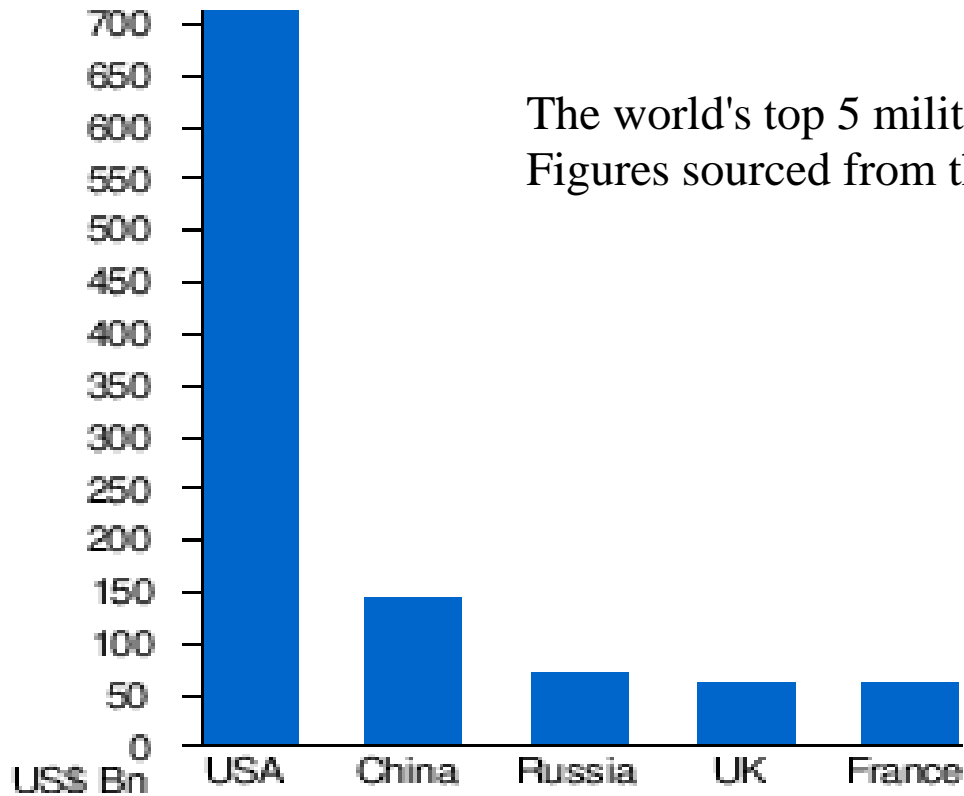


Market Forces in the Defense Marketplace

Market Forces

- Supply and Demand
 - The basic driver of all markets
- Competition
- Profit
- Market Rules and Property Protection

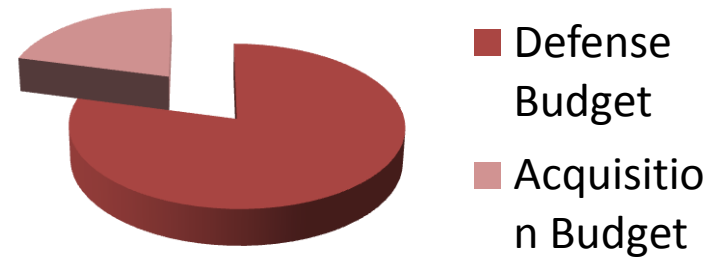
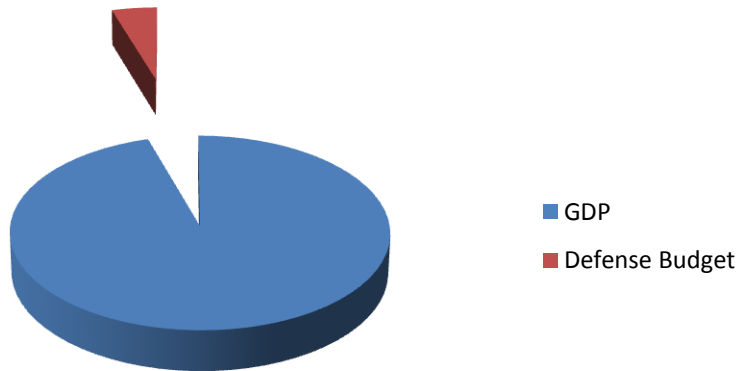
Market Size



The world's top 5 military spenders in 2010.
 Figures sourced from the [SIPRI](#) Yearbook 2011

Sector Size

- Comparison to US Economy



Defense Market Drivers

- Supply
 - MILSPEC vs. COTS
 - Monolithic vs. Modular
 - Proprietary vs. Open
 - Homegrown vs. Standards Based
- Demand
 - Public Policy
 - Wartime vs. Peace
 - Good Economic Times vs. Bad

Drivers

- Profit
 - An essential ingredient for suppliers
- Contract Performance
 - Cost, Schedule, and Technical
 - The Public Sector analogy to profit

Drivers

- Competition
 - Public Sectors principle tool for cost control
 - Real Competition introduces “unknowns”
- Stability
 - A known supplier performing in a predictable fashion represents stability
- Risk
 - Anything that represents unknowns in a program – Drives Public Sector Heavily

Drivers

- **Market Rules**
 - When one side of the trading partnership controls the rules...
- **Transaction Costs**
 - Those costs of doing business that add neither value to the products, profit to the vendor, or improved contract performance for the public sector

Leveraging Market Forces

- What releases the marketplace to answer the mail?
 - Freely available information
 - Real competition (actual opportunity)
 - Property rights protection
 - Trust between participants

Impact of Marketplace Structure

- How does marketplace structure impede or leverage market forces
 - Weak or unenforced property rights structures drive out innovators
 - Restraint on information (proprietary systems, limited RFP distribution) limits the opportunity to discover solutions or better approaches
 - Without real competition there is no incentive to innovate or achieve contract performance gains
 - A trust relationship fosters collaboration

Changing the Marketplace

- Moving the Marketplace toward an open model
 - Open Business Model versus Open Systems Architecture
 - Data Rights
 - Standards Based versus proprietary structures
 - Modular, loosely coupled, highly cohesive versus Monolithic
 - Real competition versus allocated contracts
 - Rewarding performance rather than longevity

Issues

- The Navy has programs that have demonstrated dramatic improvement by leveraging market forces using OSA
 - But transition to Open Market or OSA by large established programs is seen as risky at best
 - A program manager approaches professional suicide by accepting risk
 - The acquisition machinery drives programs to maintain status quo

Final Thoughts

- Moving to an Open Market model depends on Program Managers making the decision to transition and managing that transition
- It is about practicing the art of program management, not a new set of acquisition governance machinery