Defense Acquisition Trends 2023: Meeting the Challenge of Production?

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Photo by USAF Staff Sgt. Marco A. Gomez

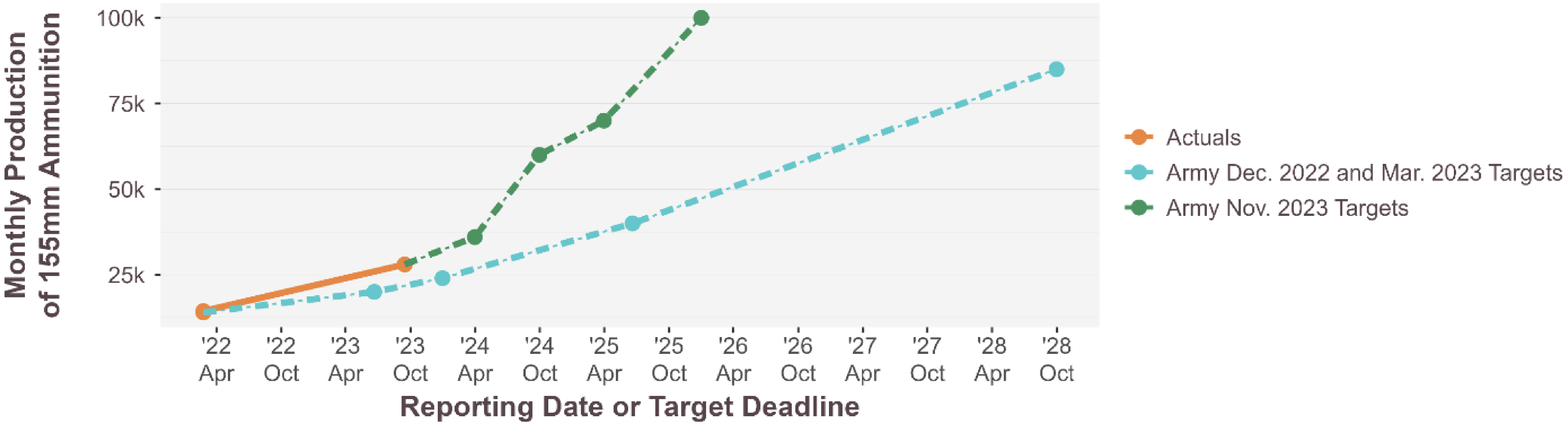
Open source acquisition can aid in benchmark National Defense Industrial Strategy (NDIS) action items

This presentation examines three categories of action items and illustrative outcomes:

- Production Capacity and Munitions
- The Supplier Base and Non-Traditional Defense Contractors
- The Range of Contracting Approaches

"Increase in DIB capacity" (Action Item 2.1.2.1) seen in organic DIB and suggested by contract obligation for ordnance & missiles (59.3%) and ships & submarines (11.5%), but air & missile defense is shrinking (-6.7%)

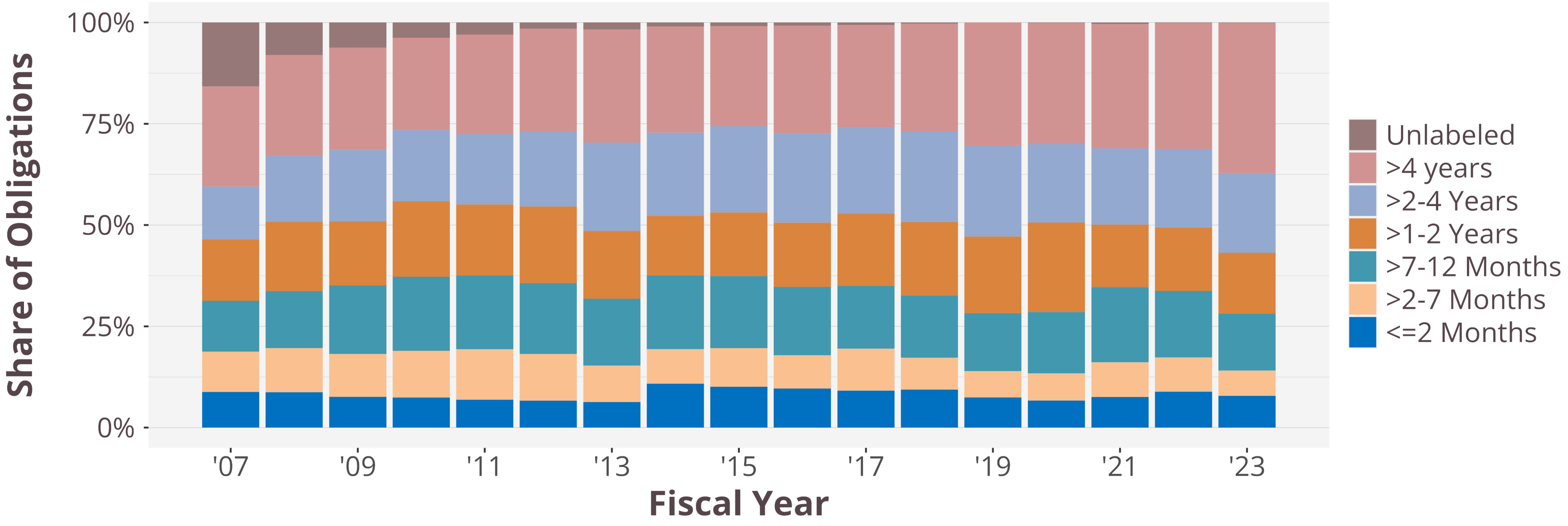
Army 155mm Ammunition Production Rates and Targets



Sources: Bryan Bender and Lara Seligman, Politico, Dec., 4, 2022; Jen Judson, DefenseNews, Mar. 28, 2023; Noah Robertson, DefenseNews, Sept. 15, 2023; Sam Skove, Defense One, Nov. 27, 2023; initial chart by Govini; and CSIS analysis.

"Congress can explore allocating additional funding for contracts and other incentives (tax incentives, regulatory relief, long-term contracts) aimed specifically at building and maintaining spare production capacity."

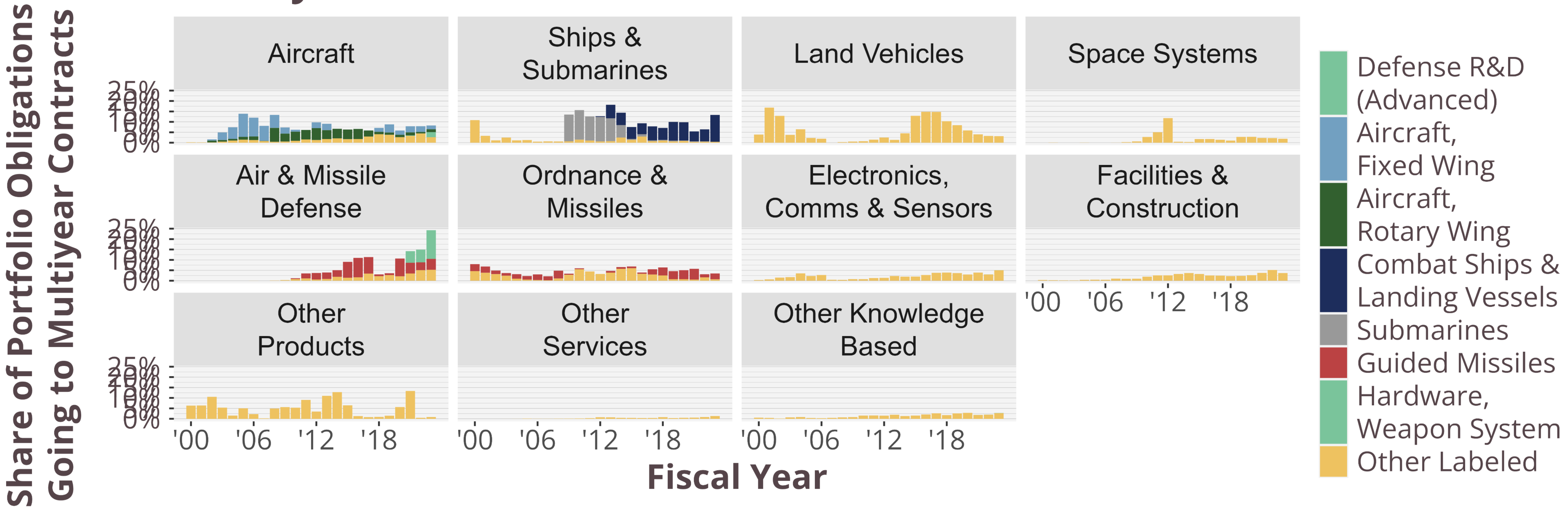
Market Share of DOD Contracts by Initial Award or Task Order Ultimate Duration, FY 2007-FY 2023



Source: FPDS and CSIS analysis.

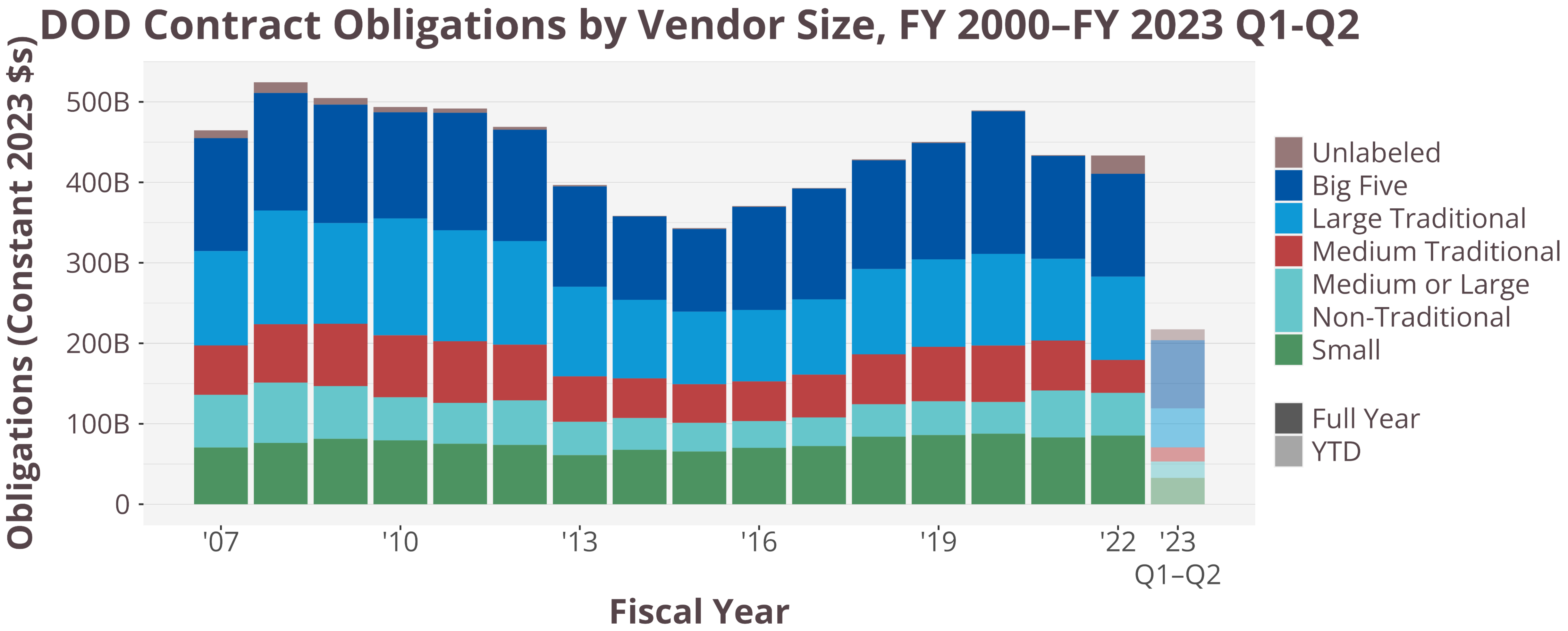
"The DoD will seek to expand the use of multi-year procurement (MYP)" (Part of Action Item 2.3.2.6): Multi-year contracting has surged 41 percent to nearly $26.0 billion in FY 2023

Market Share of DOD Contracts to Multiyear Procurement by Platform and Product or Service, 2000–2023



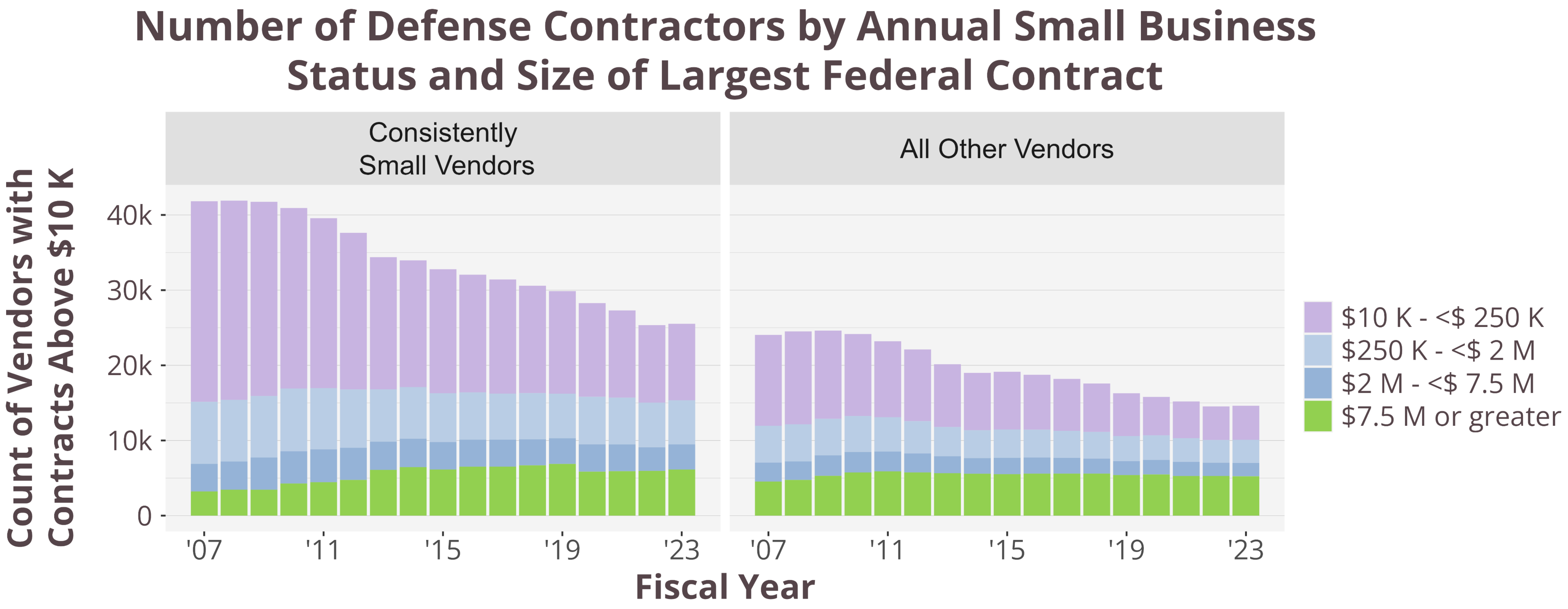
Note: When the multiyear column is blank, transactions are treated as not multiyear.
Source: FPDS and CSIS analysis.

Action Item 2.1.2.4 "Diversify Supplier Base and Invest in New Production Methods" will be a measurement challenge



Source: FPDS and CSIS analysis.

Illustrative Outcome/Output: "Increase in number of suppliers newly doing business with the Department" seeks to reverse a longstanding decline



Note: Threshold values are adjusted for inflation (in 2018 $s).
Source: FPDS Unique Entity (UEI) reporting and CSIS analysis.

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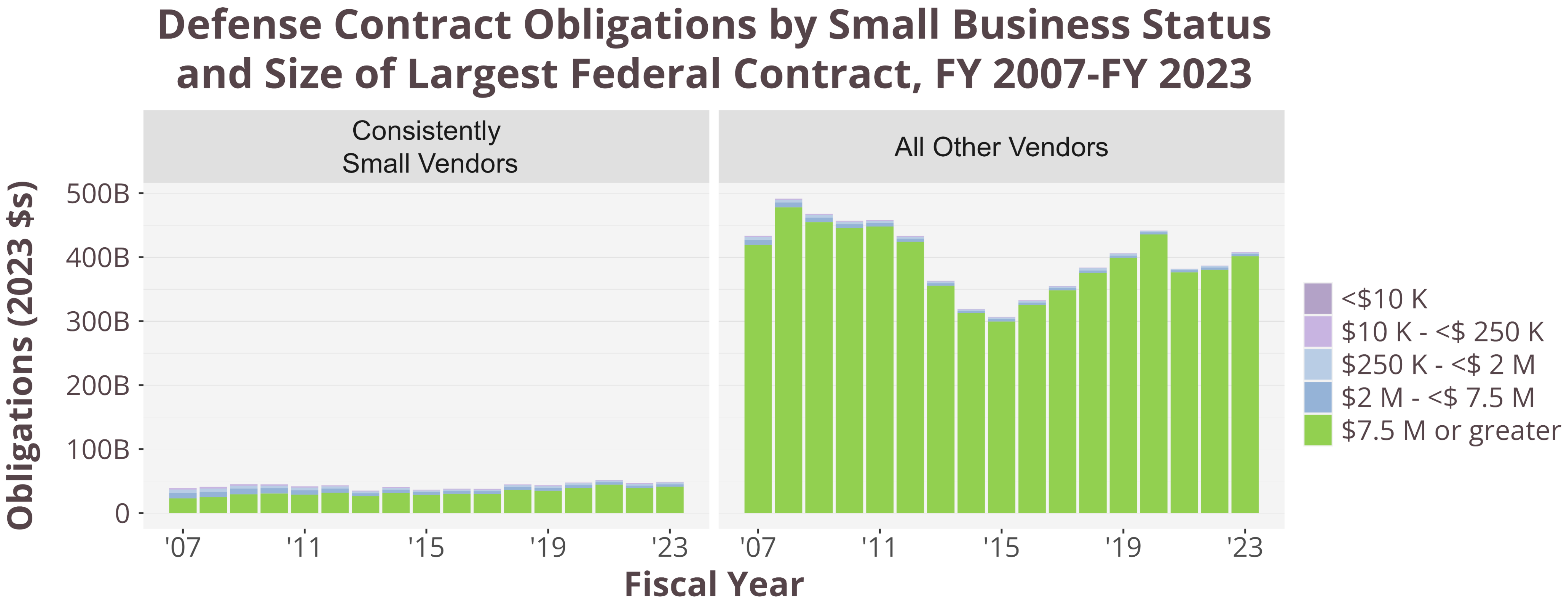
But while small contract vendors are numerous, no more than 5% of obligations went to vendors winning only contracts under $7.5 million



Note: Threshold values are adjusted for inflation (in 2018 $s).
Source: FPDS Unique Entity (UEI) reporting and CSIS analysis.

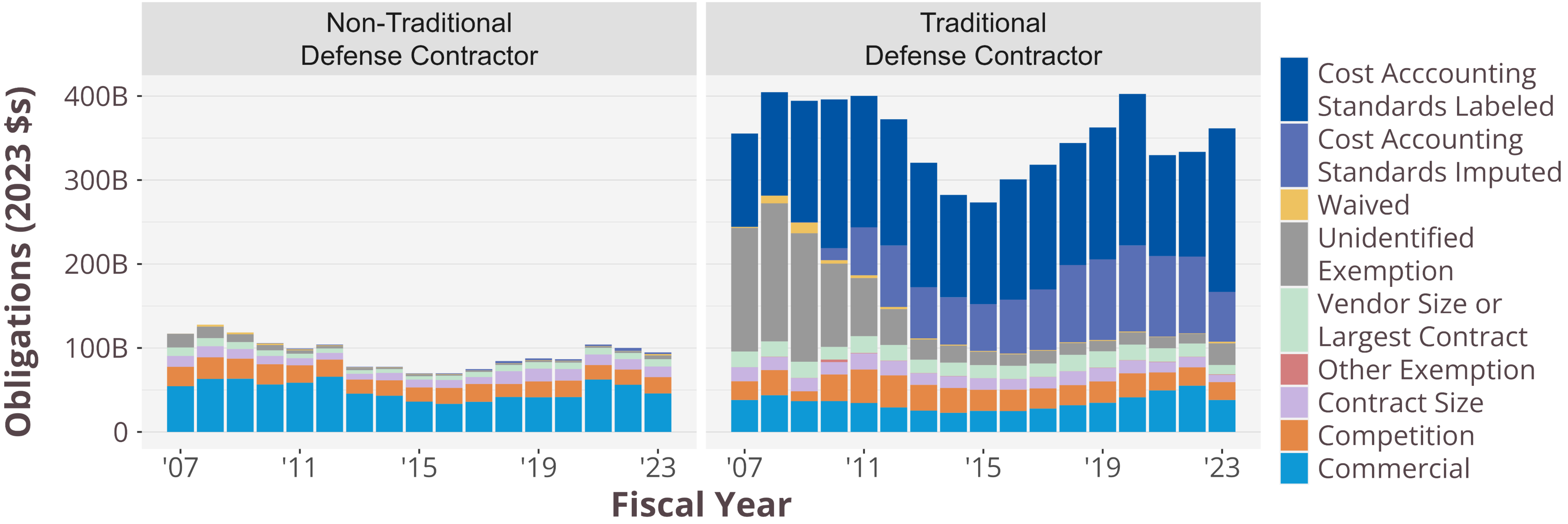
The number of contractors fell by 9% from FY ‘20 to FY ‘23 but the number of vendors with contracts over $7.5 million fell by only 0.2% to 11.4 K

DOD Contractor Count by Small Business Status and Size of Largest Federal Contract

Small Business Status	Size of Largest Federal Contract	2007	2015	2020	2023	‘07 – ‘23	‘15 – ‘23	‘20 – ‘23
Consistently Small Vendor	$10 K- <$250 K	26.7K	16.5K	12.5K	10.2K	-62%	-38%	-18%
	$250 K - <$2.0 M	8.3K	6.5K	6.3K	5.9K	-29%	-10%	-7%
	$2.0 M - <$7.5M	3.7K	3.7K	3.6K	3.4K	-8%	-9%	-8%
	$7.5 M or greater	3.2K	6.1K	5.9K	6.1K	90%	0%	5%
	Subtotal	41.8K	32.8K	28.3K	25.5K	-39%	-22%	-10%
Variably Small or Large Vendor	$10 K- <$250 K	12.1K	7.7K	5.1K	4.5K	-63%	-41%	-11%
	$250 K - <$2.0 M	4.9K	3.8K	3.3K	3.1K	-37%	-18%	-6%
	$2.0 M - <$7.5M	2.5K	2.2K	1.9K	1.8K	-29%	-18%	-8%
	$7.5 M or greater	4.5K	5.5K	5.5K	5.2K	15%	-5%	-4%
	Subtotal	24.0K	19.1K	15.8K	14.6K	-39%	-24%	-7%
Total		65.9K	51.9K	44.1K	40.1K	-39%	-23%	-9%

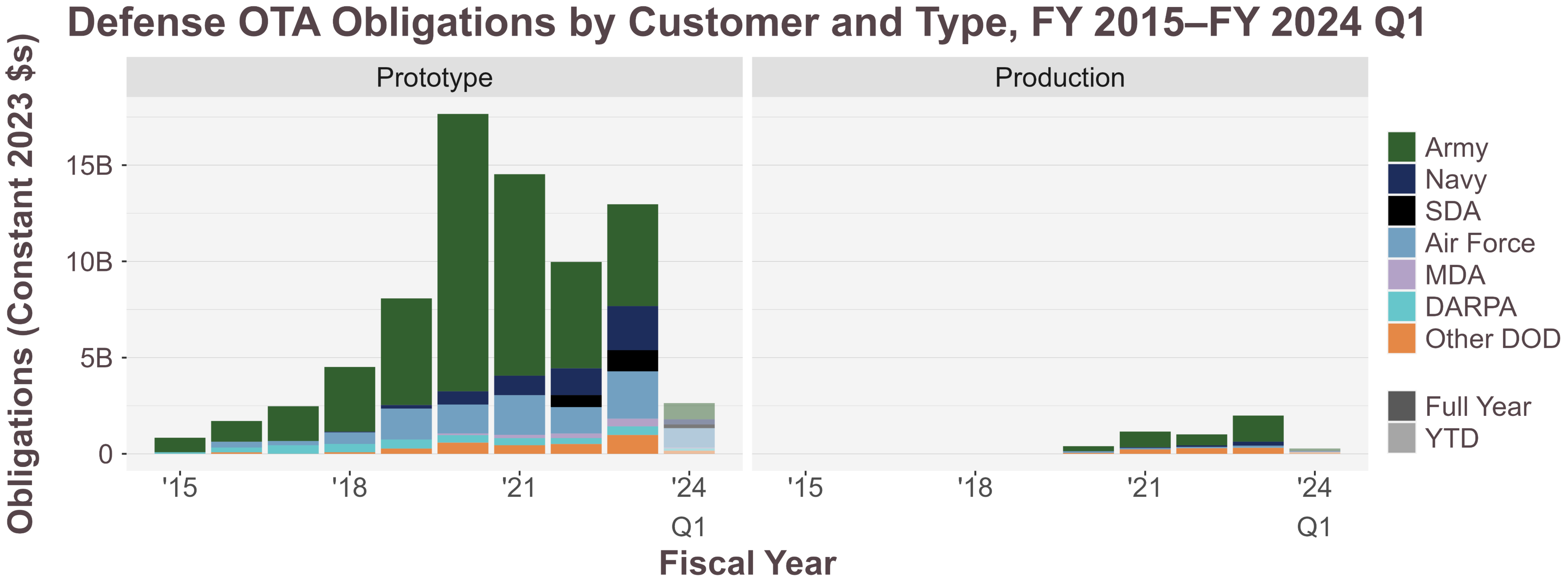
“Increase in Off-the-Shelf acquisition supporting critical programs” (Action Item 2.3.2.3): Use of commercial authorities for COVID-19 has receded, but the nearly $84.0 billion spent in FY 2023 is still 1.5% above FY 2020

Defense Contract Obligations by Non-Traditional Status and Cost Accounting Standards Exemption, FY 2007-FY 2023



Source: FPDS and CSIS analysis.

"Increase in range of contracting types and authorities used" (Action Item 2.3.2.5): OTAs for prototypes are up 30.4% to $13.6 billion and OTAs for production nearly doubled to $2.1 billion



Note: Unlabeled values not show.

Source: FPDS and CSIS analysis.

SDA = Space Development Agency, DARPA = Defense Advanced Research Program Agency

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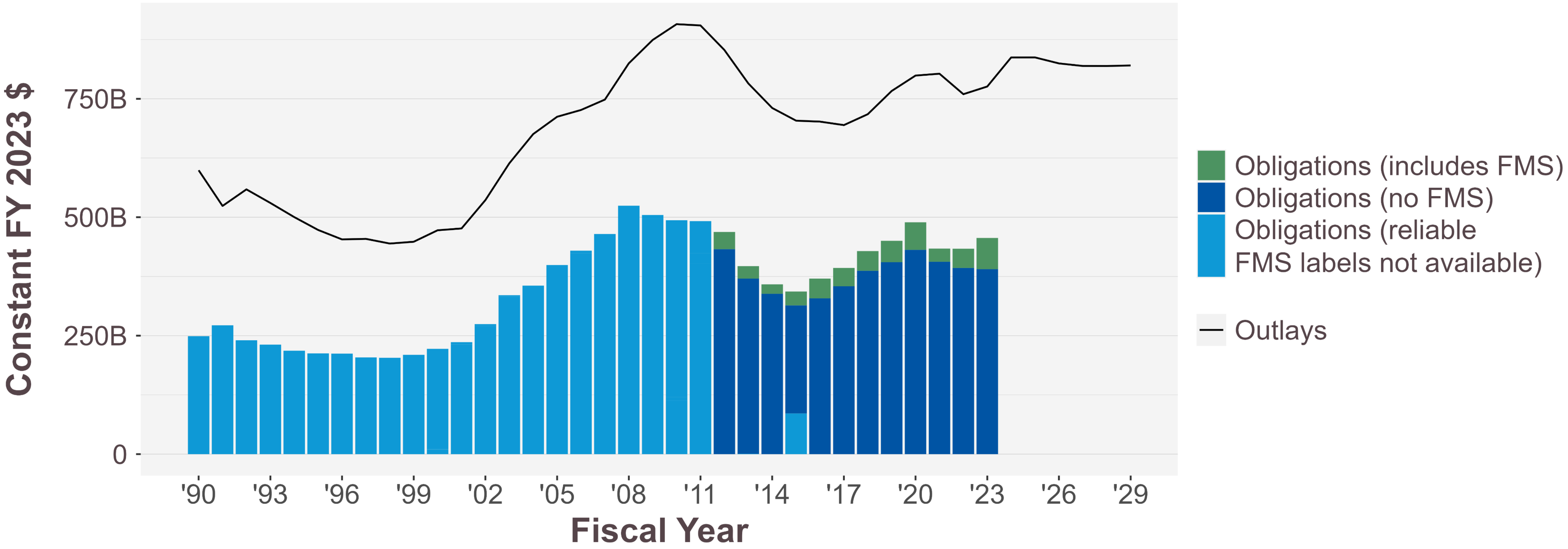
Backup

Real DOD contract obligations rose 5.3% in FY 2023, faster than overall DOD outlay growth of 2.0%

Defense Contract Obligations and Outlays, FY 1990-FY 2023



Source: FPDS, FY 2025 Office of Management and Budget Public Historical Tables, CSIS Analysis

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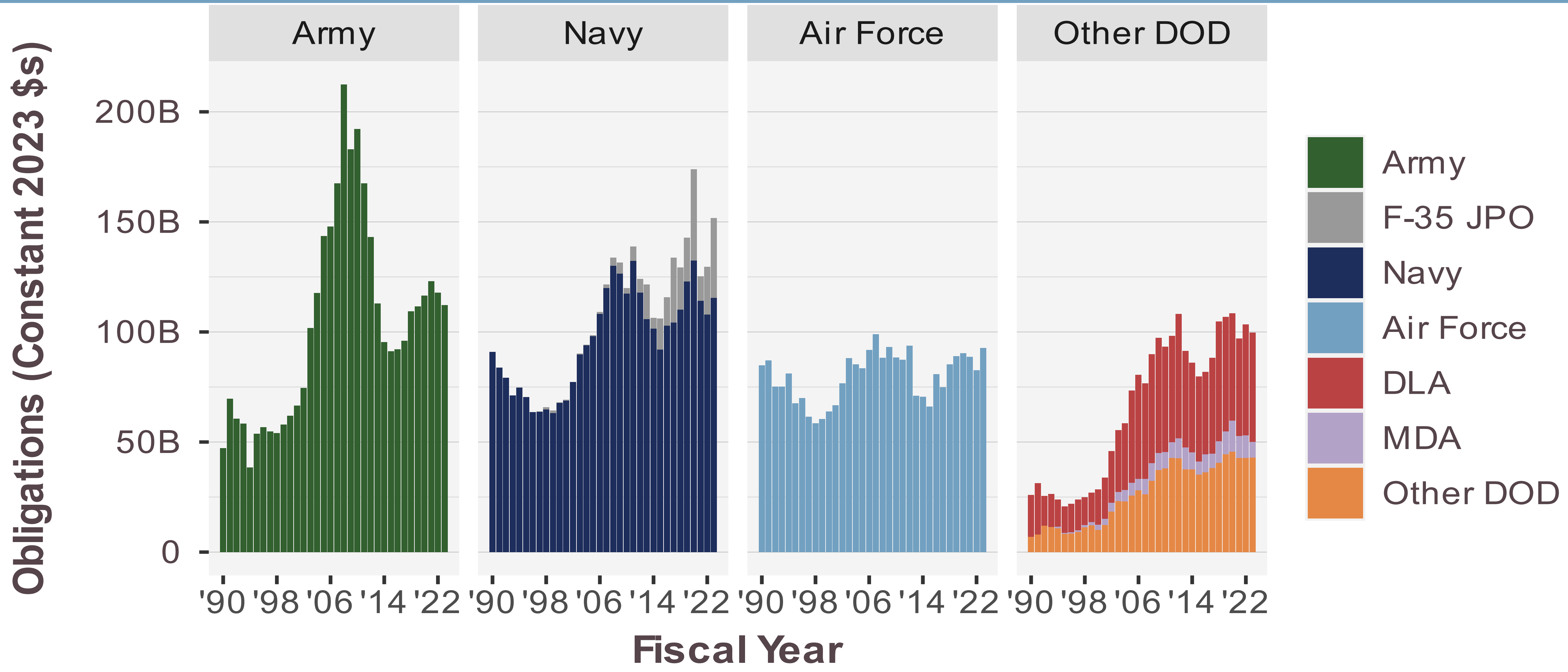
Constant $s for this and subsequent charts use OMB PB25 GDP deflators.

Important nuances to topline trends: Lumpiness of F-35 contracts and the drawdown of Army COVID-19 spend



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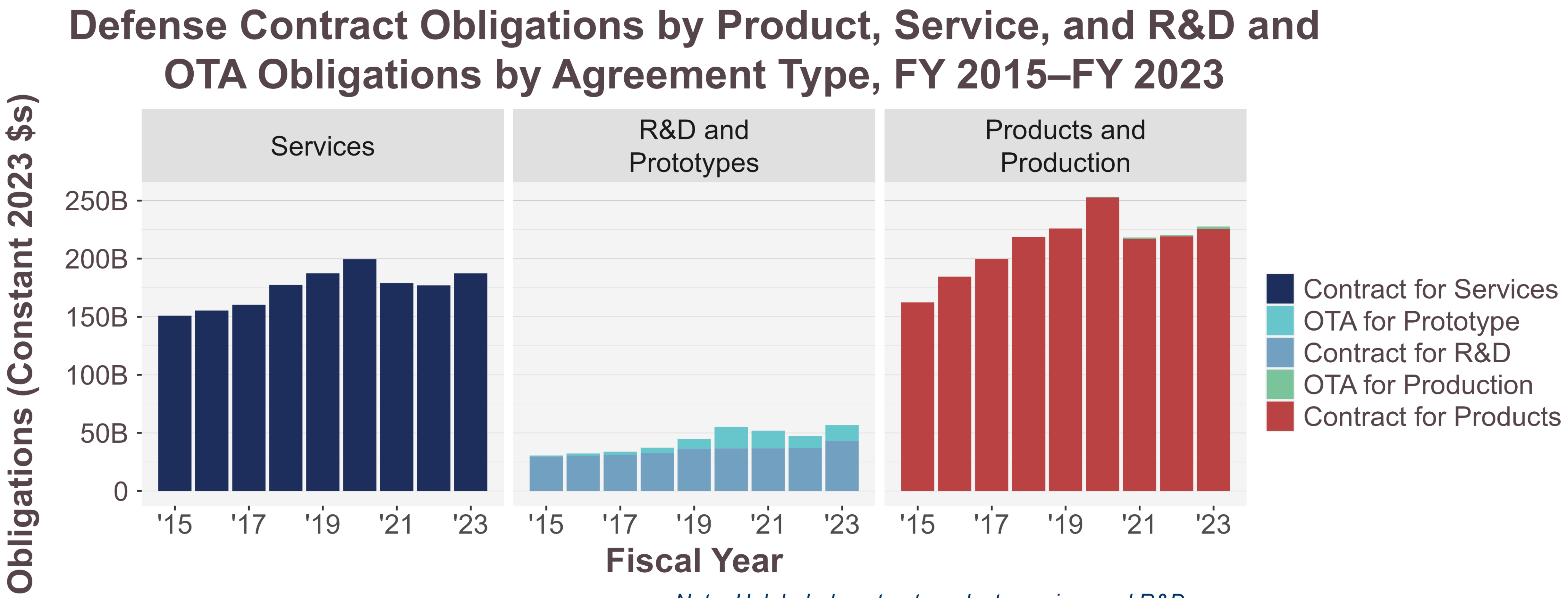
JPO=Joint Program Office, DLA=Defense Logistics Agency, MDA=Missile Defense Agency

R&D and prototype obligations rose 20 percent, boosted by a resurgence of OTAs for prototypes ($13.6 billion)



Note: Unlabeled contract product, service, and R&D areas as well as unlabeled OTA agreement types not shown.
Source: FPDS and CSIS analysis.

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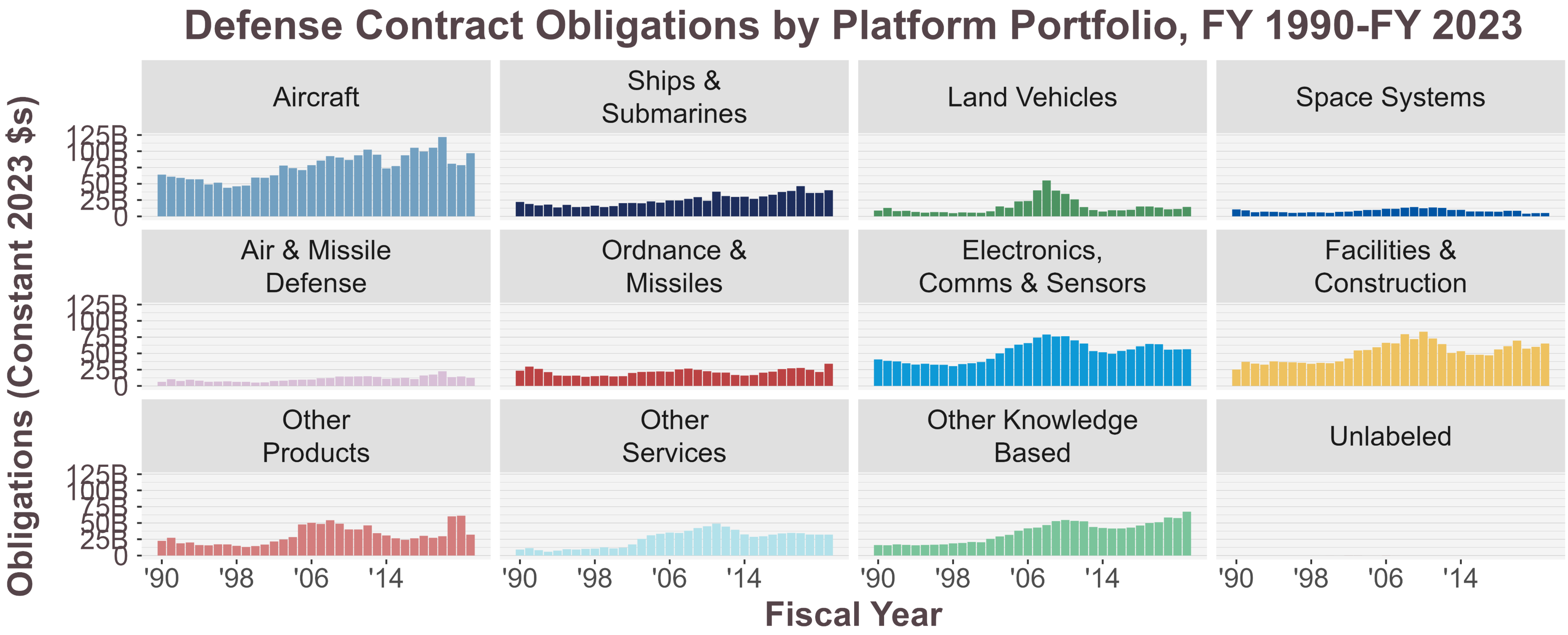
Ukraine response shown in jumps for ordnance & missile (59%), ships submarines (11.5%); but a fall in air & missile defense (-13%)



Source: FPDS and CSIS analysis.