

# Construction of Defense Department Contracts in Thin Markets

Trevor L. Brown, Yong Woon Kim, Alex Roberts &  
Daniel Albalade



# Contract Construction



THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

March 4, 2009

## Memorandum for the Heads of Executive Departments and Agencies

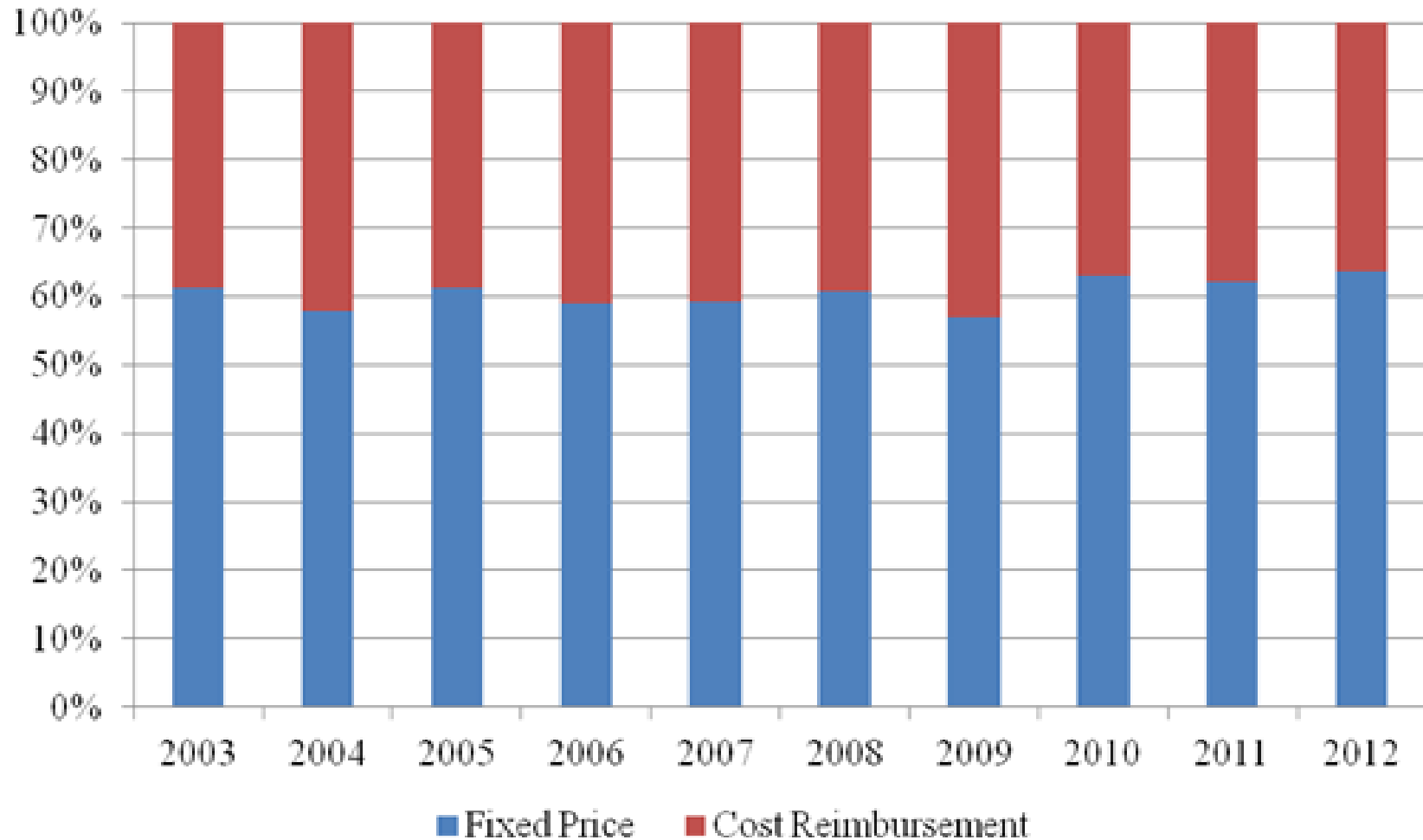
### Subject: Government Contracting

The Federal Government has an overriding obligation to American taxpayers. It should perform its functions efficiently and effectively while ensuring that its actions result in the best value for the taxpayers.

Since 2001, spending on Government contracts has more than doubled, reaching over \$500 billion in 2008. During this same period, there has been a significant increase in the dollars awarded without full and open competition and an increase in the dollars obligated through cost-reimbursement contracts. Between fiscal years 2000 and 2008, for example, dollars obligated under cost-reimbursement contracts nearly doubled, from \$71 billion in 2000 to \$135 billion in 2008. Reversing these trends away from full and open competition and toward cost-reimbursement contracts could result in savings of billions of dollars each year for the American taxpayer.

Excessive reliance by executive agencies on sole-source contracts (or contracts with a limited number of sources) and cost-reimbursement contracts creates a risk that taxpayer funds will be spent on contracts that are wasteful, inefficient, subject to misuse, or otherwise not well designed to serve the needs of the Federal Government or the interests of the American taxpayer. Reports by agency Inspectors General, the Government Accountability Office (GAO), and other independent reviewing bodies have shown that noncompetitive and cost-reimbursement contracts have been misused, resulting in wasted taxpayer resources, poor contractor performance, and inadequate accountability for results.

## Fixed Price vs. Cost Reimbursement Contracts FY 2003-2012 (FPDS)



# Roadmap

**Contract Construction and Product  
Characteristics**

**Methods and Data**

**Results**

**Next Steps/Paper Preview**



# Contract Construction and Product Characteristics



# Contract Construction



**Fixed  
Price**

**Cost  
Reimbursement**

# Products



Simple  
Products



Complex  
Products

# Contract/Product Alignment



**Simple  
Product**



**Fixed  
Price**



**Complex  
Product**



**Cost  
Reimbursement**



# Methods and Data



**2004-2008**

# Methods and Data Products

## Advertising

Aircraft, Fixed Wing

## Auditing

Bombs

## Court Reporting

Custodial Janitorial Services

## Defense Aircraft-Adv. Dev.

Defense Aircraft-Applied R&D

## Defense Aircraft-Basic Research

Defense Aircraft-Engineering Dev.

## Engineering & Technical Services

Guard Services

## Guided Missiles

Guns (30MM and less)

## Laundry & Dry-Cleaning

## Legal Service

## Logistics Support

Maintenance & Equipment Repair

## Program Management Services

Program Review/Development

## Submarines

Systems Development Services

## Training/Curriculum

## Development

Trash/Garbage Collection

## Warehousing & Storage

Weapons - Adv. Dev.

## Weapons - Applied R&D

Weapons - Basic Research

# Methods and Data

## Product Characteristics



Specification  
Difficulty



Specialized  
Investments

# Results



Figure 1. Products by Ease of Measurement and Specialized Investment

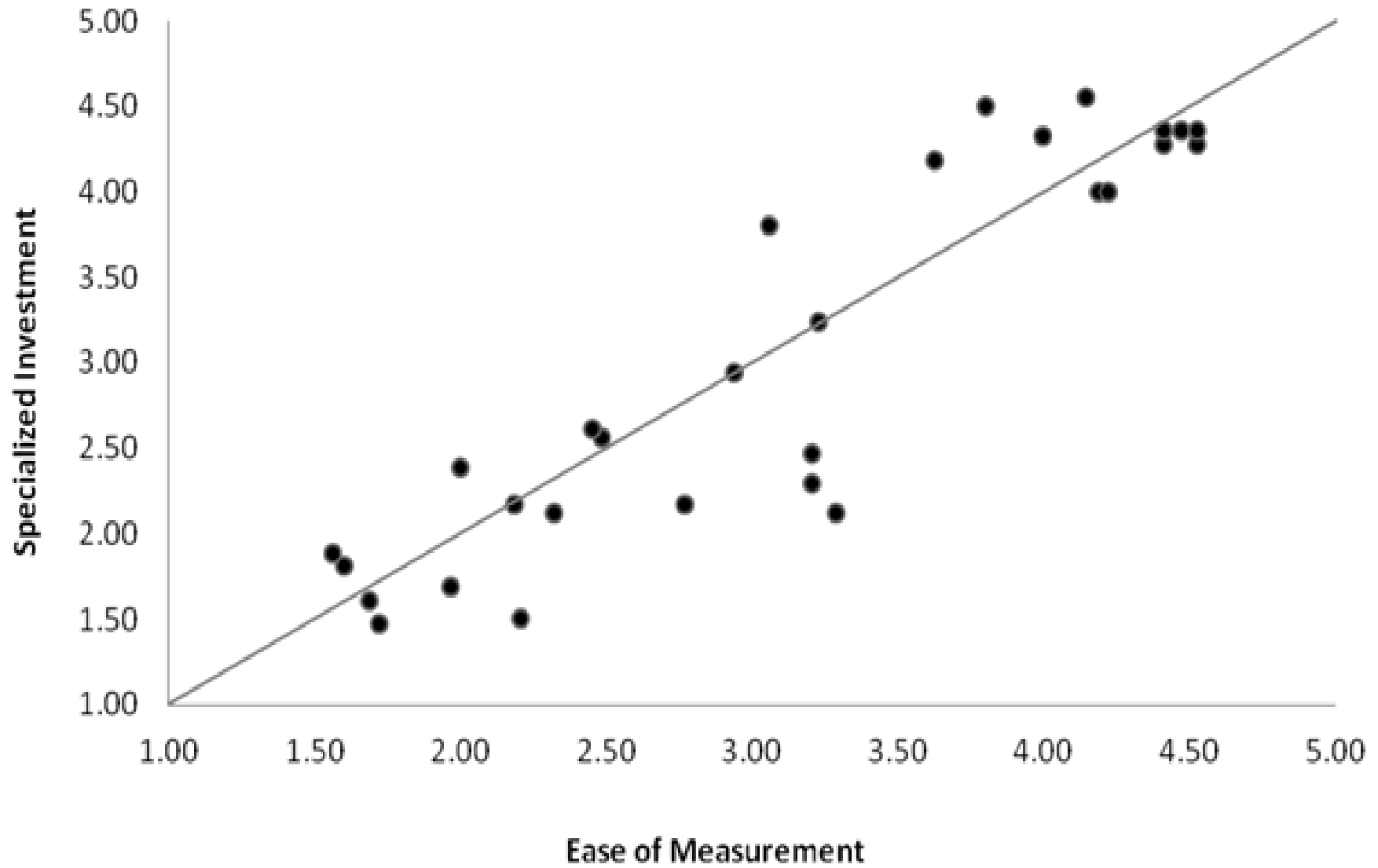
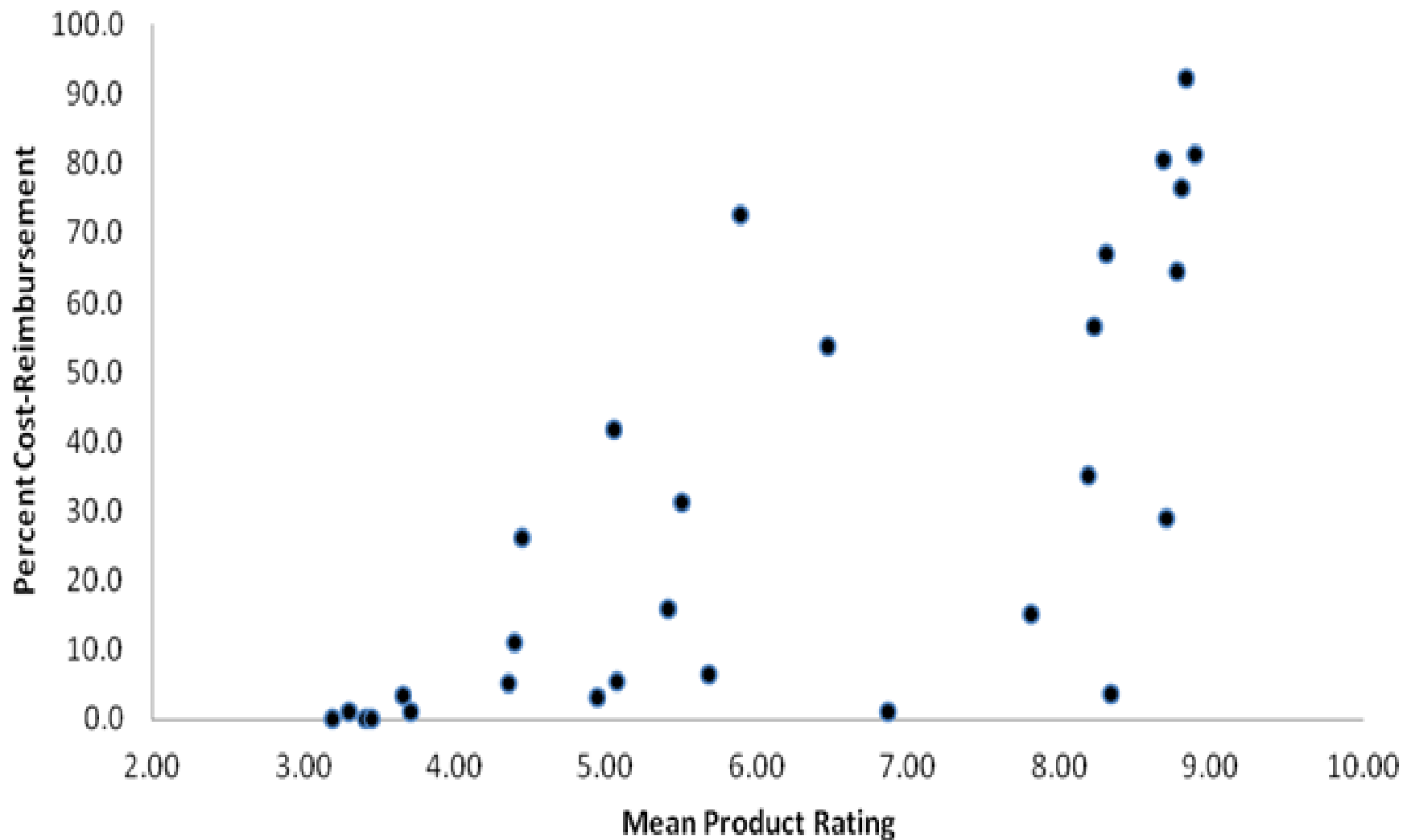
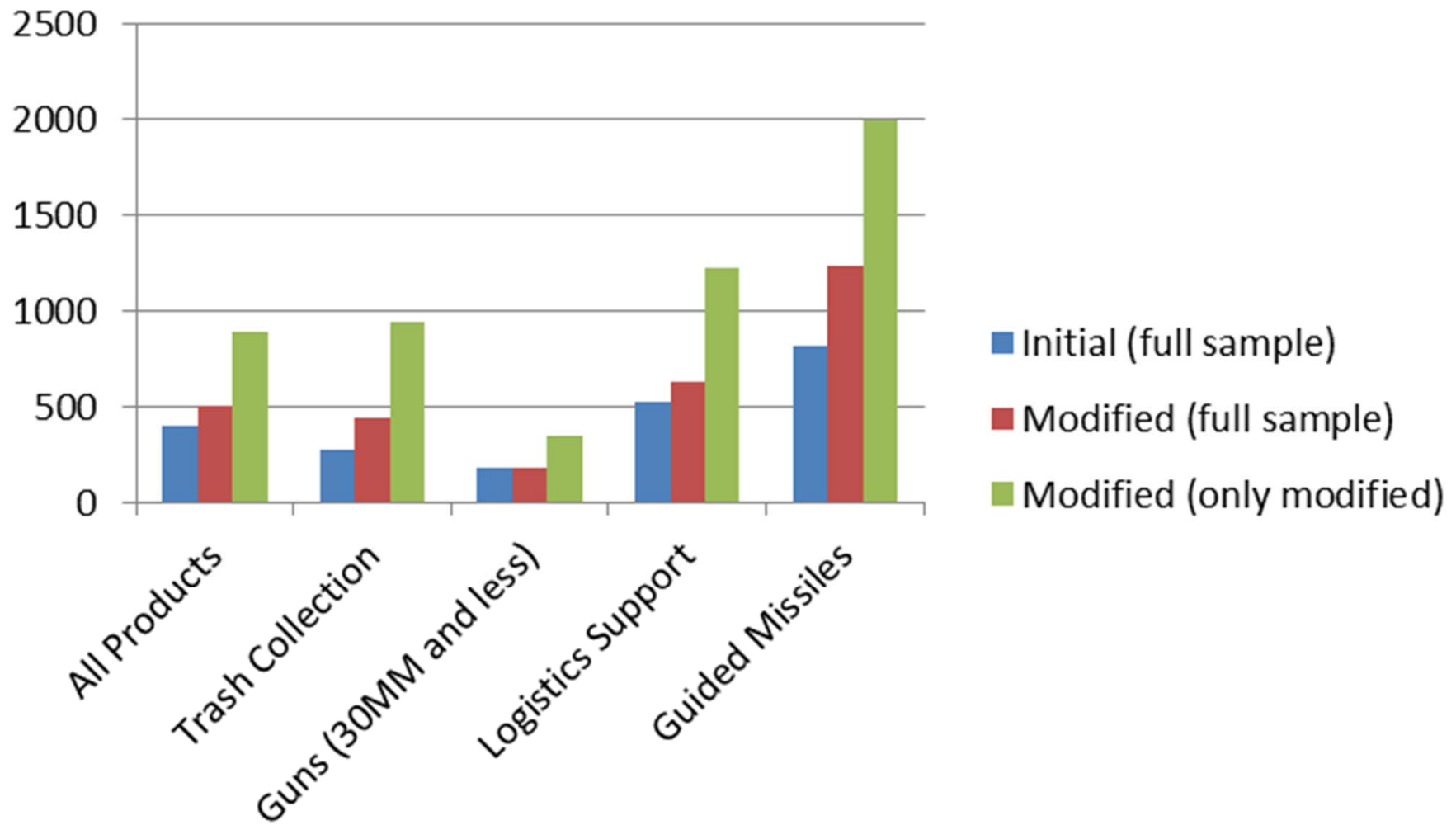


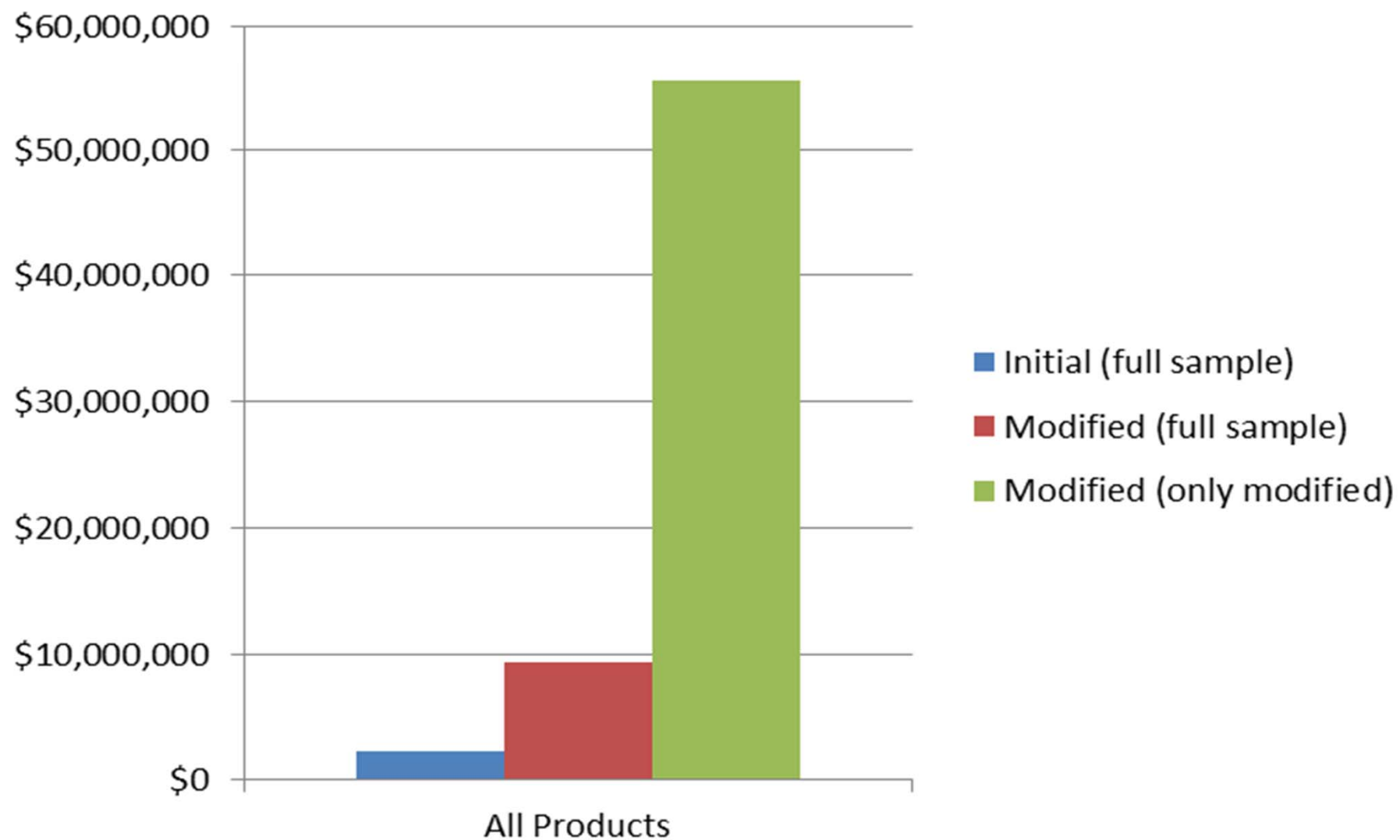
Figure 2. Use of Cost-Reimbursement Contracts by Mean Product Rating



### Figure 3. Average Contract Length in Days by Product Type, 2004-2008

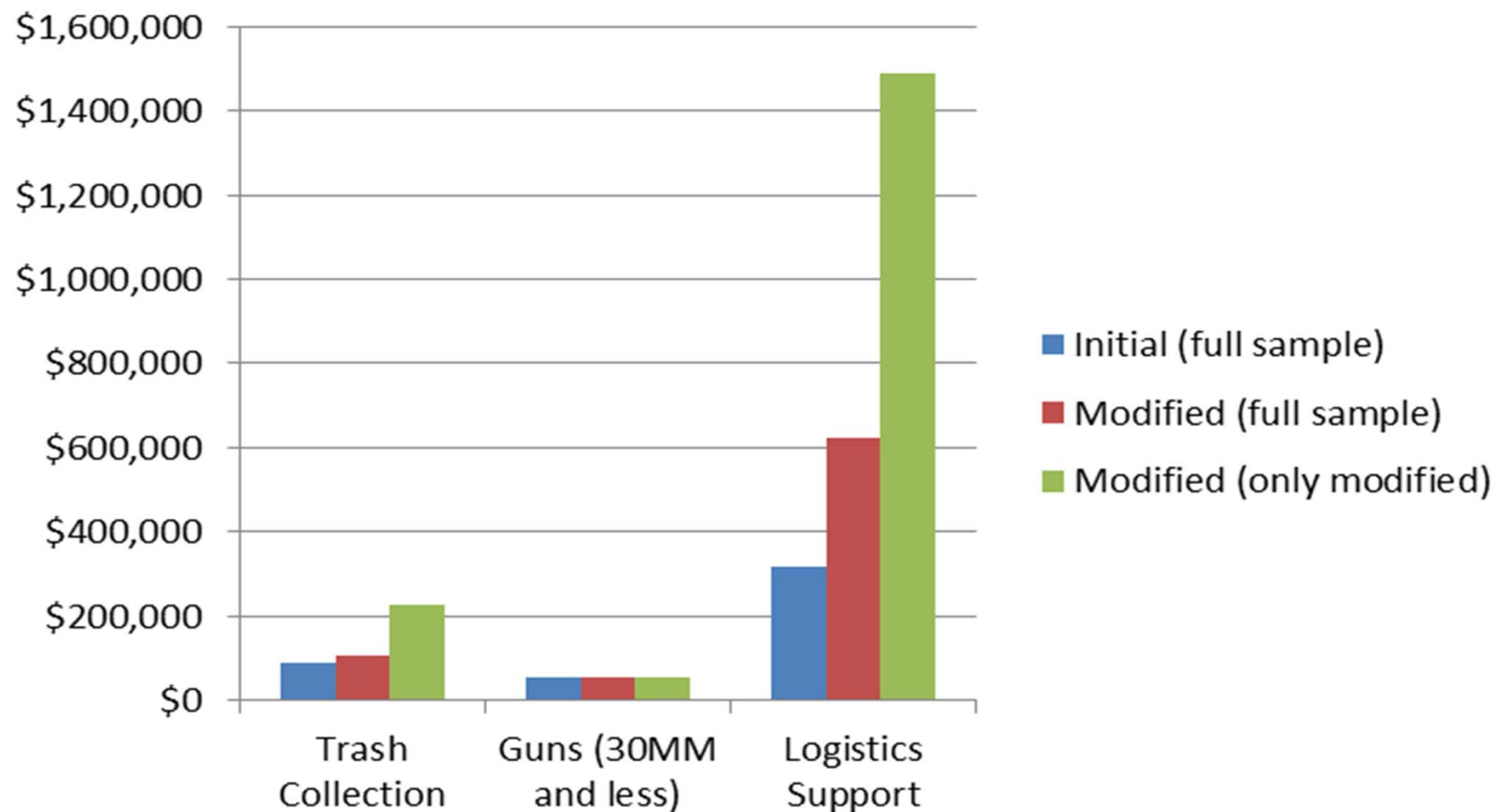


**Figure 4. Average Contract Value in Dollars, All Products, 2004-2008**

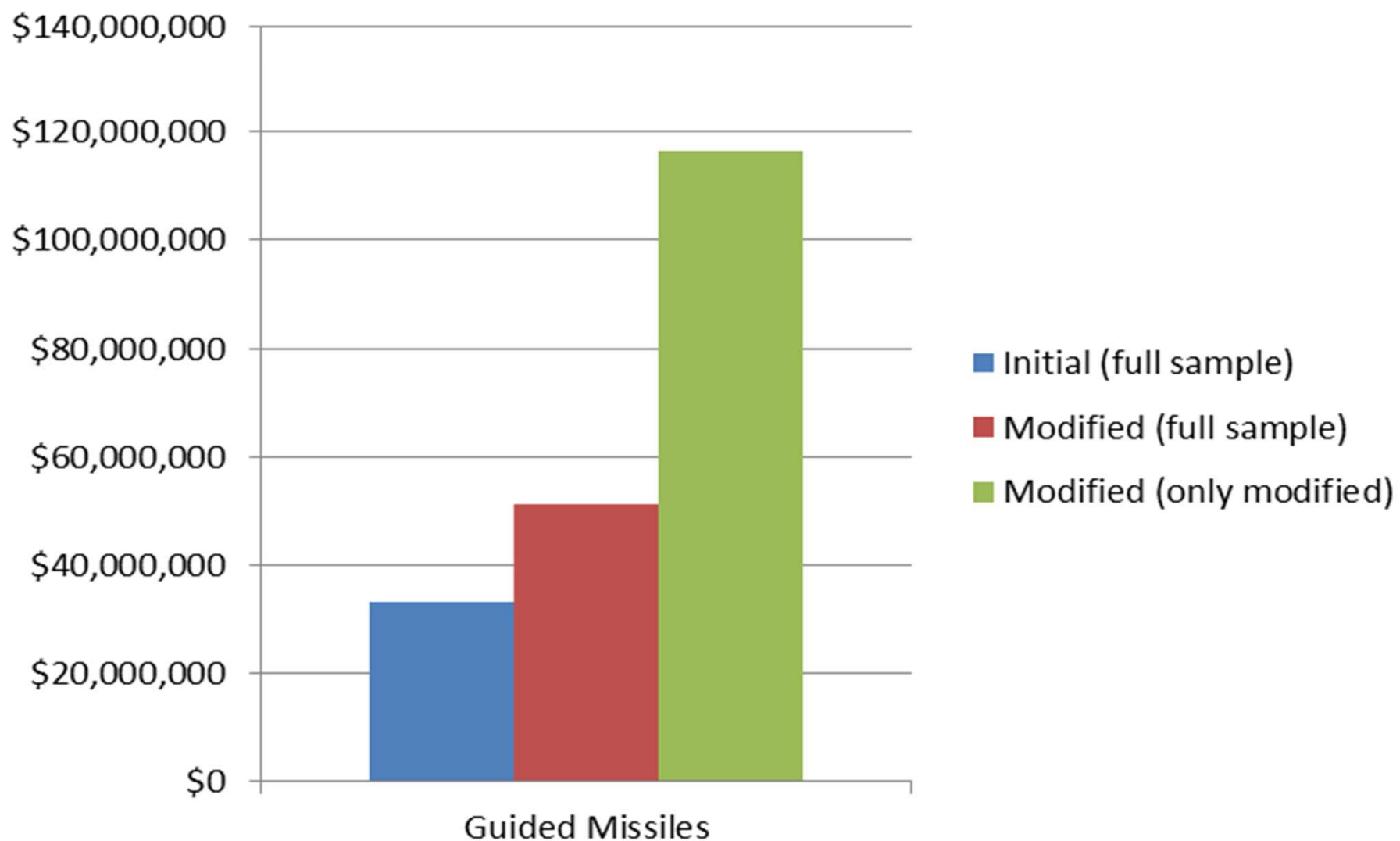




**Figure 5. Average Contract Value in Dollars, Trash Collection, Guns, and Logistics, 2004-2008**



**Figure 6. Average Contract Value in Dollars, Guided Missiles, 2004-2008**



# Next Steps/Paper Preview

Market Characteristics

Firm Characteristics

Contract Outputs

