The Industrial Base After the Drawdown

Summary of CSIS Report on Defense Products Contract Trends and Defense Competition

October 21, 2015

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Key Findings From the Defense Products and Competition Reports

• The “Last Supper” industry consolidation of the mid-to-late 1990s led to profound changes in the defense industrial base, with many vendors exiting the market and a notable decline in the share of contract obligations going to medium vendors.

• There has been no comparable shift in the overall defense industrial base during the current budget drawdown, although there have been shifts in certain sectors.

• Despite concerns from DoD about potential mergers and acquisitions among prime vendors, the major trend in the defense industrial base in recent years has been one of spin-offs and divestitures.

• Despite the budget drawdown, overall DoD competition rates have been remarkably steady in recent years.

• However, there have been notable changes in the rate of effective competition within particular sectors of the contracting portfolios of major DoD components, such as Air Force services contracts.
Share of Defense Contract Obligations by Size of Vendor, 2000-2014

Vendor Size

- Large (Big 6)
- Large
- Medium
- Small

Fiscal Year


Share of Overall Defense Contract Obligations

0% 5% 10% 15% 20% 25% 30% 35% 40%
Share of Defense Aircraft Contract Obligations by Size of Vendor, 1990-2014
Share of Defense Electronics & Communications Contract Obligations by Size of Vendor, 1990-2014
Rate of Effective Competition for Defense Contract Obligations, by Component, 2000-2014
Rate of Effective Competition for Defense Contract Obligations, by Area, 2000-2014
Rate of Effective Competition for Defense Services Contract Obligations, by Component, 2000-2014
Naval Air Systems Command (NAVAIR)

Total 2014 Contract Obligations: $24.8 billion

“Estimated” 2014 Effective Competition Rate: 15 percent

Actual 2014 Effective Competition Rate: 17 percent

- Only 14 percent of NAVAIR contract obligations for Aircraft & Drones in 2014 were awarded after effective competition, compared to 21 percent for DoD overall.

- Only 29 percent of NAVAIR contract obligations for Electronics & Communications were awarded after effective competition, compared to 45 percent for DoD overall.
Naval Supply Systems Command (NAVSUP)

Total 2014 Contract Obligations: $7.1 billion

“Estimated” 2014 Effective Competition Rate: 52 percent

Actual 2014 Effective Competition Rate: 33 percent

- Only 3 percent of NAVSUP contract obligations for Aircraft & Drones in 2014 were awarded after effective competition, compared to 21 percent for DoD overall.

- Only 23 percent of NAVSUP contract obligations for Electronics & Communications were awarded after effective competition, compared to 45 percent for DoD overall.
Virginia

Total 2014 Contract Obligations: $33.6 billion

“Estimated” 2014 Effective Competition Rate: 54 percent

Actual 2014 Effective Competition Rate: 55 percent

- The market for Professional, Administrative, and Management Support (PAMS) services in Virginia is significantly more competitive than it is nationwide: 61 percent of PAMS contract obligations performed in Virginia were awarded after effective competition, compared to 36 percent nationwide.

- For R&D contract obligations performed in Virginia, 36 percent were awarded after competitions received only a single offer - over twice the rate for R&D nationwide. As a result, the rate of effective competition for R&D contracts performed in Virginia was only 32 percent in 2014, compared to 46 percent nationwide.
  - Given the heavy concentration of major R&D vendors in Virginia, this high rate of single-offer competition is likely masking contracts that would be more properly classified as non-competitive.