EXECUTIVE SUMMARY

KEY FINDINGS

- Microsoft and Oracle, the world's two largest software companies, received 25 to 30 percent of their contracts without meaningful competition (and likely much more).
- In one prime example of vendor-lock, the government spent $112 million more to buy Microsoft Office than Google Workspace in order to avoid perceived costs to switch.
- A five percent improvement in price performance, due to enhanced software competition, could produce savings up to $750 million annually.

The United States Government has spent almost $2 trillion on Information Technology (IT) since 1994. About $300 billion of that expenditure has been on commercial off-the-shelf (COTS) software. On an annual basis, the government collectively spends $10 to $15 billion on new software and for the maintenance and support of previously purchased software. Unfortunately, the majority of the COTS software spend has been destined for only a limited set of software companies who have managed to create a largely vendor-locked COTS software estate.

Until now, the government has had little visibility into how resoundingly its incumbent software estate has been captured by so few. As a result, an oligarchy of software companies has been free to use fear, uncertainty, and sometimes questionable business practices to make authentic competitions against incumbent software applications relatively rare.

The government has generally acquiesced to vendor-lock, limiting full and open competitions for COTS software to just new programs that are large and highly visible. This research paper explores "vendor-lock" in federal IT and examines how incumbent software companies exploit vendor-lock to decrease competition and increase costs to taxpayers.

Vendor-lock has also allowed software vendors to leverage their power to impose a number of harmful practices on the government.

Some of these crafty actions include:

1. Licensing restrictions requiring the government to repurchase previously paid for software, in order to use those applications in competitive cloud environments.
2. Fixed, inflexible annual support fees, that cannot be reduced, even with a reduction in software usage.
3. Predatory software audits (according to lawsuits) used to cement lock-in, and in one case, force the government to spend hundreds of millions of dollars unnecessarily.

Lastly, this research paper puts forward several actionable steps the federal government should take to limit vendor-lock and save taxpayer dollars.

Chief among them—the bipartisan SAMOSA Act, (S.4908; H.R. 9330), introduced in the fall of 2022, offers significant relief by requiring each agency to do a rigorous accounting of their COTS software to better understand their software licensing assets, rights, and liabilities.

Software vendor-lock is a difficult problem that afflicts industry and government alike. Not all vendor-lock is avoidable. But, because the government is the largest single buyer of IT products in the world, it has unique leverage to fight back against the most onerous software licensing practices. In the end, if the government used meaningful competition to mitigate vendor-lock and improve price performance by only 5 percent, it could generate savings of between $500 and $750 million annually.