



# The Shrinking Private Supplier Base and Acquisition Reform

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**A** KEY ELEMENT IN THE DEFENSE ACQUISITION PROCESS IS MAINTAINING A HEALTHY SUPPLIER base. In today's global economy portions of that base are located overseas and what remains within the Continental United States (CONUS) faces constant pressure from competing, commercial opportunities. Suppliers are in business to make money and if commercial opportunities are more attractive than what the Department of Defense (DoD) offers, suppliers will move toward the commercial opportunities, leaving DoD with fewer alternate suppliers and longer supply chains. Moreover, as the recent problems in China demonstrate, the lack of a healthy CONUS supply base can be a major vulnerability in a crisis. The obvious questions arise—what can DoD do to keep the suppliers it has and can it encourage others to enter the defense market?

A recent initiative from the Office of the Under Secretary of Defense for Acquisition and Sustainment (OUSD [A&S]) is the A&S Strategy Roadmap, drafted with the stated mission to “enable the delivery and sustainment of secure and resilient capabilities to the Warfighter and international partners quickly and cost effectively.” This roadmap includes the goal of building “a safe, secure and resilient defense industrial base (commercial and organic.)” The threat to the supplier base implied by this goal is real, as seen in data showing that the U.S. Defense Industrial Base (DIB) is shrinking in both numbers and revenue. From former Secretary of Defense Les Aspin’s “Last Supper” in 1993, when 51 major defense firms began a decade-long wave of mergers and consolidations that reduced the population to five prime contractors, down to

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the present day as the total number of U.S. defense firms continues shrinking, with the most notable recent mergers being the joining of Orbital ATK and Northrop Grumman, and UTC and Raytheon.

The impact of this DIB shrinkage is felt most significantly in competition. It's axiomatic that a lack of competition drives up procurement costs and dampens innovation, but also makes the DIB vulnerable to single point failures. Unfortunately, this shrinkage in overall numbers also is worsened by the declining overall economic value of the DIB.

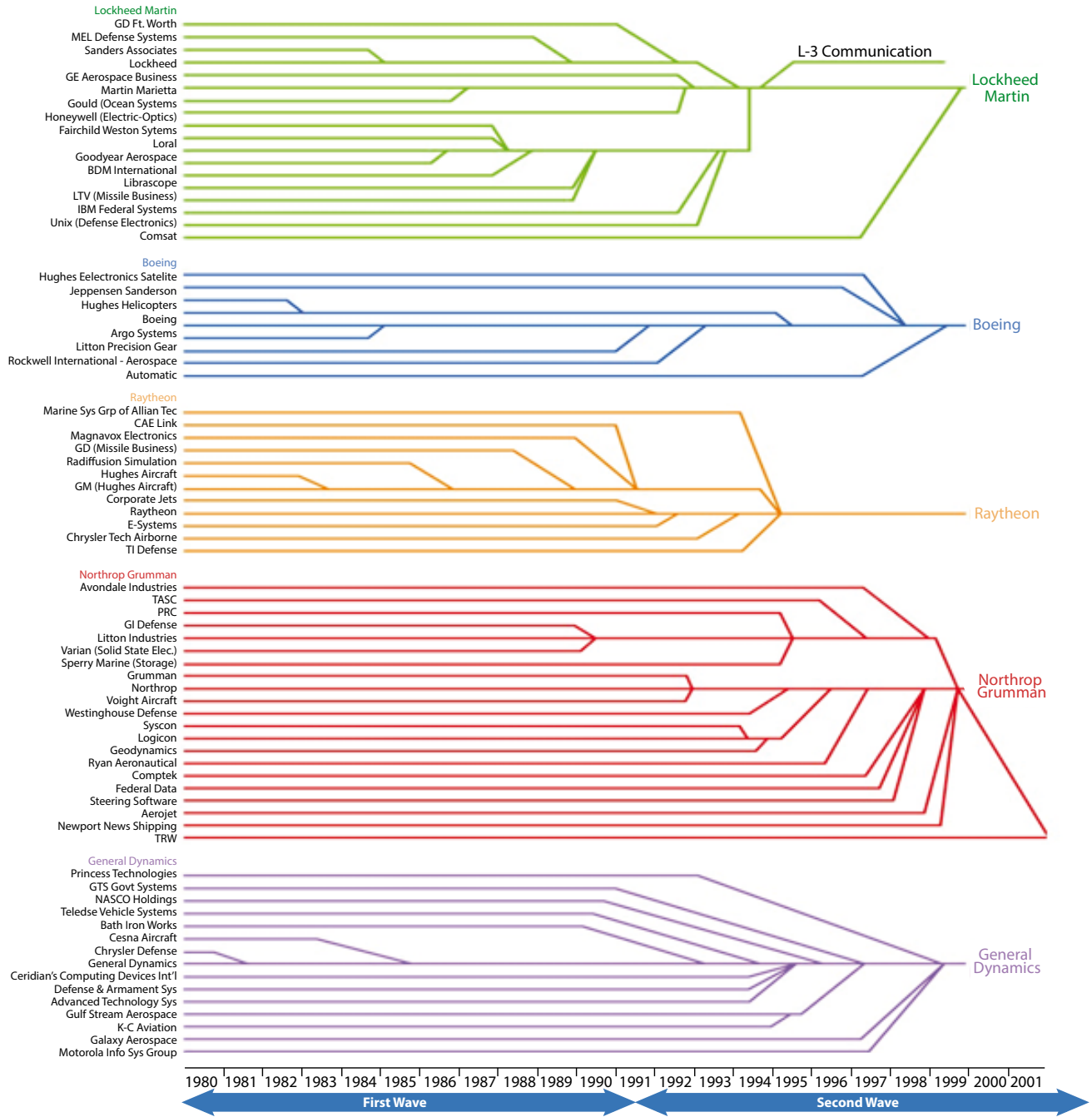
Paradoxically, while overall defense profits are up, the relative value of the defense market as part of the overall U.S. economy has gone down as evidenced by the decline in the number of defense firms included in the top 100 of the Fortune 500 listing, from 15 in 1961 to 4 in 2019. In short, the twin factors of fewer competing firms and a reduction of the defense market position within the overall economy

have combined to weaken the defense supplier base. The compression of the industrial base heralded by the "Last Supper" and effects of this compression on competition are graphically depicted in the following figures.

Adding to the previously stated factors leading to this weakening of the industrial base, two other significant factors, as highlighted in the media, are global sourcing and a perceived bias on the part of some potential suppliers in favor of seeking commercial work rather than government contracts.

Global sourcing is beyond the scope of this article, but the reasons that firms prefer commercial over government work are readily discernable. It appears that firms are not just choosing to avoid negotiated Federal Acquisition Regulation (FAR) Part 15 government work but that more than a few defense companies are purposefully exiting the government market place to focus exclusively, or at

**Figure 1. Merger Compression of DoD's Industrial Supplier Base**

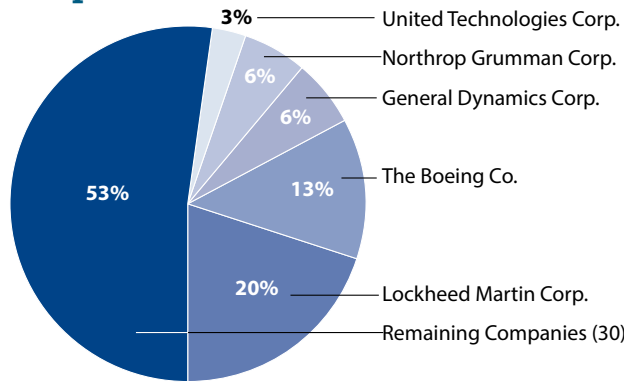


Source: Presidential and Congressional Commission on the Future of the United States Aerospace Industry.

least primarily, on commercial business. Given the many positive aspects of doing business with DoD (multiple opportunities, large budget, prompt payment, etc.) it is important to identify the root causes of this exodus. While it may seem obvious that doing business in the commercial world is easier, government business is good business and understanding why companies voluntarily leave the government market is the first step toward slowing the trend.

In attempting to determine why commercial work is more attractive to many companies, we find that the available information is largely subjective. An internet search of documents related to “doing business with the government” and “government business versus commercial business” reveals a wide variety of articles and publications, going back decades, on why many industrial firms prefer commercial customers. It was easy to discern common themes from these articles, and a list was quickly

**Figure 2. Nearly Half of DoD Contract Awards Concentrated Within Five Companies**



Source: Government Accountability Office analysis of DoD data.

developed of the most common business views of the government procurement process focusing on issues found in the articles.

The next step was to use this listing as the basis for conversations with several individuals from commercial firms who do business with both government and commercial customers to determine the validity of the information found on-line. People interviewed for this validation included, among others, a small business owner; a vice president from a major, predominantly defense, firm; a vice president from a large firm with a mixed government/commercial portfolio; and, as a sanity check, current members of DoD’s Acquisition Workforce. All collected comments then were collated into the information previously compiled from the Internet to develop a

**Table 1. Industry Perceptions of Working With Government Versus Private Sector**

View of Government Work	View of Commercial Work
Long procurement lead times with little sense of urgency. No actionable metric measuring time from proposal acceptance to contract award.	Response to market signals is a key to profitability. If one company can’t deliver, another one will.
Excessive regulatory compliance burden: CAS, TINA, FAR, DFAR, ITAR, Title 10, NDAA requirements, etc. Creates confusion, generates process delay, increases program complexity, and adds cost.	Commercial rules and regulations are fewer, less stringent and change less often.
Negative view of contractor profit coupled with regulatory controls. Often appears that government would accept a higher price if contractor profit is measurably lower.	Profit is the life blood of commercial industry. No profit, no business.
Rigid, risk averse acquisition culture. Too many people with the ability to say “no,” but with little responsibility for program success.	CEOs and PMs empowered to make the necessary approvals to speed the process. Risk has a price, but real progress is dependent on the intelligent acceptance of risk.
Competing socioeconomic goals impede the efficiency of the acquisition process. Too many priorities.	Socio-economic factors considered, but not first priority.
Lack of peacetime measure of effectiveness for DoD acquisition process and DoD in general. Hard to measure deterrence until it fails. Money saved goes back to the Treasury.	Any number of business metrics to measure health of the corporation, internally and against competitors.
Lack of clarity on identity of real customer: Warfighter, program manager (PM), or the contracting officer?	After all is said and done, negotiations and contract signing are done with the contracting officer.
Competition for the sake of competition.	Competition is good and can drive down costs, but sometimes has the opposite effect, if applied blindly.
Lots of talk about “should cost” and best value, but too many contracts awarded on the basis of LPTA.	LPTA is a “race to the bottom.”
Aggressive and/or rigid DCMA and DCAA actions without commensurate knowledge of the program acquisition strategy and objectives.	No commercial equivalent.

Source: The author.

Key: CAS=Cost Accounting Standards; CEOs=chief executive officers; DCAA= Defense Contract Audit Agency; DCMA=Defense Contract Management Agency; DFAR=Defense Federal Acquisition Regulation (Supplements); FAR=Federal Acquisition Regulation; ITAR=International Traffic in Arms Regulation; LPTA=Lowest Price Technically Acceptable; NDAA=National Defense Authorization Act; PM=Program Manager; TINA=Truth in Negotiations Act; Title 10=10 U.S. Code regulations on procurement.

## Long procurement lead times are driven by a wide variety of factors and are not going away.

list of topics contrasting the perceived government view from the commercial perspective on the same topic. The top 10 industry perceptions are ranked in Table 1.

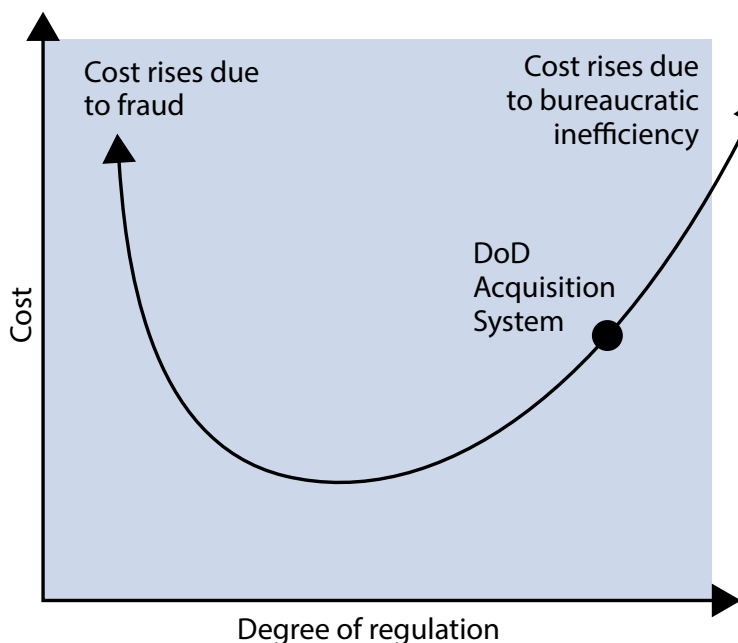
All of the listed issues are well known and all have been identified repeatedly over the last several presidential administrations, but have proven to be defiantly resilient despite numerous reform efforts. To demonstrate the clearly established nature of these issues, almost all were thoroughly detailed in a 1990 Congressional Office of Technical Assessment study titled *Holding the Edge: Maintaining the Defense Technology Base, Volume 2, Appendix A, The DoD Acquisition System*. The many constituencies that the DoD has to satisfy while attempting to meet the Warfighter's needs renders problematic the complete resolution of all these issues. However, the top two on the list, Long Procurement Lead Times and Excessive Regulation, were found to be especially troublesome to businesses and deserve the added attention they are getting from Office of the Secretary of Defense (OSD).

Long procurement lead times are driven by a wide variety of factors and are not going away. Excessive delay adds

cost to any program and keeps the end product—weapon systems—out of the hands of the Warfighter. Additionally, delays negatively impact the operations of prime contractors, frustrate suppliers and small businesses, and invite congressional intervention. Fortunately, the Adaptive Acquisition Framework, especially the Middle Tier of Acquisition outlined in the recently published DoD Instruction (DoDI) 5000.80, provides DoD program managers with additional acquisition pathways that might mitigate these excessive procurement lead times through Rapid Prototyping and Rapid Fielding. While this is not a panacea, it is a start and could cut years out of the process for selected procurements.

The second issue, excessive regulation cost, is visually demonstrated in Figure 3. Regulations are necessary for the governance of any process, especially one with a budget the size of DoD's, and the lack of sufficient regulation leads to increased costs due to fraud. However, any regulation beyond "the knee of the curve" adds cost and delay to the procurement process. Whether any point on the curve can be deemed excessive is a judgment call, but additional regulations do increase cost and contribute to bureaucratic inefficiency.

**Figure 3. Cost and Regulatory Intensity**



Here again, the problem is recognized, and the reforms targeted by the A&S Strategy roadmap coupled with the extensive restructuring of the entire DoDI 5000 series provide hope for positive change—assuming this effort is backed by requisite legislative action.

In conclusion, while commercial businesses likely will continue to exit the defense market, DoD recognizes the complexities of the issues involved in maintaining a healthy supplier base and is committed to effecting the changes needed to make DoD more attractive to industry. OSD's approach is strategic and goal driven, but the defense procurement process is far too large to change overnight. Les Aspin proved that OSD can drive change in the industrial base, but it remains to be seen what effect the current efforts of OSD will have on the health of this critical base.

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Source: Office of Technology Assessment, 1989.