CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES | International Security Program | Defense-Industrial Initiatives Group

Evolution and Structure of the U.S. Federal Professional Services Industry 1995-2007

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What is the Professional Services Industrial Base?

Working definition:

All companies and individuals providing contract services to departments and agencies of the U.S. federal government. Contract services include all types of services ***except*** those that are:

- Tied directly to delivery of weapons and other hardware systems and therefore categorized as products
- Related to facilities construction or construction management
- For delivery of patient-related medical or healthcare services

Methodology

Data derived from government contracts database

- Analysis of nearly 10 million contract actions for professional services (1995-2007)
- The analysis included 3 million contracts, each of which consist of one or more contract actions (the database's main unit of analysis)

In-depth analysis of five primary categories of professional services*:

- **Information and Communications Technology (ICT)**: IT and telecommunications services
- **Professional, Administrative, and Management Support (PAMS)**: non-R&D studies and analyses, architect and engineering services, quality control, testing and inspection, technical representative services
- **Research and Development (R&D)**: basic and applied research, experimental and advanced development, engineering and operational systems development
- **Facilities Related Services (FRS)**: purchase, lease/rental, operation and maintenance of facilities
- **Equipment Related Services (ERS):** installation, lease/rental, maintenance, repair, rebuilding and modification of equipment

Roll-up of competition category

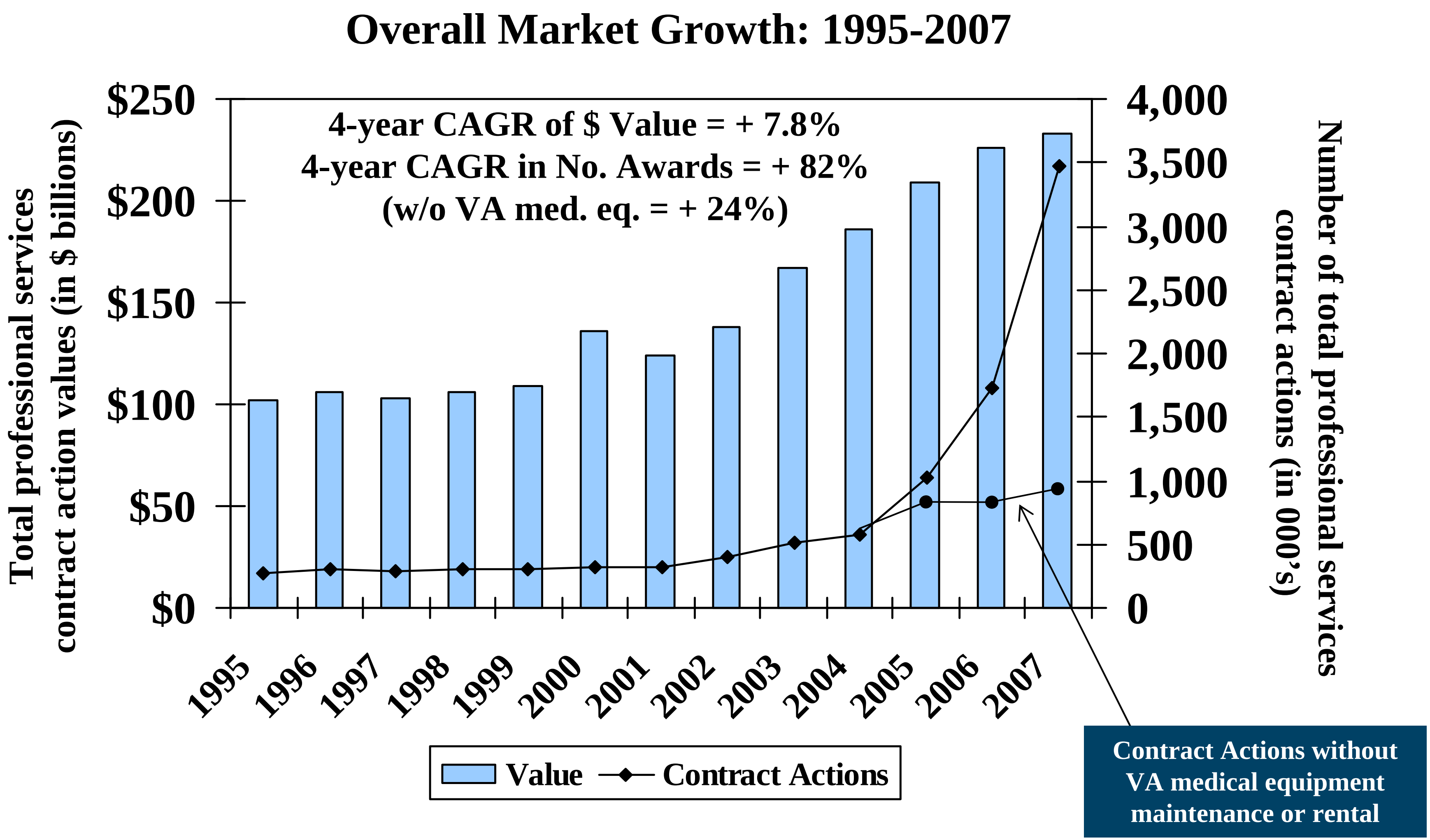
- "**Full**" competition (full and open competition with at least two bidders), "**partial**" competition (all other forms of competition, including follow-ons to competed actions)

*Some services (e.g. IT) are classified into more than one category

Key issues

1. **Number of contracts growing faster than value of contracts (decrease in average contract value over time)**
2. **Myth of "no bid contracts run amok" not substantiated by data; "fully" competed awards account for the greatest dollar amounts and the largest average awards**
3. **No shift in fixed-price contracts; focus still greater on cost-based contracts**
4. **Steady squeezing out of mid-tier companies:**
   a. From above (consolidation of both industry and requirements)
   b. From below (small-business set asides are working)
5. **We are still captives of data inadequacies**

Professional services market has seen significant growth in last 5 years…

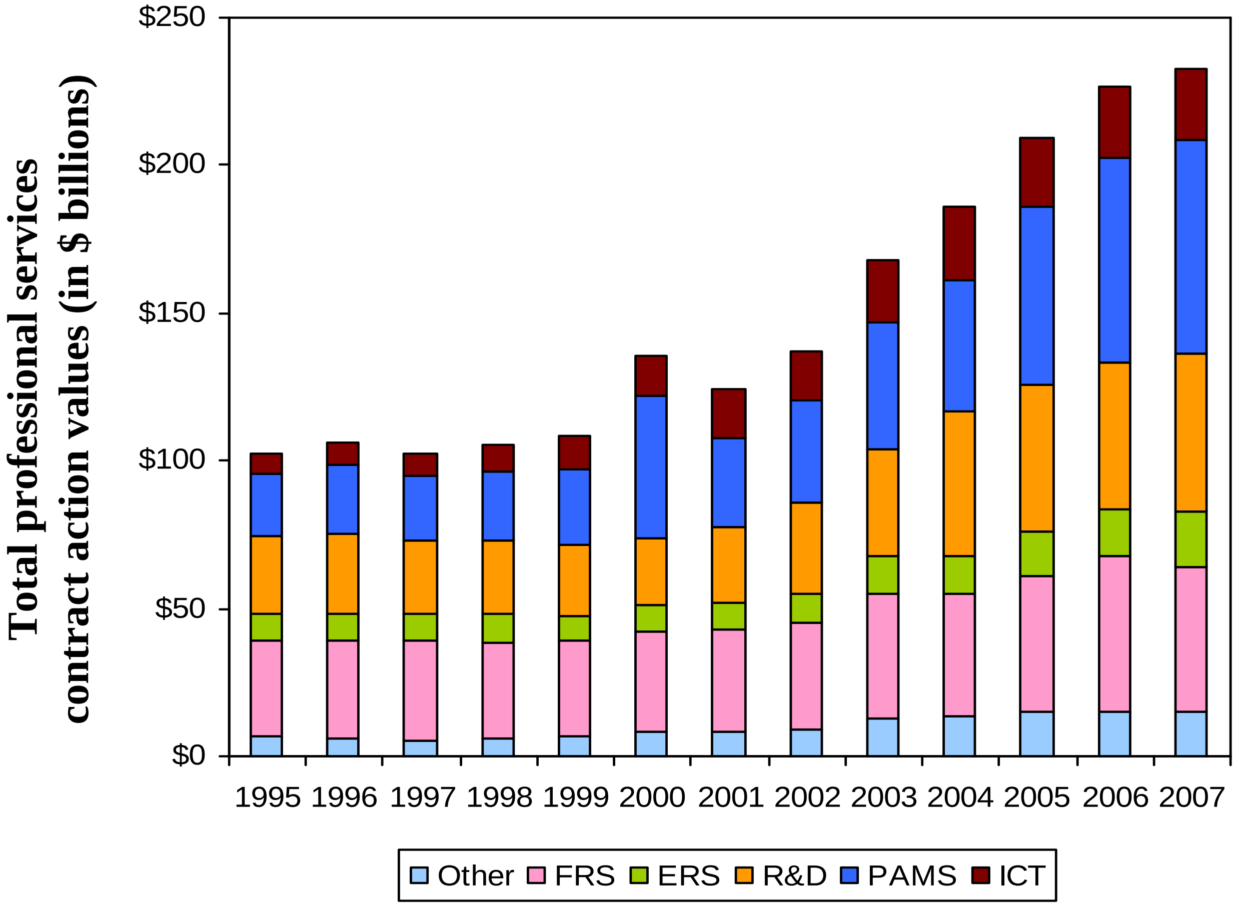


Source: Federal Procurement Data System, CSIS analysis

CAGR = Compounded Annual Growth Rate

Since 1995, ICT and PAMS categories have grown two to three times faster than all other categories…

Market growth trends by service category 1995-2007



4-Yr CAGRs

Information and Communications Technologies Services = -1%

Professional Administrative and Management = + 18%

R&D = +3%

Equipment-Related Services +12%

Facilities-Related Services = +6%

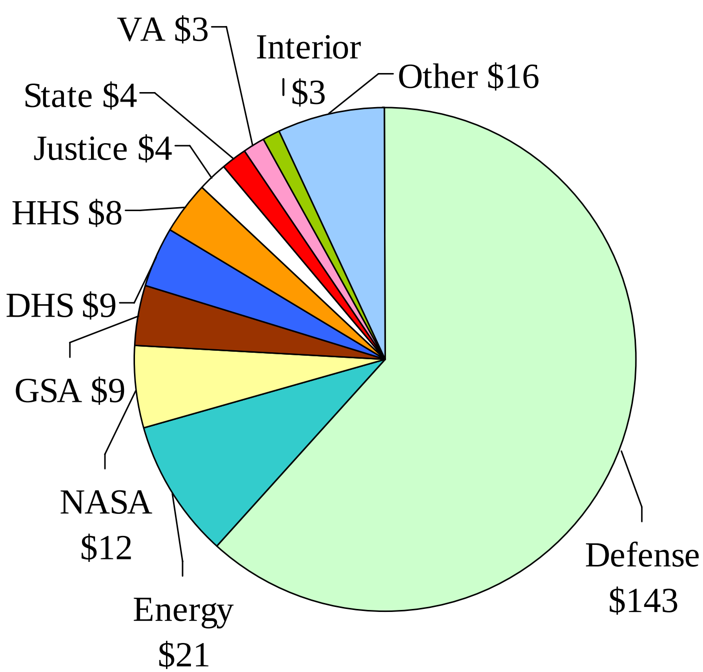
Source: Federal Procurement Data System, CSIS analysis

CAGR = Compounded Annual Growth Rate

DoD is the largest spender on professional services; VA accounting practices has led them to dominate the CAs

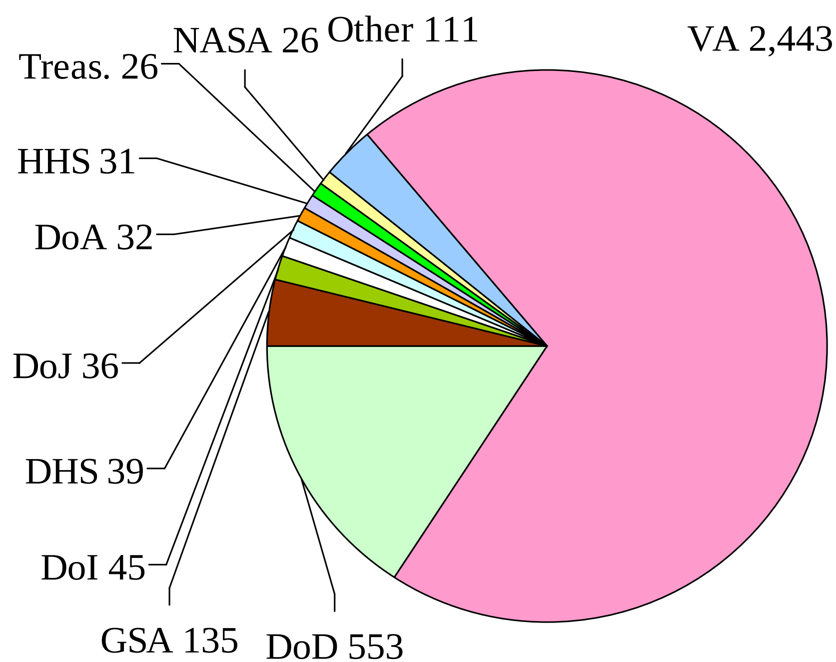
U.S. Federal Professional Services Market 2007: Demand by Customer

By Value ($Billions)



Total = $233 B

By No. of Contract Actions (in 000's)

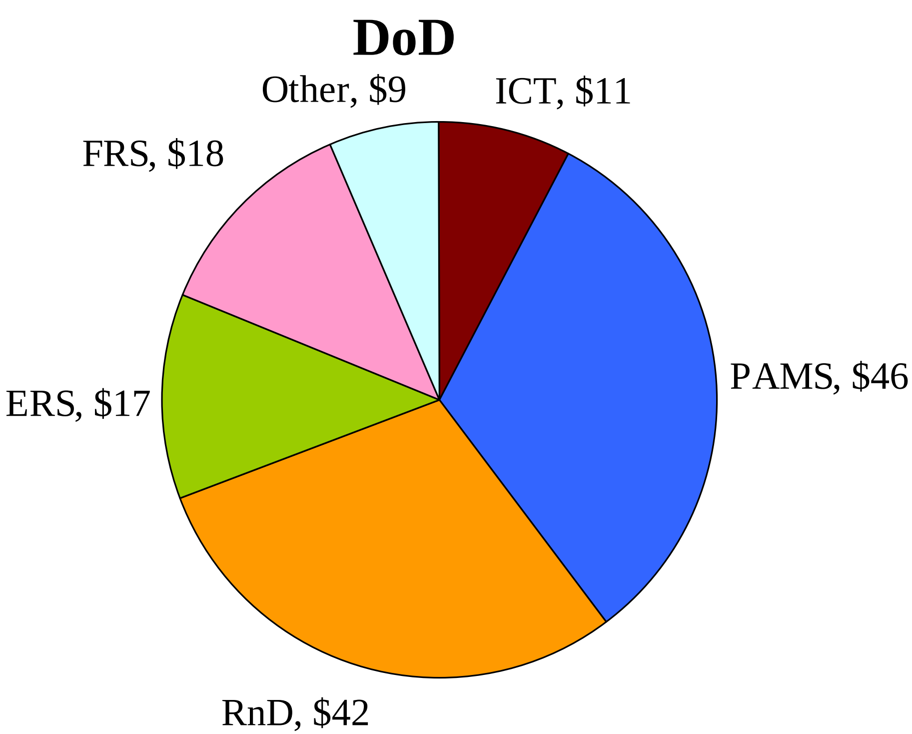


Total = 3,477,000

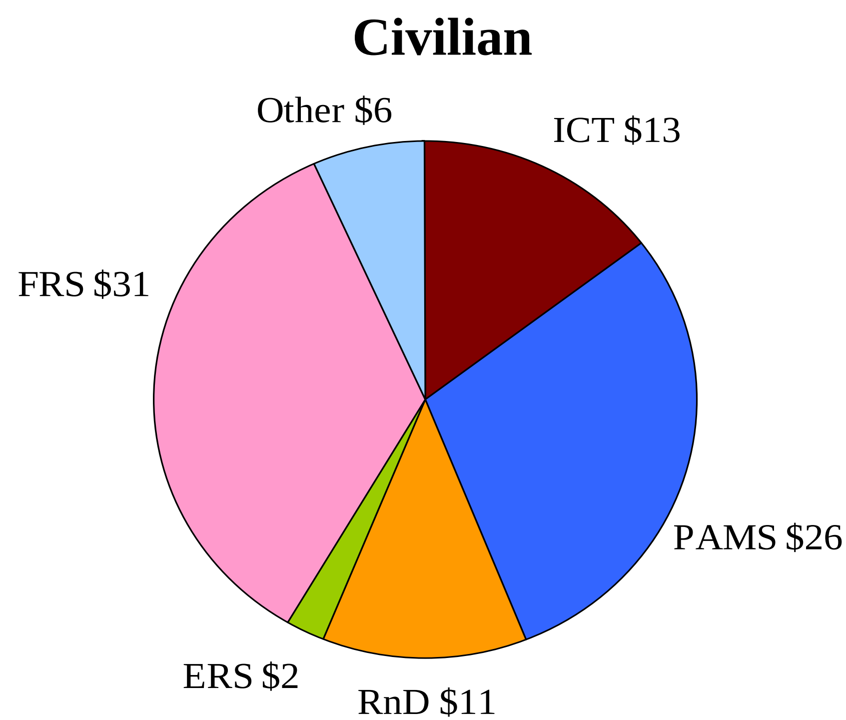
Source: Federal Procurement Data System, CSIS analysis

Civilian agencies' contracting focused on FRS and PAMS; DoD focused on R&D and PAMS…

U.S. federal professional services market 2007 (by professional service category)



Total = $143 B

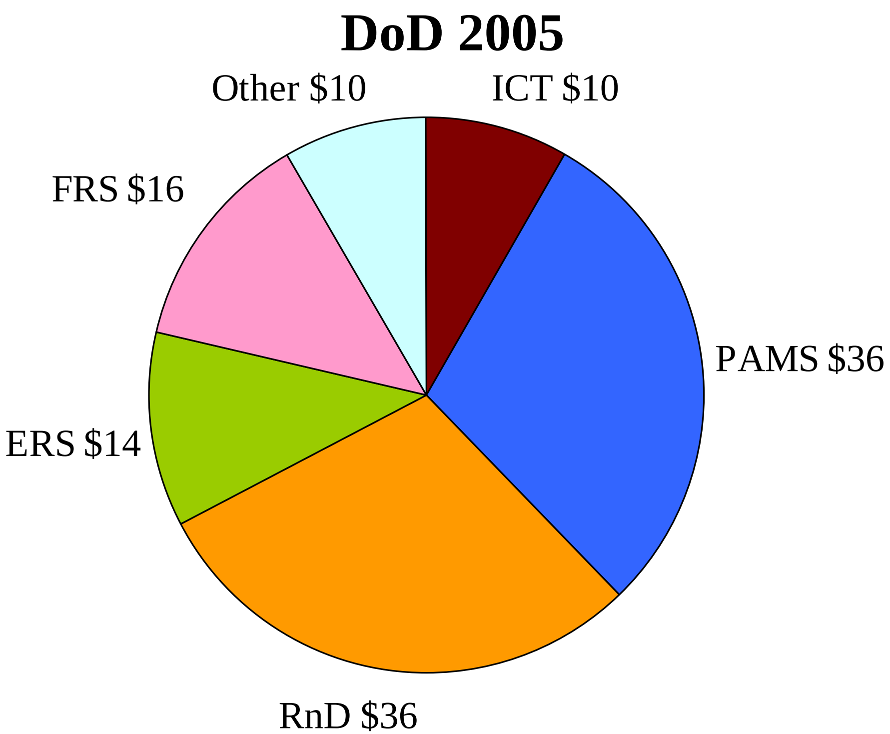


Total = $90 B

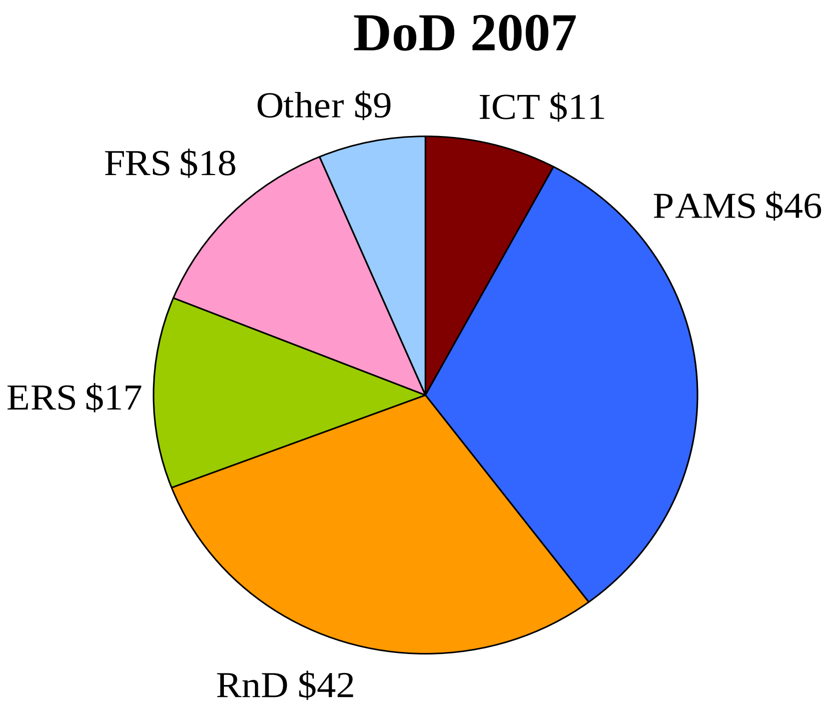
Source: Federal Procurement Data System, CSIS analysis

DoD 2005 and 2007

U.S. federal professional services market (by professional service category)



Total = $122 B

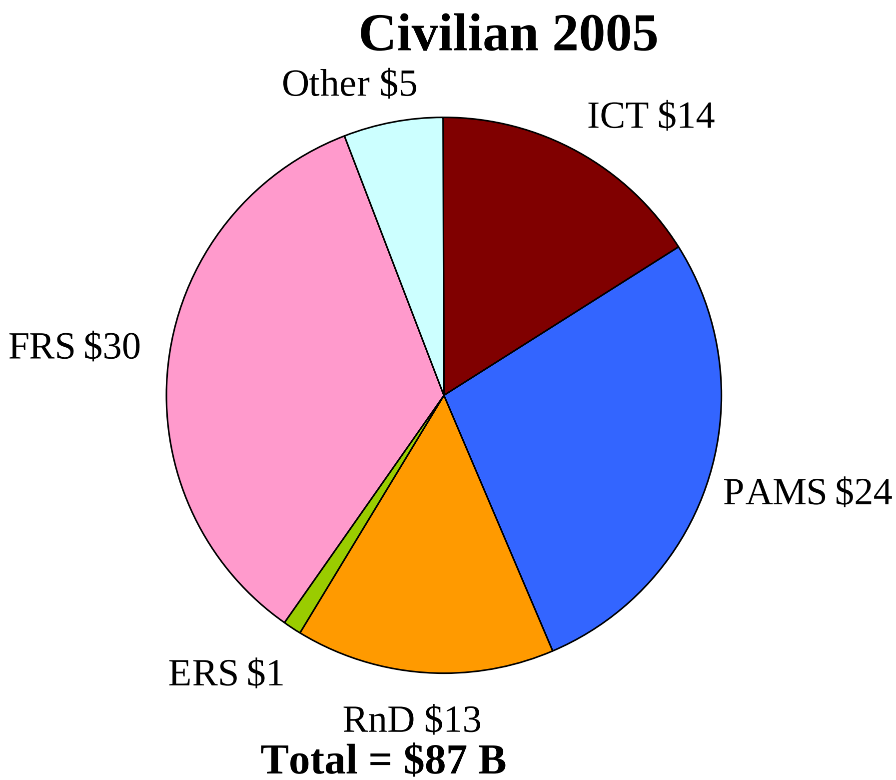


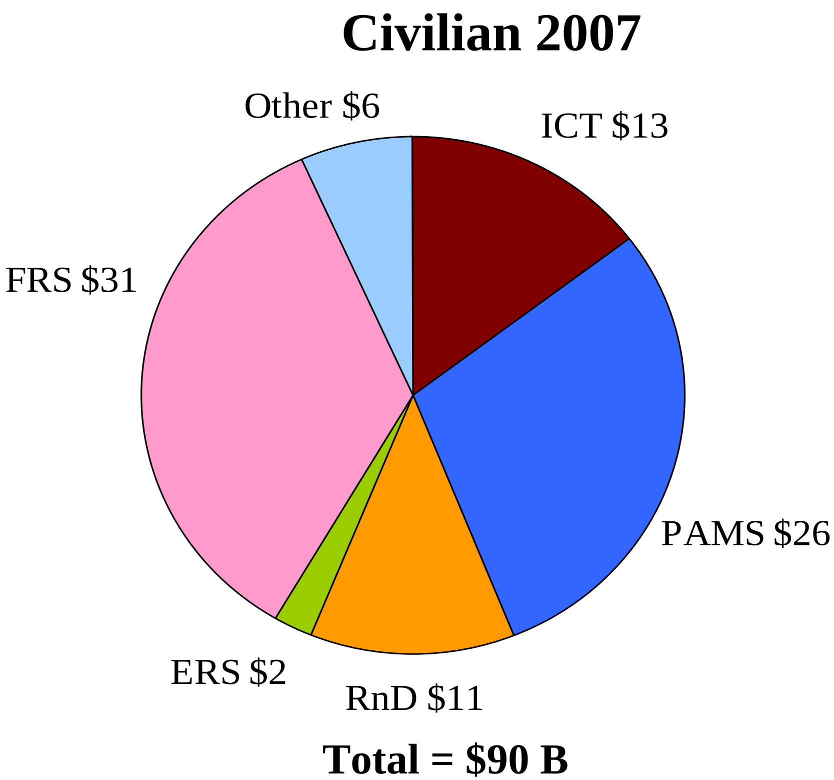
Total = $143 B

Source: Federal Procurement Data System, CSIS analysis

Civilian 2005 and 2007

U.S. federal professional services market (by professional service category)

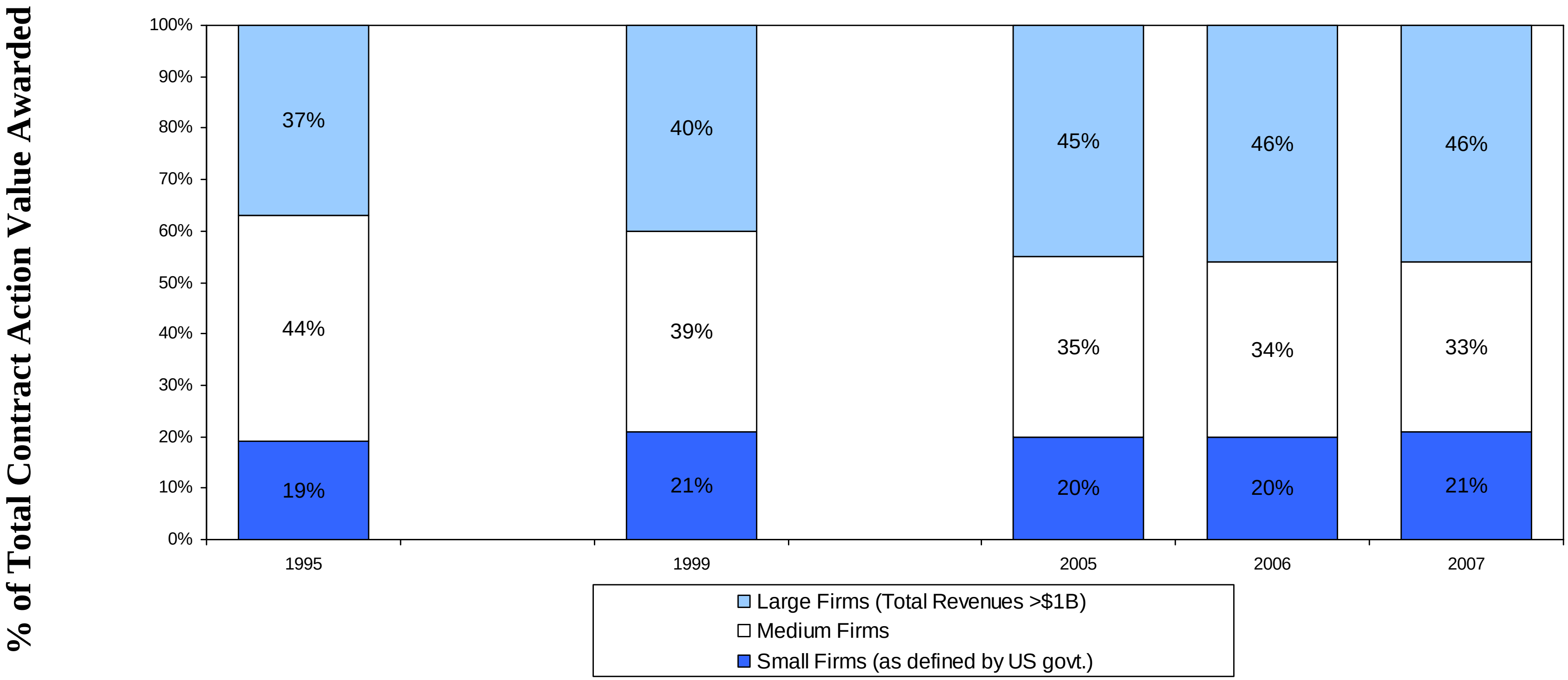




Source: Federal Procurement Data System, CSIS analysis

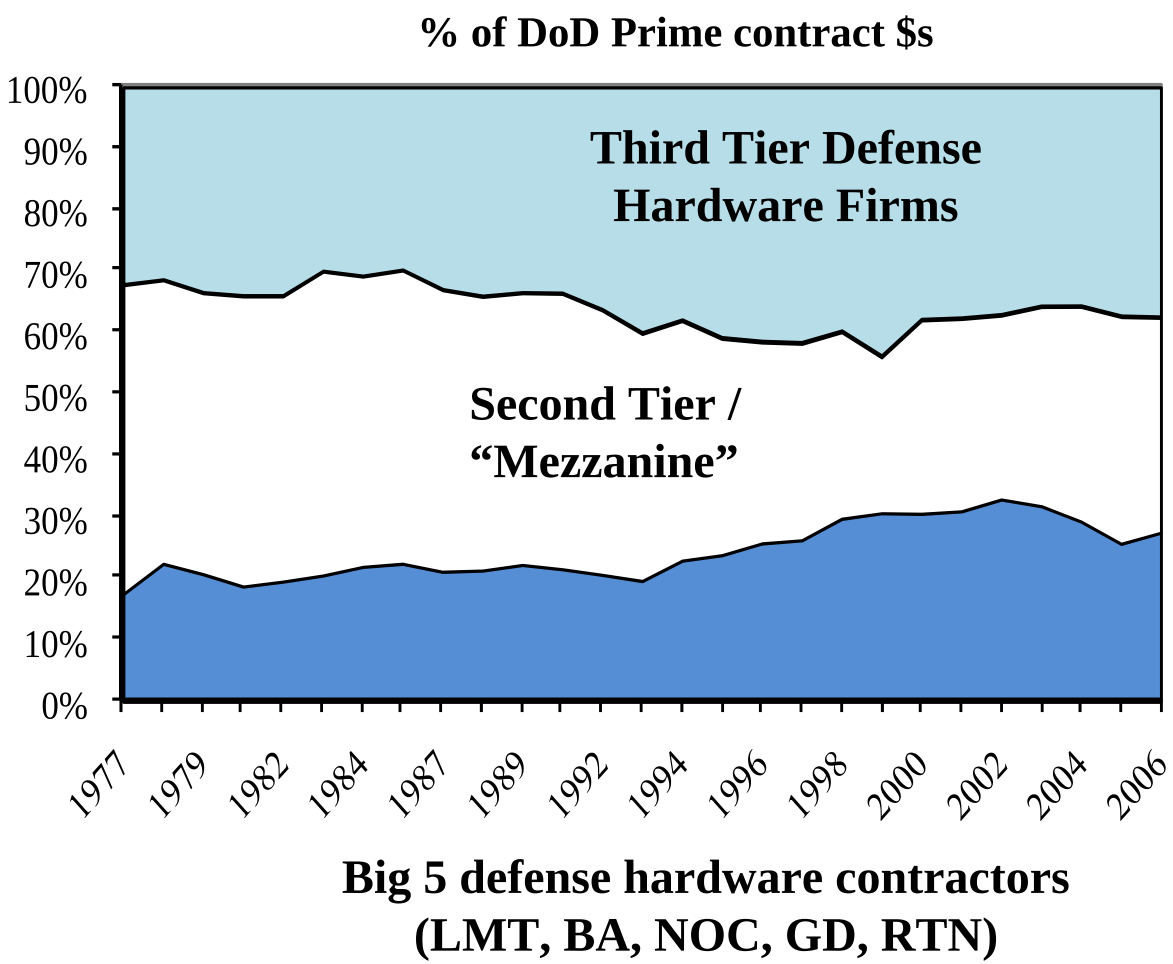
Mid-tier of the industry has been squeezed from above and below…

Market shares by large, medium and small firms (by value of contract actions, select years)



Source: Federal Procurement Data System, CSIS analysis

In a trend very similar to the defense hardware industry…



Third Tier

The rest

38% of 2006 DoD Prime Contract $

Second Tier

#6-100

35% of 2006 DoD prime contract $

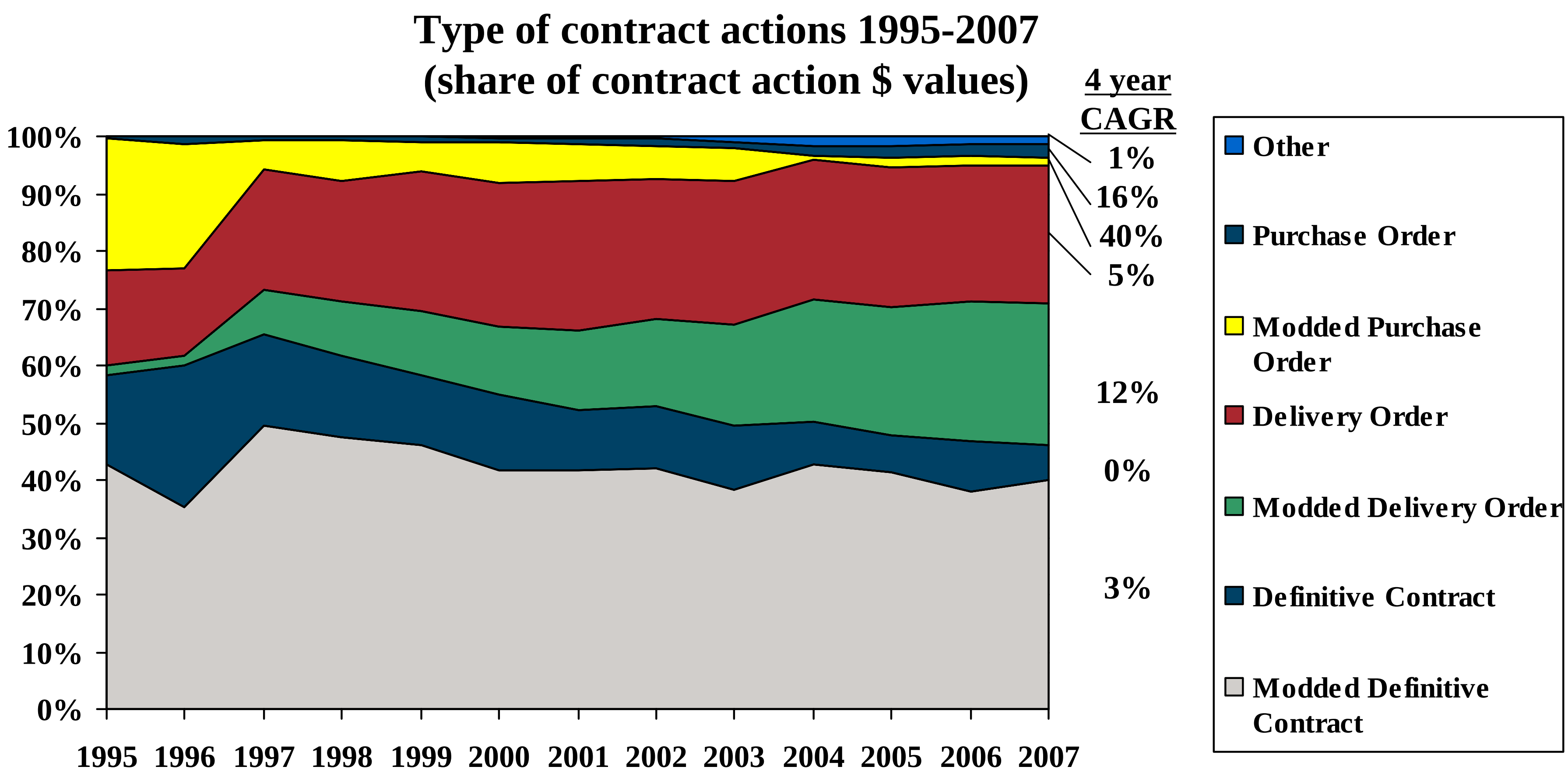
First Tier

Big 5

28% of 2006 DoD prime contract $

Source: DoD DD350s, CSIS analysis

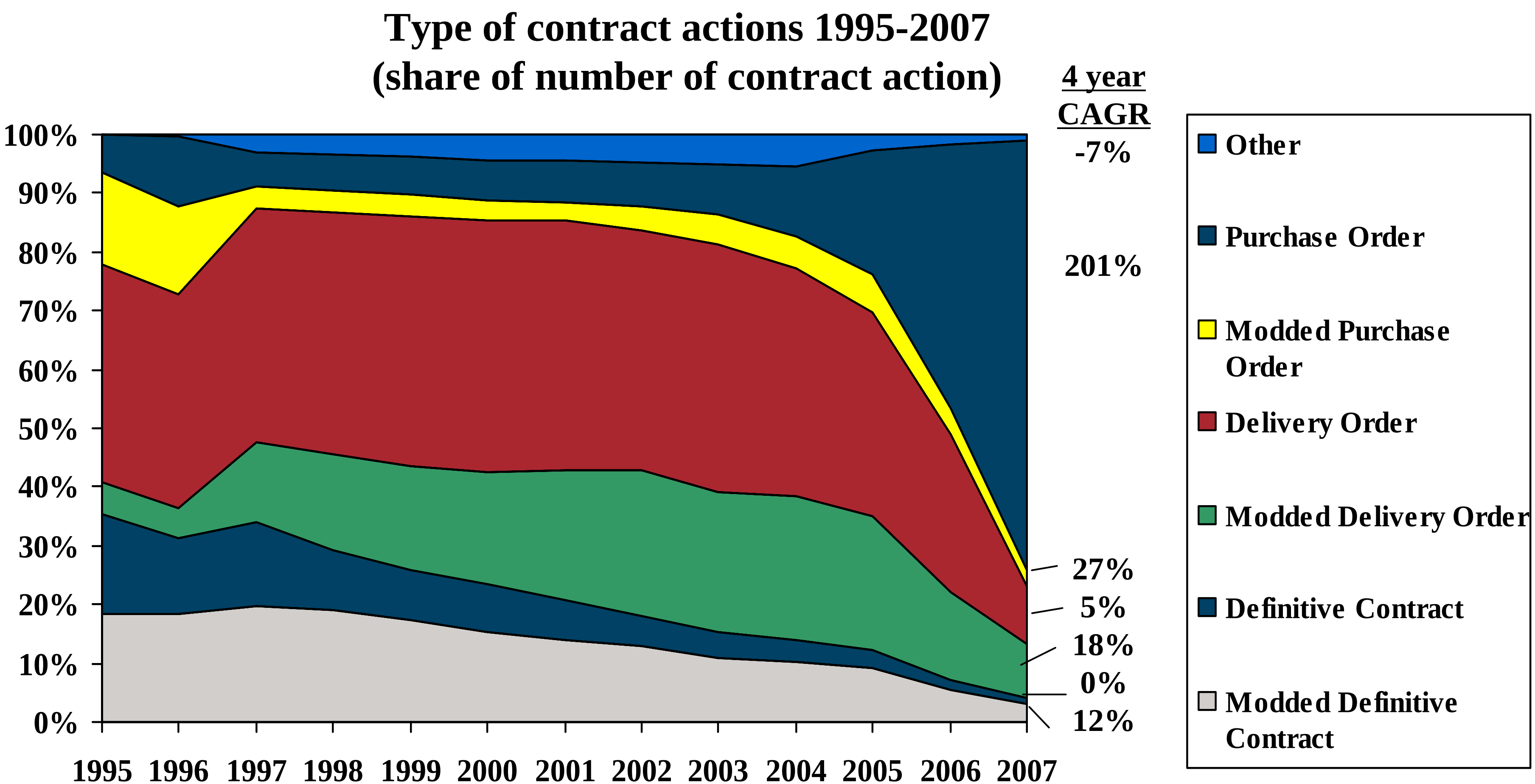
2/3 of the market is mods to existing contracts (similar to 2005, 2006)



Source: Federal Procurement Data System, CSIS analysis

CAGR = Compounded Annual Growth Rate

VA medical equipment rental and maintenance drive 164% annual increase in purchase orders…

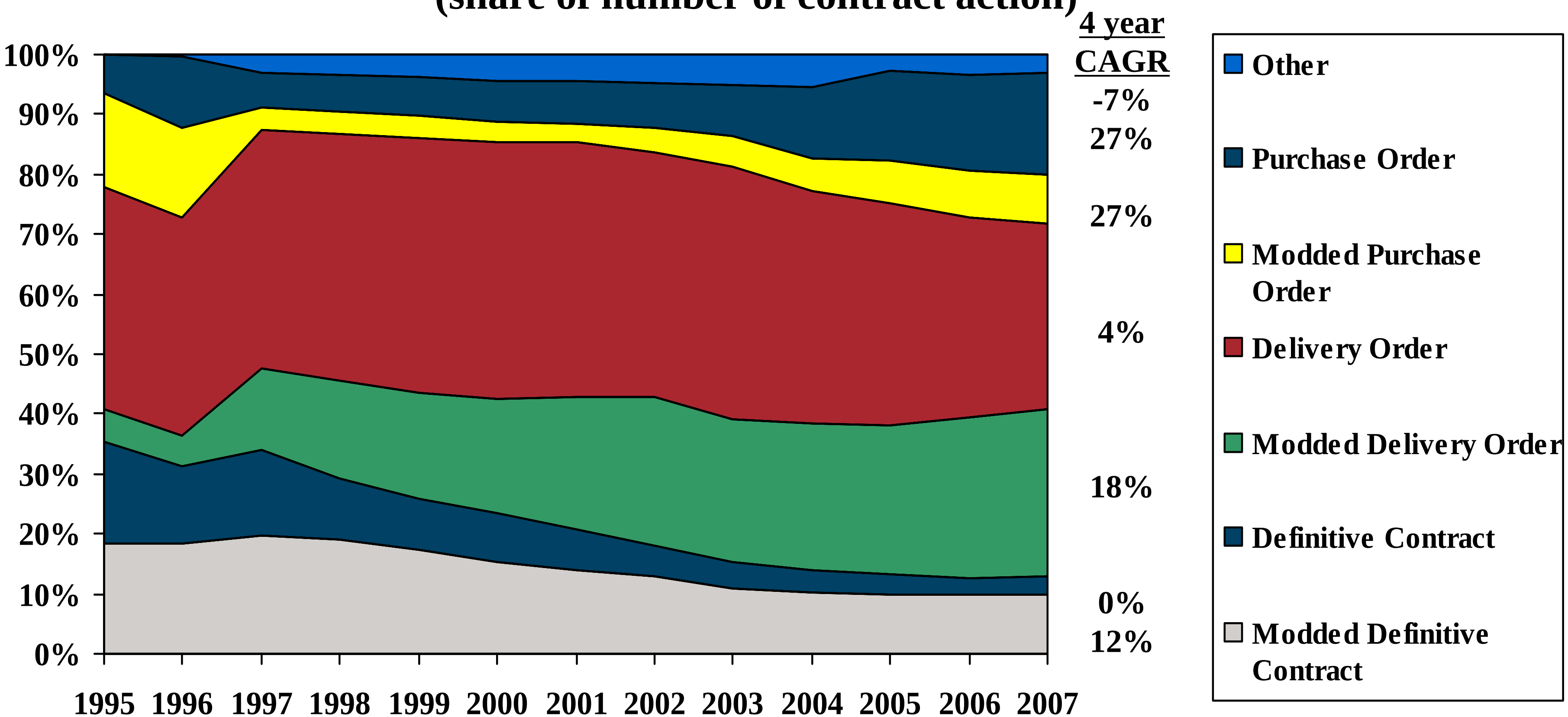


Source: Federal Procurement Data System, CSIS analysis

CAGR = Compounded Annual Growth Rate

When VA medical equipment rental and maintenance are removed, changes in purchase orders drop from 164% annual increase to a 21% CAGR…

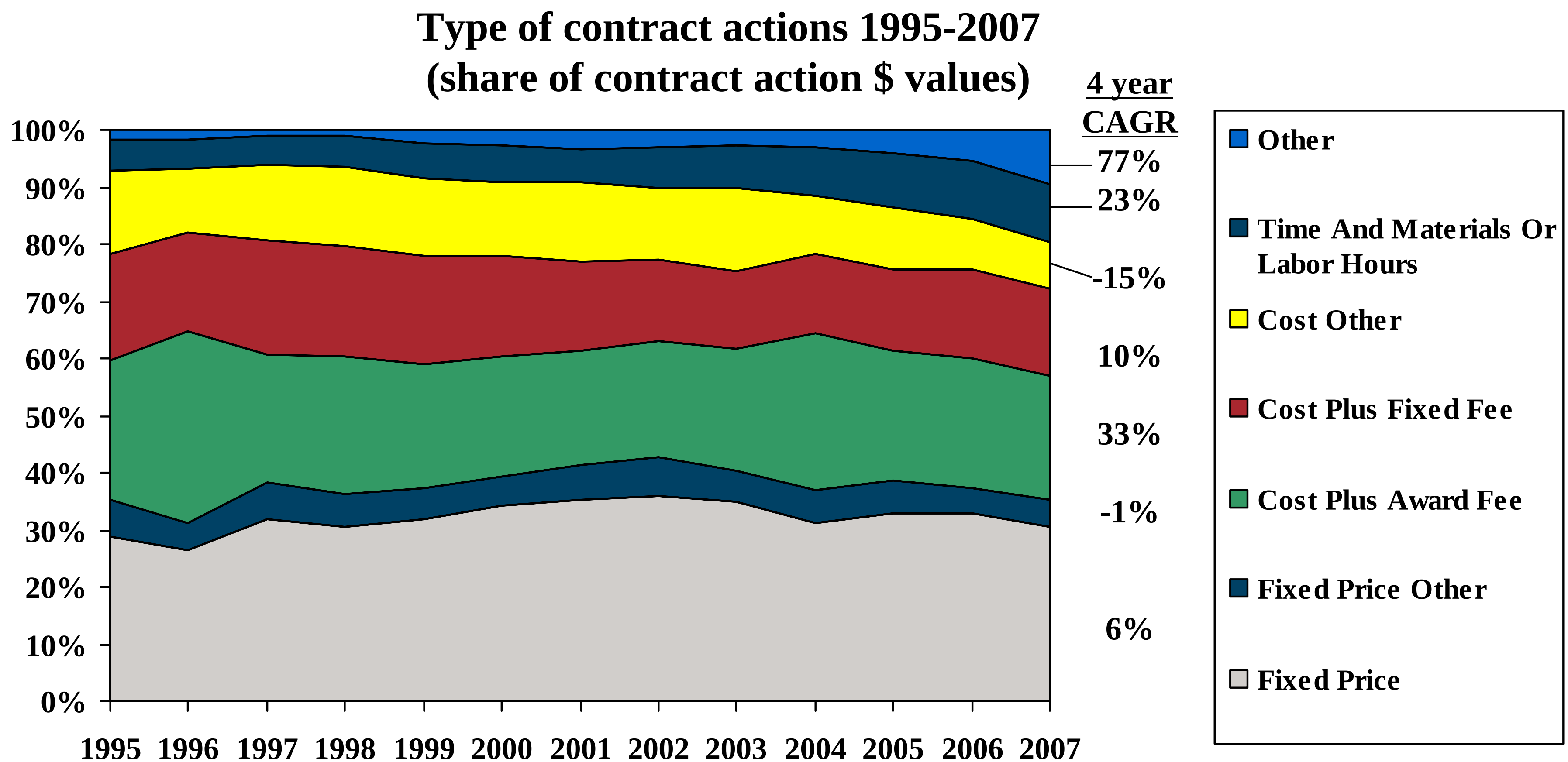
Type of contract actions excluding VA medical equipment related codes 1995-2007 (share of number of contract action)



Source: Federal Procurement Data System, CSIS analysis

CAGR = Compounded Annual Growth Rate

*Though fixed price actions have recently been more common, the dollars awarded through them are relatively flat to declining, and average action size dropped from $186k in 1995 to $100k in 2007**



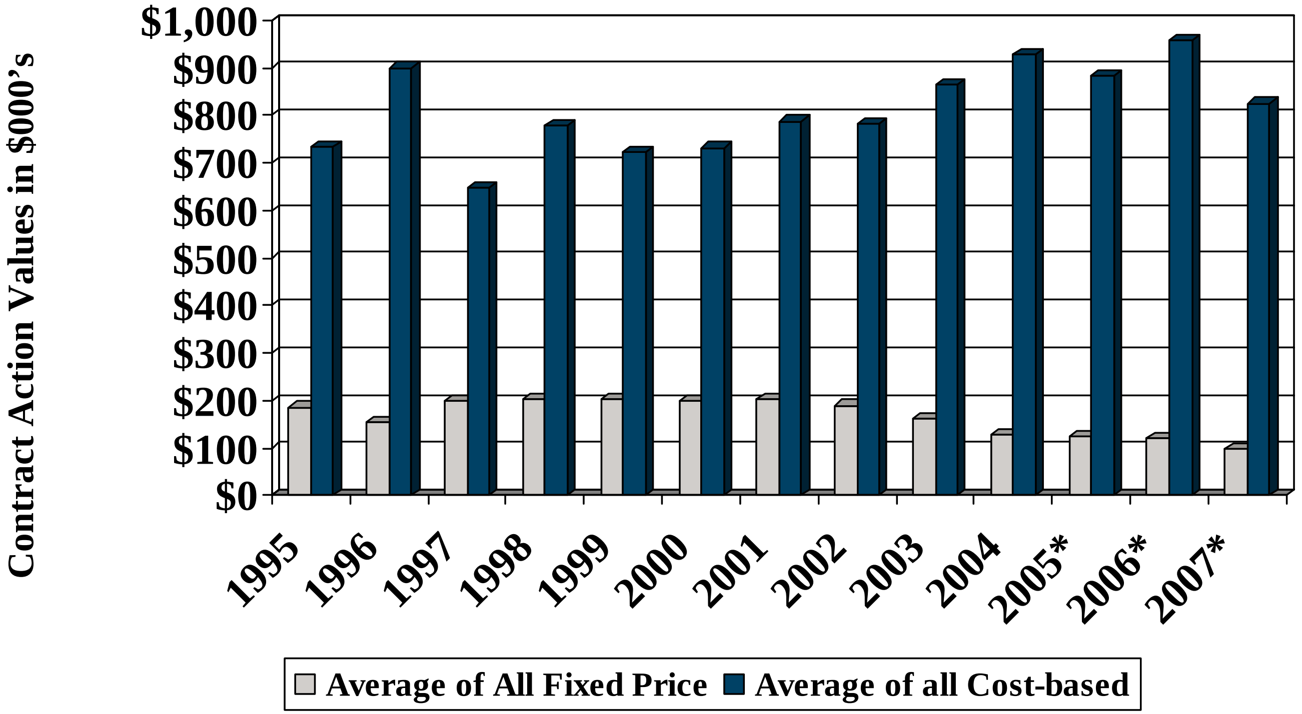
* 2005, 2006, and 2007 exclude VA medical equipment related codes

Source: Federal Procurement Data System, CSIS analysis

CAGR = Compounded Annual Growth Rate

Increases in fixed price contract actions lowered the average transaction value while cost-based actions were largely unaffected…

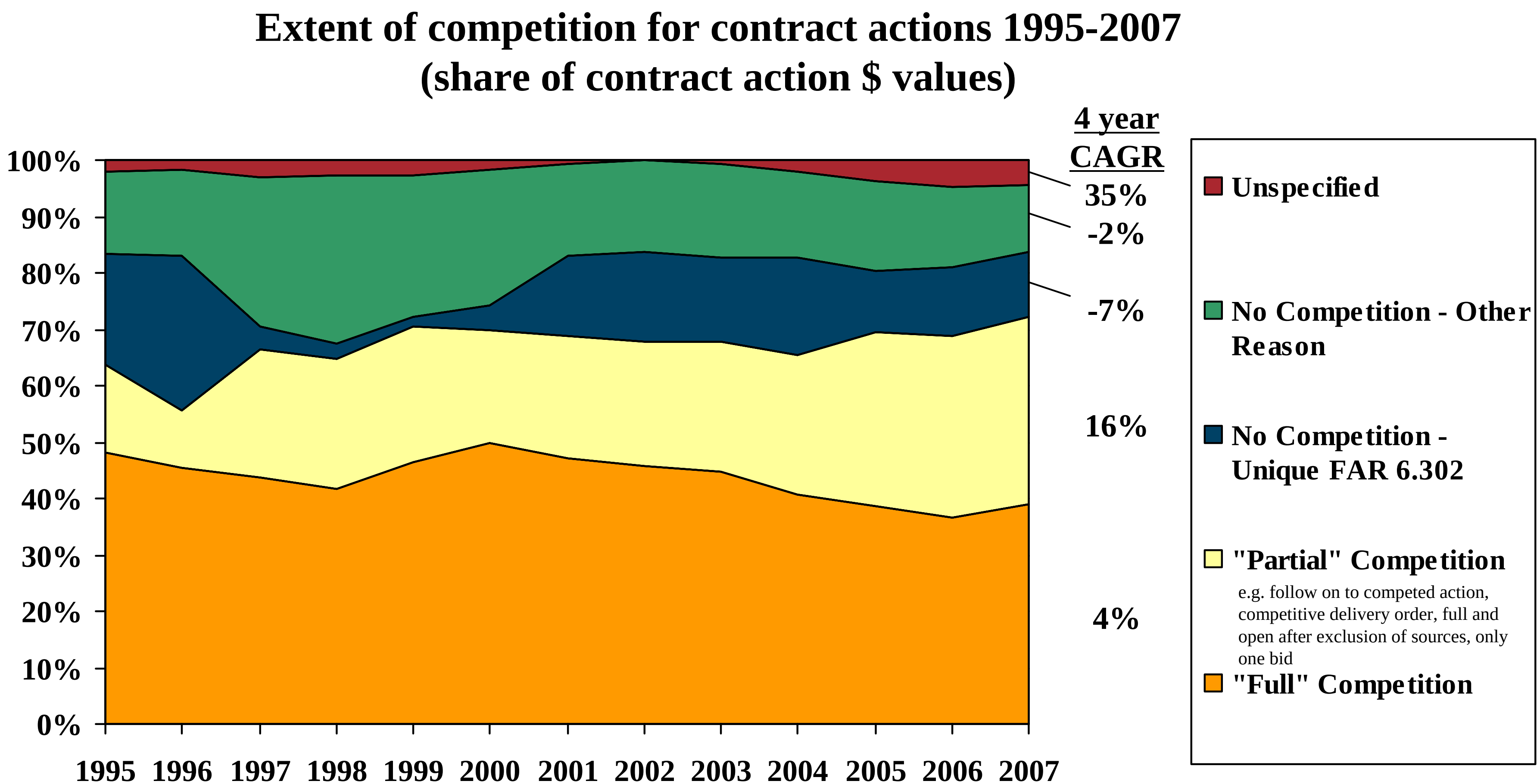
Average dollar value of notable contract actions types: 1995-2007



* 2005, 2006, and 2007 exclude VA medical equipment related codes

Source: Federal Procurement Data System, CSIS analysis

Overall competition at over 70 percent with steady growth in recent years

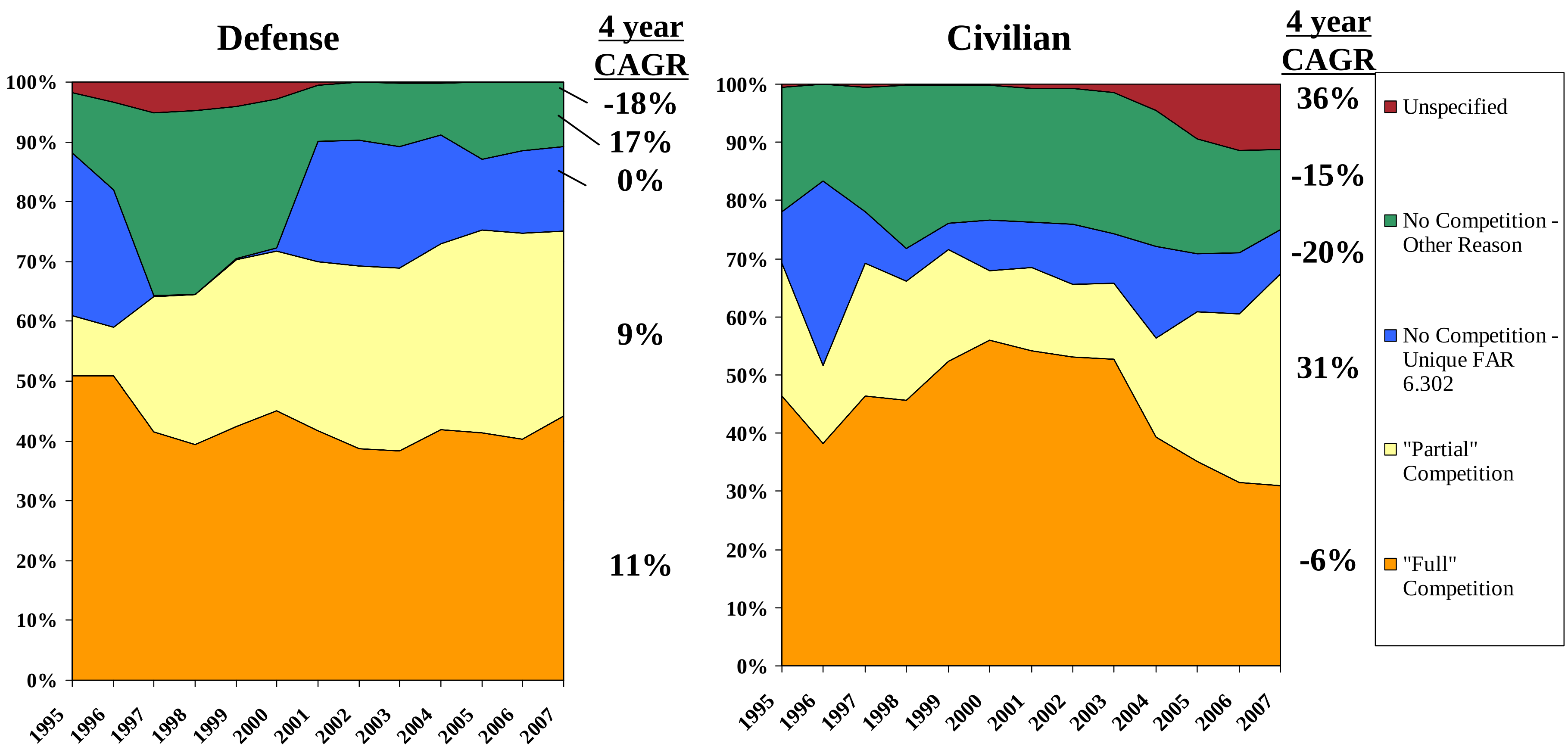


Source: Federal Procurement Data System, CSIS analysis

CAGR = Compounded Annual Growth Rate

Competition trends vary between defense and civilian services…

Extent of competition for contract actions 1995-2007 by customer (share of contract action $ values)

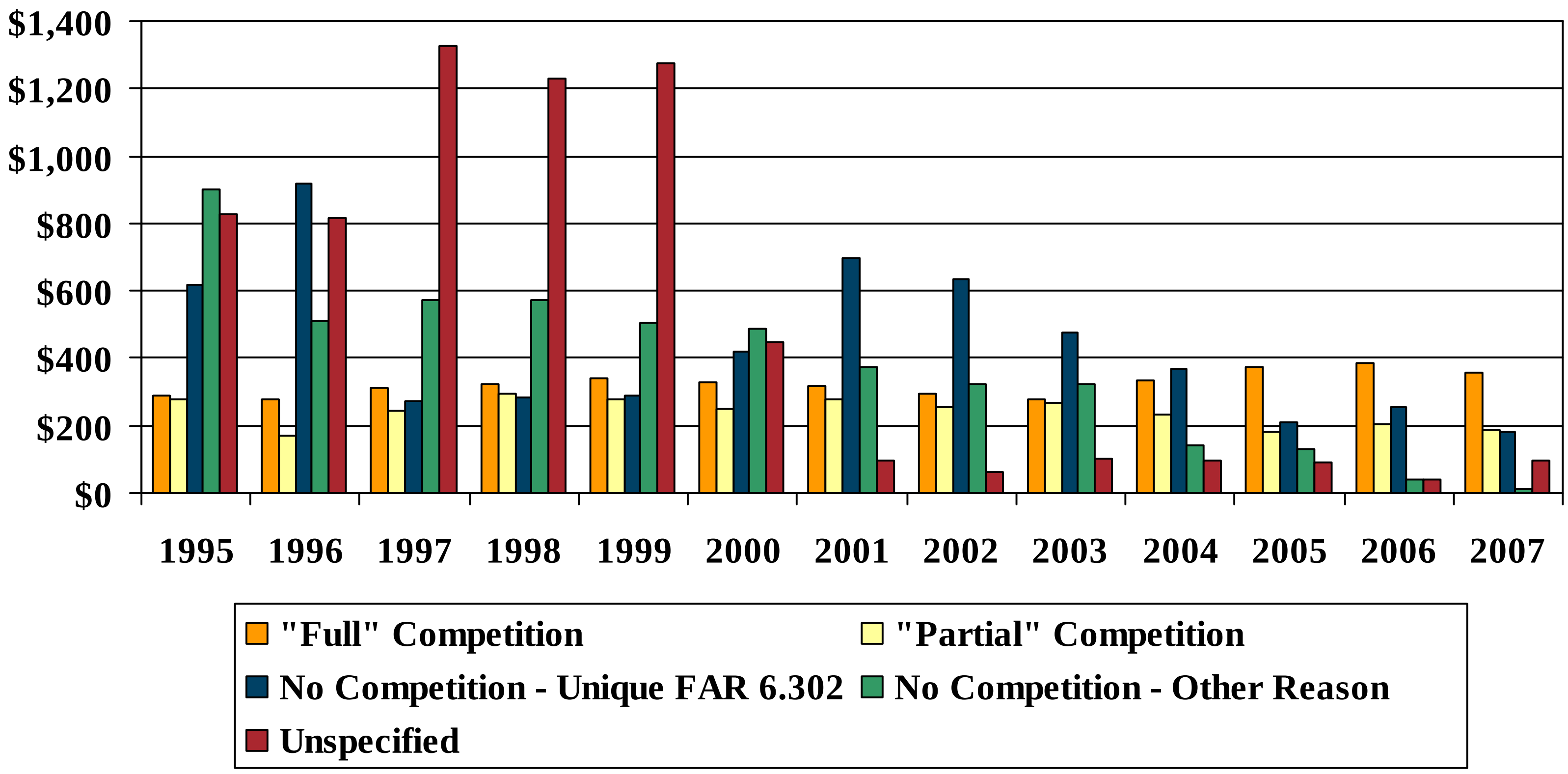


Source: Federal Procurement Data System, CSIS analysis

CAGR = Compounded Annual Growth Rate

Value of non-competitive contract actions have shrunk while competitive contract actions have remained relatively steady…

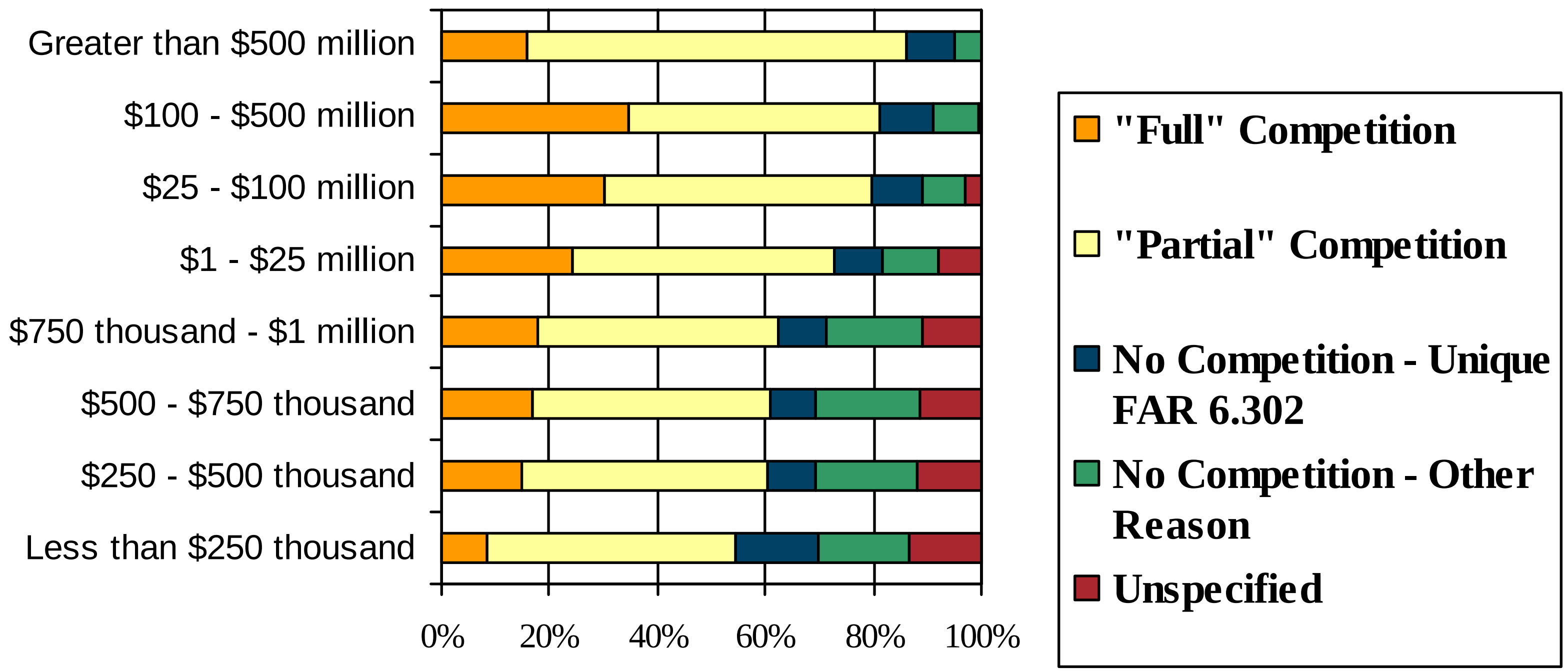
Average value of contract actions by competition category, 1995-2007



Source: Federal Procurement Data System, CSIS analysis

Larger contracts are more likely to be competed, though full competition drops off for the largest contracts…

Competition distribution by dollar share of contracts (2007)

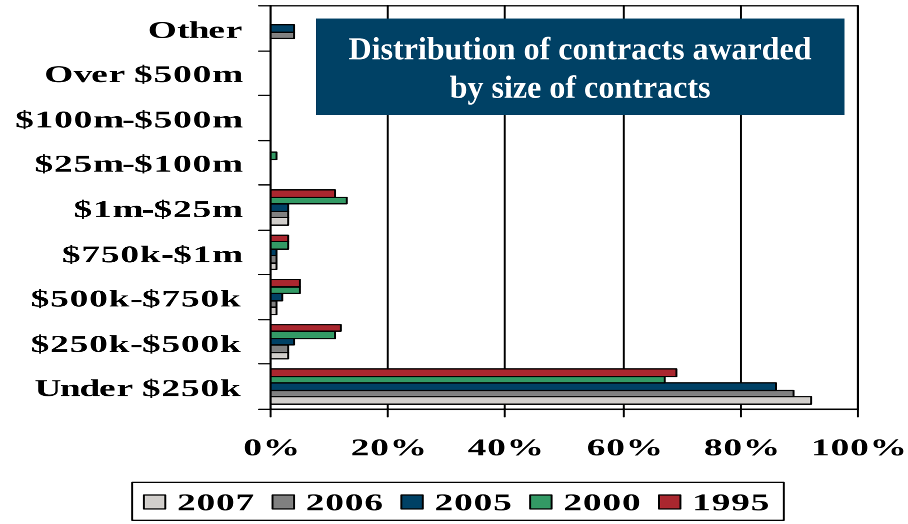


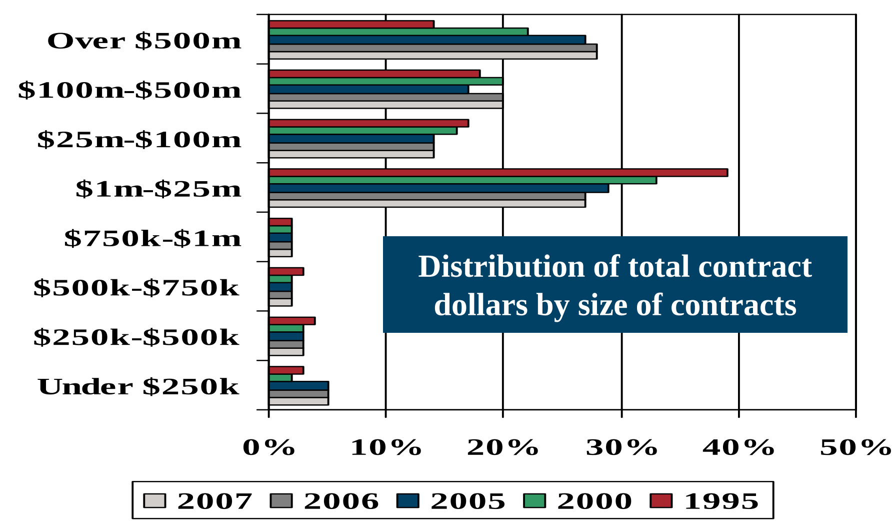
Source: Federal Procurement Data System, CSIS analysis

Contract distribution: select years

In 2007, contracts worth $250,000 or less represented 92% of all awards; however, these contracts accounted for less than 5% of total dollars awarded

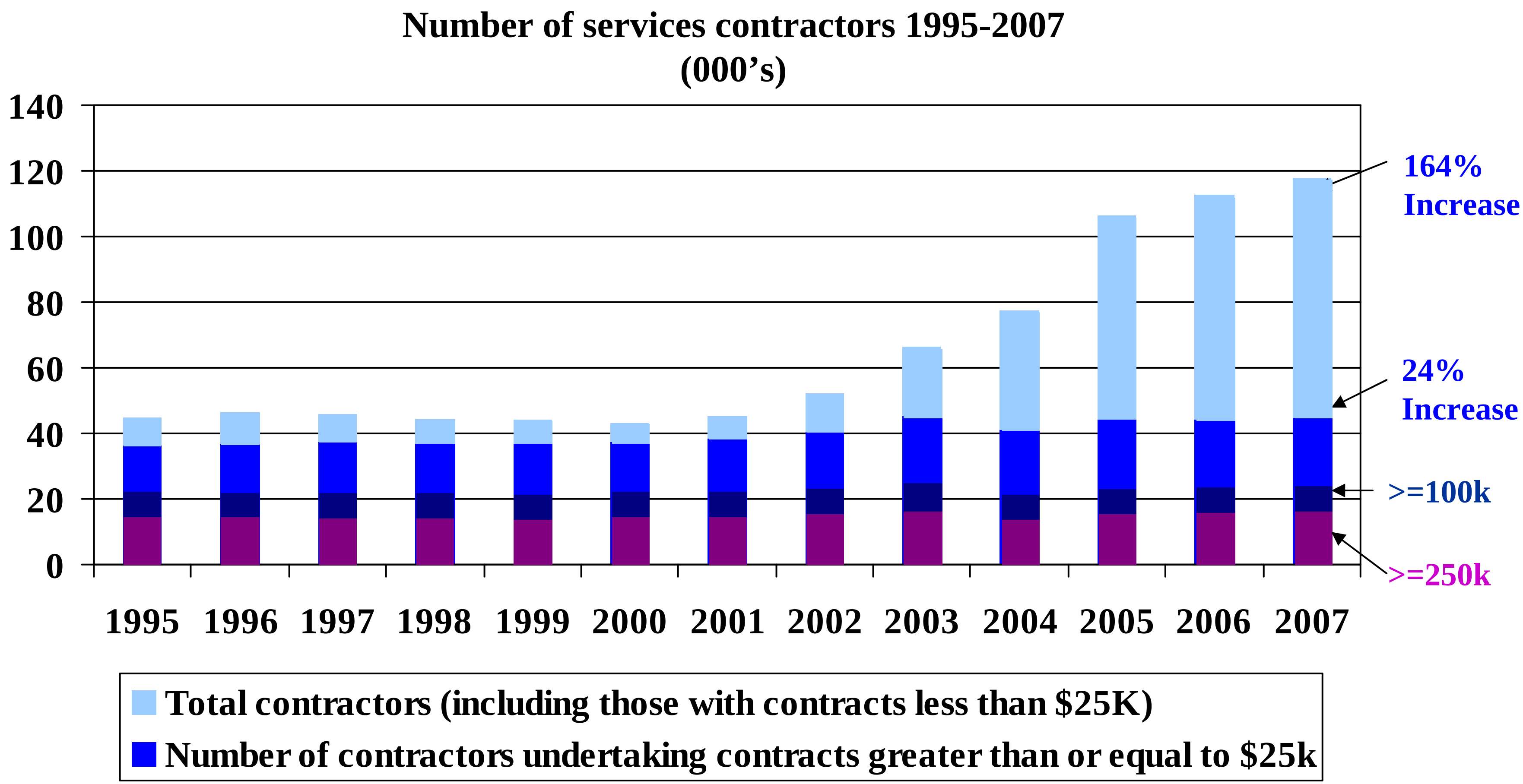
The remaining 8% of contracts received about 95% of total federal dollars spent on professional services





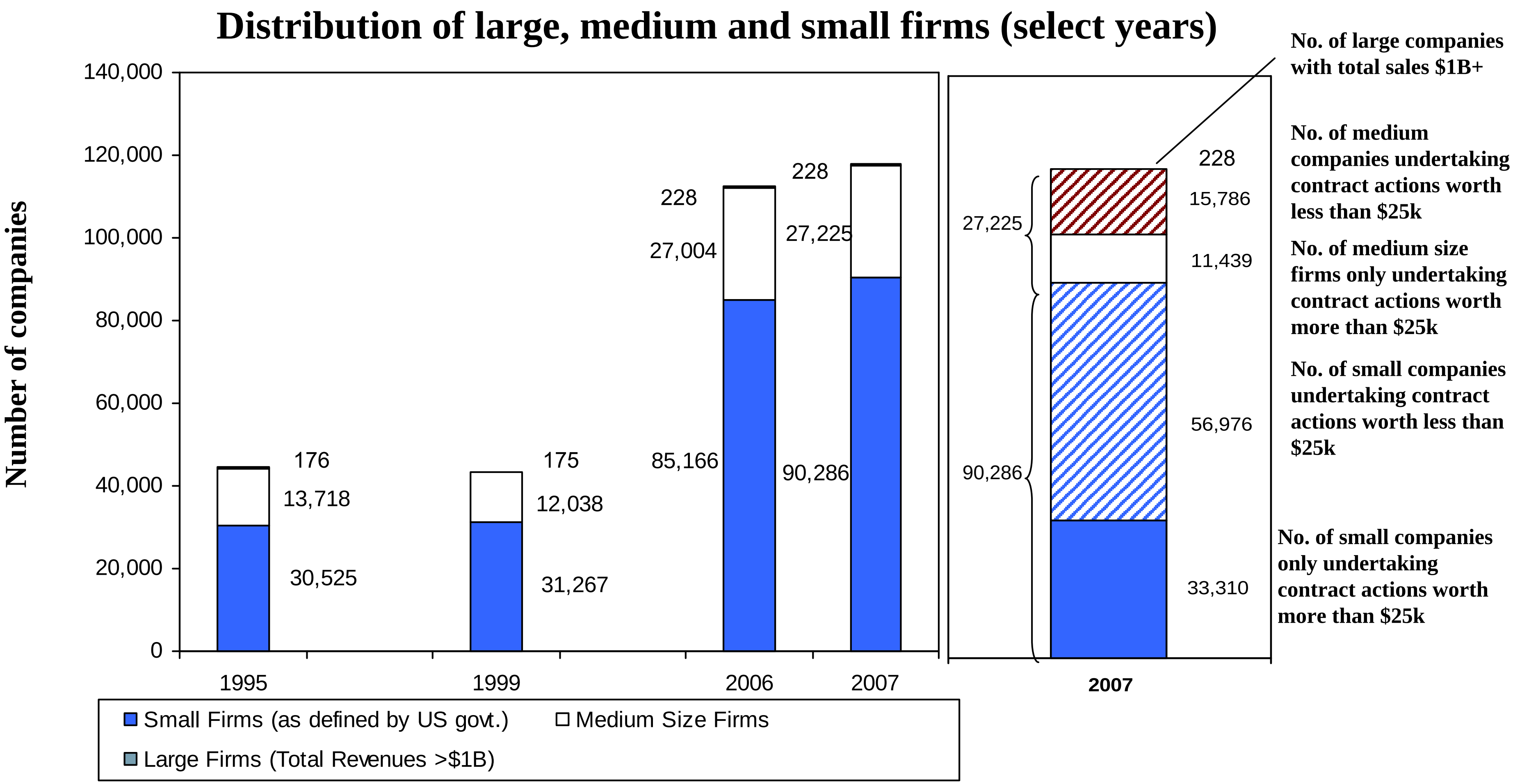
Source: Federal Procurement Data System, CSIS analysis

While the total number of professional services firms has grown dramatically, the "core" base has expanded more modestly…



Source: Federal Procurement Data System, CSIS analysis

Half of the small and 1/3 of the medium size firms only execute <$25k contracts. In 2007, just under 2,400 had $8 million in federal services revenue and only 234 had $100 million.



Source: Federal Procurement Data System, CSIS analysis

Summary

- **$233 billion market**
- **About 3.5 million contract actions awarded in 2007 (but over 2.3 million are VA)**
- **Value of federal services contract actions have increased over 7.1% annually in past 13 years; 7.8% annually in past 4 years**
- **Number of contracts growing faster than value of contracts (decrease in average contract value over time; 60% over the past five years to $403,000 in 2007)**
- **DoD is biggest customer at 61% of total contract actions by value; DoD, DoE, and NASA make up over three-quarters of the market**
- **Fixed price actions more common recently, but flat to declining in terms of their value**
- **"Fully" competed awards account for the greatest dollar amounts and the largest average awards**
- **Steady squeezing out of mid-tier companies:**
  - **From above (consolidation of both industry and requirements)**
  - **From below (small-business set asides are working)**
- **Analysis limited to quality of data in FPDS**

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