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School of Business

Effective competition and market concentration in the defense industrial base and U.S. federal government

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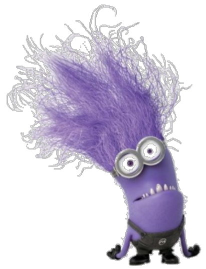


Background

- Competition matters
  - Statutorily preferred
  - Host of good outcomes

Two areas of concern

- Effective competition

  2 or more bids for competitive solicitation

- Market concentration

  Relative market shares of all firms, proxy for degree of competition

So…

we get a number…

- Is it good?
- Is it bad?
- Is an intervention needed to effect change?

- Any value judgement requires a comparison
- Few studies explicitly compare DoD against other federal agencies

Research Questions

What are the competition and market concentration trends in DIB over time?

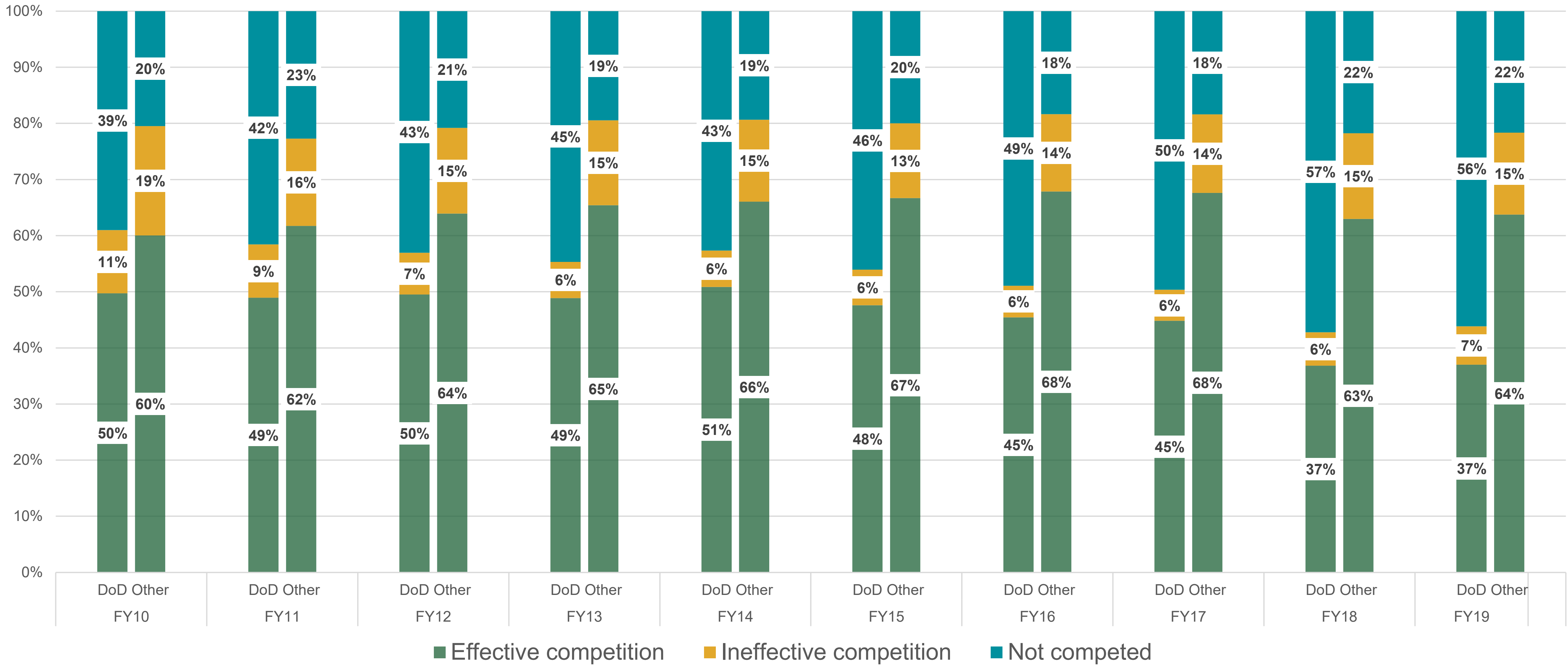
How do DIB trends compare to other federal government agencies?

Method: Effective Competition

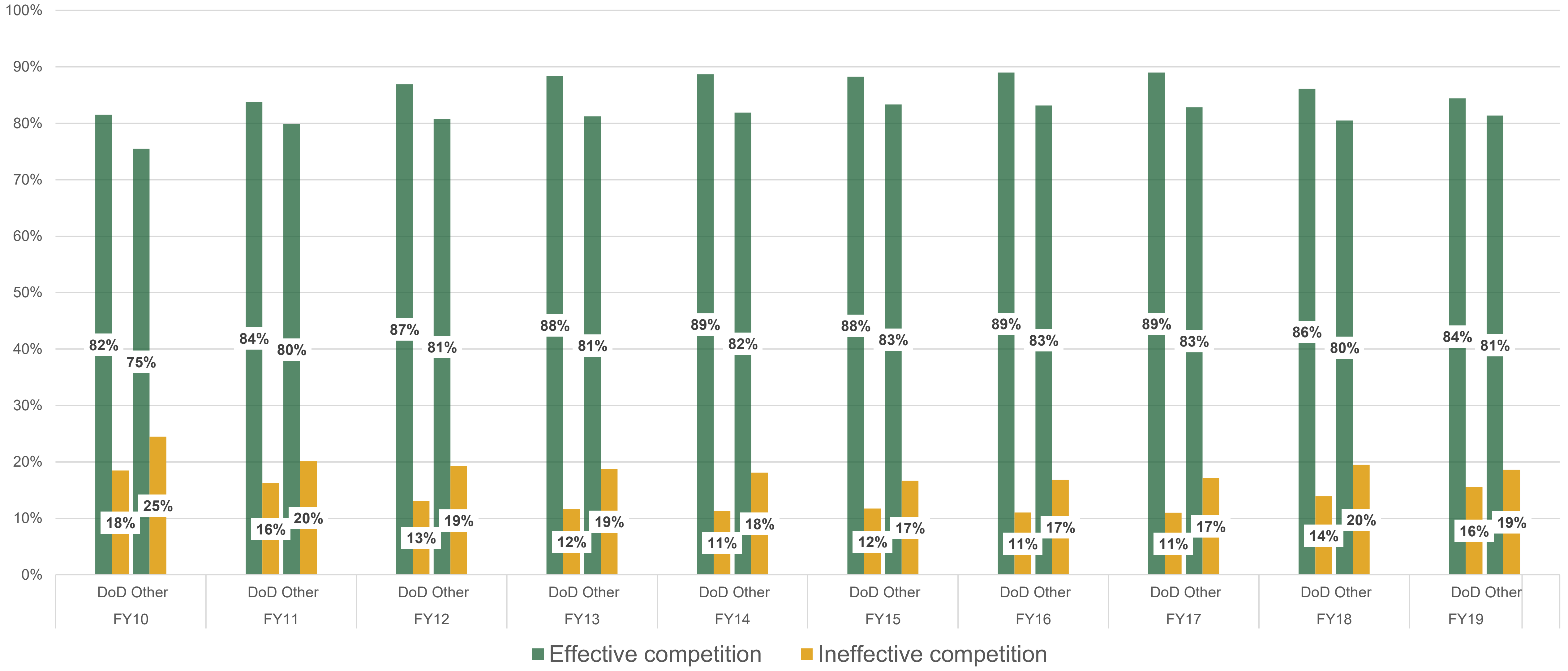
- USASpending.gov (20 years: FY01-FY20)
  - ~74M rows total, ~42M DoD
- DoD vs All others (combined)
  1) All contracts
  2) Removed R&D Services contracts
  3) All markets w/ no single dominant agency (<90% of total)

- All four types of awards: BPA Calls, Delivery Orders, Purchase Orders, Definitive Contracts
- Fields used: “extent competed”, “solicitation procedures”, “fair opportunity/limited sources”, “number of offers”

Overall Competition (no R&D Services contracts)



Effective Competition (no R&D Services contracts)



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Method: Market Concentration

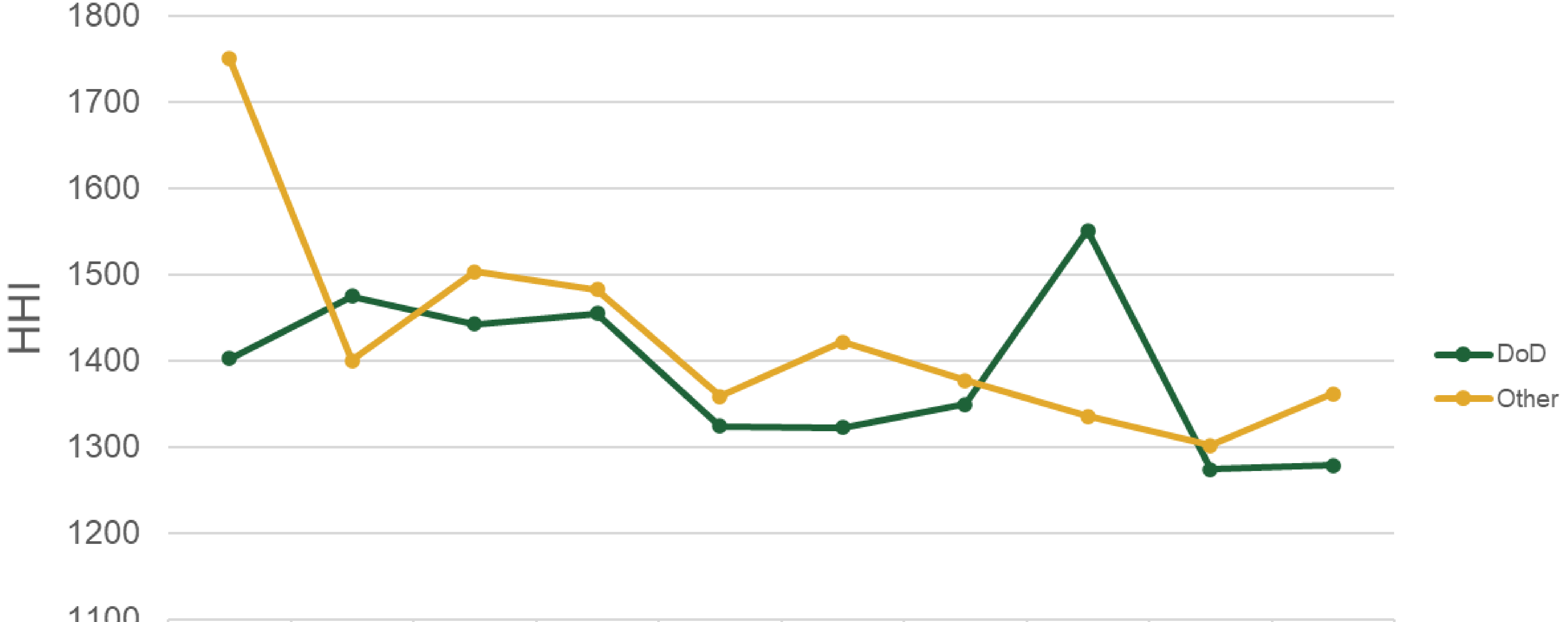
- Herfindahl–Hirschman Index (HHI)

  - Unconcentrated: HHI below 1500
  - Moderately Concentrated: HHI between 1500 and 2500
  - Highly Concentrated: HHI above 2500

  Horizontal Merger Guidelines, DOJ and FTC

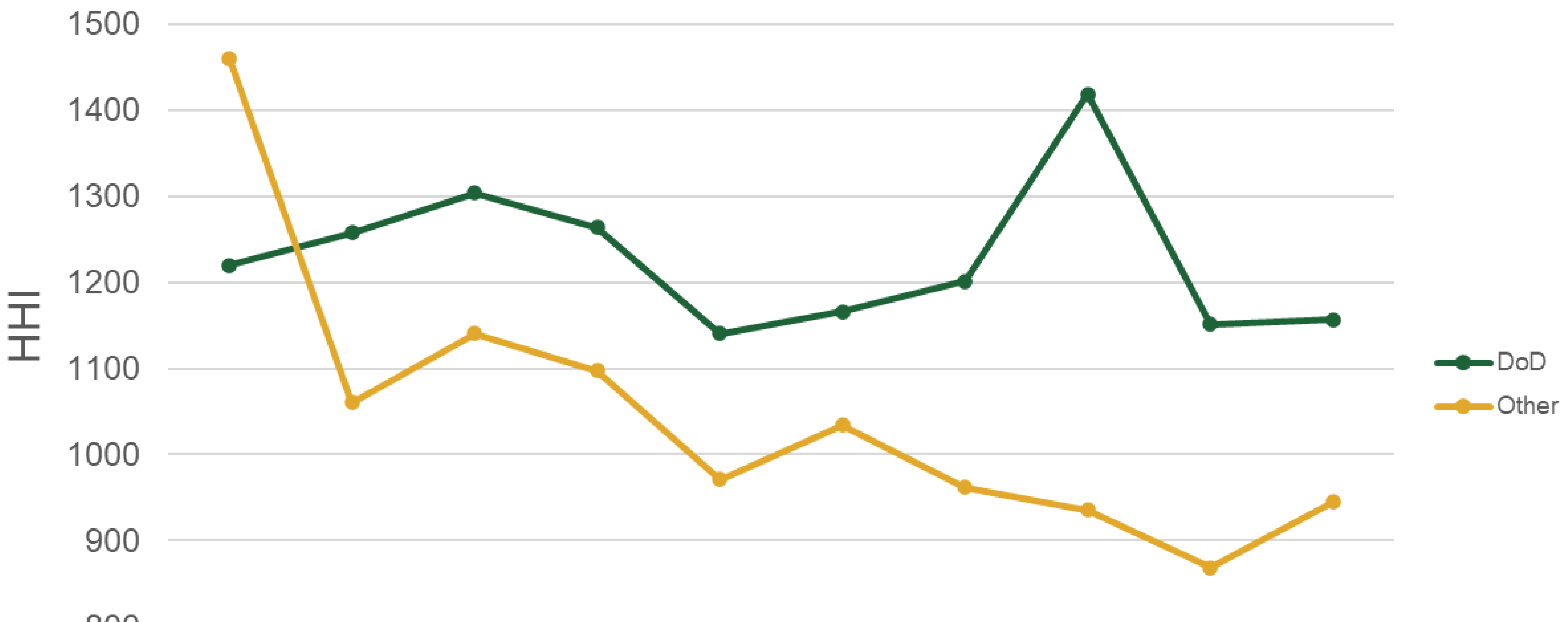
- Market: PSC - Level-2 category
- Firm: Parent company
- Revenue: Obligated funds (only net positive)

Market Concentration (weighted average, all contracts)



	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
DoD	1402	1474	1442	1454	1324	1322	1349	1551	1274	1279
Other	1750	1400	1503	1482	1358	1421	1377	1336	1302	1362

Market Concentration (weighted average, no R&D Services)



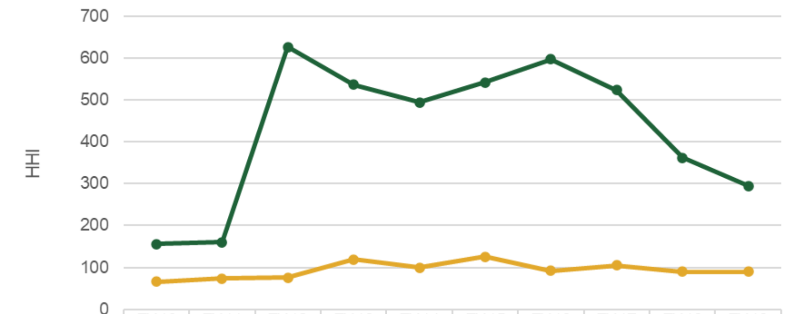
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
DoD	1220	1257	1303	1264	1140	1166	1201	1418	1151	1156
Other	1459	1061	1141	1098	971	1034	962	936	869	945

Top Five PSCs

PSC	PSC Description	Level 2 PSC Category	DoD Percent of Market (FY19)
R425	Support- Professional: Engineering/Technical	Technical and Engineering Services (non-IT)	70.1%
R499	Support- Professional: Other	Management Advisory Services	36.7%
6505	Drugs and Biologicals	Drugs and Pharmaceutical Products	30.5%
D399	IT and Telecom- Other IT and Telecommunications*	--	30.5%
R408	Support- Professional: Program Management/Support	Management Advisory Services	35.2%

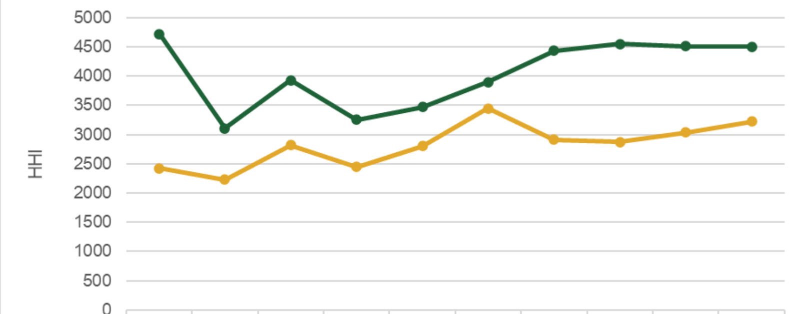
Market Concentration (Top 5 PSCs)

R499: Support- Professional: Other



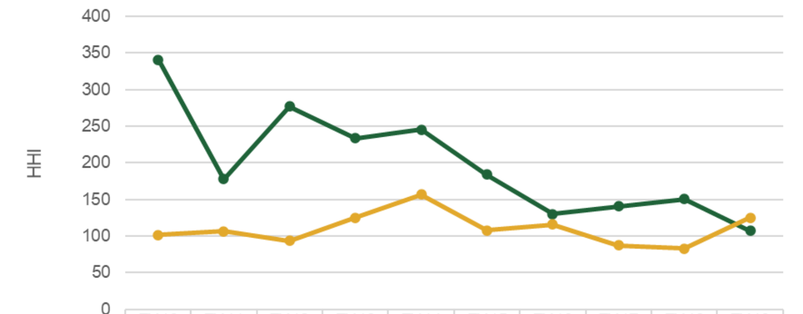
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
DoD	157	160	626	536	495	542	597	523	362	295
Other	66	74	75	119	100	126	92	105	90	90

6505: Drugs and Biologicals



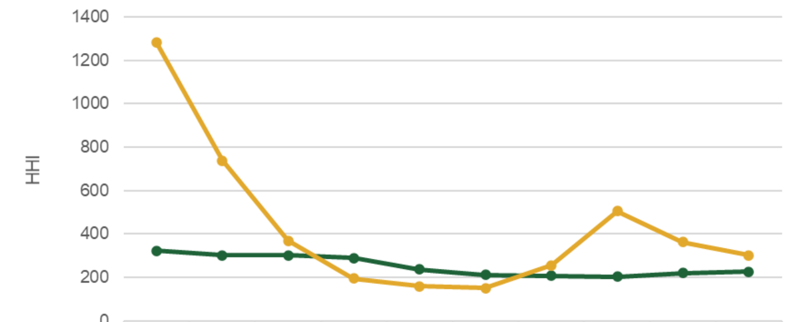
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
DoD	4718	3110	3933	3255	3468	3898	4433	4547	4512	4500
Other	2419	2226	2821	2445	2803	3444	2912	2872	3037	3219

R408: Support- Professional: Program Management/Support



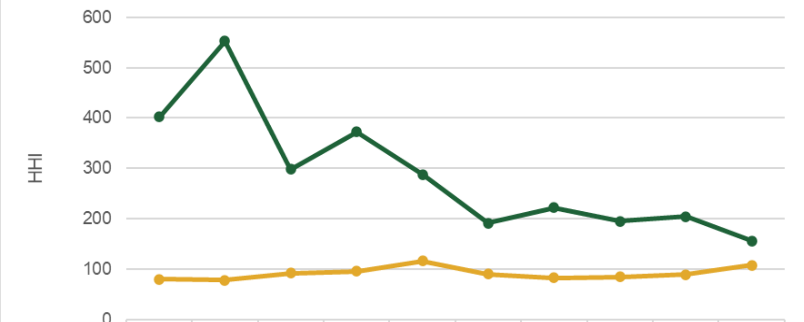
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
DoD	341	178	277	233	245	184	130	141	151	107
Other	101	107	93	125	156	107	116	87	83	125

R425: Support- Professional: Engineering/Technical



	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
DoD	323	303	303	290	237	213	208	205	222	226
Other	1284	737	370	196	159	151	256	505	364	302

D399: IT and Telecom- Other IT and Telecommunications



	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
DoD	402	553	298	372	288	191	222	195	204	156
Other	80	78	92	95	116	89	82	84	89	107

Contractor Base

Fiscal Year	Unique Contractors (Total)	Unique Contractors (DoD)	Exit: Exiting Contractors (Total)	Exit: Percent of Unique Contractors (Total)	Exit: Exiting Contractors (DoD)	Exit: Percent of Unique Contractors (DoD)	Entry: New Contractors (Total)	Entry: Percent of Unique Contractors (Total)	Entry: New Contractors (DoD)	Entry: Percent of Unique Contractors (DoD)
FY10	174,579	79,043	33,239	19%	16,050	20%	33,330	19%	14,255	18%
FY11	170,803	76,014	37,093	22%	16,013	21%	29,476	17%	12,573	17%
FY12	155,025	71,023	30,973	20%	15,345	22%	21,871	14%	10,275	14%
FY13	142,634	63,913	26,445	19%	12,633	20%	17,762	12%	7,626	12%
FY14	138,816	61,529	25,379	18%	11,501	19%	18,292	13%	8,055	13%
FY15	136,835	60,844	25,914	19%	11,928	20%	17,797	13%	8,043	13%
FY16	133,984	58,756	26,746	20%	11,673	20%	17,084	13%	7,496	13%
FY17	137,850	56,920	34,167	25%	12,110	21%	17,481	13%	6,939	12%
FY18	123,962	54,386	29,580	24%	12,754	23%	14,794	12%	6,476	12%
FY19	113,650	51,099	30,223	27%	14,474	28%	12,417	11%	5,731	11%

Contractor Base

Fiscal Year	Unique Contractors (Total)	Unique Contractors (DoD)
FY10	174,579	79,043
FY11	170,803	76,014
FY12	155,025	71,023
FY13	142,634	63,913
FY14	138,816	61,529
FY15	136,835	60,844
FY16	133,984	58,756
FY17	137,850	56,920
FY18	123,962	54,386
FY19	113,650	51,099

Exiting Contractors (Total)	Exit Percentage (Total)	Exiting Contractors (DoD)	Exit Percentage (DoD)
33,239	**19%**	16,050	**20%**
37,093	**22%**	16,013	**21%**
30,973	**20%**	15,345	**22%**
26,445	**19%**	12,633	**20%**
25,379	**18%**	11,501	**19%**
25,914	**19%**	11,928	**20%**
26,746	**20%**	11,673	**20%**
34,167	**25%**	12,110	**21%**
29,580	**24%**	12,754	**23%**
30,223	**27%**	14,474	**28%**

New Contractors (Total)	Entry Percentage (Total)	New Contractors (DoD)	Entry Percentage (DoD)
33,330	**19%**	14,255	**18%**
29,476	**17%**	12,573	**17%**
21,871	**14%**	10,275	**14%**
17,762	**12%**	7,626	**12%**
18,292	**13%**	8,055	**13%**
17,797	**13%**	8,043	**13%**
17,084	**13%**	7,496	**13%**
17,481	**13%**	6,939	**12%**
14,794	**12%**	6,476	**12%**
12,417	**11%**	5,731	**11%**

Takeaways

- Effective competition in DoD is healthy compared to other government agencies
- Market concentration in DoD is higher than other government agencies, but does not rise above threshold concerns in many markets
- Contractor base situation (exits and entries) appears to be consistent throughout the federal government, not isolated to DoD

Questions/Concerns/Discussion

THANK YOU

Source: https://www.montereybayaquarium.org/animals/habitats/kelp-forest

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