venture.

Table 2-7. Top 20 DOD Federal Professional Services Contractors 2009 (dollars, millions)

Rank	Company	Value of contract actions
1	Lockheed Martin	15,260
2	Northrop Grumman	10,660
3	Boeing	9,210
4	Raytheon	6,210
5	General Dynamics	4,720
Subtotal for Top 5		**46,050**
6	Kellogg Brown & Root	4,550
7	L3 Communications	4,420
8	SAIC	3,600
9	Computer Sciences Corp.	2,950
10	Carlyle (including Booz Allen Hamilton and Arinc)	2,700
11	BAE Systems	2,630
12	ITT	1,970
13	Massachusetts Institute of Technology	1,750
14	URS	1,660
15	United Technologies	1,650
16	CACI	1,630
17	Hewlett-Packard	1,400
18	Bechtel	1,250
19	Dyncorp International	950
20	Mitre	800
Total for Top 20		**79,950**
Total for all defense		**162,230**

Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Top 20 DOE Contractors — Table 2-8

Large organizations get the lion's share of DOE dollars, with the top 20 having a market share of 82 percent. DOE also has the highest share of joint ventures, with nine in the top 20 and two in the top five. In addition, many of the joint ventures specialize in the DOE contracts they are performing. As a result, billion-dollar contractors such as Los Alamos National Security and Savannah River Nuclear Solutions do not appear on the top 20 lists for DOD, DHS, or NASA.

Table 2-8. Top 20 DOE Federal Professional Services Contractors 2009 (dollars, millions)

Rank	Company	Value of contract actions
1	CH2M HILL	2,640
2	Los Alamos National Security*	2,480
3	Lockheed Martin	2,430
4	Savannah River Nuclear Solutions*	2,230
5	Battelle	1,740
Subtotal for Top 5		**11,520**
6	Oak Ridge National Laboratory*	1,670
7	Lawrence Livermore National Security	1,490
8	McDermott International	1,310
9	Alliance for Sustainable Energy*	910
10	Battelle; Research Foundation of SUNY*	840
11	University of Chicago Argonne*	760
12	Washington River Protection Solutions*	740
13	Bechtel	680
14	University of California	640
15	Honeywell	590
16	Bechtel Corporation; Jacobs Engineering Group*	560
17	Fermi Research Alliance*	560
18	National Security Technologies Limited Liability Company*	490
19	Washington Closure Limited Liability Company*	480
20	Stanford University	420
Total for Top 20		**23,680**
Total for all energy		**28,920**

Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

* Joint venture.

Top 20 NASA Contractors — Table 2-9

The top five NASA contractors win almost 44 percent of NASA's professional service contract dollars, making NASA the most top-heavy of the four profiled government customers. Closer examination reinforces this observation: nearly 40 percent of NASA professional services dollars go to its top four contractors, and one of those contractors, the United Space Alliance, is a joint venture between Lockheed Martin and Boeing. The top 20 have a market share

Table 2-9. Top 20 NASA Federal Professional Services Contractors, 2009 (dollars, millions)

Rank	Company	Value of contract actions
1	California Institute of Technology	1,710
2	Lockheed Martin	1,540
3	United Space Alliance*	1,520
4	Boeing	970
5	Jacobs Engineering Group	610
Subtotal for Top 5		**6,350**
6	Russian Federal Space Agency	390
7	Northrop Grumman	370
8	SAIC	350
9	ATK	320
10	Stinger Ghaffarian Technologies	280
11	Honeywell	280
12	United Launch Services	280
13	Computer Sciences Corp.	260
14	Johns Hopkins University	210
15	ASRC Federal Holding	190
16	United Technologies	180
17	Orbital Sciences	140
18	Wyle Laboratories	140
19	URS	130
20	ITT	110
Total for Top 20		**9,960**
Total for all NASA		**14,540**

Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

* Joint venture.

of 68 percent; notably, the top 20 includes the Russian Federal Space Agency in the number six slot. The Russian government does federal contracting because of the U.S. purchase of Soyuz launches to ferry people and equipment to the International Space Station now that the shuttle is being retired.

Table 2-10. Top 20 DHS Federal Professional Services Contractors 2009 (dollars, millions)

Rank	Company	Value of contract actions
1	Computer Sciences Corp.	480
2	IBM	460
3	General Dynamics	310
4	Unisys	310
5	Carlyle (including Booz Allen Hamilton and Arinc)	290
Subtotal for Top 5		**1,850**
6	Lockheed Martin	250
7	SAIC	250
8	Boeing	230
9	Accenture	220
10	Northrop Grumman	150
11	Hewlett-Packard	140
12	Siemens AG	130
13	G4S PLC	130
14	Nationwide Infrastructure Support Technical Assist*	120
15	Fluor Enterprises	110
16	Chenega	110
17	Serco Group PLC	110
18	Reveal Imaging Technologies	110
19	Corrections Corporation of America	100
20	Mitre	100
Total for Top 20		**4,120**
Total for all DHS		**10,580**

Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

* Joint venture.

Top 20 DHS Contractors — Table 2-10

DHS is the most diversified of the four large government customers profiled. The top five companies have only 17 percent of the market share and, perhaps more remarkably, that percentage rises to only 39 percent for the top 20 as a whole. This diversity appears to be a result of major players from a variety of sectors competing for DHS dollars.

Three of the top five—Computer Sciences Corporation, IBM, and Unisys—are information technology (IT) companies even though Figure 2-6 showed that only 8 percent of DHS's market share fell into the ICT category. This suggests that IT companies often work in PAMS and R&D. Four of the big five defense contractors also appear in the top 20, but only General Dynamics made it into the top five. The list is rounded out by Carlyle, which recently acquired Booz Allen Hamilton's government services division, and commercial giants Hewlett-Packard, Siemens, and Accenture. Finally, security companies, such as G4S, Chenega, and the Corrections Corporation of America, have an unsurprising presence given DHS's focus.

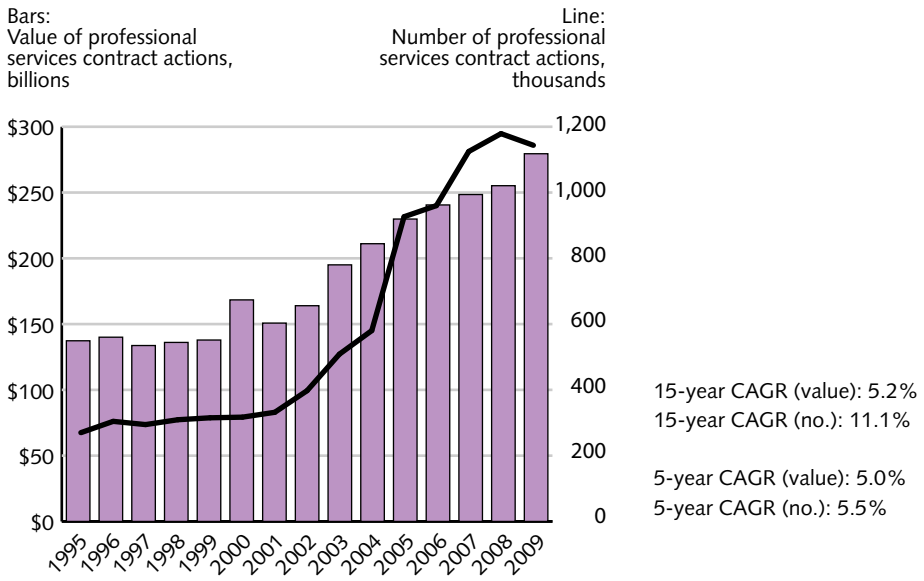
CHAPTER 3

Evolution of the Federal Professional Services Industry, 1995–2009

In this chapter:

- Evolution of the federal professional services industry
- Market growth trends by service type
- Types of contract vehicles, by both value and number of contract actions
- Contract funding schemes, by value
- Extent of competition, by value
- Distribution of contracts
- Trends in growth in the number of contractors by service type
- Trends in distribution of market share to small, medium, and large contractors

Figure 3-1. Growth of the Federal Professional Services Market, 1995–2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Note: Certain ERS codes ordered by the VA have been removed from the contract action data for the years 2005–2008 because of nonstandard reporting practices. See the methodology at the end of Chapter 1 for more details.

Growth in Federal Services Contracting — Figure 3-1

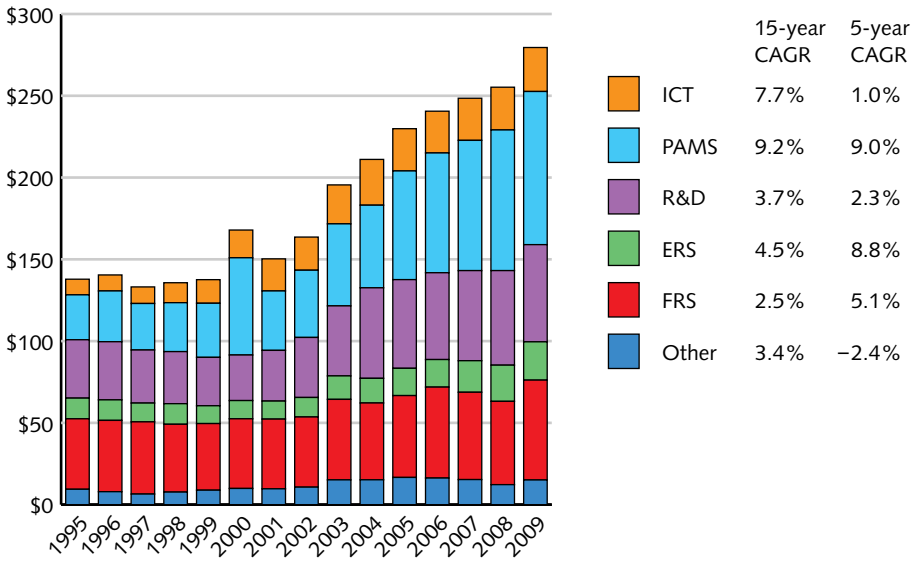
During the past 15 years (1995–2009) the federal professional services market has seen a marked increase in both the total value and the total number of contract actions, although this growth has slowed in the last five years. Figure 3-1 shows that the total value of contract actions grew from $137 billion in 1995 to $280 billion in 2009, representing a compound annual growth rate (CAGR) for value of contract actions of 5.2 percent. The total number of contract actions soared during this same time period from 265,000, to 1.15 million, delivering a CAGR of 11 percent for number of contract actions. During the past five years, the value and number of contract actions have grown slightly more slowly, with CAGRs of only 5.0 percent and 5.5 percent, respectively.

Growth in the federal professional services market has been lumpy. A close examination of Figure 3-1 shows that the market was essentially flat at around $135 to $140 billion from 1995 to 2000, despite a decade of policy recommendations that the government should outsource more of its service functions in order to create efficiencies. The spike in the year 2000 was focused in the Department of Housing and Urban Development and appears to have been a data reporting error.

Growth in DOD contracts was steady after September 11, 2001, because the wars in Afghanistan and Iraq employed contractors in a variety of support roles to complement relatively low numbers of troops deployed. Substantial growth also occurred on the civilian side, but that growth was also more sporadic, suggesting a variety of causes. In the five-year period of 2005–2009, the total value of professional services bought by the federal government rose

from $230 billion to $280 billion. Half of that growth occurred in the period 2008–2009, marking the biggest year-on-year increase in the market's value since 2002–2003. During the same period, the total number of contract actions decreased for the first time since 1995–1996.

Figure 3-2. Growth Trends in the Federal Professional Services Market, by Activity Category, 1995–2009

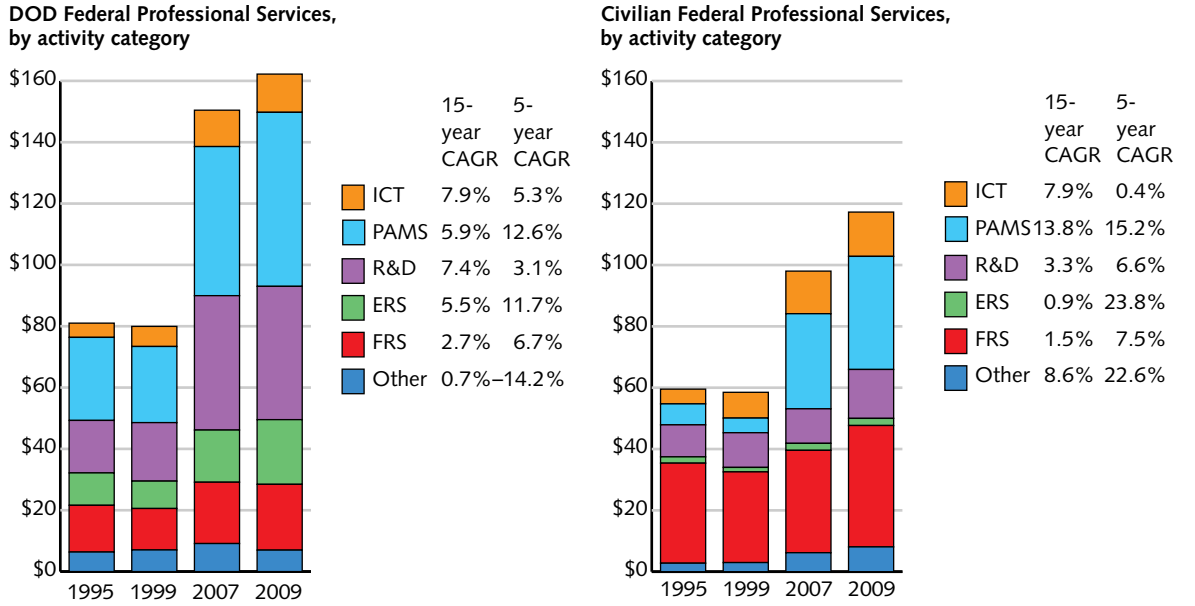


Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Growth by Market Segment — Figure 3-2

During the past 15 years, the fastest-growing market segments have been PAMS and ICT, with 9.2 and 7.7 percent annual growth rates, respectively. During the past five years, however, growth in ICT has slowed to a crawl, while ERS and FRS have grown twice as fast as they did when measured over the 15-year period. Growth in PAMS remains strong, and it has controlled the largest share of the market during the past decade.

Figure 3-3. Growth Trends in the DOD and Civilian Federal Professional Services Market, by Activity Category, 1995, 1999, 2007, 2009



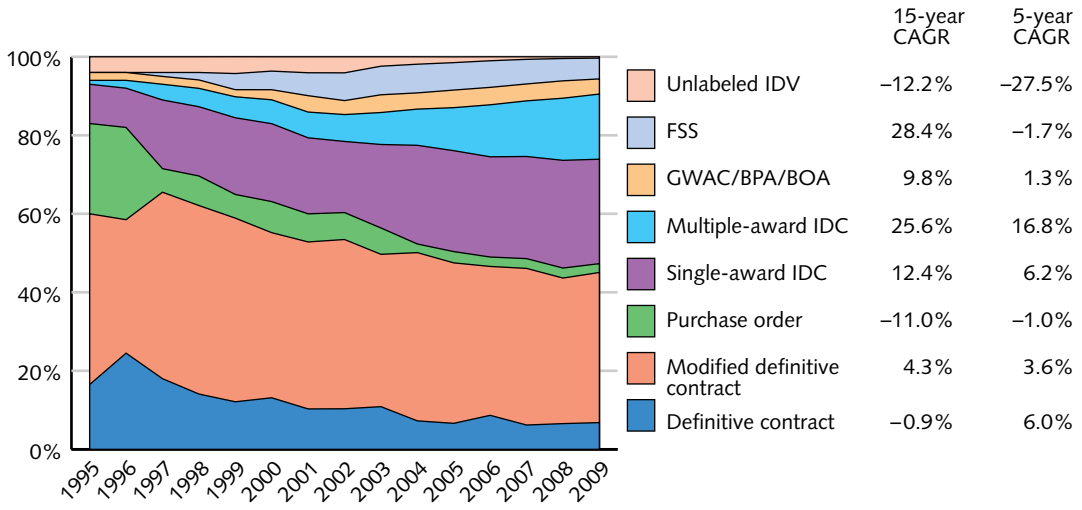
Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Growth by Market Segment: Defense Compared with Civilian — Figure 3-3

When the federal professional services market for DOD and for civilian agencies is compared, several distinct historical trends emerge. Growth in R&D and ERS have been driven mainly by DOD purchases, while civilian agencies have traditionally been the greatest consumers of FRS. During the past 15 years, the ICT and R&D segments of the DOD professional services market have grown fastest, increasing at annual rates of 7.9 and 7.4 percent, respectively. During the past five years, R&D growth has dropped off, while PAMS and ERS have grown at annual rates of 12.6 percent and 11.7 percent, respectively. This is a reversal for PAMS, which historically possessed a large share of the DOD professional services market but had not been as fast growing as other segments.

The professional services market for civilian agencies has been far more dynamic than that for defense. Between 2003 and 2004, the civilian PAMS market segment exploded, starting a trend of growth that has held strong during the past five years. FRS has also experienced strong growth in the past five years after longer-term stagnation. This is notable as FRS is a traditional area of focus for civilian agencies, particularly for the DOE. ERS growth outpaced the growth of FRS, with the high CAGR of ERS owing much to its relatively low baseline (less than $3 billion) compared with the nearly $40 billion FRS segment. The civilian R&D market segment declined in 2004 but has grown over 40 percent in the past two years. Civilian spending on ICT has experienced slow growth during recent years; this slowdown occurred even as DOD ICT posted 5.3 percent annual gains during the same period.

Figure 3-4. Types of Federal Professional Services Contracting Vehicles, by Percentage of Value, 1995–2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Evolution of Contracting Vehicles — Figure 3-4 and Figure 3-5

Figure 3-4 and Figure 3-5 illustrate the makeup of overall contract actions awarded through various contract vehicles. These figures show three important trends in the evolution of federal services contract types: multiple- and single-award indefinite delivery contracts have been increasing at a fast pace; modified definitive contracts are still the preeminent award vehicle, and use of less common vehicles has been dropping during the past five years.

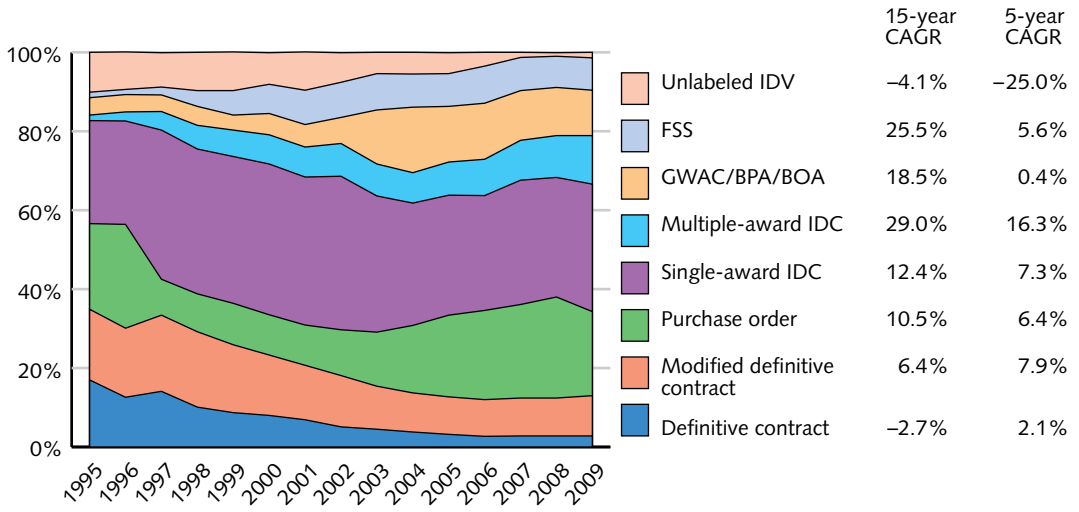
Within this growing marketplace, the federal government has been changing the way it contracts for services. There are eight major categories of contract vehicles:[1]

- Definitive contract,
- Modified definitive contract,
- Purchase order,
- Single-award indefinite delivery contract,
- Multiple-award indefinite delivery contract,
- Federal Supply Services contract,
- Government-wide acquisition contract, blanket purchase agreement, basic ordering agreement,
- Unlabeled indefinite delivery vehicle.

The first important trend is the rise of indefinite delivery contracts (IDCs), which collectively have increased their dollar share by 9.7 percent per year during the past five years and

1 These categories have changed from the previous years' reports to incorporate information on both award vehicles and indefinite delivery vehicles. These changes have resulted in categories that are based on the FPDS database structure used as of 2005. The pre-2005 FPDS data has been updated to reflect the new categories.

Figure 3-5. Types of Federal Professional Services Contracting Vehicles, by Percentage of Number of Contract Actions, 1995–2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Note: Certain ERS codes ordered by the VA have been removed from the contract action data for the years 2005–2008 because of nonstandard reporting practices. See the methodology at the end of Chapter 1 for more details.

now represent 43 percent of the total market. Multiple-award IDCs have been the standout subcategory, with 16.8 percent growth in the past five years. This rise is driven in part by IDCs taking market share from unlabeled IDVs, which refer to contract actions that are known to be IDVs but are not labeled with information to allow further categorization. The steady decline of that subcategory in both dollar terms and contract-action terms is good news and reflects better accounting by the government.

The second trend is the continuing importance of modified definitive contracts, which have shrunk in percentage terms but still control 38 percent of contract dollars. Their share of contract actions is a mere 13 percent, which is eclipsed by the 21 percent of contract actions going to purchase orders. The breakdown between modified and unmodified contracts is an imperfect proxy for determining how many new contracts are available each year. With that in mind, over the entire study period, note that modified definitive contracts capture far more value than their unmodified counterparts. This implies that in any given year a large share of the market is already spoken for and that incumbents on existing programs retain a significant presence in the market.

While IDCs are rapidly expanding and definitive contracts are continuing to grow in absolute terms, most other contract vehicles are growing slowly or stagnating. Collectively, the contract values of GWACs, BPAs, and BOAs have only a 1.3 percent five-year CAGR. Meanwhile, the dollar share of purchase orders is stagnating with a –1.0 percent CAGR despite notable growth in contract actions since 2003. FSS contracts have the largest market share of these other vehicles, but they have accounted for steadily fewer dollars for the past five years, with a –1.7 percent CAGR. Taken together, these trends may suggest that choice of contract vehicles is narrowing around a smaller number of preferred options. This decline in dollars

awarded through GWACs is reflected in the fact that the list of active GWACs as of June 2010 contains only 10 of the vehicles compared with 14 in December 2007:

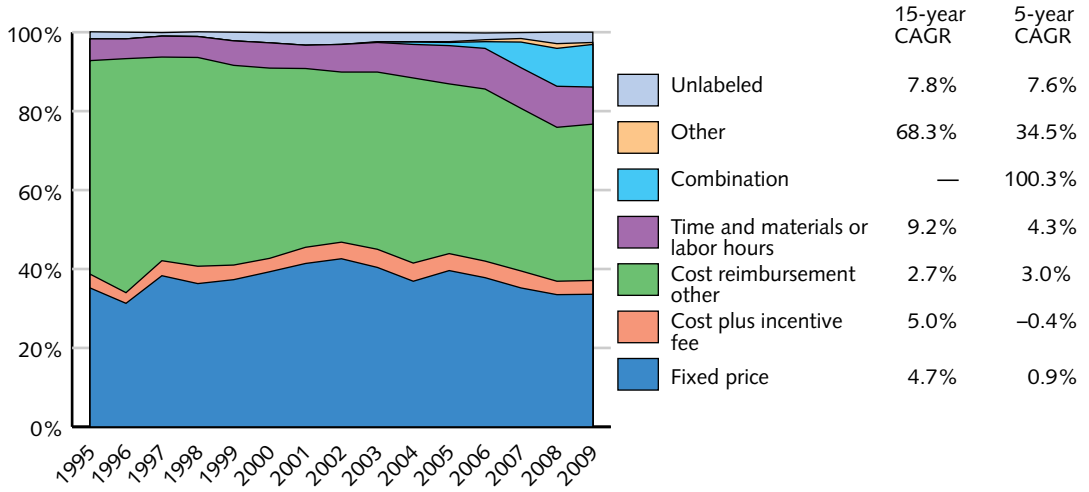
- General Services Administration (five GWACs): Alliant, HUBZone, VETS, COMMITS NexGen (previously managed by Department of Commerce), and 8(a)STARS;
- National Institutes of Health (three GWACs): CIO-SP2i, Image World 2 New Dimensions, and Electronic Commodities Store (ECS) III;
- National Aeronautics and Space Administration: SEWP III;
- Environmental Protection Agency: READ.

The growth of multiple-award IDCs at the expense of other forms of IDVs suggests a change in policy on these vehicles. Changes in policy may be the result of efforts to increase the transparency of government- and enterprise-wide contracting procedures. In February 2006, the Office of Federal Procurement Policy (OFPP) under the Office of Management and Budget (OMB) initiated an effort to identify the number and scope of interagency contracts and collect other information related to interagency acquisitions. In June 2008, OFPP published a report titled "Government Acquisition," which provides a set of factors for maximizing value for government- and enterprise-wide contracts, describes the process of issuing such contracts, and advises when it is suitable to use them. As of October 1, 2008, agencies are required by OMB to ensure that decisions to use interagency acquisitions are supported by best-interest determinations, as described in this report.

This OFPP effort was accompanied by other government initiatives that focused on reducing duplication. This change in policy was a response to cases in which various departments and agencies issued enterprise-wide contracts to procure IT services (rather than leveraging government-wide vehicles), despite the fact that most of these services may be similar across all of government. Intra-agency and inter-agency review processes, using mechanisms such as the Interagency Contract Directory, are meant to help agencies identify available interagency contract tools that may be suitable for meeting their needs.

The phenomenon of proliferating agency-, enterprise-, and government-wide contracting vehicles raises barriers to entry for the services industry because participating in multiple-award IDCs requires competing to qualify for the vehicle as well as competing under expedited procedures to win awards. The unmodified definitive contracts are losing their share of the total market value but are still increasing in absolute terms because of the overall growth of the market. This may explain why Figure 3-11 shows that the number of contractors has remained steady despite jumps in the available market. In addition, multiple-award vehicles may be contributing to the increasing market share of large companies, shown in Figure 3-13, that can pursue mergers and acquisitions to overcome a failure to win access to one of these IDCs.

Figure 3-6. Funding Schemes of Federal Professional Services Contracting Vehicles, by Percentage of Value, 1995–2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

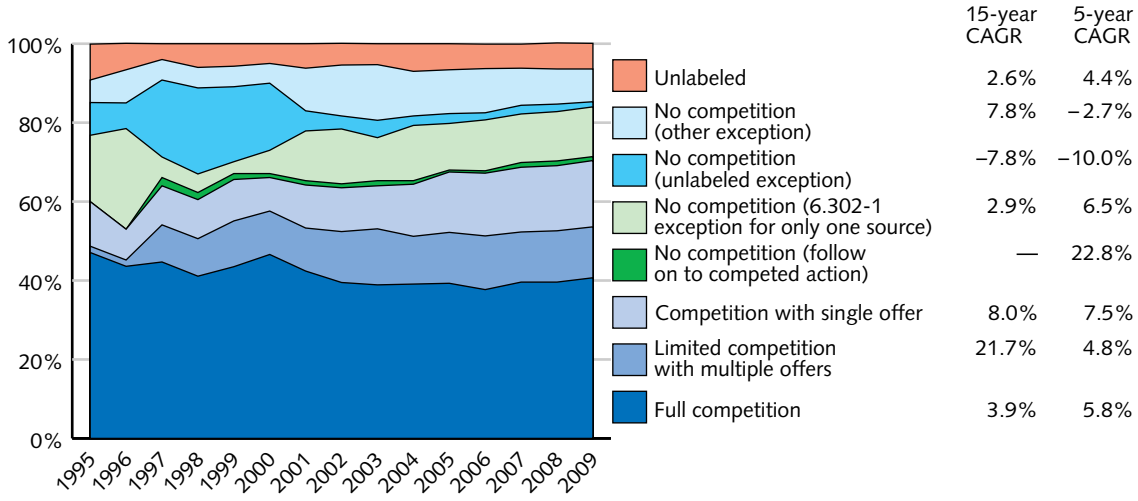
Evolution of Funding Schemes, 1995–2009 — Figure 3-6

As a proportion of awards, the dollar amount of fixed-price contracts has decreased slightly, from 35 percent of all contract dollars awarded in 2007 to 34 percent in 2009. All forms of cost reimbursement contracts have also fallen, to 43 percent of contract dollars in 2009, compared with 46 percent in 2007. Both categories are still growing in absolute terms, though slowly, with a 2.9 percent CAGR for all cost reimbursement contracts and a 0.9 percent CAGR for fixed-price contracts. Remarkably, the dollars affiliated with cost-plus-incentive-fee contracts, a mechanism favored by some acquisition reformers, has shrunk to a –0.4 percent five-year CAGR although spending in this category is up by more than $1 billion since 2008.

The market share losses suffered by these common contracts have been picked up by contracts making use of a mix of different funding schemes. Use of these combination contracts has grown by more than 100 percent in the past five years.

Contract dollars awarded on the basis of time and materials or labor hours experienced some of the strongest growth out of the funding scheme categories in the last 15 years. Since 2005, contract dollars awarded in this category have held steady at 10 percent of total contract dollars awarded.

Figure 3-7. Extent of Competition of Federal Professional Services Contracting Vehicles, by Percentage of Number of Contract Actions, 1995–2009



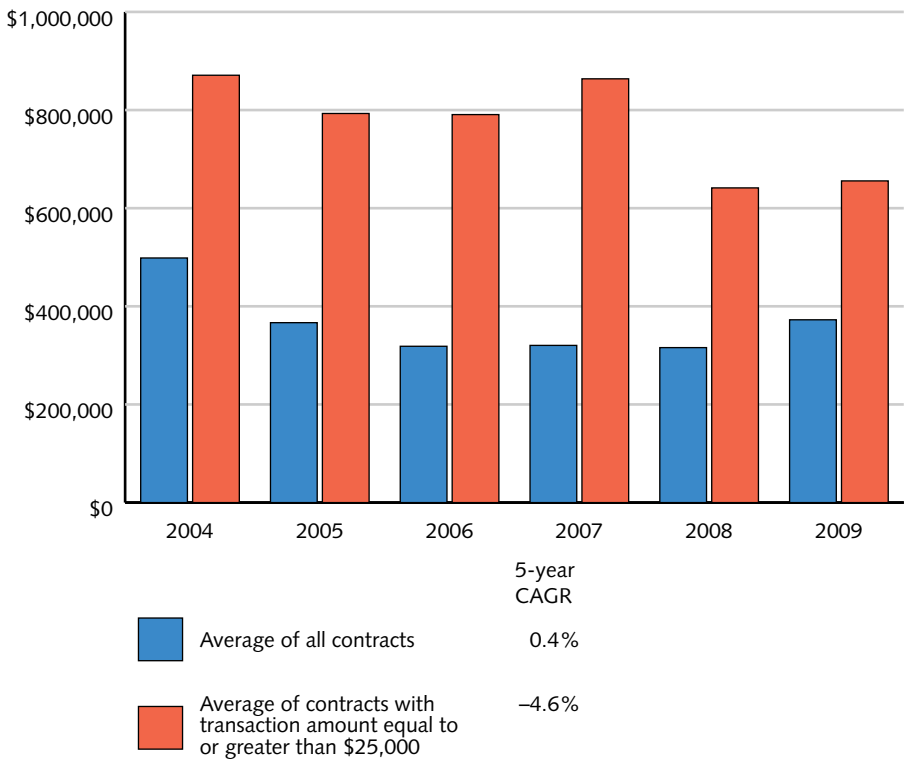
Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Evolution of Competition — Figure 3-7

More dollars are going to awards with some competition, although the category of competition with single offer (with a CAGR of 7.5 percent) is growing faster than full competition or limited competition with multiple offers, with CAGRs of 5.8 percent and 4.8 percent, respectively. However, the subset of the limited-competition category that did not receive multiple offers is the fastest-growing form of limited competition and accounted for nearly $15 billion in contracts in 2009. The "no competition – follow on to competed action" category, which was previously blended into the competitive categories, is the fastest-growing in terms of CAGRs but is associated with less than $3 billion in contract dollars.

The number of no-competition awards, either through the use of FAR 6.302-1 waivers or otherwise, has risen slightly in the past five years. The 5.2 percent annual increase in awards not competed because of FAR 6.302-1 only one source exceptions during the past five years was largely offset by a decrease in non-FAR 6.302-1 awards. Without the breakdown of the "no competition (unlabeled exception)" category, validating the 15-year CAGR is infeasible; thus, it is difficult to confirm whether the rise of uniqueness waivers is a recent phenomenon. Regardless of the start year of this trend, this category—in combination with the rising market share of competition with single offer—suggests a potential challenge in services acquisition. Although the use of competitive procedures is increasing in terms of market share, in many cases the government is declaring or discovering that only one contractor can meet its needs.

Figure 3-8. Average Values of Federal Professional Services Contracts, 2004–2009

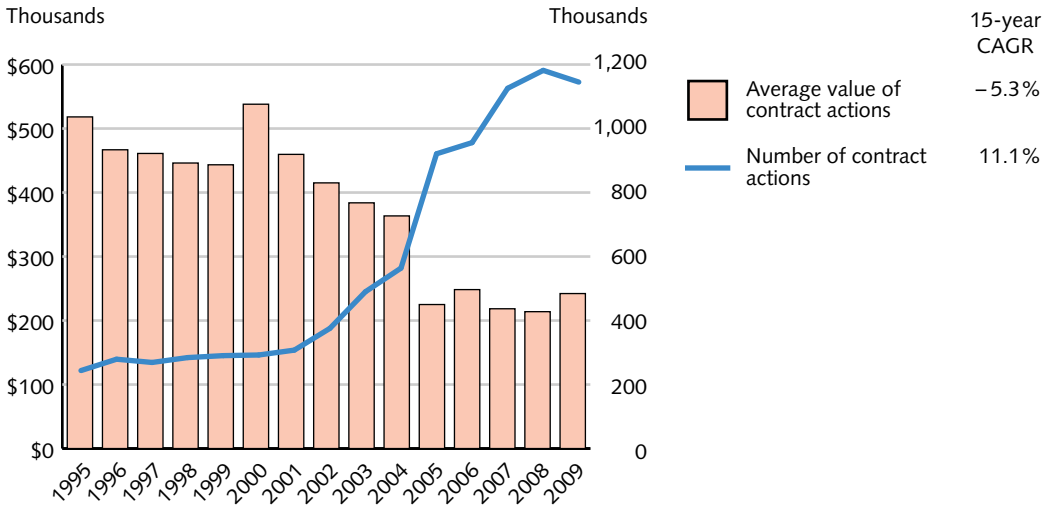


Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Average Value of Contracts — Figure 3-8

Another dynamic under way in the federal professional services market has been the change in average contract size. Figure 3-9 shows that the average value of larger contracts during the past six years has dropped significantly, from just under $800,000 in 2006 to around $650,000 in 2009. This came on the heels of a larger drop during the FPDS reporting methodology between 2003 and 2004. Perhaps surprisingly, the overall average contract size now appears to be slowly rebounding since 2005, although it has not yet caught up to 2004 values.

Figure 3-9. Number and Average Value of Federal Professional Services Contract Actions, 1995–2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Note: Certain ERS codes ordered by the VA have been removed from the contract action data for the years 2005–2008 because of nonstandard reporting practices. See the methodology at the end of Chapter 1 for more details.

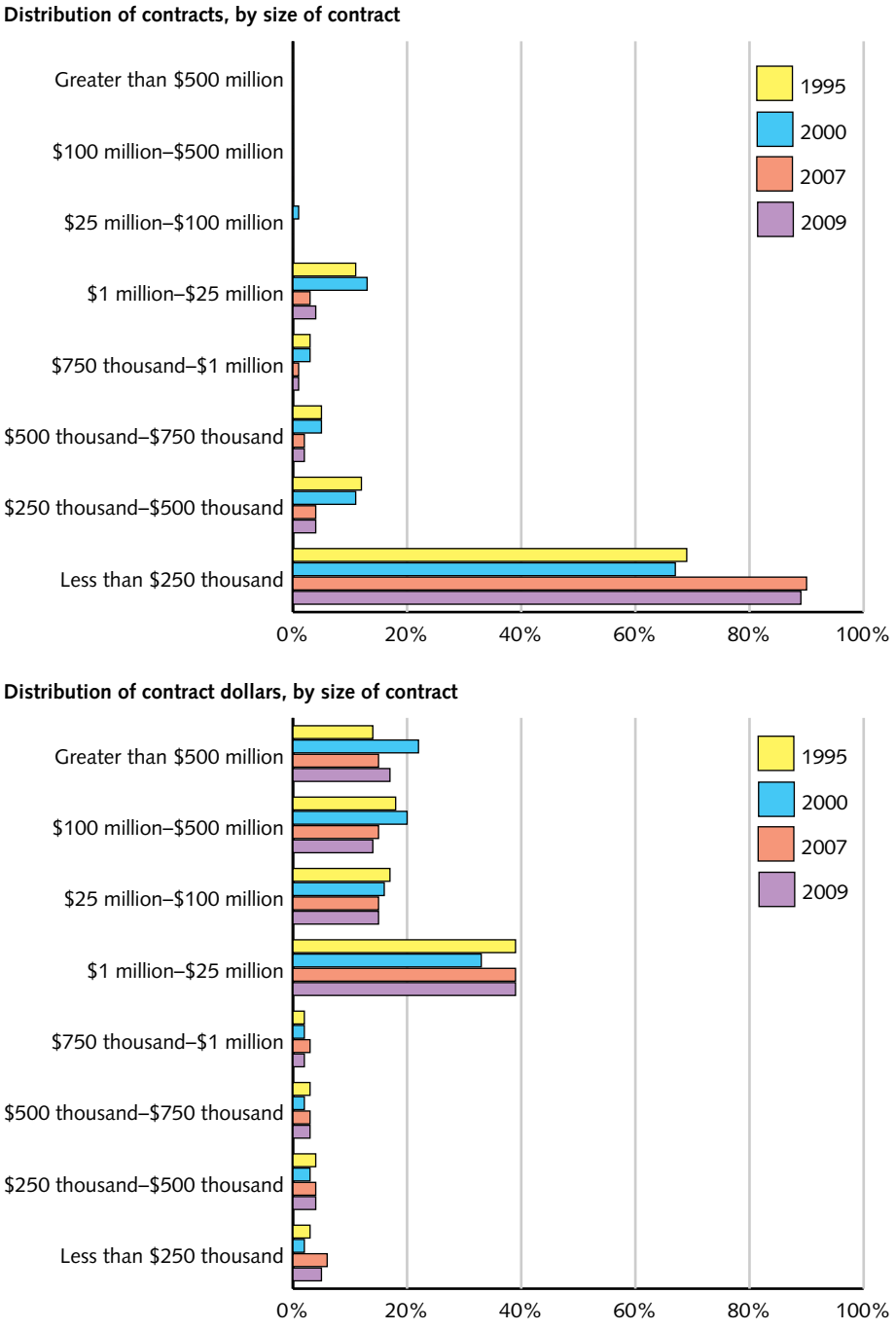
Number and Average Value of Contract Actions, 1995–2009 — Figure 3-9

Average and median values of contract actions have been largely stable since a dropoff in the first half of the last decade. Between 1995 and 2009, the average contract action size decreased 5.3 percent per year, to $242,000 in 2009, while the median contract action value dropped by more than 16 percent per year, to about $7,000 in 2009. The increased use of broad multiple-award contract types combining multiple contract actions has been driving this trend. This decline slowed after 2005 and reversed itself between 2008 and 2009 when both average and median values slightly increased.

Distribution of Contracts — Figure 3-10

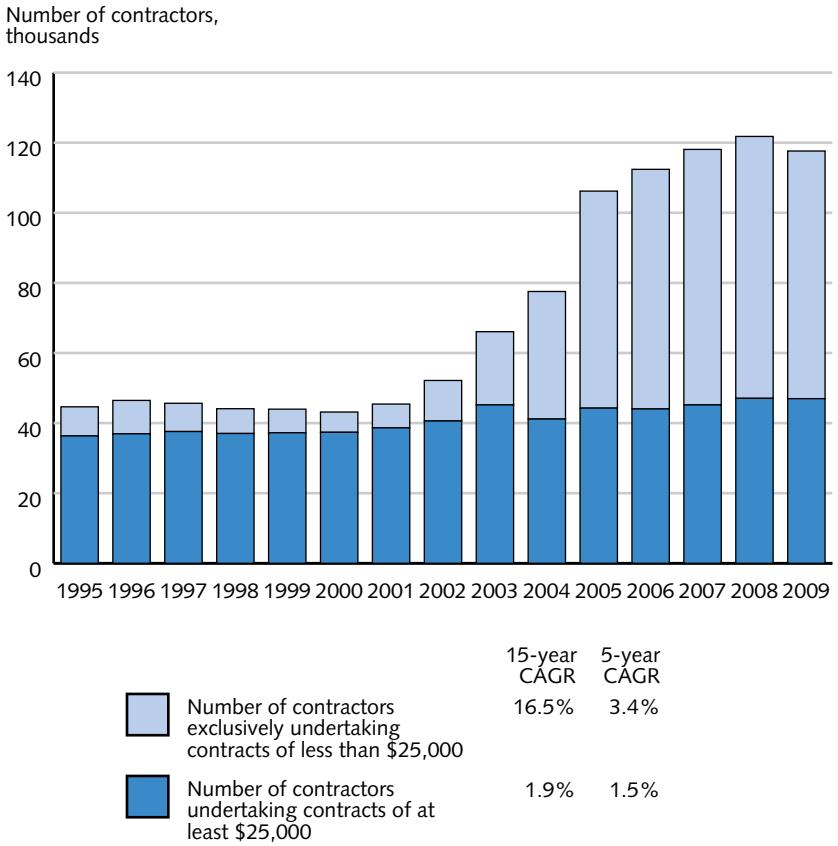
The distribution pattern of services contracts shows that those worth $250,000 or less represent 89 percent of all actions awarded in 2009; however, the cumulative value of all these contracts accounted for only 5 percent of the total dollars awarded. This represents significant contracting activity for a relatively small share of the market. Consequently, 11 percent of the contracts received approximately 95 percent of total federal dollars spent on professional services, with the sweet spots of the market represented by contracts with a value of $1–25 million and, to a much lesser degree, those with a value of more than $500 million.

Figure 3-10. Distribution of Contracts and Contract Dollars, by Size of Contract, 1995, 2000, 2008 and 2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Figure 3-11. Number of Federal Professional Services Contractors, 1995–2009



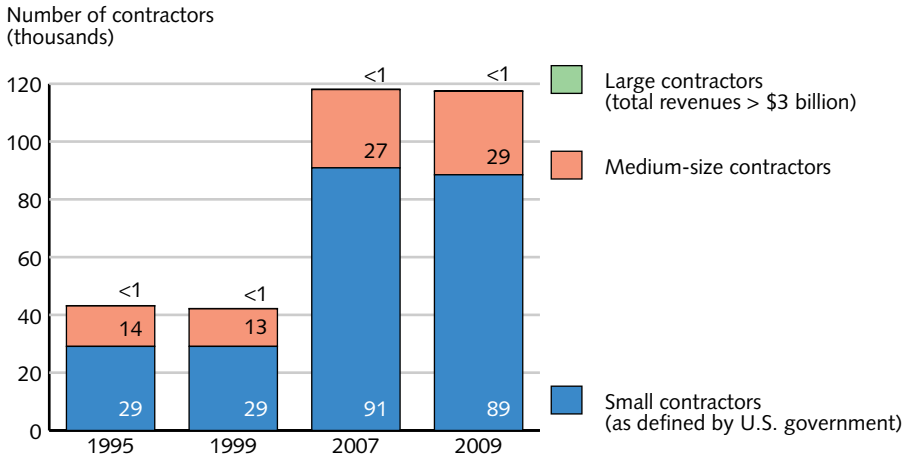
Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Evolution of the Services Contractor Base — Figure 3-11

The overall professional services industrial base remained surprisingly stable during the past four years, averaging approximately 117,000 contractors. This stability is the new normal after the size of the industry more than doubled in the years between 2001 and 2005. Thus, while the overall federal professional services market grew at a 5.2 percent CAGR during the past 15 years, the number of contractors grew by 7.2 percent per year, with the majority of that growth occurring between 2001 and 2006. For the most recent year, however, the number of contractors has declined as uncompetitive organizations undertaking smaller contracts have exited the market. These contractors likely either exited the market because of pressures from the financial crisis after 2008 or voluntarily withdrew from the federal services market as they considered moderate revenues from such contracts insufficient for continuing their participation.

A more detailed look at the structure of the professional services industrial base indicates that the bulk of the growth in the number of contractors occurred through the entry of entities undertaking only contracts worth $25,000 (in current dollars) or less. As the recent retreat of these contractors from the market indicates, it is likely that a portion of this segment of the industrial base was impermanent and represented firms and institutions testing the waters of

Figure 3-12. Number of Small, Medium, and Large Contractors in the Federal Professional Services Industry, 1995, 1999, 2007, 2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

a rapidly growing market. However, the jump of 25,000 contractors winning smaller contracts between 2004 and 2005 as well as some of the earlier growth can be attributed to lower reporting thresholds put in place in 2004, which caused FPDS to begin recognizing additional existing contractors.

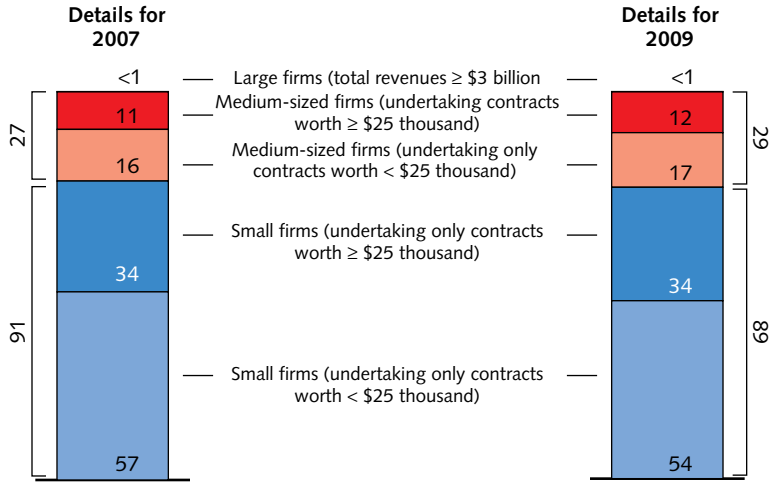
The core industrial base of contractors undertaking larger contracts has expanded more modestly. Figure 3-12 shows that the number of contractors undertaking contracts greater than $25,000 (in current dollars) since 1995 has been stagnant, rising only 1.8 percent per year, from 36,000 to 47,000 contractors.

Number of Small, Medium, and Large Contractors, Figure 3-12

The professional services industrial base can be segmented into small, medium, and large contractors, as defined in the methodology section at the end of Chapter 1. The most notable change from prior years is that the cutoff for being a large contractor is now $3 billion, and large universities and joint ventures are systematically tracked. From 1995 to 1999, two-thirds of the industrial base was composed of small organizations. By 2007, the ranks of small entities had nearly tripled, although a few thousand of those organizations had left the sector by 2009. Even with those departures, small contractors make up three-quarters of the professional services industrial base. During the same 15-year period, the number of medium-sized contractors increased by almost 110 percent. In the period between 2007 and 2009, the small organizations started to be replaced by increasing numbers of medium-sized contractors, which shows that small entities have been bought out or exited the market.

Another way of characterizing the industry is on the basis of the amount of federal services contracting an organization undertakes compared with the overall size of the firm or institution. An analysis of the 2009 data indicates that of the nearly 120,000 professional services contractors, only about 3,000 have $8 million or more of federal professional services revenue, and 200–300 contractors have $100 million or more of services revenue. This implies that the

Figure 3-13. Detailed View of Number of Small, Medium, and Large Contractors in the Federal Professional Services Industry, 2007, 2009 (in thousands)



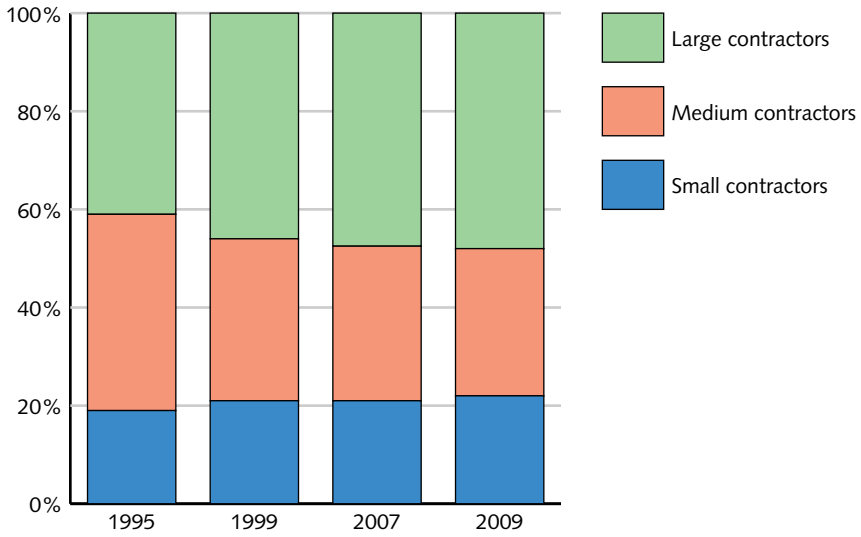
Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

majority of the industrial base comprises small- or medium-sized entities that undertake little federal professional services work relative to their overall revenue.

Segmentation of the Services Contractor Base — Figure 3-13

Figure 3-13 shows that almost 60 percent of the small and medium-sized contractors execute only contracts that are smaller than $25,000 (in current dollars). This represents a decrease of about one percentage point since 2007 and a reversal of the prior increasing trend. Three-quarters of the entities undertaking the small contracts are small contractors. It remains to be seen what proportion of these small-business, small-contract participants will remain in this market should federal professional services budgets come under significant pressure at some point in the future.

Figure 3-14. Market Share of Small, Medium, and Large Contractors in the Federal Professional Services Industry, 1995, 1999, 2007, and 2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Evolution of Market Shares — Figure 3-14

When the market shares held by the small, medium, and large companies in the industry are examined, it is clear that mid-tier companies have suffered a significant erosion of their relative share. In 1995 medium-sized contractors captured 40 percent of the total value of federal professional services contracts. By 2007 the mid-tier organizations were able to capture only 32 percent of that value; and this dropped to 30 percent by 2009. Small-business set-aside laws and other policies protecting small contractors have clearly worked in the professional services industry. During the past 15 years small companies have slowly increased their market share from under 19 percent to 21.6 percent of the value of prime contracts (their share of the market is larger if the value of subcontracts is included).

The large companies in this industry have been particularly active via mergers and acquisitions (see Appendix B) and have been able to increase their market share, from 41 to 48 percent. The mid-tier has thus been squeezed from above by consolidation and, to a much lesser degree, from below by small entities slowly growing their share of the market. The majority of this squeeze appears to have taken place between 1995 and 1999, although the trends have continued at a slower pace in recent years.

CHAPTER 4

Policy Implications

During the past 15 years, the federal government has increasingly relied on the private sector for the provision of professional services (Figure 4-1 on the next page). Since 1995 federal spending on professional services has consistently represented about 20 percent of the total federal discretionary budget, reaching a record high in dollar terms in 2009 at $280 billion. This drive toward an increasing public reliance on private firms is primarily driven by two beliefs: First, that contracting to private industry for the provision of some of the traditional, as well as emerging, government functions may enable federal departments to redeploy resources to more value-added functions. Second, that this practice has the potential to concurrently elevate responsiveness for these functions and create surge capacities for emergencies.

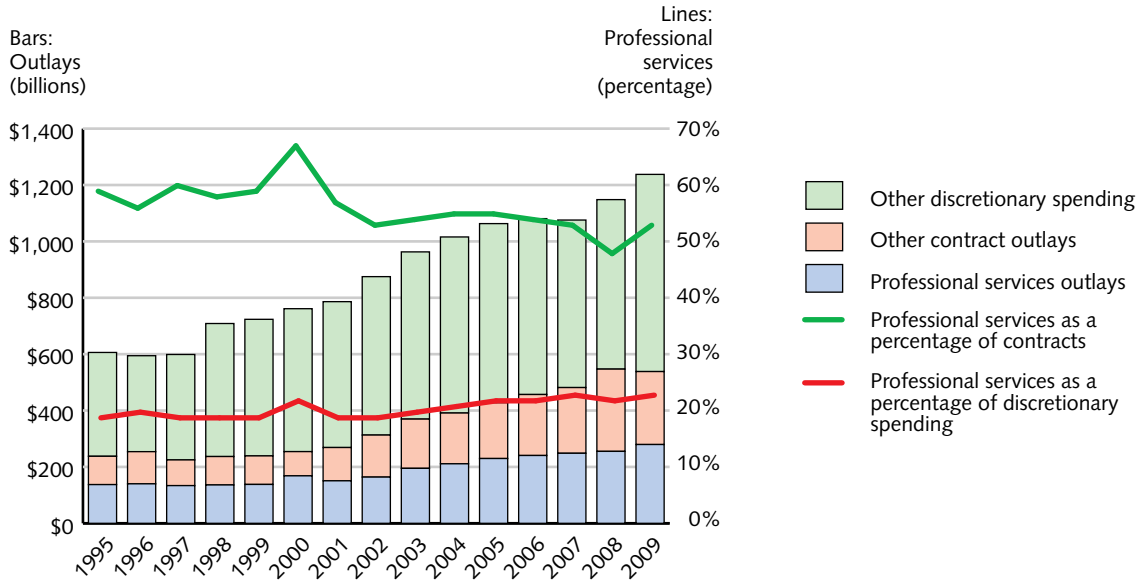
This increased scope and visibility of the federal professional services industry raises important public policy issues. Legitimate questions of limits, incentives, fairness, value received, and appropriateness of regulatory frameworks have been articulated for years. The balancing of private and public equities will require thoughtful deliberation. For the government, overzealous regulation, especially in times of economic recession and deficit balancing, may drive away precisely those innovative and efficient firms that the federal government is seeking to attract. For the contractors, lack of proper oversight risks the loss of public trust and acceptance of private contracting as a viable means of executing federal responsibilities. Because the allocation of contracts in the federal system occurs within both a political and an industrial context, care must be taken not to sacrifice long-term goals for short-term benefits.

The substantial growth from $137 billion in 1995 to $280 billion in 2009 in government spending on professional services, as discussed in chapter 3, has further elevated the importance of these issues. The contracting of services differs significantly from acquiring goods and products. Services contracts are more heterogeneous and cover a greater number of contract actions, and their performance is more complicated to evaluate. This in turn makes the formulation of requirements, the establishment of performance-based outcomes, and the assessment of contractor performance more challenging.[1]

The current U.S. administration has initiated efforts for reforming the way government contracting is conducted. It has also started to reshape the political-legal framework for services contracting by issuing new guidance and setting new priorities. These revisions, in concert with growing budgetary pressures, create a series of questions about the future of services contracting and will require thorough analysis.

1 *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes,* Report no. GAO 07-20 (Washington, D.C.: Government Accountability Office, November 2006), 6–7, www.gao.gov/new.items/d0720.pdf.

Figure 4-1. Federal Professional Services Spending in Context, 1995–2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

What is the right balance between government in-house capacities and outsourcing of services? Every category of professional services analyzed in this report exhibited mid-single-digit compound annual growth during the past decade. Although the overall market grew by 8 percent between 2008 and 2009 and may continue to do so in the short term, new government initiatives are attempting to reverse some of the outsourcing tendencies of past years. Figure 3-2 shows that some sectors are already slowing: during the past five years, growth rates for ICT and R&D have dropped to 1 percent and 2.3 percent, respectively. After President Obama issued the Presidential Memorandum on Government Contracting on March 4, 2009, the Office of Management and Budget (OMB) released a series of memorandums that focused on improving government oversight for contracts, increasing competition for contracting, restructuring contract vehicles being used, rebuilding the federal acquisition workforce, and generating concrete saving goals for contract spending.[2]

Many of these objectives are associated with a tendency to increase the federal workforce and to decrease contracting activity. The OMB memorandum on Improving Government Acquisition, for example, requires federal agencies to save 7 percent of baseline contract spending by the end of fiscal year (FY) 2011.[3] This objective will hardly be achievable without shifting tasks away from contractors and into federal positions, in part newly created ones.

2 "Presidential Memorandum on Government Contracting," The White House, Office of Management and Budget, Office of Federal Procurement Policy, March 4, 2009, www.whitehouse.gov/omb/procurement_index_gov_contracting/.

3 Peter R. Orszag, "Improving Government Acquisition" (memorandum for the heads of departments and agencies from the director of OMB, July 29, 2009), www.whitehouse.gov/sites/default/files/omb/assets/memoranda_fy2009/m-09-25.pdf.

Determining the right workforce mix between contractors and federal employees therefore constitutes an overarching challenge and has already been the focal point of considerable debate.

This issue is not exclusively driven by economic factors such as cost savings and better value for money. The question of government oversight with regard to contracting and the proclaimed policy shift toward rebuilding the federal acquisition workforce also touches on the question of which functions should be reserved for federal employees. Federal acquisition regulations prohibit the outsourcing of all tasks that are "inherently governmental." But the exact meaning of "inherently governmental" has varied over time, depending on the urgency of the government's needs and its ability to fulfill its own requirements organically.

A March 31, 2010, document by the Office for Federal Procurement Policy (OFPP) on the subject of reforming the definition of inherently governmental functions has sparked an intense debate about where to draw the line.[4] Most senior policymakers agree that government should retain the right to make policy, commit public funds, and evaluate the results of services and products procured. The final revision of the definition of what is inherently governmental will have a profound impact on the workforce mix of federal employees and contractors. The resulting policy will consequently alter the shape and size of the professional services industry and affect trends in services contract spending in coming years.

How will growing budgetary pressure affect services contracting? The rapidly growing federal deficit will increasingly put pressure on federal spending, including services contracting. The key question will be where the significant budget cuts will be made. The overall tendency toward insourcing combined with upcoming budgetary pressures could indicate that the professional services industry might be considerably affected.

Even for the defense budget, the time of substantial growth is slowly coming to an end. On June 28, 2010, Ashton B. Carter, Under Secretary of Defense for Acquisition, Technology and Logistics, issued the Memorandum on Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending, marking the latest initiative to improve efficiency in the acquisition business. To further this endeavor, the memorandum encourages leveraging more competition, applying more appropriate contract vehicles for acquiring services, and integrating affordability as a key requirement.[5]

One area that is still expected to experience growth is the buildup of the contracting and acquisition employee corps within the DOD in order to achieve better oversight for contracts.[6] The insourcing of functions, higher oversight scrutiny, as well as the slowly decreasing requirements for services support in contingency operations in the foreseeable future are likely to have a limiting effect on spending for services contracting. Further analysis will be

4 Office of Management and Budget, "Work Reserved for Performance by Federal Government Employees," *Federal Register* 75, no. 61 (March 31, 2010), http://edocket.access.gpo.gov/2010/2010-7329.htm.

5 Ashton B. Carter, "Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending" (memorandum for acquisition professionals from the under secretary of defense, June 28, 2010), appendix slides, https://dap.dau.mil/policy/Documents/Policy/Carter%20Memo%20on%20Defense%20Spending%2028%20Jun%202010.pdf.

6 Robert M. Gates, "Eisenhower Library (Defense Spending)" (remarks by secretary of defense at Eisenhower Library, Abilene, Kansas, May 8, 2010), www.defense.gov/speeches/speech.aspx?speechid=1467.

needed to evaluate a more detailed picture of the projected impact on the services contracting field.

How much competition is beneficial to the government and under what circumstances? Competition can be an extremely effective tool for managing the industrial base, particularly when there is an asymmetry of information between industry and government. Sometimes, however, other tools are a better fit for the job at hand. As a general policy, competition is used to create incentives for suppliers to keep costs down and quality up. However, situations arise where running repeated competitions for specialized services, where very limited numbers of qualified suppliers exist, may cost the government more money that it saves. In these cases, government will have to develop alternative strategies and models for achieving cost savings and ensuring quality standards in a noncompetitive environment.

Is the current structure of the services industrial base sustainable? Two related but different factors are shaping the services industrial base today. The first is that the existing small, socially and economically disadvantaged, and service-disabled veterans' business set-aside laws have clearly been working in the professional services market, as small businesses have consistently maintained a 19–21 percent share of total government services contracts (see Figure 3-14). There is anecdotal evidence, however, of some negative side effects—companies that never graduate from their protected status, for example—that are worth further study.

The other important factor (also shown in Figure 3-14) is the growing clout of companies with annual revenue greater than $3 billion. Together the large and small companies are slowly squeezing out a viable cadre of mid-tier companies. Traditionally, mid-tier companies have served as a conduit for new ideas and improved business practices. Policymakers must determine whether a robust middle tier of services companies is important or desirable for the federal marketplace. If so, current incentives for companies to enter and remain in this mid-market level must be revisited.

How will revisions of organizational conflicts of interest (OCI) rules affect the structure of the services industrial base? Since 2001, the transaction volume of M&A deals in the professional services sector has doubled. As a by-product of all this activity, several systems engineering and technical assistance (SETA) contractors have ended up as part of larger firms, sometimes supervising their parent or sister companies for the federal government. The concern over the potential for OCI is mounting within the government. Efforts are currently under way to limit and better regulate these potential sources of OCI in contracting. The National Defense Authorization Act (NDAA) for FY 2009 requires in section 841 the development of a new policy to prevent personal conflict of interest for employees on federal government contracts as well as a review and potential revision of the Federal Acquisition Regulation (FAR) relating to personal and organizational conflicts of interest.

In the defense sector, the 2009 Weapon Systems Acquisition Reform Act (WSARA) required a revision of the Defense Federal Acquisition Regulation Supplement (DFARS) to provide uniform guidance and tighten existing requirements for OCI by contractors for major defense acquisition programs (MDAPs).[7] In response, the Department of Defense released

7 *Weapon Systems Acquisition Reform Act of 2009,* Public Law 111-23 (May 22, 2009): 26–27, www.ndia.org/Advocacy/PolicyPublicationsResources/Documents/WSARA-Public-Law-111-23.pdf.

a proposed rule on OCI for all defense contracts on April 20, 2010.[8] Based on its expected impact on the industry, the proposed OCI rule has created a significant amount of debate, similar to the new proposed definition on inherently governmental functions.[9]

The defense industry has also begun reacting to government concerns over OCI. Northrop Grumman, for instance, sold TASC, a key piece of its SETA business, in November 2009 in anticipation of the tightened OCI rules.[10] Further divestiture activities in proactive response to the OCI rules followed in 2010, when Lockheed Martin sold most of its Pacific Architects and Engineers and the Enterprise Integration Group subsidiaries.[11] The final content of the new OCI rules will determine how the industry overall will respond, with possible actions ranging from erecting internal firewalls to continuing divestiture of conflicted entities. These mitigating strategies in turn might considerably reshape the structure of the industrial base.

Do the distinct differences between services and products require a different set of acquisition regulations for services contracting? The current federal acquisition regulations were developed during the past two-and-a-half decades with a bias toward the acquisition of material goods and weapons. Matériel can be specified, developed, tested, and accepted over a period of time. Services, by contrast, fill more immediate needs. Although services contracts may extend over many years, services support often starts upon contract signature and can be more direct and personal in nature—even though personal services are prohibited under the current FARs—depending on the exact nature of the contract in question.

Many seasoned contracting officers both inside and outside of government are today raising the question: Should services be treated differently? The distinct differences between the acquisition of services and products might provide reasonable arguments for diversifying the acquisition process in order to tailor it more effectively to varying requirements. Defense acquisition leads the way in this regard. For instance, the Implementing Management for Performance and Related Reforms to Obtain Value in Every (IMPROVE) Acquisition Act of 2010, introduced by the House Armed Services Committee's Panel on Defense Acquisition and already passed by the House, adds more service-specific services acquisition provisions. Section 104 of the act requires the secretary of defense to ensure that each military department establishes a process for identifying, assessing, and approving requirements for the acquisition of services.[12] Section 107 directs revisions to the FAR to expand the references to services contracts in order to support the procurement and project management community in all aspects of the acquisition process for services.[13]

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8 Department of Defense, Defense Acquisition Regulations System, "Defense Federal Acquisition Regulation Supplement; Organizational Conflicts of Interest in Major Defense Acquisition Programs (DFARS Case 2009–D015)," *Federal Register* 75, no. 77 (April 22, 2010).

9 See, for example, Professional Services Council, "PSC Warns New Organizational Conflict of Interest (OCI) Policy Could Hurt Competition, Impact Long-Term Industrial Base," December 9, 2009.

10 Peter Lattman and Jeffrey McCracken, "Northrop to Sell TASC Unit for $1.65 Billion," *Wall Street Journal,* November 9, 2009.

11 Tucker Echols, "Lockheed Martin to Sell IT Units," *Washington Business Journal,* June 2, 2010.

12 U.S. Congress. House. *Implementing Management for Performance and Related Reforms to Obtain Value in Every Acquisition Act of 2010,* April 14, 2010: H 5013, 18–20.

13 Ibid., 24–25.

In addition, section 802 of the National Defense Authorization Act for Fiscal Year 2010 directed the Defense Science Board to create a task force to conduct an independent assessment of improvements in the procurement and oversight of services by the Department of Defense.[14] It remains to be seen how far these efforts will proceed and to what extent they will spill over into other parts of the federal government.

Implementation challenges for services contracting. The larger questions posed above, which will determine the overarching future framework for services contracting, are accompanied by more tactical challenges and inadequacies. A key issue is the comprehensive implementation of existing regulations and guidance. The Government Accountability Office (GAO) has thoroughly analyzed and scrutinized the practice of government services contracting, with a particular focus on the DOD. Sustained areas of concern have been inadequate contract oversight,[15] difficulties with the formulation of requirements,[16] the usage of suitable contract vehicles,[17] workforce issues—for contract surveillance in particular,[18] lack of visibility and effective metrics for performance assessments,[19] insufficient strategic leadership and independent management reviews,[20] the lack of risk assessments for contractors closely supporting inherently governmental functions,[21] and fragmented organizational structures supporting services contracting.[22] For some of these issues the DOD has started to provide guidance, yet in many instances this guidance has been only partly implemented.

Deficiencies in the practice of services contracting have also been acknowledged by lawmakers and the executive branch. Legislators have recently enacted numerous provisions, predominantly in the defense sector, to mitigate some of the perceived shortfalls in services contracting. Section 801 of the National Defense Authorization Act for Fiscal Year 2002, for

14 *National Defense Authorization Act for Fiscal Year 2010,* Public Law 111-84, (October 28, 2009), 211–212.

15 *Contract Management: Opportunities to Improve Surveillance on Department of Defense Service Contracts,* Report no. 05-274 (Washington, D.C.: GAO, 2005); *Defense Acquisitions: Actions Needed to Ensure Value for Service Contracts,* Report no. 09-643T (Washington, D.C.: GAO, April 23, 2009), 8–10; *Improved Management and Oversight Needed to Better Control DOD's Acquisition of Services*, Report no. 07-832T (Washington, D.C.: GAO, May 10, 2007).

16 *Defense Acquisitions: Actions Needed to Ensure Value for Service Contracts,* 4–6; *Defense Contracting: Use of Undefinitized Contract Actions Understated and Definitization Time Frames Often Not Met,* Report no. GAO-07-559 (Washington, D.C.: GAO, June 2007).

17 *Defense Acquisitions: Actions Needed to Ensure Value for Service Contracts,* 6-8.

18 *Contract Management: Opportunities to Improve Surveillance on Department of Defense Service Contracts,* 8, 10; *Defense Acquisitions: Further Actions Needed to Address Weaknesses in DOD's Management of Professional and Management Support Contracts,* Report no. GAO-10-39 (Washington, D.C.: GAO, November 2009), 23–25.

19 *Defense Acquisitions: Further Actions Needed to Address Weaknesses in DOD's Management of Professional and Management Support Contracts,* 16–23; *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes,* 3–4, 14–15.

20 *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes,* 9-10; *Defense Acquisitions: Status of DOD's Implementation of Independent Management Reviews for Services Acquisitions,* Report no. GAO-10-284 (Washington, D.C.: GAO, January 2010).

21 *Defense Acquisitions: Further Actions Needed to Address Weaknesses in DOD's Management of Professional and Management Support Contracts,* 11–14.

22 *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes,* 12–14.

instance, stipulates more effective management structures in order to improve oversight for services contracts.[23] Section 802 of the same act introduces measurements such as performance-based services contracting, appropriate competition for task orders, and better program review and spending analyses as essential tools linked up to the objective of concrete saving goals for services contracts.[24]

Section 812 of the National Defense Authorization Act for Fiscal Year 2006 requires DOD to implement a revised management structure for contract services. This new structure should, among other things, ensure that contract services are procured by means of procurement actions that are in the best interests of DOD and that competitive procedures and performance-based contracting are used to the maximum extent practicable.[25]

Section 807 of the National Defense Authorization Act for Fiscal Year 2008 requires DOD to submit an annual report on the inventory and characteristics of services contracts.[26] Section 808 of the same act called for guidance to provide independent management reviews to obtain better information on contract performance, contract oversight, and the role played by different contract features, such as contract type or level of competition.[27] The key areas of interest for the task force largely mirror problems associated with services contracts that have been already articulated by the GAO.

On the executive side, DOD has issued a considerable amount of guidance to respond to legislative requirements and to improve services contracting. In 2000 Congress revised the FAR to establish performance-based contracting methods as the preferred standard for services contracts.[28] In response to the requirements of sections 801 and 802 of the National Defense Authorization Act for Fiscal Year 2002, DOD introduced a new services acquisition management structure.[29] Following the National Defense Authorization Act for Fiscal Year 2006, DOD further revised its policies on management of services contracts.[30] In 2008 DOD's Defense Procurement and Acquisition Policy (DPAP) office issued a policy memorandum to establish a peer review process for supplies and services contracts. DPAP followed this with a 2009 memorandum on review criteria for the acquisition of services.[31] Both were in response to section 808 of the National Defense Authorization Act for Fiscal Year 2008. Key objectives of the guidance were to improve the quality of services contracting, to establish best practices and facilitate cross-departmental lessons-learned processes, to increase consistency of the

23 *National Defense Authorization Act for Fiscal Year 2002, U.S. Statutes at Large* 115 (2001): 1174–1176.

24 Ibid., 1178.

25 *National Defense Authorization Act for Fiscal Year 2006, U.S. Statutes at Large* 119 (2005): 3376–3379.

26 *National Defense Authorization Act for Fiscal Year 2008* (2007): 211-212.

27 Ibid., 210–211.

28 "Subpart 37.6: Performance-Based Acquisition," Federal Acquisition Regulations, https://www.acquisition.gov/Far/.

29 *Defense Acquisitions: Actions Needed to Ensure Value for Service Contracts,* 11.

30 Ibid., 12.

31 Shay D. Assad, "Memorandum: Peer Reviews of Contracts for Supplies and Services" (memorandum from the director, Defense Procurement, Acquisition Policy, and Strategic Sourcing, September 29, 2008); Shay D. Assad, "Review Criteria for the Acquisition of Services" (memorandum from the director, Defense Procurement, February 18, 2009).

application of policies throughout DOD, to create clear and well-defined requirements, to ensure appropriate acquisition strategies, and to put mechanisms in place for proper contractor performance oversight. The creation of the peer review process was subsequently also included in DOD Instruction 5000.02 Operation of the Defense Acquisition System.[32]

In addition, DPAP director Shay Assad issued on August 20, 2010, a memorandum that designated organizational changes to improve management and oversight of the acquisition of services as well as processes and procedures implemented to develop and track measures of success, such as the focal points of the 2010 DOD's annual review of acquisition of services policy and oversight.[33] The previous year's review primarily discussed the measures and metrics applied to ensure proper policy implementation as well as the level of engagement of the workforce in the acquisition review process.

These efforts to improve services contracting have been further supported by a series of memorandums released in the second half of 2009 by OMB, in particular, OFPP within OMB. The memorandums most directly relevant to services contracting focused on improving the use of contractor performance information, increasing competition and structuring contracts for best results acquisition, and better managing the multisector workforce.

An issue that has more recently captured the limelight is services contracts for operations in Iraq and Afghanistan. Services account for well over 60 percent of the value of federal contracts performed in those two countries and their theaters.[34] GAO has scrutinized inadequacies of some of the practices employed for services contracts in support of operations in these theaters.[35] At the same time, DOD is developing and refining guidance for this emerging field of services contracting. For instance, DOD finalized in 2008 its Joint Publication 4-10 "Operational Contract Support," and it released in 2009 Instruction 3020.49 "Orchestrating, Synchronizing, and Integrating Program Management of Contingency Acquisition Planning and Its Operational Execution."[36]

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32 "Department of Defense Instruction No. 5000.02: Operation of the Defense Acquisition System" (December 8, 2008): 31, 67–68, www.dtic.mil/whs/directives/corres/pdf/500002p.pdf.

33 Shay D. Assad, "Annual Review of the Acquisition of Services Policy and Oversight" (memorandum from the director, Defense Procurement and Acquisition Policy, August 20, 2010).

34 Gregory Sanders, "Contracting for Operations in Iraq and Afghanistan," DIIG Current Issues (Washington, D.C.: CSIS, November 5, 2009).

35 *Contingency Contracting: Improvements Needed in Management of Contractors Supporting Contract and Grant Administration in Iraq and Afghanistan,* Report no. GAO-10-357 (Washington, D.C.: GAO, April 2010); *Military Operations: DOD Needs to Address Contract Oversight and Quality Assurance Issues for Contracts Used to Support Contingency Operations,* Report no. GAO-08-1087 (Washington, D.C.: GAO, September 2008); *Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight,* Report no. GAO-08-572T (Washington, D.C.: GAO, March 11, 2008); "Contract Management: DOD Developed Draft Guidance for Operational Contract Support but Has Not Met All Legislative Requirements," Document no. GAO-09-114R (Washington, D.C.: GAO, November 20, 2008).

36 *Operational Contract Support,* Joint Publication 4-10 (Washington, D.C.: Joint Chiefs of Staff, October 17, 2008), www.dtic.mil/doctrine/new_pubs/jp4_10.pdf; "Orchestrating, Synchronizing, and Integrating Program Management of Contingency Acquisition Planning and Its Operational Execution," Instruction 3020.49 (Washington, D.C.: Department of Defense, 2009).

Important policy issues regarding the U.S. professional services industrial base cannot be answered because of a lack of data. For anyone seeking data to oversee or improve government contracting, FPDS presents a substantial obstacle: it contains no data on contract performance despite the fact that acquisition regulations already mandate collection of contract performance data. In 2007, William T. Woods, director of Acquisition and Sourcing Management, testified before the House Subcommittee on Government Management, Organization, and Procurement:

> The OFPP has issued guidance on best practices for considering past performance data. Consistent with the FAR, OFPP guidance states that agencies are required to assess contractor performance after a contract is completed and must maintain and share performance records with other agencies. . . . Performance records should specifically address performance in the areas of: (1) cost, (2) schedule, (3) technical performance (quality of product or service), and (4) business relations, including customer satisfaction, using a five-point rating scale.[37]

These performance data are collected in an online database—Past Performance Information Retrieval System (PPIRS)[38]—but the data are accessible only to federal acquisition officials making source selection decisions and to contractors reviewing their own records. Although many reports have been written about high-profile failures in contracting, they rely largely on anecdotal evidence from high-profile programs. Making the data in the PPIRS available via FPDS would allow quantitative analysis of which contract attributes are correlated with higher scores for the vast majority of contracts that will never make the newspapers. In the short term, however, integrating PPIRS and FPDS should not be a priority; instead, PPIRS data should simply be made available to the general public.

As an alternative, future iterations of this report are expected to take advantage of the recent publicizing of contractor information through the Federal Awardee Performance and Integrity Information System (FAPIIS). Originally created in 2008 as an internal government tool to check for past infractions—such as criminal convictions or fines and defaulted contracts—of potential contract awardees, FAPIIS consolidates reports on the behavior of contractors across agencies. With the passage of the most recent supplemental war-funding bill, President Obama granted public access to nearly all FAPIIS data, but past performance reviews are still notably excluded.[39] This public access will be even more useful if the data can be cross-referenced with FPDS data, perhaps through use of common contractor identifiers.

Another problem is the reliability of the data that are available. Over $21 billion of services contracts are missing information on the extent of competition or the contract funding scheme. These gaps can make it difficult to understand the services acquisition process and the impacts of attempts to reform it. Predictably, larger departments lead the list (see Table 4-1): DOD, DHS, GSA, DOJ, and the VA. Those five government customers account for more than half of value of contracts missing key information. However, the missing data were not

37 *Federal Contracting: Use of Contractor Performance Information,* Report no. GAO-07-1111T (Washington, D.C.: GAO, July 18, 2007).

38 Past Performance Information Retrieval System (PPIRS), www.ppirs.gov/.

39 Gary Therkildsen, "FAPIIS Coming Soon to a Computer Near You," OMB Watch, August 4, 2010, www.ombwatch.org/node/11201.

Table 4-1. Departments and Agencies Missing Competition or Funding Scheme Labels, by Value

Department or agency	Total department spending	Missing or erroneous label in key columns			Partial label in key columns	
		Competition	Funding scheme	Subtotal (not additive because of overlap)	Not competed for unlabeled reason	Combination contract funding scheme
DOD	162,230	3,390 (2%)	2,210 (1%)	5,580 (3%)	520 (0%)	26,470 (16%)
NAVAIR	10,080	70	1,460	1,530		1,260
DHS	10,580	2,150 (20%)	1,440 (14%)	2,320 (22%)	180 (2%)	590 (6%)
GSA	9,570	1,860 (19%)	80 (1%)	1,870 (20%)	70 (1%)	240 (2%)
Federal Technology Service	2,670	1,120	10	1,120	30	200
Justice	4,600	1,480 (32%)	210 (5%)	1,490 (32%)	50 (1%)	150 (3%)
Federal Bureau of Investigation	1,330	650		650	20	140
VA	4,560	1,390 (30%)	170 (4%)	1,410 (31%)	200 (4%)	10 (0%)
NASA	14,540	1,130 (8%)	1,150 (8%)	1,320 (9%)	600 (4%)	40 (0%)
DOE	28,920	1,230 (4%)	40 (0%)	1,230 (4%)	140 (0%)	120 (0%)
State	5,210	1,150 (22%)	300 (6%)	1,190 (23%)	120 (2%)	1,030 (20%)
HHS	10,310	550 (5%)	350 (3%)	670 (6%)	640 (6%)	100 (1%)
Commerce	2,540	600 (24%)	80 (3%)	620 (24%)	40 (1%)	570 (23%)
All other departments or agencies	12,370	3,460 (28%)	1,110 (9%)	3,714 (30%)	1,163 (9%)	1,003 (8%)
Total	279,500	18,370 (7%)	7,130 (3%)	21,420 (8%)	3,720 (1%)	30,310 (11%)

Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Note: For some transactions, information is missing for both the competition and funding scheme categories. As a result of this double counting, the subtotal column is typically less than the sum of the competition and funding scheme columns. Similarly, DOD, GSA, and Justice include the dollar values from their broken out subcomponents.

evenly distributed within departments. More than half of the DOD's missing funding scheme data, for example, can be traced to the Naval Air Systems Command (NAVAIR). Similarly, GSA's Federal Technology Service is responsible for almost two-thirds of the contract value where competition labels are missing. The remaining value of contracts with missing information is unevenly distributed across much of the government.

While less of an issue than missing data, the combination category also obscures data on the use of different funding schemes. The contracts combining multiple schemes now account for 11 percent of the value of all services contracts, 16 percent of the value of DOD contracts, and more than 20 percent of value of Department of State and Department of Commerce contracts. To the extent that combination contracts represent a genuine new funding scheme choice, they merit additional scrutiny proportionate to their newfound prominence. However, if they merely refer to larger contracts with distinct subcomponents, then data quality would be improved by reporting the distribution of dollars and contract actions among the funding schemes.

On the broader topic of data retrieval from FPDS. While the laudable "ad hoc" search function on the FPDS Web site (https://www.fpds.gov) is a significant and highly customizable tool for those interested in federal contracting, it does suffer from a few key limitations. The most notable of these restrictions is that queries are limited to returning 10,000 rows of data. This is an improvement over past years, when the limit was set at 5,000 rows, but the limitation still makes it rather difficult to aggregate by contracts or contractors because the number of unique entities for both categories well exceed hundreds of thousands.

One solution would be to expand on the existing tools that allow querying one contract or contractor at a time, but that may represent a difficult programming challenge. A more practical solution would be to allow users to queue up larger ad hoc queries that would not return immediate results but would instead run during off-peak hours. Such a system would also help with complex queries that regularly time out on the site instead of return results. Based on the feedback regarding past versions of this report, aggregation by contract or contractor is of great interest to those studying or working with federal contracts, and providing additional tools to study those issues would enhance the value of FPDS.gov for taxpayers.

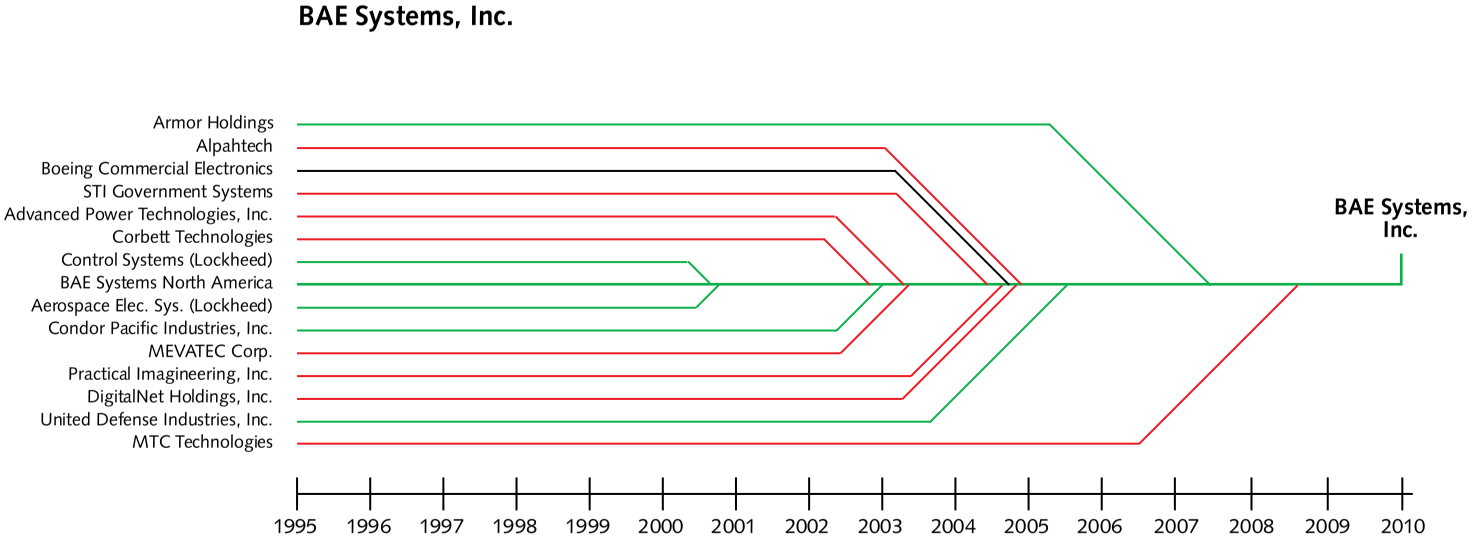
APPENDIX A

FPDS Services Categories

A Research and development
B Special studies and analyses (not research and development)
C Architect and engineering services-construction
D Automatic data processing and telecommunication services
E Purchase of structures and facilities
F Natural resources management
G Social services
H Quality control, testing, and inspection services
J Maintenance, repair, and rebuilding of equipment
K Modification of equipment
L Technical representative services
M Operation of government-owned facility
N Installation of equipment
P Salvage services
Q Medical services (not included in this study)
R Professional, administrative, and management support services
S Utilities and housekeeping services
T Photographic, mapping, printing, and publication services
U Education and training services
V Transportation, travel, and relocation services
W Lease or rental of equipment
X Lease or rental of facilities
Y Construction of structures and facilities (not included in this study)
Z Maintenance, repair, or alteration of real property

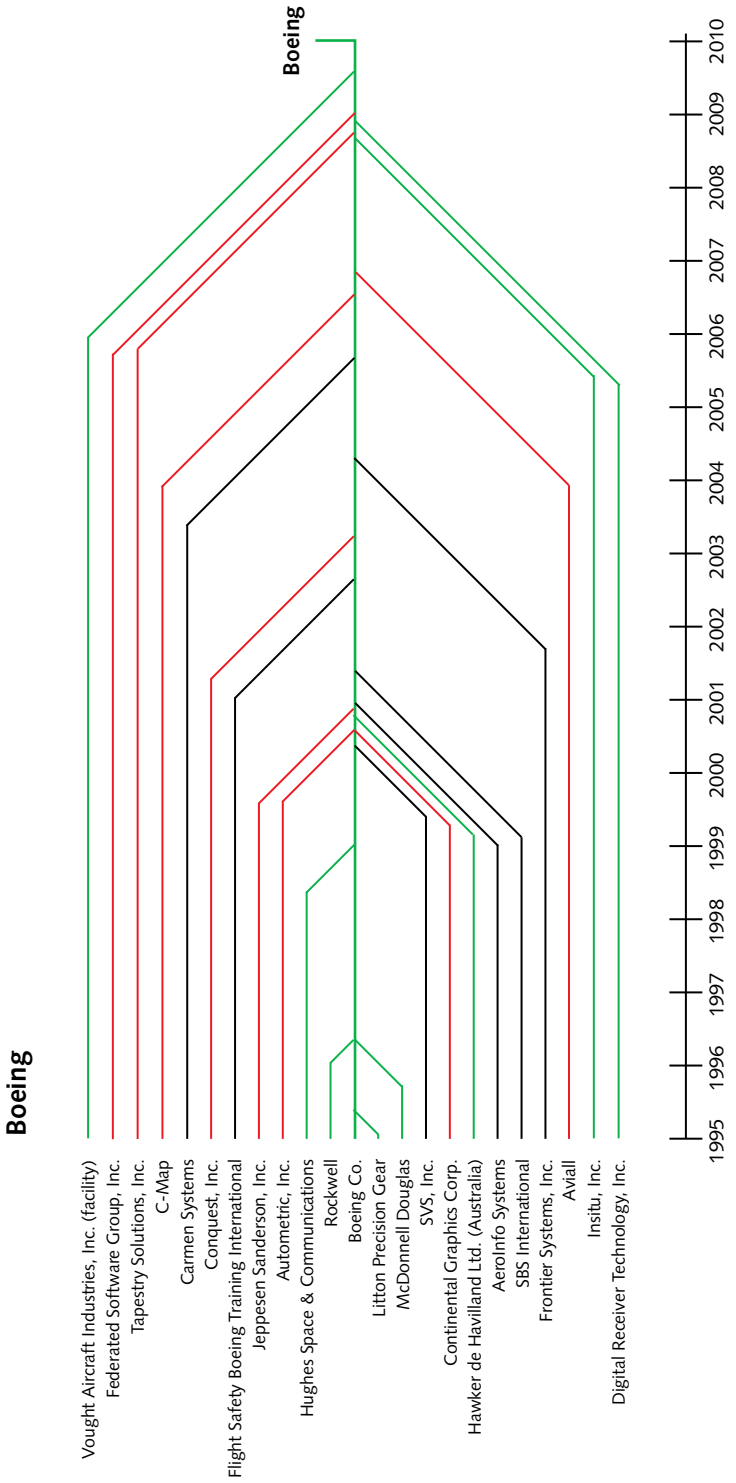
APPENDIX B

Merger and Acquisition Activity January 1995–December 2009



Sources: DM&A, *Washington Technology,* various company reports, and analysis by CSIS Defense Industrial Initiatives Group.

Key: Federal services companies: ——; defense hardware companies: ——; commercial IT: ——



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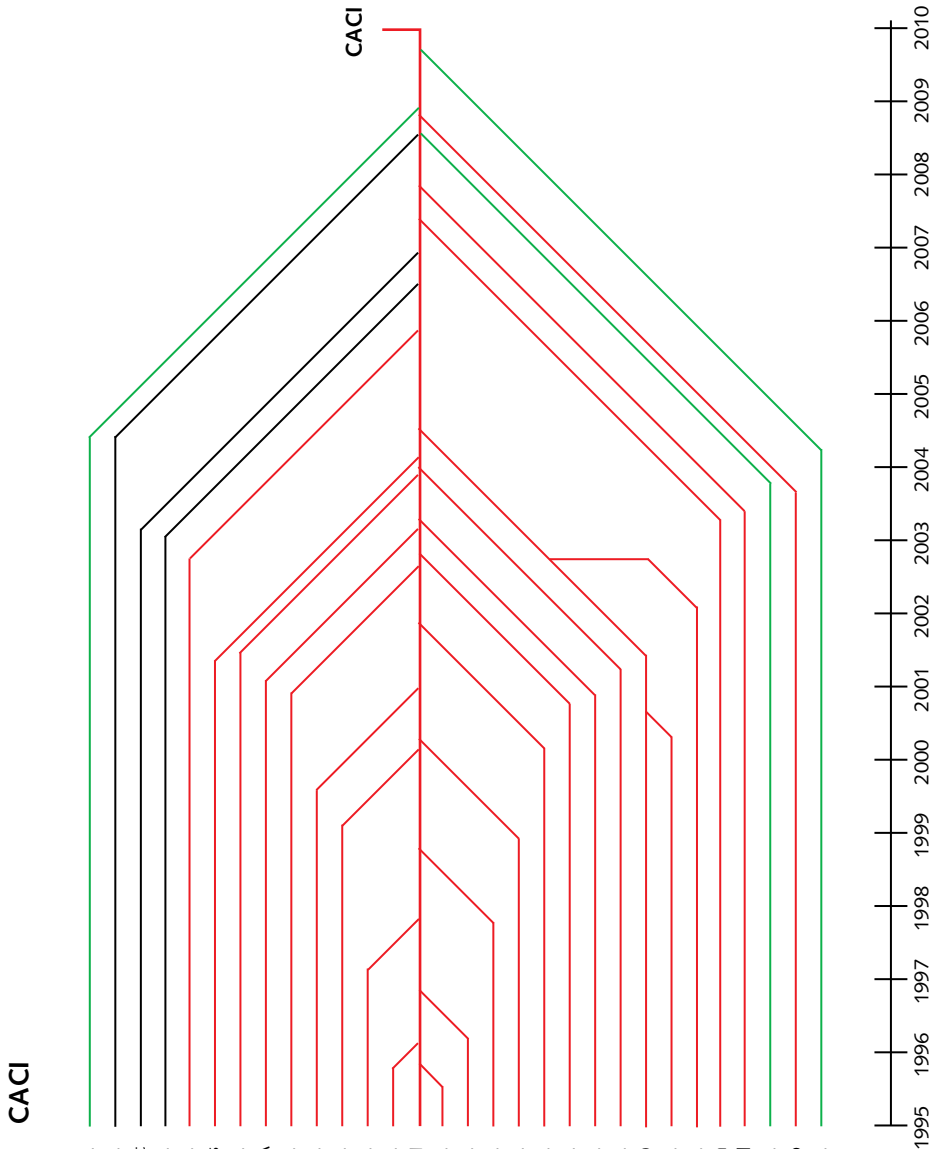

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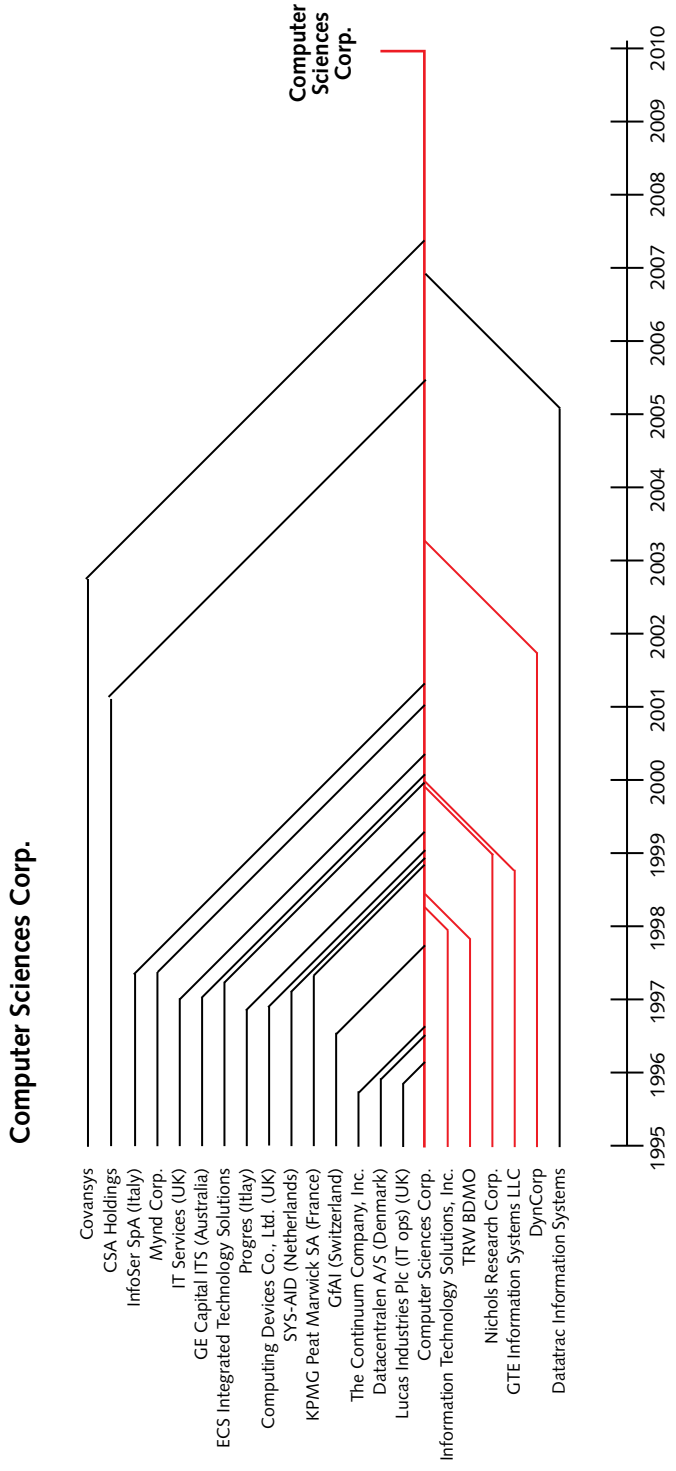

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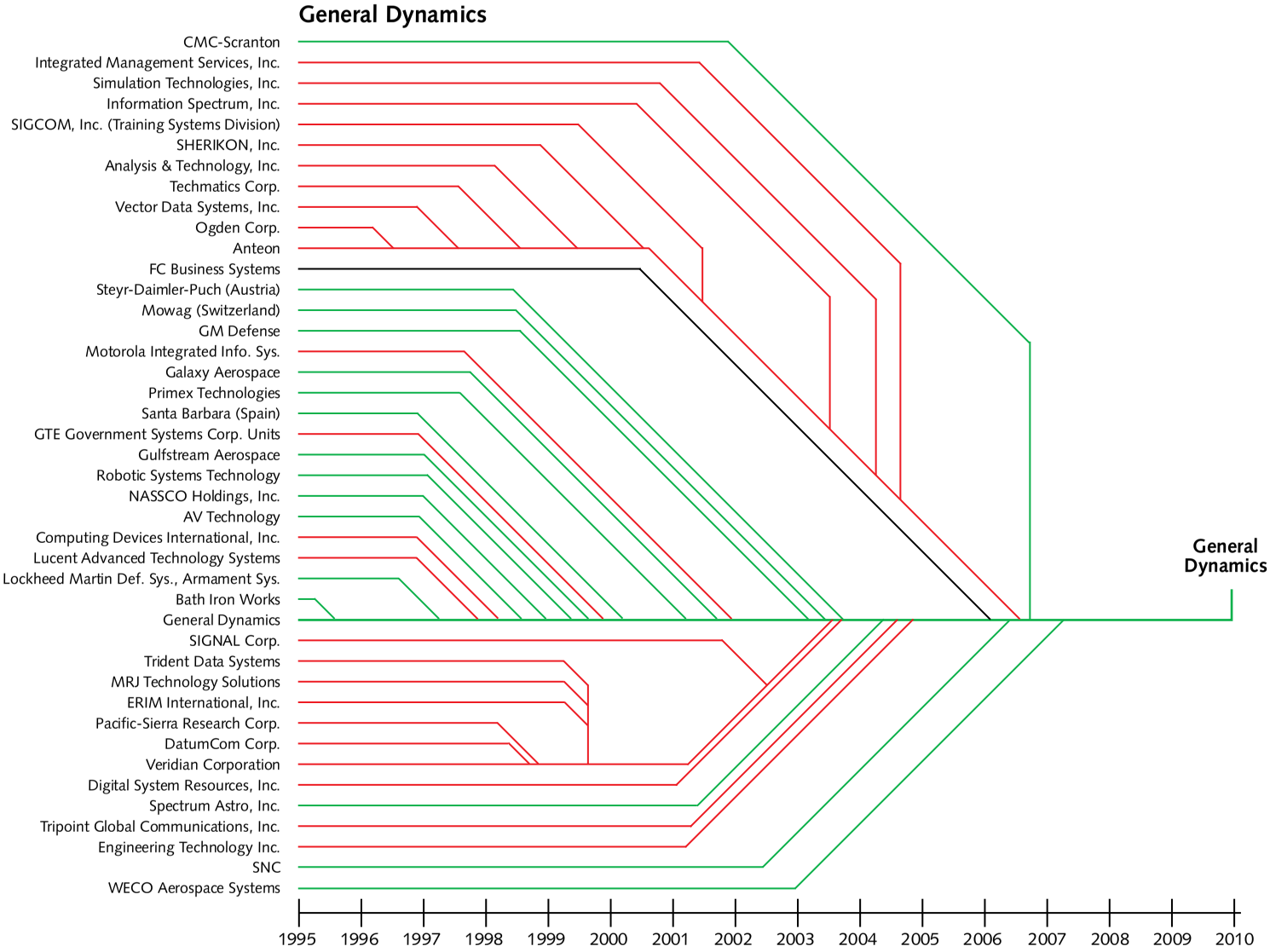
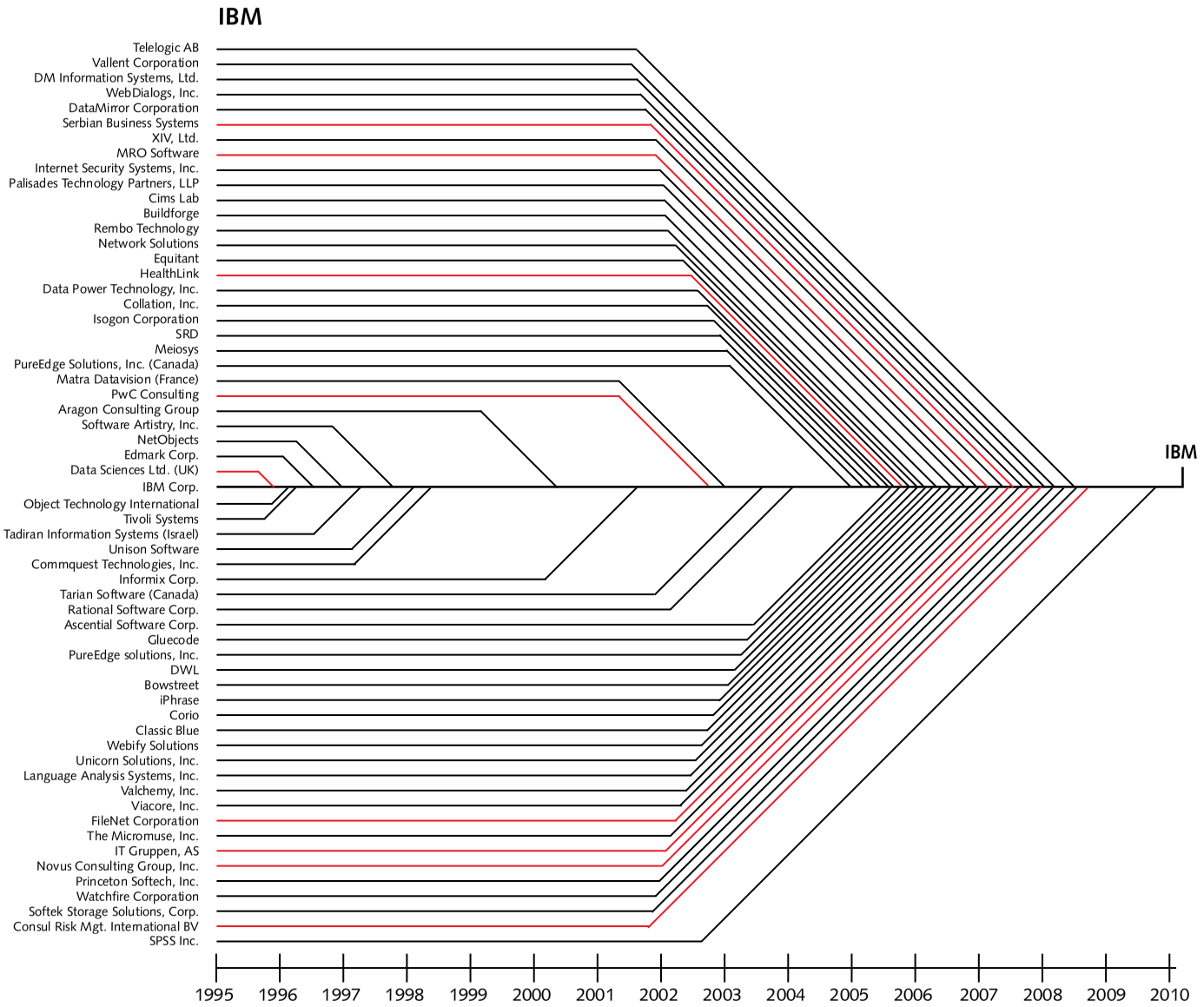


Sources: DM&A, *Washington Technology,* various company reports, and analysis by CSIS Defense Industrial Initiatives Group.

Key: Federal services companies: ——; defense hardware companies: ——; commercial IT: ——



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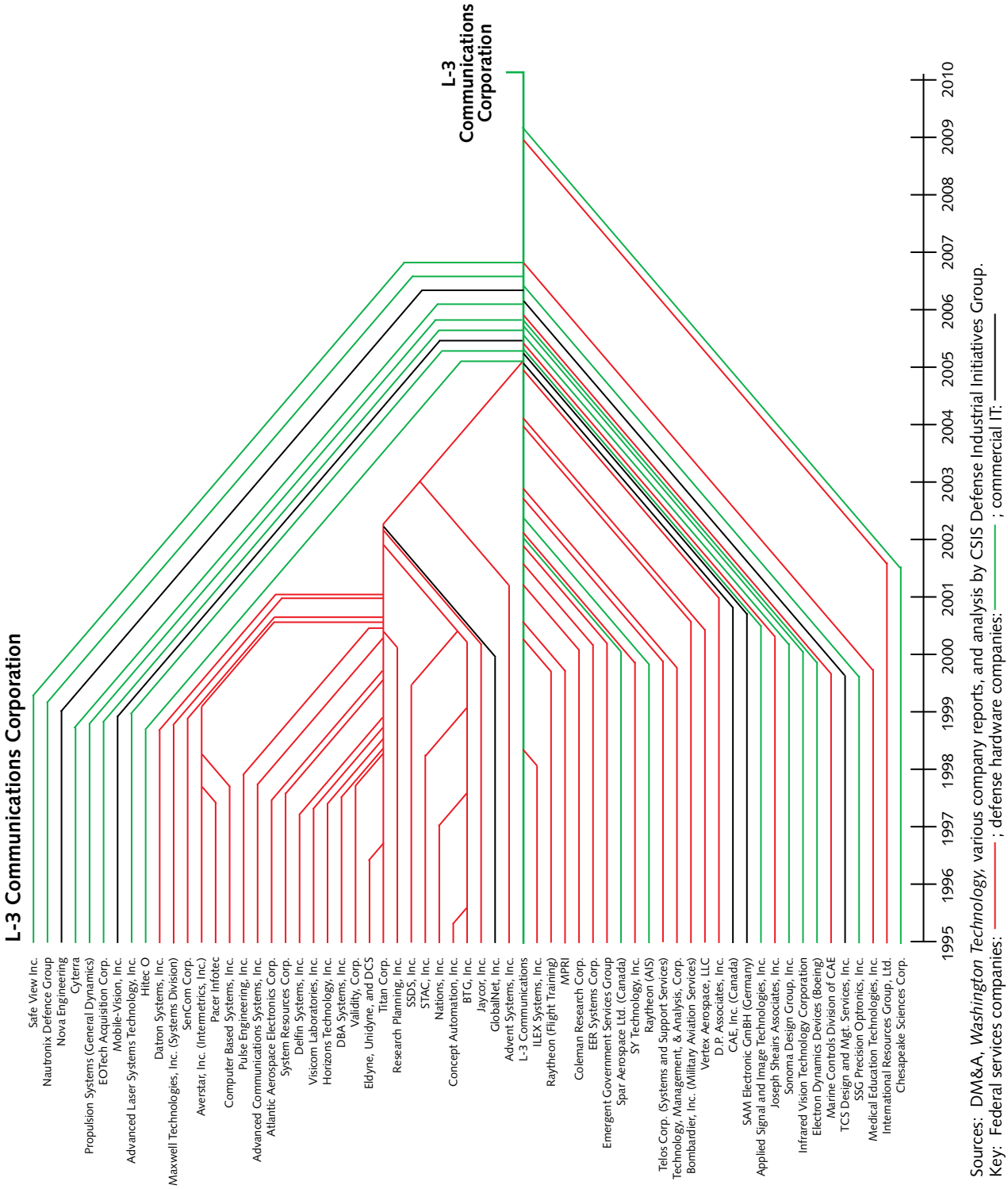

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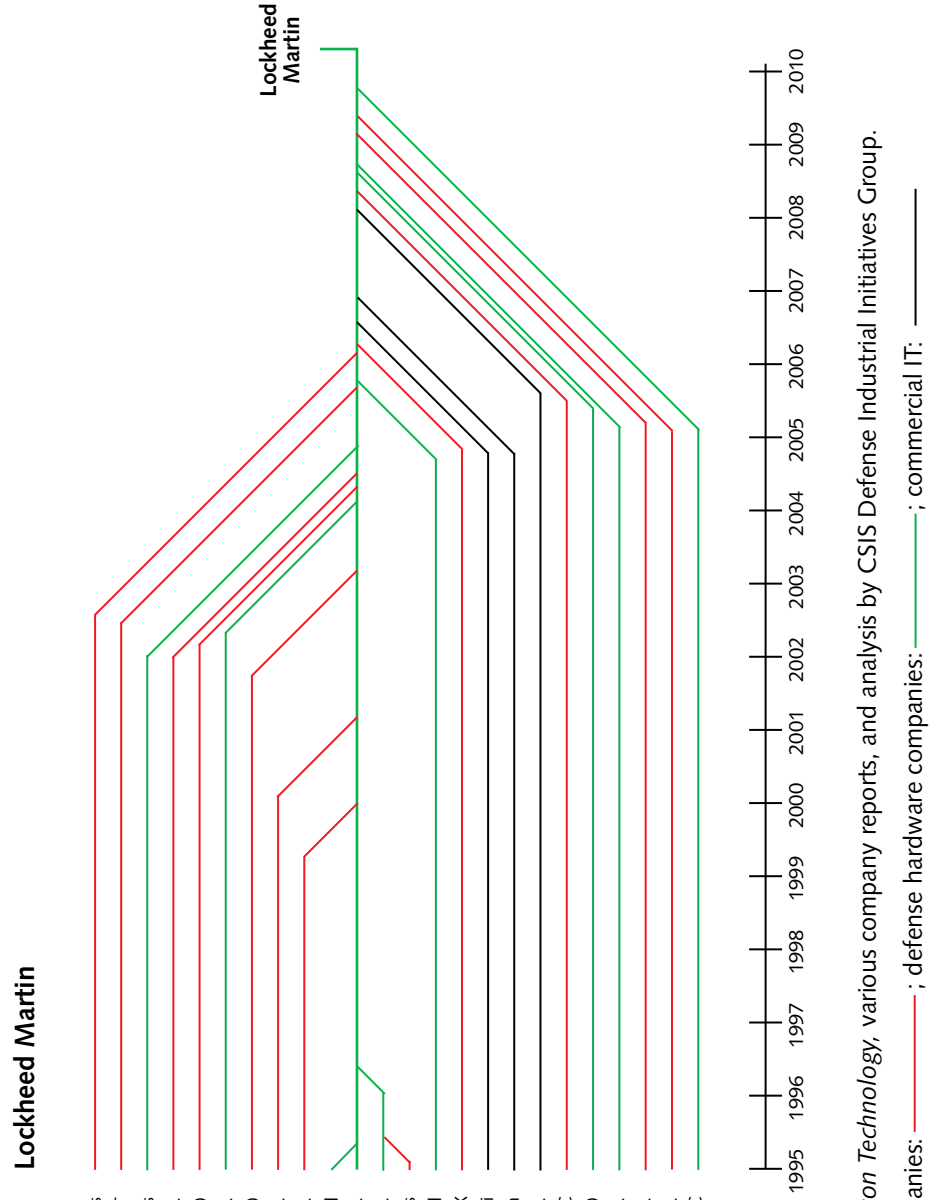

Sources: DM&A, *Washington Technology*, various company reports, and analysis by CSIS Defense Industrial Initiatives Group.

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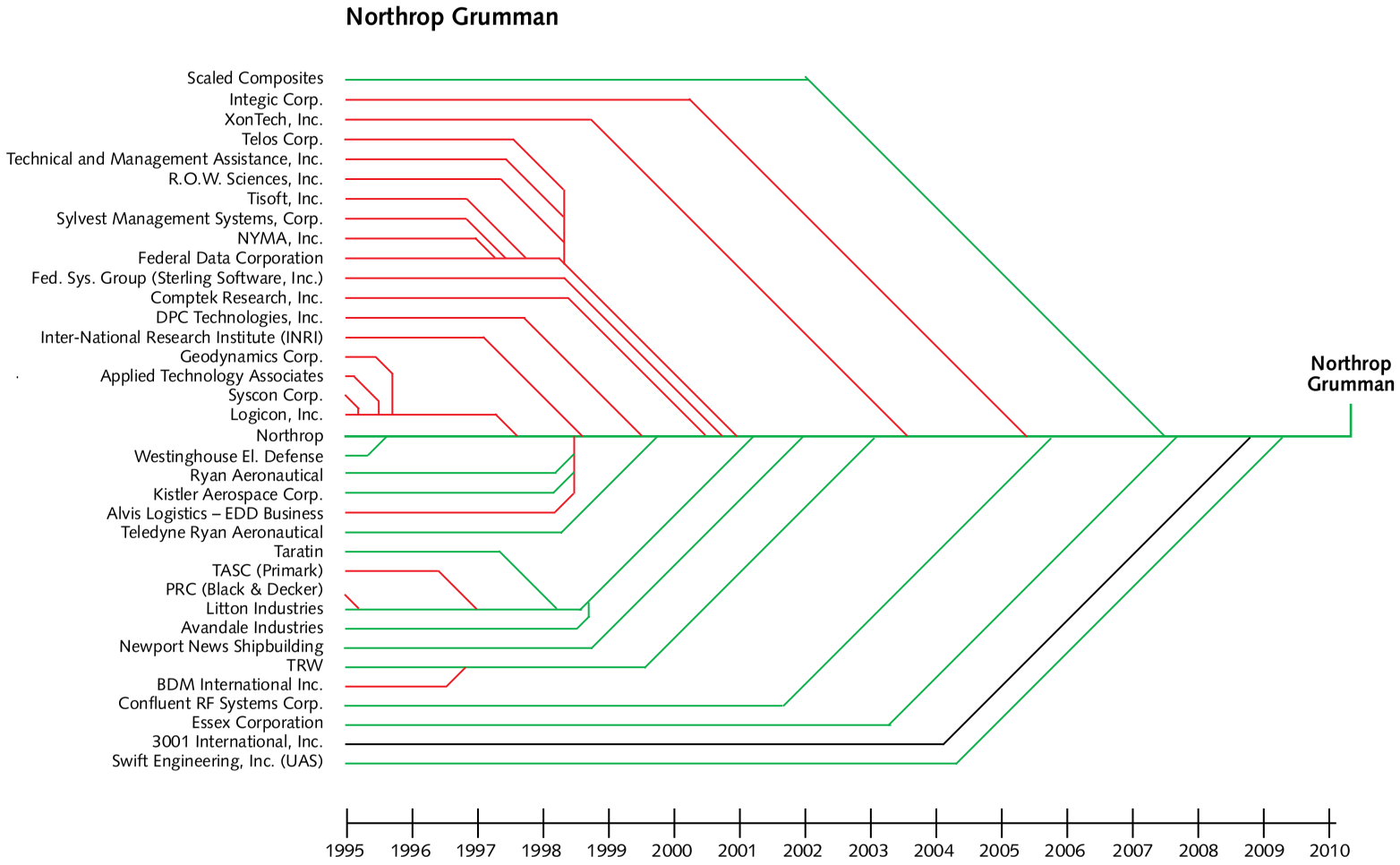

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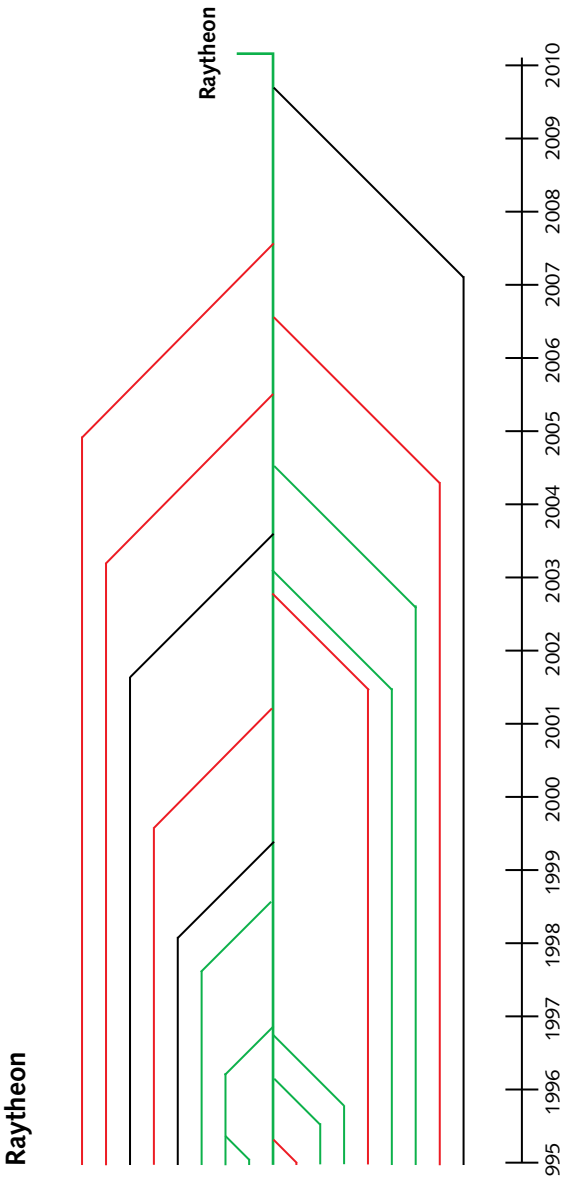

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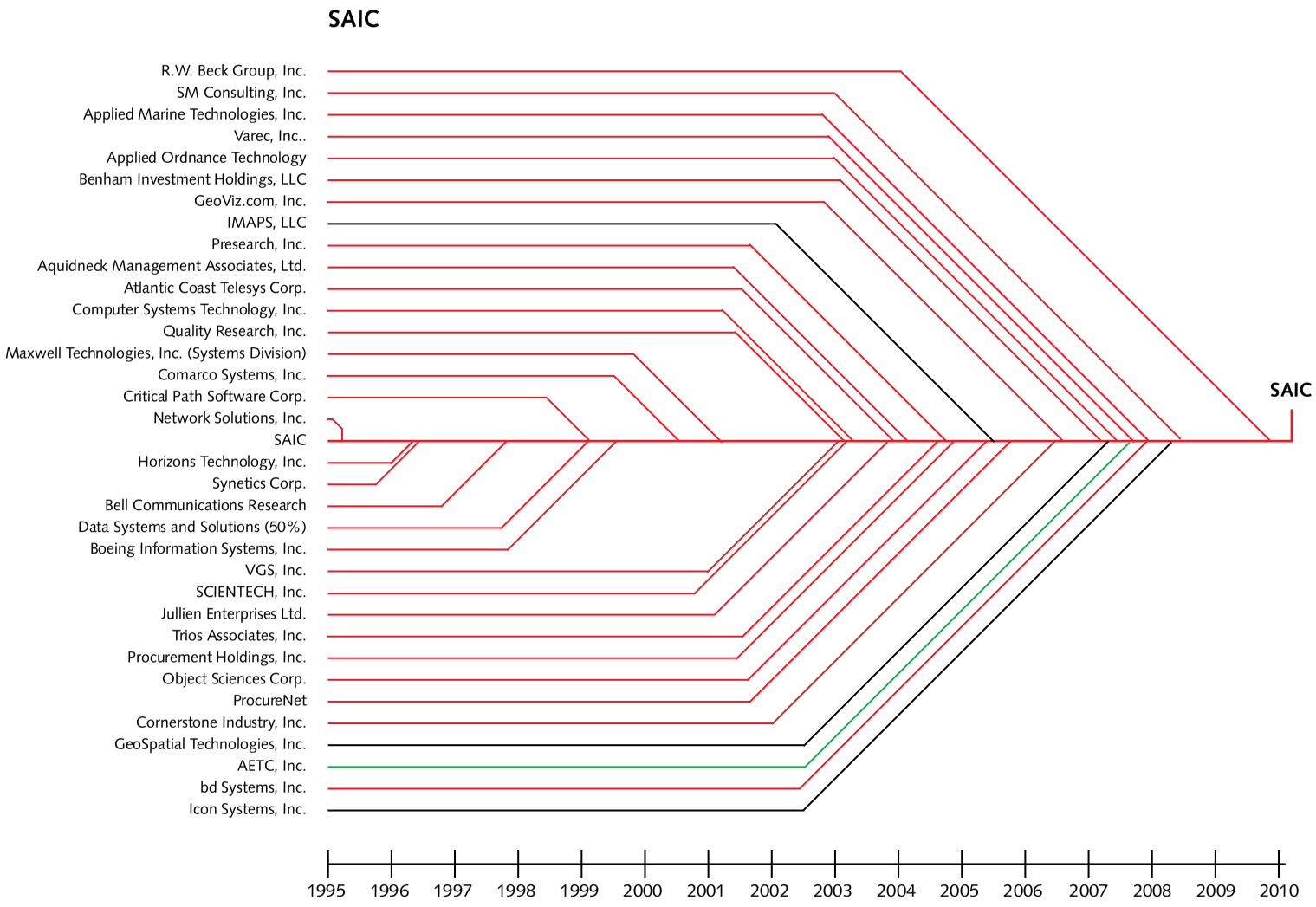

Sources: DM&A, *Washington Technology,* various company reports, and analysis by CSIS Defense Industrial Initiatives Group.

Key: Federal services companies: ——; defense hardware companies: ——; commercial IT: ——

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