



Analyzing the Composition of the Small Business Defense Industrial Base

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SB Program Overview

Certain contracts are “set-aside” for small businesses

Congressional justifications for SB set-asides:

- Helps level the playing field for SBs in the federal market
- Preserves & promotes free enterprise
- Strengthens the national economy
- Promotes entrepreneurship
- Expands the federal supplier base
- Increases competition & product diversity
- Reduces prices
- Improves product quality

The success of the SB set-aside program has been measured by a single, myopic metric: **whether the USG awards 23% of contract dollars to small and disadvantaged businesses.**

Research Focus

Assessing the amount of money awarded to SBs as a share of overall government spending does little to evaluate the impact of the SB program on the industrial base, the economy, or the competitive environment for products and services in the USG.

We aimed to leverage large-scale public data to provide a more comprehensive assessment of the DOD SB program vis a vis its stated objectives.

Sizing the SB DIB

One objective of the SB set-aside program is to expand and diversify the industrial base.

So, the number of SB contractors supporting DOD should be increasing over time.

There is no single source of truth for classifying small businesses, so we developed a classification system that weights multiple features associated with a DUNS number to designate the vendor as “small” or “large.”

Data Source	Feature			
	Business Size Determination	Set-Aside Contract Feature	Business Type	Set Aside Type
FPDS	X	X		
SAM			X	X

A Shrinking SB DIB

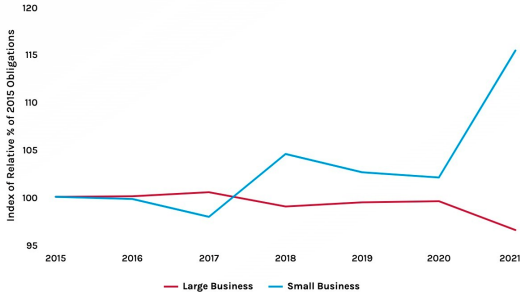
The number of SBs in the defense industrial base has declined nearly 23% over the last 6 years.

Fiscal Year	DOD SBs
2015	48,322
2016	46,952
2017	45,609
2018	43,505
2019	40,940
2020	38,703
2021	37,294

Meanwhile, the amount of money DOD awarded to SBs grew 68%, from \$54.5 billion to \$91.5 billion (by comparison, overall DOD spending grew ~46% over that same period).

As DOD SB spending went up, fewer small businesses benefited.

INDEX OF RELATIVE SHARE OF 2015 DEPARTMENT OF DEFENSE FUNDED OBLIGATIONS BY BUSINESS SIZE

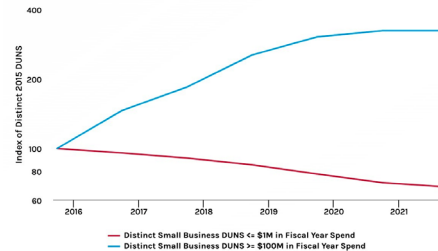


Fiscal Year	Total DOD Spend	DOD Spend to SBs	DOD Spend to LBs	% Spend to SBs
2015	\$294,357,455,264	\$54,500,060,463	\$239,857,394,801	18.51%
2016	\$318,628,870,367	\$58,858,890,994	\$259,769,979,374	18.47%
2017	\$344,813,865,145	\$62,493,984,962	\$282,319,880,183	18.12%
2018	\$386,911,953,179	\$74,865,344,991	\$312,046,608,188	19.35%
2019	\$427,876,600,900	\$81,259,290,822	\$346,617,310,078	18.99%
2020	\$465,451,566,836	\$87,928,706,954	\$377,522,859,882	18.89%
2021	\$428,635,700,550	\$91,584,868,966	\$337,050,831,584	21.37%

SB DOD Revenue

An increase in SB spend has disproportionately benefited the “largest” SBs, enabling them to dramatically expand their DOD market share as the defense market becomes less opportune for the smallest SBs.

INDEX OF DISTINCT SMALL BUSINESS DUNS: UNDER \$1M VS OVER \$100M IN TOTAL FISCAL YEAR OBLIGATIONS



FY	SBs with \$100M+ DOD Procurement	SBs with <\$1M in DOD Procurement
2015	26	34,205
2016	38	32,727
2017	48	31,100
2018	66	29,070
2019	79	26,538
2020	84	24,352
2021	84	23,337

Company Name	DOD Funding, FY2015-FY2021	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
ATLANTIC DIVING SUPPLY INC.	\$15,720,363,970	\$1,114,565,311	\$1,250,613,527	\$1,609,645,315	\$2,509,511,257	\$3,233,362,687	\$3,138,616,046	\$2,864,049,826
MODERNATX INC.	\$8,167,157,644	\$0	\$0	\$0	\$0	\$0	\$1,255,697,789	\$6,911,459,855
FEDERAL RESOURCES SUPPLY COMPANY	\$3,639,062,189	\$191,105,314	\$190,329,295	\$233,348,924	\$288,268,243	\$339,501,133	\$2,017,338,638	\$379,170,642
TORCH TECHNOLOGIES INC.	\$2,793,079,298	\$230,809,413	\$297,477,436	\$343,020,172	\$407,159,701	\$506,888,808	\$534,814,811	\$472,908,957
AMERICAN ROLL-ON ROLL-OFF CARRIER LLC	\$2,127,079,115	\$162,123,014	\$121,500,994	\$299,618,926	\$402,194,232	\$409,332,723	\$401,249,517	\$331,059,709

Businesses with hundreds of millions in defense contracts can qualify as small by USG standards.

The top 20 largest SBs received \$53.6B+ in DOD contracts—over 10% of all DOD funding to SBs.

The number of SBs with \$100M+ in DOD contracts in 2021 was 3.23x that of 2015. By comparison, the number of DOD SBs awarded \$1M or less in DOD contracts shrank by 32%.

Small by What Standards?

The SBA defines an SB based on its average number of employees over the past 12 months or average annual receipts.
EX: In the case of Atlantic Diving Supply, although it generates billions in DOD revenue annually, it has fewer than 500 employees. Based on its NAICS code, it qualifies it as an SB by SBA standards.

NAICS	Description	SB Size Standard
339112	Surgical and Medical Instrument Manufacturing	1000 employees
339113	Surgical Appliance and Supplies Manufacturing	750 employees
448110	Men's Clothing Stores	\$12M
448120	Women's Clothing Stores	\$30M
448130	Children's and Infants' Clothing Stores	\$35M

◀ NAICS size standards are based on confusing, arbitrary criteria, in general

Subcontracting in the SB Ecosystem

Subcontractor Name	Total DOD-Funded Subcontract Awards, FY2015-FY2021
ACCENTURE	\$7,427,637
BOEING	\$183,412,223
BOOZ ALLEN HAMILTON	\$1,326,752,662
DELOITTE	\$120,403,176
GENERAL DYNAMICS	\$542,271,351
HARRIS CORPORATION	\$572,658,238
L3	\$861,609,111
LOCKHEED MARTIN	\$284,056,045
NORTHROP GRUMMAN	\$541,770,770
RAYTHEON	\$341,913,820

Subcontractor Type	Count	Total DOD Funded Subcontracts from DOD SB Primes, FY2015-FY2021
SMALL BUSINESS	5210	\$43,194,628,990
OTHER THAN SB	2177	\$24,207,193,451
UNKNOWN	6537	\$23,769,273,045

Challenges for SBs

Limiting competition for certain contracts to SBs does little to address the underlying issues keeping small/nontraditional companies from succeeding in the defense market:

- **Rising costs of working with defense customers** *Like CMMC*
- **Shifting procurement strategies** *For ex: DLA “Captains of Industry” bundling practice have rerouted millions in defense spending from SB manufacturers to large OEMs, leading to an estimated 61% decline in SB participation*
- **Complex, anticompetitive solicitation processes** *70+% of DOD solicitations require responses in 21 days or less; fewer than 4% of solicitation descriptions are written in “Plain English”*
- **Redundant requirements** *On 1 day in Oct. 2020, there were 100+ open requirements for UAVs*
- **Lack of awareness across DOD about what suppliers exist in the SB ecosystem**

Conclusions

Rather than leveling the playing field for SBs, **set-aside policies enrich the largest SB vendors & fail to benefit the groups they are intended to serve.**

- SB set-aside policies afford preferential treatment to entities that understand the system and how to maximize it to their advantage.
- Large SBs can withstand the costs and procedural challenges that keep smaller, would-be competitors from succeeding.
- Arbitrariness, opacity, and lack of standardization around USG and DOD size-standards make it difficult to evaluate the results of the set-aside program in general.
- The DOD awards contracts to SBs that understand the system, rather than companies with the “best” or most competitive offering. **Thus, just as SB policies contribute to the *failure* of some SBs, they also prop-up certain companies that would and/or should naturally go out of business.**

Recommendations

Commit to addressing the underlying issues! Additionally:

- Maintain “single source of truth” for SB data
- Overhaul SBA size standards
- Do not count pass-throughs to LBs as subcontractors to count towards SB set-aside goals



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