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Federal IT services spending is mixed bag for contractors

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As Congress and the Obama administration gear up for another budget battle at the end of September, contractors are looking ahead, trying to determine where to place their bets.

The crystal ball is even cloudier for technology services contractors as agencies cut some service contracts while investing in others.

Services contracting has come under a great deal of scrutiny over the past two years. The Office of Management and Budget called for 10 percent of advisory services contracting to be cut from the fiscal 2012 budget request. In November 2011, the Office of Federal Procurement Policy directed agencies to cut spending on management support services contracts by 15 percent by the end of fiscal 2012.

These decisions sent a clear message to agencies: Watch your services contracting, because the administration certainly is.

Agencies seem to have gotten the message. The fiscal 2014 budget request shows a clear reduction in all types of services spending. While IT services spending doesn't appear to be affected as much as other services, it won't go unscathed.

Deltek forecasts a decline in IT services from \$59.1 billion in fiscal 2013 to \$55 billion in 2018. Digging deeper, Deltek predicts that IT outsourcing services will fare better than IT professional services, growing from \$26 billion in fiscal 2013 to \$26.7 billion in 2018.

These kinds of services should see more growth, primarily because of government investments in cloud computing and data center management, as well as the outsourcing of common IT support such as help desks and managed security services. Gaps in budgets and work force expertise are forcing agencies to rely on contractor support, but while keeping a closer eye on pricing and performance.

Still, Deltek forecasts there will be opportunities for contractors providing IT professional services such as systems integration and development, IT design and consulting, software development and IT education and training.

This market segment has been affected by budget cuts, but spending is likely to be buoyed by services

to support mission-critical capabilities — such as cybersecurity and intelligence — as well as operational capabilities such as cloud computing, data center consolidation and big data.

Given the budget environment, positioning will be critical for contractors. It's no longer simply about meeting agency requirements, it's about knowing where the agency has been, where it's going and how your solutions will help them get there in the most efficient and cost-effective way.

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