This study qualitatively explores and identifies business strategies needed by traditional defense industry companies to address recent Department of Defense (DoD) acquisition initiatives. The problem identified herein pointed to the need for adapting existing business models to better envision and capture requirements to develop sound business strategy approaches that respond successfully to recent DoD initiatives or those yet to be determined. The central research question asked of respondents remained: What business strategies are needed to successfully address recent DoD acquisition improvement initiatives? The research focused on a study-defined, mid-tier segment of Defense Industrial Base companies. The author used semistructured interviews to collect data from 10 defense industry leaders with experience in formulating business strategy, pursuing DoD business, and familiarity with DoD acquisition processes and recent initiatives. Key findings suggest strategies for Insight, Influence, and Investment are key business strategies for defense companies when implementing revised strategy approaches to recent DoD initiatives.
Former Under Secretary of Defense for Acquisition, Technology and Logistics Frank Kendall identified the Defense Industrial Base (DIB) as a precious national asset supporting our armed forces and the most important relationship for the Department of Defense (DoD) (Kendall, 2017). DoD leadership has espoused the need for industry and government to work effectively together (Gudger, 2015). However, ever-extending procurement cycles, system manipulations to keep multiple vendors in play as long as possible, and recent efforts to seek lower profit levels and lower barriers to entry have resulted in DIB shareholders questioning the utility of DoD business (Defense Business Board [DBB], 2014; Watts, 2008). Without a full understanding of potential implications, the DoD’s acquisition initiatives could be driving DIB behaviors that do not reflect the government’s intent. If recent DoD acquisition initiatives drive business strategy decisions to exit the market or reduce participation in DoD programs, the result will be a smaller DIB, reduced support of DoD programs, and a potentially deleterious effect on the United States Armed Forces.

The purpose of this article is to ascertain how recent DoD acquisition initiatives are impacting the business strategies of traditional DIB companies. By better understanding the relationship between DoD acquisition initiatives and DIB business strategy, companies may be better able to remain competitive in the DIB, the DoD may be able to better project the impact of future initiatives, and the DIB may be strengthened. The following was the central research question for the study: What are the business strategies needed by mid-tier defense industry companies to successfully address recent DoD acquisition improvement initiatives?

**Background**

The DoD acquisition process has long been subjected to criticism for excessive development schedules, cost overruns, and program failures (Fox, 2011). The Government Accountability
Office (GAO, 2002) postulated the DoD has perpetually refined its policies, seeking to develop higher quality systems in less time and at lower cost, without result. Stark, Roth, and Bold (2016) recognized conclusions of these acquisition studies had the same results and recommendations so often that it was not possible to identify the timeline of a particular study based on its findings. Recently added to the litany of issues is the perceived erosion of the United States’ technological lead over potential adversary countries (A Case for Reform, 2015; Fahey, 2015; Gudger, 2015; Pellerin, 2014). Multiple studies now cite this loss of technological lead within the defense industry alongside the continued inability to execute acquisition programs in a timely manner (Advisory Panel on Streamlining and Codifying Acquisition Regulations, 2017; Fahey, 2015; Fitzgerald & DeJonge-Schulman, 2016; Shaffer, 2015).

One area worth examining is the Better Buying Power 3.0 initiatives. Two areas within these initiatives focused directly on DIB companies: Incentivizing Productivity in Industry and Government, and Promoting Effective Competition. In incentivizing productivity, Kendall (A Case for Reform, 2015) offered a proposal that DoD would use profit as a tool to achieve its goals, suggesting how DoD structured its business deals could affect how industry performs. DBB (2014) documented that defense company margins were already significantly lower than in the commercial sector, raising a question on how DIB companies may respond if DoD continued to push profit levels lower.

A second section under incentivizing productivity appeared to be more aligned to the pursuit of innovation than productivity. The incentivizing productivity subsection area of emphasis focused on removing barriers to commercial technology utilization. The DBB (2014) carefully looked at how to entice non-DIB companies into the defense market, suggesting reduced acquisition process requirements and offering higher profit levels (without comment on the impact to traditional DIB companies). Gudger (2015) likewise concurred with Kendall, suggesting devising the right policies,
programs, and business incentives to attract companies that would not otherwise choose to meet the DoD’s acquisition requirements. Many of these perceived barrier requirements are contained within the acquisition structures traditional DIB companies have adopted to comply with the formal DoD acquisition process, along with the associated operating costs (Coopers & Lybrand, 1994; Cox, Moore, & Grammich, 2014).

A third area of impact, which is more a result of the DoD initiatives and approaches to the business process, but perhaps key, is communication. Defense contractors depend on communication with program offices to understand vision and capture requirements. When trying to create innovative solutions, no one has ever espoused the idea that less communication is better. Yet research has indicated this approach is increasingly being taken by DoD (Blank, 2018). Industry perception is that less open dialogue is taking place due to program office fear of protest. Additionally, recent movement away from the traditional acquisition process has been perceived to have further reduced the level of open communication. During a study on how business strategies are being affected by DoD initiatives, it was noted by several DIB leaders the DoD appears to be picking winners and losers, and using Other Transaction Authority to avoid open acquisition competition (Blank, 2018). To better understand how these efforts are considered to be more expedient and to avoid protests affecting the DIB, it is necessary to understand how the DIB pursues the defense market.

Martin (2013) expressed strategy in business is an integrated set of choices to enable sustainable competitive advantage over rivals in a market. Researchers generally agree the focus of strategy in business is on growth and financial performance (Wahyudi, 2013). DIB companies have developed focused business strategies for operating within the DoD market environment (monopsony-based, with numerous suppliers and a single, powerful buyer).
However, recent acquisition system initiatives, such as keeping multiple vendors in play as long as possible, contracting outside of the formal acquisition process, and efforts to lower barriers to entry have resulted in DIB shareholders questioning the utility of DoD business (DBB, 2014).

Aside from guidance on defining small business, there exists no common construct for defining DIB company size in the Federal Acquisition Regulation or Defense Federal Acquisition Regulation Supplement. The GAO (2017b) reported on the leading DoD contractors, though no definition of what constitutes largest is provided. The Congressional Research Service (CRS) (2017) identified five companies as prime contractors who, in turn, subcontract to other companies. The GAO and CRS list the same companies. In 2015, these five companies were individually awarded more than $9 billion in DoD contracts, together receiving 28% of all of DoD’s contracted dollars for the year, thus providing a working definition for a large tier of DIB companies. GAO (2017b) reported these companies have experienced consistently profitable growth over the past 5 years. At the opposite end of the DIB company spectrum, GAO (2017b) reported that the small business sector of the DIB has grown in market share over the period 2011 through 2015, achieving over 25% small business participation at the prime contractor level through the period.

The DBB (2014), which provides independent, outside private sector advice to the DoD, conversely reported industry appeared to be de-emphasizing the defense market, with several segments already in survival mode and talent leaving. More recently, McCormick, Hunter, and Sanders (2017) reported the total number of prime vendors had declined by nearly 20% between 2011 and 2016. These data are in clear conflict with the GAO (2017b) report. Are there changes occurring in the DIB below the largest tier of contractors, but above the level of the protected small business segment? The purpose of this research was to examine companies between these two segments, identified for the purposes of the study as the mid-tier of DIB companies.

**Methods**

To research the impacts of defense acquisition initiatives on the defense industry, an exploratory qualitative study approach was utilized to seek understanding of how the defense industry would respond to recent defense acquisition initiatives. A basic qualitative study approach was appropriate for this study because the design enabled the researcher to uncover and interpret meaning in this nascent research area.
Based on the conflicting reports on profitability (DBB, 2014; GAO, 2017b; McCormick, Hunter, & Sanders, 2017), the author segmented the DIB into tiers to delve into this phenomenon. Segmenting industry by sales figures is a common approach, and DIB sales segmentation has been used in numerous previous studies (Carlson, 2010; Cohee, 2017; DBB, 2014; GAO, 2011, 2015; Peacock, 2014; Advisory Panel on Streamlining and Codifying Acquisition Regulations, 2017), although there is no government- or industry-defined segmentation standard. Levels of segmentation varied, with Peacock (2014) electing a two-tiered model (small/large), and others, such as Watts (2008) and McCormick et al. (2017) utilizing three tiers (small/medium/large). Most recently, Hiles (2015) and McCormick et al. (2017) elected to utilize four categories of company size with both utilizing the same construct. Each then added an additional segment to separately identify the largest companies, addressed as extremely large and top 4, respectively.

This study segmented the DIB into three tiers. GAO (2017b) focused on the largest six contractors when providing congressional reporting on profitability. CRS (2017) and the Section 809 Panel (Advisory Panel on Streamlining and Codifying Acquisition Regulations, 2017) also examined this same grouping of the largest contractors, labeling them as the primes or mega-primes. Others (Cohee, 2017; McCormick et al., 2017; Watts, 2008) referred to this group as the Top 5. The study grouped these companies as the large tier of the DIB, and they were excluded from the study based on the GAO (2017b) report of ongoing profitability.

At the opposite end of the DIB are small businesses. This segment of the industry is supported through targeted programs, such as the DoD Office of Small Business Programs (OSBP), which reported its support
in attaining over 25% of prime awards, and 30% of subcontract awards for small businesses (DoD, 2017; GAO, 2017a). The OSBP resides within DoD, providing support and initiative programs such as the Mentor/Protégé program, Small Business and Innovation Research Program, Small Business Technology Transfer Program, Indian Incentive Program, Women-Owned Small Business, and Service-Disabled and Veteran-Owned Small Business Programs (Williams & Shaffer, 2015). For this study, the small segment of the DIB defaulted to those businesses identified by the Federal Procurement Data System as small. The small-tier business sector appeared well-supported and was excluded from this study.

All other DIB companies falling between the small and large segments were classified as medium. The central research question for the study was: What are the business strategies needed by mid-tier defense industry companies to successfully address recent DoD acquisition improvement initiatives?

Unique to this study was the focus on the defense industry perspective through the participation of experienced defense industry leaders. Elo et al. (2014) identified sample respondents who best represented or had knowledge of the research topic. Purposive sampling methodology was used for the selection of defense industry leaders to capture the rich information required for insight and understanding (Patton, 2015). To qualify for participation in this study, selected participants possessed a minimum of 17 years of experience in the defense industry based on Eakin’s (2011) demographic data on two separate defense programs, which baselined 17 years as the top leader strata. Additional participation requirements included a postgraduate degree, experience with business strategy formulation and DoD business pursuit, and familiarity with the DoD acquisition process and recent DoD acquisition initiatives. Identification of potential participants was through the use of personal contacts and defense industry network websites, including LinkedIn and the National Defense Industrial Association. Each candidate was contacted via phone and questioned to verify the correct person had been located. Each participant was then prescreened to identify those participants meeting the selection criteria. Prior to the start of the interview process, an interview protocol—consisting of eight open-ended questions focused on leaders’ experiences with recent acquisition initiatives—was developed and documented. Questions were developed to find out current strategy, recent initiative challenges, strategies to address recent initiatives, and additional data on defense acquisition that participants desired to share. Interview questions (Table 1) were subjected to a pilot study to verify the validity of the research questions before beginning data collection. Analysis of the pilot study data
showed the questions resulted in responses that addressed each question presented. No changes were required to the questions. Data from the pilot study were not used in the actual research data analysis process.

<table>
<thead>
<tr>
<th>TABLE 1. METHODS: INTERVIEW QUESTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Describe how your company approaches the DoD business capture process.</td>
</tr>
<tr>
<td>2. What are the common challenges in successfully capturing DoD contracts?</td>
</tr>
<tr>
<td>3. What concerns do you have with the intent of the new DoD acquisition initiatives?</td>
</tr>
<tr>
<td>4. What challenges does the company have in meeting the new expectations of the DoD?</td>
</tr>
<tr>
<td>5. What strategies are needed to be successful in this new contracting environment?</td>
</tr>
<tr>
<td>6. What organizational changes would help in adapting to the new DoD acquisition initiatives?</td>
</tr>
<tr>
<td>7. What other initiatives or policy changes are affecting the DoD market environment?</td>
</tr>
<tr>
<td>8. Do you have any additional thoughts on defense acquisition you would like to share?</td>
</tr>
</tbody>
</table>

All interviews were conducted using the study interview protocol and were recorded, transcribed, and member-checked for accuracy and clarity prior to the start of the analysis process.

The data collected were examined to identify changes in business strategies needed by the study-defined, mid-tier DIB companies to effectively respond to recent DoD acquisition initiatives and remain competitive in the DoD market. The data collected were audio-recorded, transcribed by transcription service Rev.com, and analyzed using NVivo 12 Pro software. The data were analyzed, synthesized, and organized using the NVivo software, Microsoft Word, and by visual mapping using Post-it® notes on a wallboard.

Peer review of coding constructs was conducted prior to the start of the analysis process, and full coding of the data included a systematic mark-up of the text for themes and grouping identification using a cyclical process. Two full rounds of coding were conducted. The first round of coding identified emergent themes within each interview. The second round of analysis was utilized to join together like categories and consolidate data around Primary Themes and Subthemes, as shown in Table 2.
### TABLE 2. PRESENTATION OF THE DATA: THEMES

<table>
<thead>
<tr>
<th>Interview Section</th>
<th>Theme</th>
<th>Subthemes</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Strategy</td>
<td>Access to Information</td>
<td></td>
<td>10/10</td>
</tr>
<tr>
<td></td>
<td>Requirements Influence/Competitive Advantage</td>
<td></td>
<td>10/10</td>
</tr>
<tr>
<td>Recent Initiative Challenges</td>
<td>Loss of Insight/Influence</td>
<td></td>
<td>3/10</td>
</tr>
<tr>
<td></td>
<td>Competitive Advantage/Reduced Competition</td>
<td></td>
<td>4/10</td>
</tr>
<tr>
<td></td>
<td>Cost to Compete/Profitability</td>
<td></td>
<td>9/10</td>
</tr>
<tr>
<td>Strategies to Address Recent Initiatives</td>
<td>Internal Strategy Change</td>
<td>Low Cost, Quick Turn Alignment</td>
<td>2/10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Engagement Strategy/Communication</td>
<td>7/10</td>
</tr>
<tr>
<td></td>
<td>External Strategy Change</td>
<td>Partnering</td>
<td>4/10</td>
</tr>
<tr>
<td></td>
<td>Investment Strategy Change</td>
<td></td>
<td>9/10</td>
</tr>
<tr>
<td></td>
<td>No Change/Required Change Unknown</td>
<td></td>
<td>3/10</td>
</tr>
<tr>
<td>Additional Data</td>
<td>Pace of Technology Change</td>
<td></td>
<td>3/10</td>
</tr>
<tr>
<td></td>
<td>Acquisition System</td>
<td>Commercial Item Acquisition</td>
<td>5/10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Industry Engagement</td>
<td>3/10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cost vs. Value</td>
<td>4/10</td>
</tr>
</tbody>
</table>

The data analysis process revealed nine themes with three subthemes. The Current Strategy Data section questions were to capture current strategies used by the study-defined, mid-tier DIB companies. These responses consistently began with data collection—finding out what capabilities and technologies interest the DoD, as formalization of a requirement can occur years before a formal Program of Record is budgeted. Within this section of the interview protocol, two themes emerged on strategies companies currently use to compete in the DoD marketplace. The first theme to emerge
was the need for companies to gain information on the DoD’s requirements or needs. The second emerging theme focused on the influence of those requirements.

Interview questions 3 and 4 captured data for the second section, Recent Initiative Challenges. Participants generally agreed on understanding why the DoD was seeking new methods for engagement with industry; however, concerns were expressed as to the DoD’s approach. Three key themes emerged regarding the study-defined, mid-tier DIB company business strategy challenges: (a) loss of Insight and Influence due to bypassing/elimination of the traditional acquisition system requirement for open communication to all potential vendors; (b) reduced competition from DoD’s focus on directed contracting through programs such as the Defense Innovation Unit (DIU) and increased use of Other Transaction Authority (OTA); and (c) increased cost to compete from DoD efforts such as bid sample requirements for new start projects.

The third area of the interview protocol, Strategies to Address Recent Initiatives, directly addressed the question of strategy through questions 5 and 6. Strategy changes were categorized into internal and external. Changes were not adoption of new modes of business, but more on how to adapt existing models to better pursue business with recent initiatives and were primarily organizational. Internally, realignment of the organization to better focus on gaining insight into requirements was suggested, along with technical reorganization to create teams that could execute small-scale prototyping to support early bid sample requirements. External realignment focused on partnering with other companies with complementary skillsets, or acquiring companies that had been successful through nontraditional approaches. A subset of respondents in this section expressed “no changes required” or “required changes unknown.” Responses to questions requesting additional information resulted in data on current acquisition process issues and were not considered germane.
Themes were then examined in a third cycle of analysis and organized into three overarching themes addressing the primary research question, as shown in Table 3.

<table>
<thead>
<tr>
<th>Overarching Theme</th>
<th>Interview Section</th>
<th>Current Strategy</th>
<th>Recent Initiatives Challenges</th>
<th>Strategies to Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insight</td>
<td>Access to Information</td>
<td>Loss of Insight/Influence</td>
<td>Engagement Strategy/Communication</td>
<td></td>
</tr>
<tr>
<td>Influence</td>
<td>Requirement Influence/Competitive Advantage</td>
<td>Competitive Advantage/Reduced Competition</td>
<td>Low Cost, Quick Turn Alignment</td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>Cost to Compete/Profitability</td>
<td>Revised Investment Strategy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Results**

The study revealed business strategies used by traditional DIB companies can be categorized into three overarching areas: Insight, Influence, and Investment. The first strategy, Insight, involves gaining information and understanding of market requirements. In the case of the DoD market, this effort involves identification of the current and future needs of the Services/Warfighters. Ten of 10 participants identified this early access to information as key to positioning their company to compete. Company business development teams monitor symposia, shows, government business sites, and typically also conduct program office visits to gain information on current and future requirements. Having an understanding of requirements is the first step in determining if the company has, or can invest and develop, a competitive offering to meet the requirements.

Once a company determines they have a competitive advantage from their existing technology, or they believe they can develop an advantage based on their understanding of the requirements, business pursuit strategy turns to Influence. All 10 participants identified the need for companies to influence DoD requirements to improve the likelihood of business capture. If a company has an existing advantage, they must work to ensure the customer is aware of it, and to potentially influence the requirements.
process so the DoD’s solution set is focused toward their advantage. Where a specific strength does not exist, the influence must be toward a technology or solution where the company feels it can invest and develop advantage.

Finally, it is the belief in profit opportunity that drives companies to invest to develop a competitive advantage or unique technology. If a company does not learn the requirement exists (Insight), or does not have open dialogue with DoD representatives to understand if they have or can develop a solution (Influence), then investment does not occur. The DBB (2014) concluded the DoD lacks fundamental understanding of the relationship between profit and investment. The DBB (2014) provided data showing margins in selected commercial companies averaged 16% compared to defense industry companies, where the margin was less than 5%. Kendall (2017) suggested using profit as a lever to drive investment; however, for companies already operating at low profit levels, this approach may be perceived as further risk to profitability and may increase the risk of market exit in the search for shareholder returns. Study results indicated defense leader perception of DoD continuing to squeeze profit levels as a means of lowering DoD cost (Blank, 2018). The results of the study further indicated DIB companies are already increasing the selectivity of their investments; that is, companies are becoming less inclined to consider paradigm-shifting investment in favor of core adjacency or efficiency investments to maximize return on investment. Nine of 10 participants noted the need for revised investment strategies in response to acquisition initiatives, with most focusing on increased selectivity and focusing on the company’s core capabilities. Once investment in a market is reduced, market exit may be the next logical step. None of the respondents in the study recommended increasing research and development investment as a result of recent initiatives.
Conclusions

DIB companies utilize Insight, Influence, and Investment to develop and maintain competitive advantage in the defense marketplace. Insight leads to Influence, which in turn, can lead to positive decisions on participation and Investment. Without up-front insight, companies may be blinded to areas for pursuit or development of technology. Without the ability to ascertain that they hold advantage or have the ability to develop advantage through ongoing dialogue with DoD representatives, companies may elect to not invest in technology advancement or participate in pursuits. As the DoD attempts to reimagine the acquisition process by movement toward Section 804 procurements, increased use of OTAs, and other policy changes, the tradition of full and open competition and open lines of communication is being reduced, making it more difficult for these study-defined, mid-tier DIB companies to gain insight.

DoD acquisition initiatives enacted without forethought, understanding, or monitoring of impact on the DIB may be resulting in unforeseen negative impacts on the industrial base. Negative impacts may include limiting participation (through exclusion or causing nonparticipation decisions by companies), limiting profit opportunity, or straining the return on investment to the point of nonparticipation.

If a company has an existing advantage, they must work to ensure the customer is aware of it, and to potentially influence the requirements process so the DoD’s solution set is focused toward their advantage. Where a specific strength does not exist, the influence must be toward a technology or solution where the company feels it can invest and develop advantage.

Two key implications of the study involve a disconnect between DoD initiative intent and resulting defense industry responses. Kendall (2017) noted the need for a vibrant industrial base and identified recent initiatives as a method for bringing more companies into the market. However, the study shows DoD’s approach of going directly to nontraditional industry companies is likely to result in partnering between companies and consolidation as companies seek to capture business. The second
implication involved one of the precepts of the Better Buying Power initiatives as noted by Kendall (A Case for Reform, 2015): the desire for defense industry companies to increase their research and development investment to help stimulate innovation. The study did not reflect this result, but rather indicated the business case for company research and development commitment has become more problematic due to DoD’s initiatives, making industry less likely to invest in areas beyond their core strengths. These impacts may result in the negative outcomes of a reduced DIB, reduced innovation, and a reduced ability for the armed forces to conduct and sustain operations.

This study and research have led to the requirement for further research into the interaction between recent DoD acquisition initiatives and defense industry business strategy response. Gaps in this study include the limited sample of 10 defense industry leaders, focus on a single segment of the DIB (mid-tier companies, as defined by the study), and the limited geographical location of participants. Areas for future study would include extending the study to additional geographic areas and conducting future studies utilizing a larger sample size. Another area for future research would be conducting case study analysis of recent DoD acquisition to determine the impact of recent initiatives on how DIB companies compete.

An increased understanding of the interaction between acquisition initiatives and DIB business strategy can ensure support of the armed forces by promoting DIB vitality. Focusing on the strategies used by the DIB that lead to participation and investment, executive, legislative, and DoD leadership may gain insight for improved approaches in the application of public funds to support DoD goals for a strong defense, as well as a vibrant DIB.
References


Author Biography

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