INSIDER REPORT 2015

2016 TRENDS IN GOVERNMENT PURCHASING
2016 Trends in Government Purchasing
Table of contents

Welcome 4
Overview 5
Expected Technology Purchases 10
Industry Interaction 17
Conclusions 18

Appendices
A. Government Buyer Profile 19
B. Methodology and Respondent Demographics 20
C. About Harvey Research, Inc. 21

Based on a survey of government executives across the civilian and defense sectors, this report will give you insights on priorities, procurement habits and the buying culture of the government market in the coming year.

We’ll look at the criteria government buyers use when picking their vendors and contractors, and the types of services providers they are most likely to hire in the coming year.

The report focuses on technology purchases, so we’ll be looking at a broad spectrum of technology areas including big data, cloud computing, cybersecurity, health IT, data centers, mobile technologies, and hardware and software.

You can think of this report as a roadmap of your customers’ priorities, purchasing plans and mission requirements for the coming year and beyond.

Because this is our third Insider Report looking at government purchasing plans, we’ll also look for opportunities to explore how those plans have evolved since 2013.

As always, we welcome your feedback on how we can make this and future Insider Reports more valuable to you and your business. Email us at WTInsider@WashingtonTechnology.com.

Nick Wakeman, Editor-in-Chief
Overview

The somber mood we’ve detected in government buyers continues in this year’s findings, but we may have hit bottom.

Only 30 percent of respondents expect to spend more on IT products and services next year over this year. This is however a marked improvement from last year’s results where only 25 percent expected spending to increase.

We also saw improvement among those saying they expected spending to go down – 20 percent expect a decrease in 2016, compared to 34 percent a year ago.

But the improved results still haven’t matched the optimism of our 2014 report, when 47 percent said they expected an increase. That year, 32 percent expected a decrease and 21 percent said spending would stay the same.

For 2016, fully half of the respondents expect spending levels to remain flat.

Another important factor to keep in mind though is the continued importance government buyers place on information technology and the role it plays in today’s market.

Respondents were given a list of statements to answer as strongly agree, agree, disagree or strongly disagree. Eighty-two percent agreed or strongly agreed that technology is mission critical, and 81 percent said that technology is essential to every new program their agency undertakes.

Also of note was 83 percent said that technology initiatives have increased in scope and complexity. That could be a pain point for your customers that you should keep in mind.

The lowest scoring statement was that technology helps decrease costs. Only 63 percent agreed or strongly agreed with that statement. Often technology is hyped for its cost savings and how it can improve efficiency, but this result tells us that there is a significant disconnect between the hype and what is being delivered.

Another finding that should be top of mind is that 80 percent of respondents agreed or strongly agreed that they want their technology investments to deliver tangible business results.

### 2016 IT Spending by Agency Type

<table>
<thead>
<tr>
<th>Agency Type</th>
<th>DOD</th>
<th>Federal Civilian</th>
<th>State &amp; Local</th>
</tr>
</thead>
<tbody>
<tr>
<td>DOD</td>
<td>$2,488,051</td>
<td>$1,974,368</td>
<td>$788,036</td>
</tr>
</tbody>
</table>
Favored Contracts

As the following charts illustrate, government buyers use a wide range of contracts to make their technology purchases. One thing to keep in mind is that a significant number of buyers use contracts other than the big marquee contracts, as indicated by the 11 percent of defense buyers and 6 percent of civilian buyers who said they plan to use other contracts.

Most-Used Defense Contracts

Defense buyers said they plan to use the following contracts

- ITES-2S or ITES 2H: 21%
- AMDC-2: 18%
- NETCENTS: 14%
- ENCORE II: 10%
- HR Solutions: 9%
- S3: 8%
- R2G3: 5%
- Navy Seaport-e: 3%
- Other: 11%
Most-Used Civilian Contracts

Civilian buyers said they plan to use the following contracts:

- GSA Schedule 70: 10%
- GSA Alliant and Alliant Small Business: 12%
- GSA OASIS: 14%
- SEWP IV: 14%
- GSA Networx: 10%
- CIO-SP2 and 3: 8%
- DHS Eagle: 8%
- GSA Mobis: 5%
- Other: 6%
What Your Customer Values

When picking a technology, government buyers weigh multiple factors. In the chart below, we break down their responses. Not surprisingly given today’s atmosphere, price ranks near the top, but quality and security are just above it. This means that contractors must continue to strike a balance between cost and quality. You can’t expect one to trump the other.
What Your Customer Values

When picking a services provider, government buyers are focused on flexibility and experience. As the chart below describes, multiple factors are important when buyers evaluate services providers.
Expected Technology Purchases

Fiscal 2016 Purchasing Plans

Expected technology purchases over the next 12 months:

- Software: 79%
- Infrastructure/Data Center: 62%
- Mobile/Communications: 62%
- Cybersecurity: 57%
- Big Data Mgmt. & Analytics: 57%
- Cloud Computing: 53%
- Virtualization: 51%
- Public Safety: 50%
- Health IT: 32%

Cybersecurity Purchasing Plans

Respondents said they would be purchasing the following cybersecurity solutions over the next 12 months:

- Network Security: 38%
- Data Security: 37%
- Application Security: 28%
- Endpoint Security: 27%
- Identity Management/Access Management: 25%
- Continuous Monitoring: 24%
- Other Cybersecurity: 3%
Infrastructure Solutions
Respondents plan to purchase the following infrastructure and data center solutions during fiscal 2016:

- Storage: 30%
- Servers: 27%
- Disaster Recover/COOP: 25%
- Networking: 25%
- Wireless Infrastructure: 24%
- Shared/Managed Services: 19%
- Voice-Over-IP: 18%
- Energy Efficiency: 12%
- Other Data Center: 1%

Mobile/Communications Solutions
Respondents plan to purchase the following mobile/communications solutions during fiscal 2016:

- iOS: 32%
- Android Device: 28%
- Windows: 25%
- Mobile Security: 24%
- Blackberry: 18%
- Wireless Broadband Services: 16%
- Chrome: 9%
- Other mobile: 3%
Big Data Management & Analytics Solutions
Respondents plan to purchase the following big data management and analytics solutions during fiscal 2016:

- Analytics: 32%
- Data Warehousing: 25%
- Business Intelligence: 22%
- High Performance Computing: 19%
- Other big data mgmt & analytics: 2%

Cloud Computing
Respondents plan to purchase the following cloud computing solutions during fiscal 2016:

- Cloud Security: 28%
- Software-as-a-Service: 27%
- Email, Collaboration, etc.: 26%
- Infrastructure & Platform-as-a-Service: 25%
- Other Cloud Computing: 4%
Health IT Solutions

Respondents plan to purchase the following health IT solutions during fiscal 2016:

- Data Analytics: 16%
- E-Health Records: 12%
- Clinical Systems: 9%
- Health Information Exchanges: 8%
- Telehealth: 7%
- E-Prescribing: 6%
- Disease Surveillance Tools: 5%
- Patient Tools: 5%
- Medicaid Management Information Systems: 3%
- Other Health IT: 1%
Public Safety Solutions

Respondents plan to purchase the following public safety solutions during fiscal 2016:

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Sharing</td>
<td>27%</td>
</tr>
<tr>
<td>Emergency/Event Management</td>
<td>19%</td>
</tr>
<tr>
<td>Emergency Response/Communication</td>
<td>18%</td>
</tr>
<tr>
<td>Data Analytics</td>
<td>16%</td>
</tr>
<tr>
<td>Emergency Communications</td>
<td>15%</td>
</tr>
<tr>
<td>Simulation</td>
<td>10%</td>
</tr>
<tr>
<td>Law Enforcement</td>
<td>9%</td>
</tr>
<tr>
<td>Rugged IT</td>
<td>8%</td>
</tr>
<tr>
<td>Forensics</td>
<td>6%</td>
</tr>
<tr>
<td>Other Public Safety</td>
<td>1%</td>
</tr>
</tbody>
</table>
Software Solutions
Respondents plan to purchase the following software solutions during fiscal 2016:

- Desktop/Productivity Software: 42%
- Information Management: 42%
- Database: 30%
- Content/Document/Records Management: 30%
- Data Visualization: 21%
- Collaboration/Groupware: 20%
- Geospatial/Mapping/Imagery: 15%
- Enterprise Resource Planning: 13%
- Financial Management: 13%
- Other Software: 8%

Virtualization Solutions
Respondents plan to purchase the following virtualization solutions during fiscal 2016:

- Server Virtualization: 32%
- Desktop Virtualization: 29%
- Storage Virtualization: 22%
- I/O Virtualization: 12%
- Other Virtualization: 1%
Networking Solutions
Respondents plan to purchase the following networking solutions during fiscal 2016:

- Routers/Bridges/Hubs/Switches: 29%
- Network Management Tools: 29%
- Software-Defined Networking: 17%
- Bandwidth Management: 16%
- Other Networking: 2%

Storage Solutions
Respondents plan to purchase the following storage solutions during fiscal 2016:

- Backup & Recovery: 33%
- Storage Area Networks: 28%
- Network Attached Storage: 22%
- Other Storage: 4%
Limits on Access and Interaction

Many of our respondents in the civilian and defense markets reported that they continue to face restrictions on their interactions with industry, which limits how contractors can present new solutions and innovations.

But the atmosphere is improving when we compare the results to last year’s report, particularly in the area of accepting outside meetings with vendors and contractors.

Last year, 42 percent of civilian buyers said they faced restrictions when trying to meet with companies, compared to 41 percent in this year’s report.

The most drastic improvement is on the defense side of the house where 32 percent said they faced restrictions today, compared to 47 percent who said they faced restrictions last year.

Areas such as participating in professional organizations and attending industry and charity events stayed steady.

Respondents reported restrictions on the following activities:

<table>
<thead>
<tr>
<th>Restrictions on...</th>
<th>DOD</th>
<th>Federal Civilian</th>
</tr>
</thead>
<tbody>
<tr>
<td>attendance at industry and charity events</td>
<td>43%</td>
<td>34%</td>
</tr>
<tr>
<td>accepting meetings with technology vendors/contractors</td>
<td>32%</td>
<td>41%</td>
</tr>
<tr>
<td>speaking opportunities</td>
<td>41%</td>
<td>33%</td>
</tr>
<tr>
<td>participation in professional organizations and associations</td>
<td>22%</td>
<td>18%</td>
</tr>
</tbody>
</table>
Conclusions

The government market for technology products and services is broad and diverse, and our report reflects that.

Government buyers see technology as critical to meeting mission requirements and helping the government operate efficiently.

That is why our analysis of 2016 purchasing plans indicates that technologies such as cybersecurity, networking, communications, cloud computing, mobility and infrastructure support will be top priorities for most government buyers.

They’ll buy these products and services through a variety of contract vehicles, which puts pressure on government contractors to position themselves on the right vehicles with the right set of products and services.

The government isn’t a single buyer, so how and what is being purchased will change from agency to agency, so contractors are best served by understanding their own strengths and matching that with the pain points of their target customers.

As we’ve seen in previous reports, government buyers face restrictions in how they interact with industry, which creates a challenge for contractors and vendors trying to reach new customers. This also adds pressure to make sure the interactions you have with your customers are valuable.

To do this, you need to keep in mind how customers pick their contractors and vendors and what factors they weigh when evaluating proposals.

Our report draws the conclusion that factors such as security and service and support are more important than price, but price is still near the top. Government buyers also value flexibility and experience as well as a vendor they can have a relationship with.

Success in this market requires that contractors strike a balance among multiple factors, including price, technology, service, and customer knowledge. The bottom line is for contractors to understand what they bring to the customer and how their technology or solutions meets the customer’s challenges and mission requirements.

Contractors who master that will find success.
Appendix A: The Aging Government Buyer

We collected demographic information on our respondents that confirm the conventional wisdom about the challenges of an aging government workforce.

There are more government workers over 55 than any other group. When you combine the 55-64 group with the over 65 group, you get 54 percent, well over half the workforce. Compounding this issue is that only 4 percent are below 35.

The retirement plans of respondents are somewhat encouraging, with 50 percent saying they do not plan to retire in the next five years. But 27 percent say they plan to retire within the next five years, and that is a significant number, though down from last year’s 32 percent with retirement plans.
Appendix B: Methodology and Respondent Demographics

Harvey Research, Inc. managed questionnaire development, analysis methodology, fielding and data reporting. Fielding was done by internet-based questionnaire, with respondent incentive of $5.00 to their choice of five charities.

Sample selection of 150,000 Public Sector Media Group’s print, online and newsletter subscribers from the FCW, GCN, Defense Systems and Washington Technology brands. Responses were matched against the original master file and weighted based on both their branch of government and their job function to properly represent the total population. Weighted data file caused 704 usable cases. The margin of error for percentages based on 704 responses is +/- 3.7% at the 95% confidence level.

### Job Function

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Management</td>
<td>19%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>40%</td>
</tr>
<tr>
<td>Program Management</td>
<td>14%</td>
</tr>
<tr>
<td>Related Business Functions</td>
<td>27%</td>
</tr>
</tbody>
</table>

### Federal Job Grade

<table>
<thead>
<tr>
<th>Grade</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>GS/GM 11 or below</td>
<td>6%</td>
</tr>
<tr>
<td>GS/GM 12</td>
<td>15%</td>
</tr>
<tr>
<td>GS/GM 13</td>
<td>19%</td>
</tr>
<tr>
<td>GS/GM 14</td>
<td>18%</td>
</tr>
<tr>
<td>GS/GM 15</td>
<td>30%</td>
</tr>
<tr>
<td>Senior Executive Service</td>
<td>10%</td>
</tr>
</tbody>
</table>
Appendix D: About Harvey Research

In the early 1950’s, a Rochester, N.Y. advertising agency, Rumrill-Hoyt, had an internal research department that specialized in researching the performance of print ads that were created by the agency. At some point the agency’s management decided that there could be a perception of conflict of interest among their clients like Kodak, DuPont and Corning by researching their own ads. In 1953 the research department was spun off from the agency and given to its research director, Jean Harvey. Thus Harvey Research was established as an independent research company specializing in print ad and publication content research.

Since 1953 the company has become very well-regarded for providing independent, objective and highly professional research for thousands of advertisers and content publishers throughout North America, Europe and Asia. As the publishing world has evolved, Harvey Research has evolved with it. Today we specialize in helping content publishers document their total audience and understand how their advertising and content is received across all channels including print, websites, mobile apps, e-newsletters, events, etc. We continue to work with publishers and advertisers to document advertising effectiveness.

To learn more about Harvey Research visit: http://www.harveyresearch.com