



# Measuring the Impact of Sequestration and the Defense Drawdown on the Industrial Base

*April 26, 2017*

**Andrew Hunter**

*Director, Defense-Industrial Initiatives Group, and Senior Fellow, International Security Program*

**Rhys McCormick**

*Research Associate, Defense-Industrial Initiatives Group*

**Greg Sanders**

*Deputy Director and Fellow, Defense-Industrial Initiatives Group*

**CSIS** | CENTER FOR STRATEGIC &  
INTERNATIONAL STUDIES



DEFENSE-INDUSTRIAL  
INITIATIVES GROUP

## Research Question:

What has been the impact of sequestration and budgetary drawdown on the different sectors and tiers of the defense industrial base?

## Methodology:

- The Federal Procurement Data System (FPDS) and Federal Subaward Reporting System (FSRS) were the primary sources for this report. Federal regs only require reporting for unclassified prime contracts worth \$2,500 or more
- Contract data organized into ten distinct platform portfolios and examined across 4 variables: DoD Component, Vendor Count and Size, Competition.

# Academic Literature on External Market Shocks

## Components:

- Defense market is a monopsony but decisions are made by multiple major DoD components
- Trends will reflect various DoD component priorities and respond to differing incentives rather than uniform priorities.

## Vendor Size:

- Concern that “small businesses are going to be the ones that feel the most immediate affects”
- The relationship between vendor size and its success during a downturn is less clear.
  - Large vendors typically see more success than small businesses during market shocks
  - However, companies’ success is more dependent on strategies available to them, not their size alone

## Consolidation:

- Both the academic literature and historical examples suggest that DoD should expect to see consolidation within the defense industrial base.

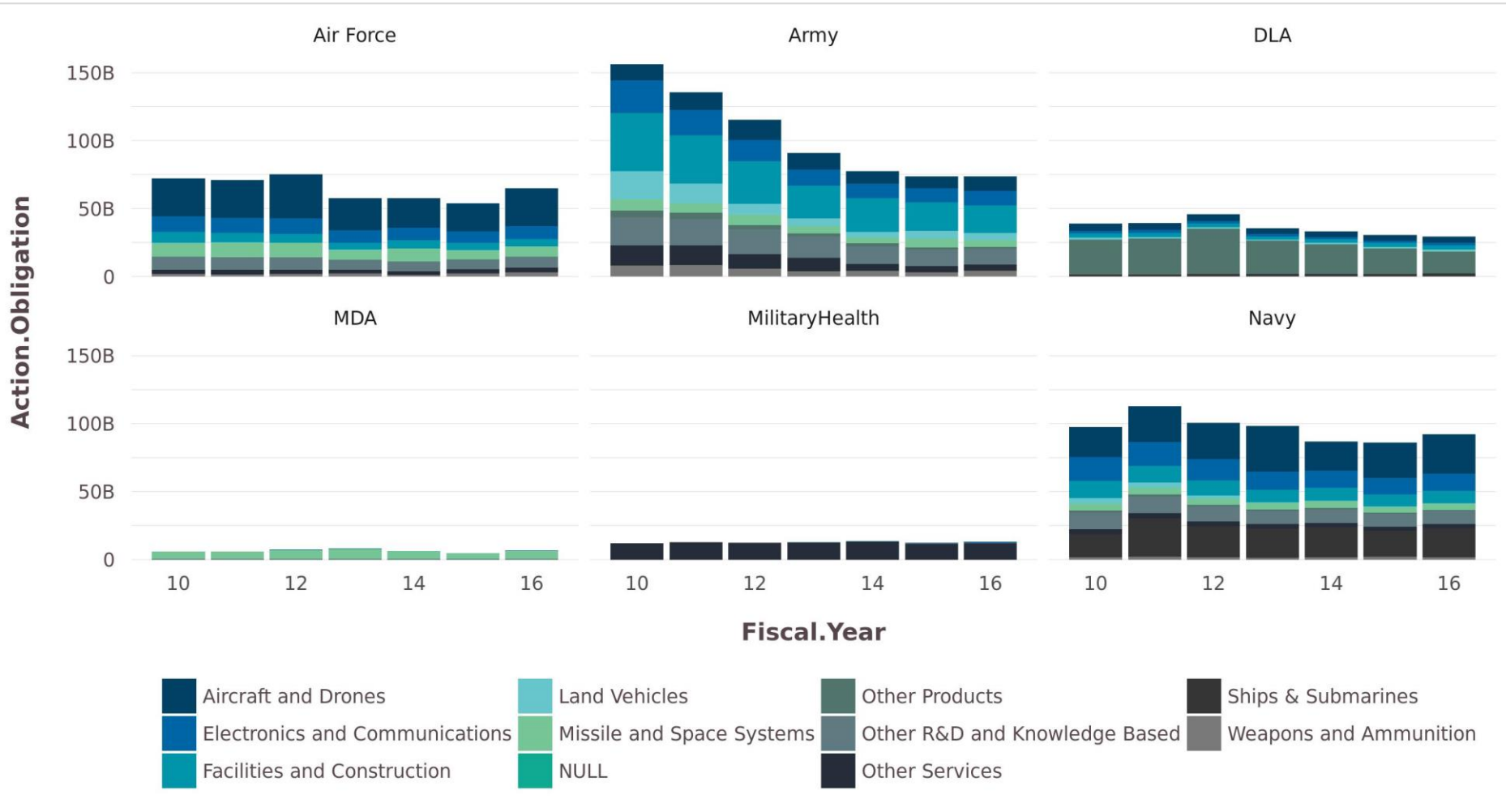
## Competition:

- Even absent sequestration and the drawdown, competition remains an evergreen DoD priority.
- Market consolidation will likely reduce the number of potential competitors for any given project.

## Research Variables

- 1. Components: Did the DoD components respond differently to sequestration and the defense drawdown?**
2. Vendor Size: How did the share of contract obligations change among vendors of differing sizes, particularly small businesses?
3. Vendor Count: How did the number of vendors change?
4. Competition: Did the share of contract obligations awarded after effective competition change?

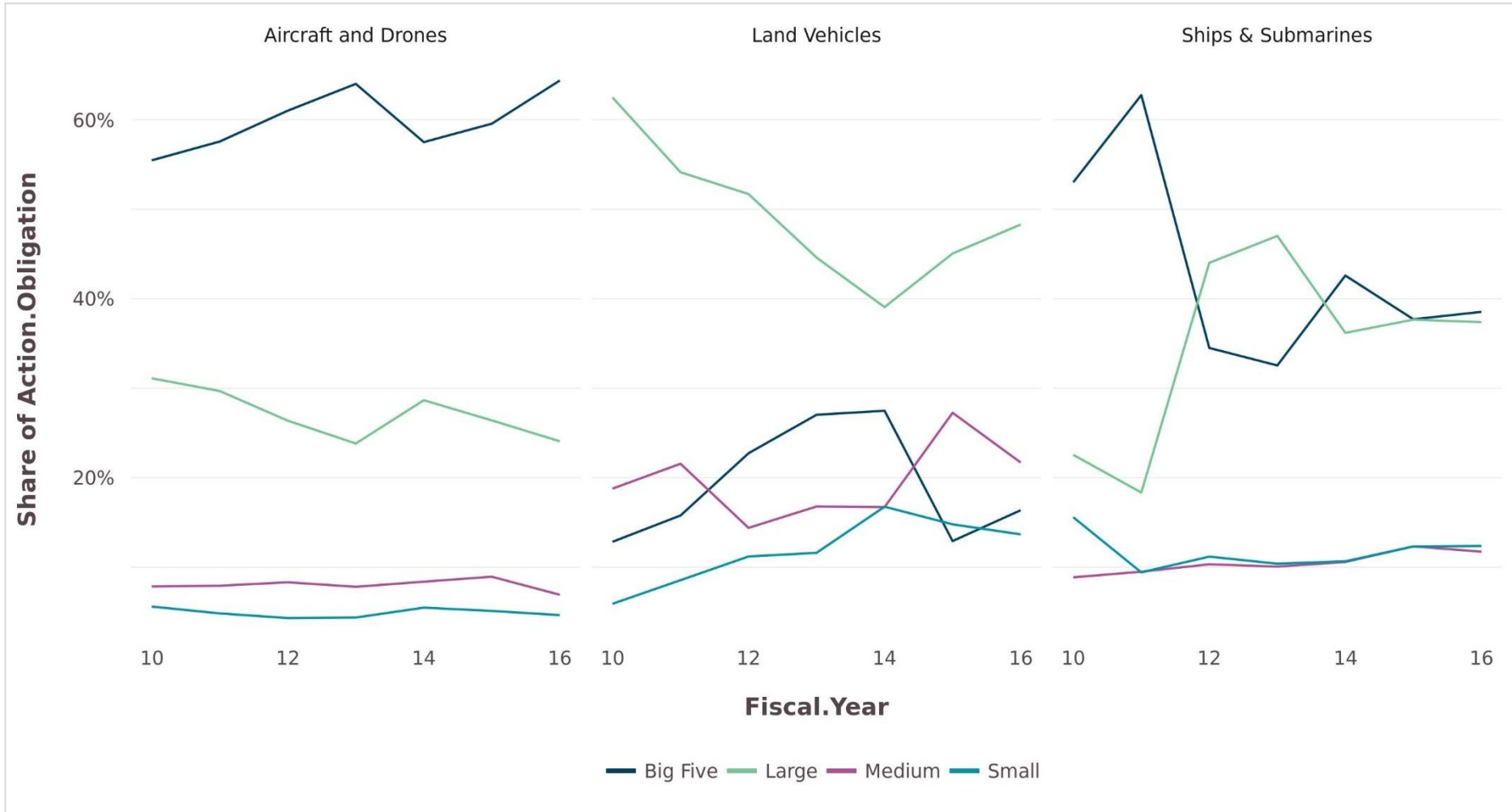
# Platform Portfolio by Major DoD Components, 2010-2016



## Research Variables

1. Components: Did the DoD components respond differently to sequestration and the defense drawdown?
- 2. Vendor Size: How did the share of contract obligations change among vendors of differing sizes, particularly small businesses?**
3. Vendor Count: How did the number of vendors change?
4. Competition: Did the share of contract obligations awarded after effective competition change?

# Platform Portfolio by Size of Vendor, 2010-2016



## Research Variables

1. Components: Did the DoD components respond differently to sequestration and the defense drawdown?
2. Vendor Size: How did the share of contract obligations change among vendors of differing sizes, particularly small businesses?
- 3. Vendor Count: How did the number of vendors change?**
4. Competition: Did the share of contract obligations awarded after effective competition change?



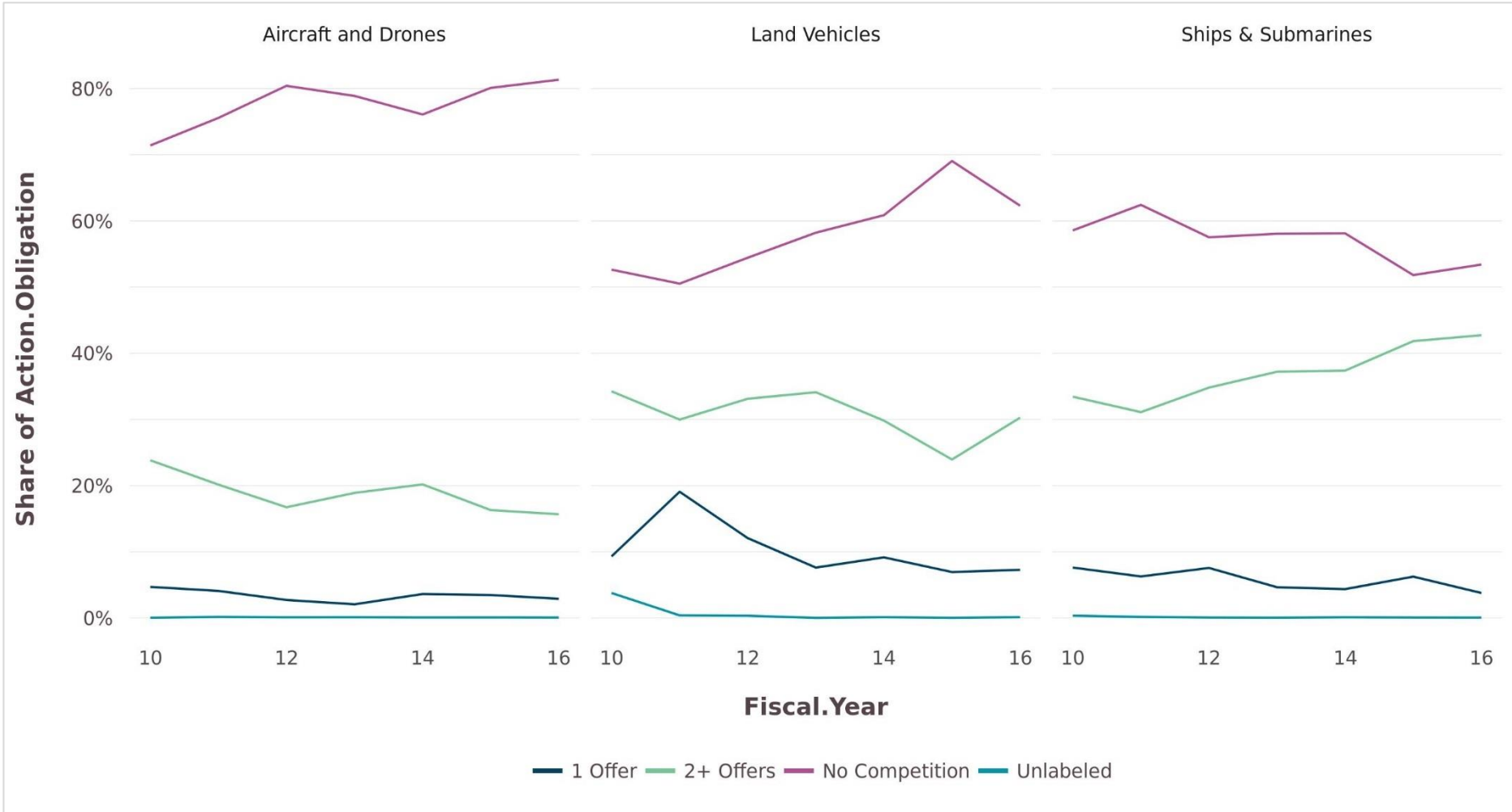
# Vendor Count by Platform Portfolio, 2010-2016



## Research Variables

1. Components: Did the DoD components respond differently to sequestration and the defense drawdown?
2. Vendor Size: How did the share of contract obligations change among vendors of differing sizes, particularly small businesses?
3. Vendor Count: How did the number of vendors change?
4. **Competition: Did the share of contract obligations awarded after effective competition change?**

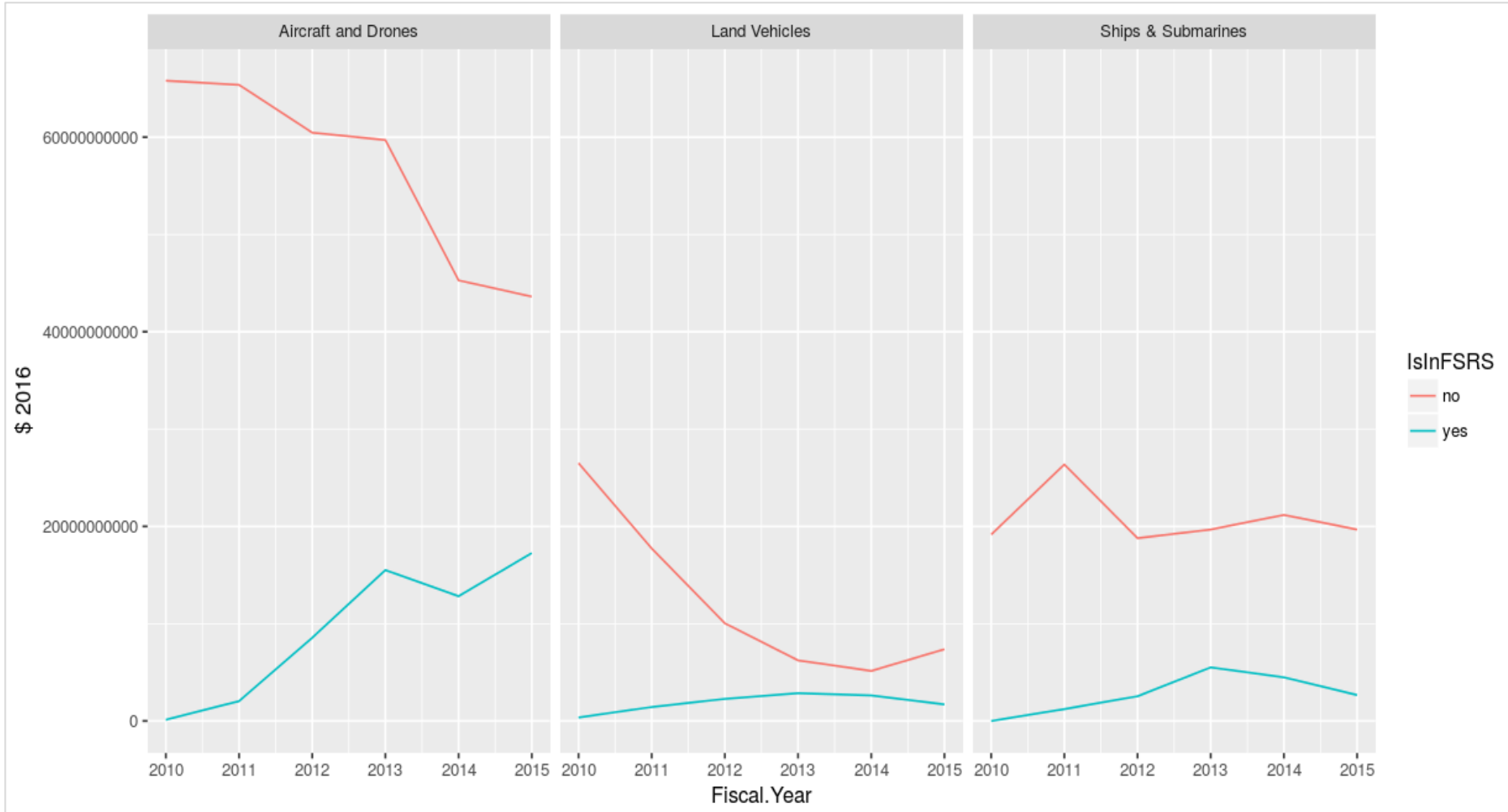
# Competition for Aircraft and Drones Contract Obligations, 2010-2016



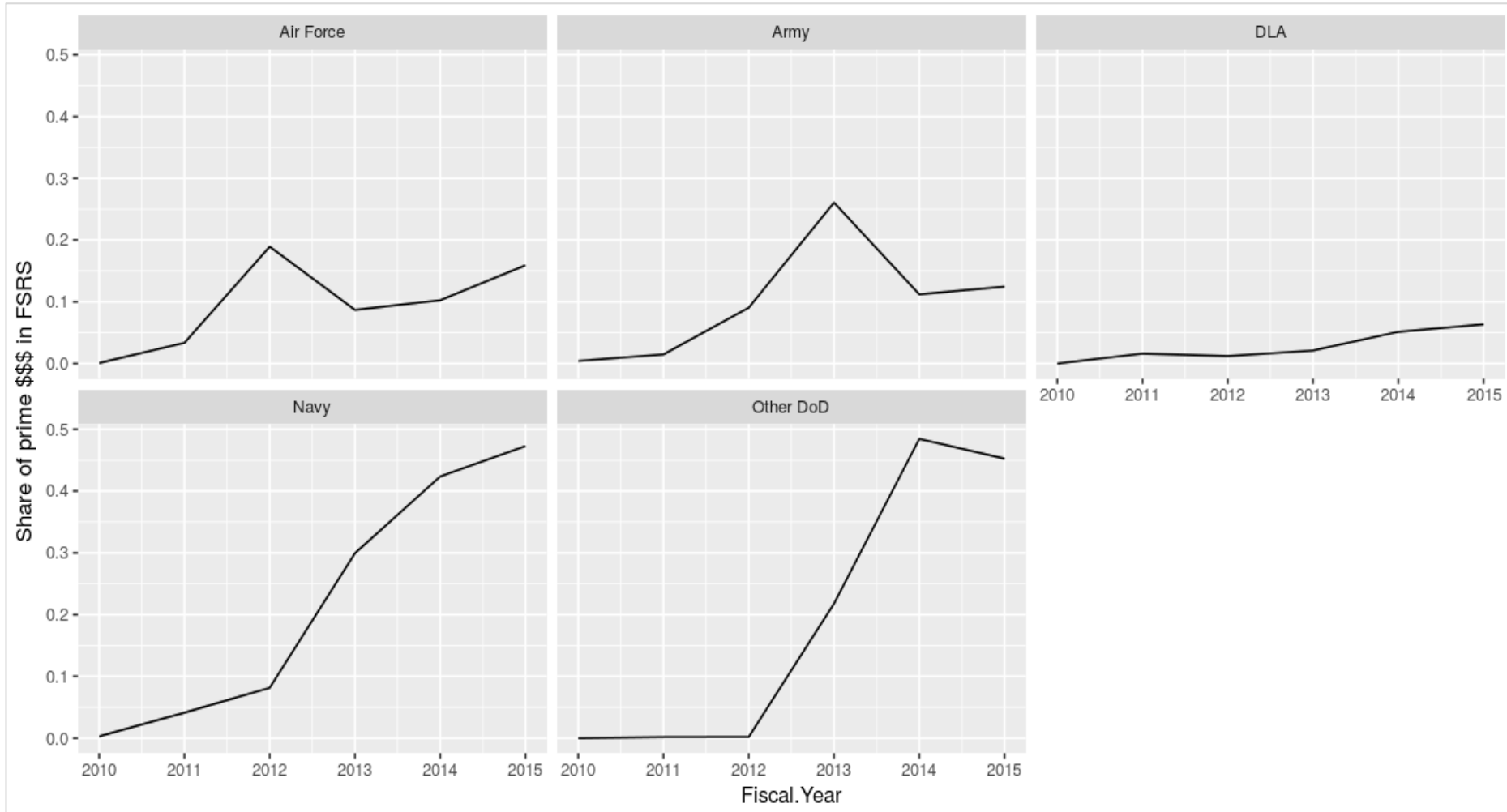
## FSRS Data Availability

- The study team sought to evaluate the availability and quality of subcontracting data across the different sectors of the defense industrial base.
  - This efforts builds off a 2014 study conducted by Nancy Moore at RAND concluded that FSRS data that from FY 2010 to FY 2012, FSRS data was often incomplete or missing, but was improving each year

# FSRS Data Availability by Platform Portfolio, 2000-2016



# Aircraft and Drones FSRS Data Availability by SubCustomer, 2010-2015



# Conclusion

	Vendor Size		Competition (Rate of Effective Competition)	Vendor Count																		
	Big 5	Small																				
<b>Aircraft and Drones</b>				<table border="1"> <caption>Vendor Count for Aircraft and Drones (2009-2016)</caption> <tr><th>Year</th><td>2009</td><td>2010</td><td>2011</td><td>2012</td><td>2013</td><td>2014</td><td>2015</td><td>2016</td></tr> <tr><th>Count</th><td>6300</td><td>6000</td><td>5800</td><td>5650</td><td>5650</td><td>6000</td><td>6100</td><td>6250</td></tr> </table>	Year	2009	2010	2011	2012	2013	2014	2015	2016	Count	6300	6000	5800	5650	5650	6000	6100	6250
Year	2009	2010	2011	2012	2013	2014	2015	2016														
Count	6300	6000	5800	5650	5650	6000	6100	6250														
<b>Land Vehicles</b>				<table border="1"> <caption>Vendor Count for Land Vehicles (2009-2016)</caption> <tr><th>Year</th><td>2009</td><td>2010</td><td>2011</td><td>2012</td><td>2013</td><td>2014</td><td>2015</td><td>2016</td></tr> <tr><th>Count</th><td>6000</td><td>5000</td><td>4800</td><td>4000</td><td>4000</td><td>4000</td><td>4000</td><td>4000</td></tr> </table>	Year	2009	2010	2011	2012	2013	2014	2015	2016	Count	6000	5000	4800	4000	4000	4000	4000	4000
Year	2009	2010	2011	2012	2013	2014	2015	2016														
Count	6000	5000	4800	4000	4000	4000	4000	4000														
<b>Ships &amp; Submarines</b>				<table border="1"> <caption>Vendor Count for Ships &amp; Submarines (2009-2016)</caption> <tr><th>Year</th><td>2009</td><td>2010</td><td>2011</td><td>2012</td><td>2013</td><td>2014</td><td>2015</td><td>2016</td></tr> <tr><th>Count</th><td>5050</td><td>5100</td><td>5300</td><td>5200</td><td>5200</td><td>5250</td><td>5400</td><td>5650</td></tr> </table>	Year	2009	2010	2011	2012	2013	2014	2015	2016	Count	5050	5100	5300	5200	5200	5250	5400	5650
Year	2009	2010	2011	2012	2013	2014	2015	2016														
Count	5050	5100	5300	5200	5200	5250	5400	5650														