



Costello College of Business
Greg and Camille Baroni Center
for Government Contracting

The 'shrinking' defense industrial base: A survey of former DoD prime contractors

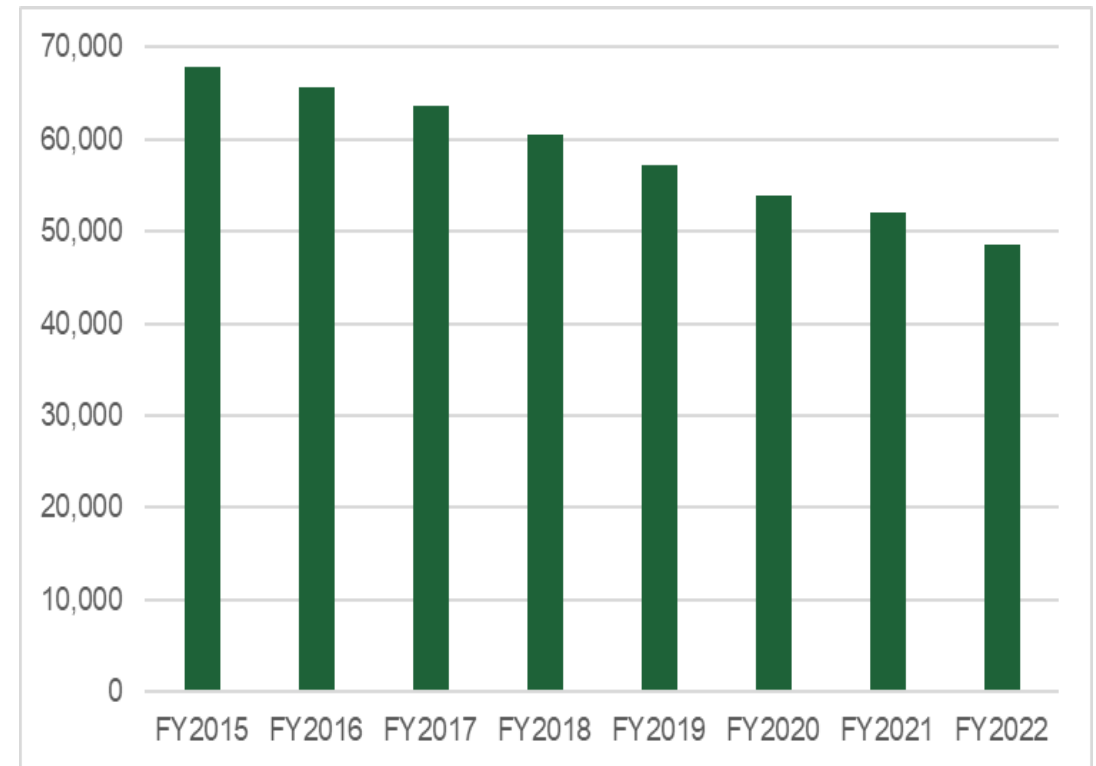
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Research Issue

- The decline of prime contractors in the defense industrial base is well documented
- It is a concerning trend that deserves serious attention considering it has major economic and national security ramifications
- Little empirical evidence exists to understand this phenomenon

UEI with DoD Prime Contract by Fiscal Year

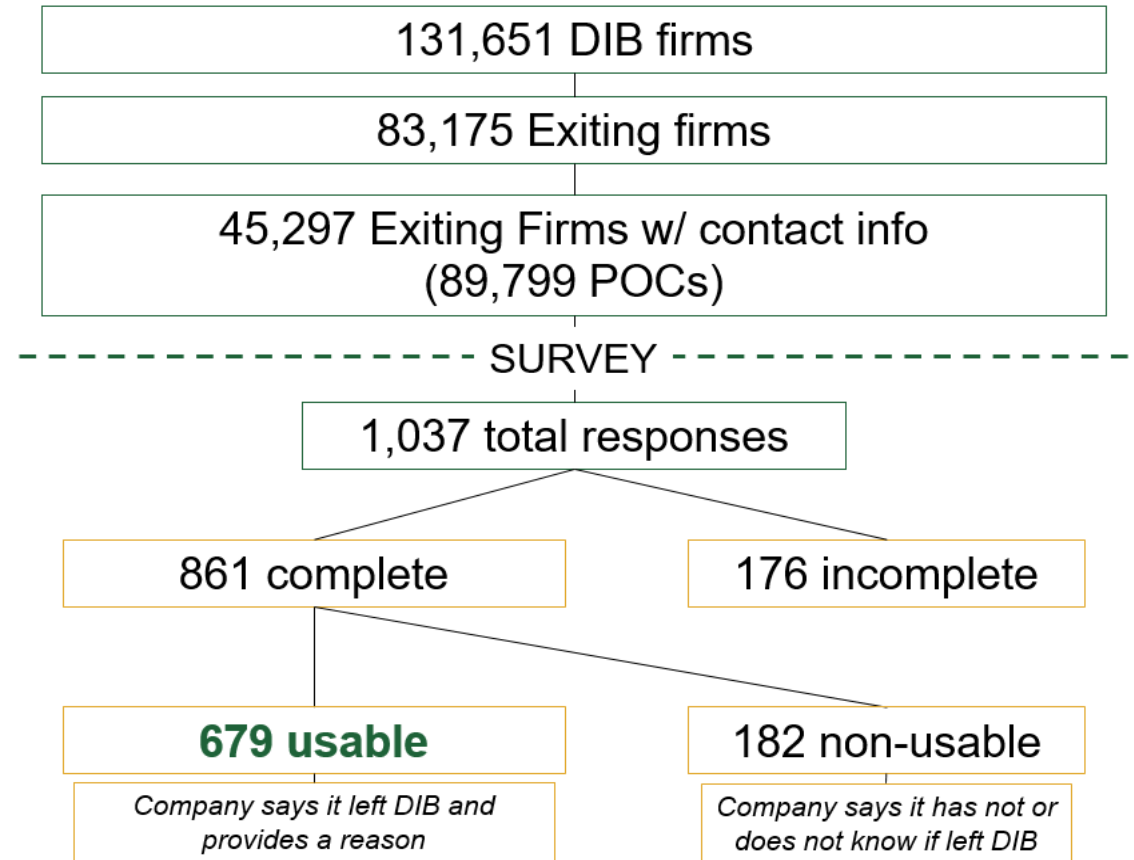


Research Questions

1. Who is leaving the defense industrial base?
2. Why are contractors leaving the defense industrial base?
3. What is the extent of contractor exit from the defense industrial base?

Research Methodology

- Identified contractors presumed to have exited the DIB with data from USASpending.gov
- Matched contact information for the presumed exiting contractors with data from SAM.gov
- Conducted a survey of the points of contact to understand why the contractors had exited the DIB



Who is leaving the defense industrial base?

- The exodus of firms has been broad-based with contractors of all sizes, from all US census regions, across all commodity types, and from all industries having left the DIB
- The largest loss of contractors were:
 - Small businesses – 61,930
 - Located in the South – 30,765
 - Service providers – 40,390
 - Manufacturing industry – 31,649
- Contractors across the socio-economic spectrum have left the DIB
 - Alaskan Native Corporations and Ability One Program sustained lowest reductions at ~30%
 - Small Disadvantaged Businesses sustained the highest reductions at ~87%

Why are contractors leaving the defense industrial base?

Response	Original Answers		Revised Coding		Revised Coding + New Categories	
	Number	Percent	Number	Percent	Number	Percent
The entity stopped bidding for work with DoD due to an unfavorable characteristic of working with DoD.	112	16%	165	24%	165	24%
The entity is still bidding for work but has not won anything current.	123	18%	127	19%	127	19%
The previous contract was only ever expected to be a single-time event (e.g., purchase order).	77	11%	78	11%	78	11%
DoD stopped issuing solicitations for the entity's product/service.	64	9%	78	11%	78	11%
The entity has become only a subcontractor to DoD prime contractors.	52	8%	59	9%	59	9%
Other (Please specify)	162	24%	71	10%	34	5%
The entity was originally set up to serve a single, specific contract that was completed (i.e., joint venture).	24	4%	25	4%	25	4%
The entity was party to a merger or acquisition but still conducts business with DoD under a new name or through a parent entity.	21	3%	22	3%	22	3%
The entity changed strategic direction and is no longer seeking defense-related work.	13	2%	16	2%	16	2%
* The entity is still bidding for work but has identified an issue working with DoD	N/A	N/A	N/A	N/A	14	2%
The entity closed the business due to reason(s) other than financial difficulties.	11	2%	13	2%	13	2%
* The entity has exited due to SAM.gov issues	N/A	N/A	N/A	N/A	11	2%
The entity no longer provides the product/service it once did for DoD.	10	1%	10	1%	10	1%
The entity rebranded under a new name (not due to a M&A transaction) but still conducts business with DoD under this new name.	6	1%	7	1%	7	1%
* The entity "lost" a certain status and the work with it	N/A	N/A	N/A	N/A	6	1%
* The entity has exited due to GSA issues	N/A	N/A	N/A	N/A	6	1%
The segment of the entity conducting work with DoD was sold and this segment represented all defense-based business for the entity.	4	1%	5	1%	5	1%
The entity went bankrupt.	0	0%	2	0%	2	0%
The entity received a cure notice and is on probation.	0	0%	1	0%	1	0%
Total	679	100%	679	100%	679	100%

* Categories created by researchers during post-hoc analysis; not included in the original survey as an answer choice.

Why have contractors stopped bidding for work with DoD?

Response	Original Answers		Revised Coding		Revised + New Categories	
	Number	Percent	Number	Percent	Number	Percent
DoD bureaucracy	63	30%	81	30%	81	28%
The solicitation process is cumbersome	65	31%	74	27%	74	26%
* Small business issues (including small business-specific policies)	N/A	N/A	N/A	N/A	34	12%
* Not profitable or generally “worth it”	N/A	N/A	N/A	N/A	28	10%
Cost and pricing issues (e.g., Truth in Negotiations Act)	23	11%	23	8%	23	8%
Accounting requirements (DCAA, CAS, etc.)	22	10%	22	8%	22	8%
Defense Federal Acquisition Regulation Supplement (DFARS) rules	19	9%	19	7%	19	7%
Cybersecurity requirements (CMMC)	17	8%	18	7%	18	6%
Other (Please specify)	34	16%	80	30%	15	5%
Security or facility clearance processes	10	5%	13	5%	13	5%
DoD profit policies	11	5%	11	4%	11	4%
DoD financing policies	9	4%	10	4%	10	3%
* Payment issues	N/A	N/A	N/A	N/A	8	3%
* DoD acquisition/contracting policy issues	N/A	N/A	N/A	N/A	5	2%
* Staff-related issues (e.g., expertise, racism, communication)	N/A	N/A	N/A	N/A	5	2%
Intellectual Property (IP) issues	1	0%	1	0%	1	0%
Total	211	100%	271	100%	286	100%

* Categories created by researchers during post-hoc analysis.

What is the extent of contractor exit from the defense industrial base?

- Existing estimates of contractor exits from the DIB are likely highly inflated
- The inflated estimates result from 2 primary categories of issues

1. Data artefacts

- Multiple UEI
- Same point of contact
- False positives
- Mergers and acquisitions

2. Definition of DIB

- Transitory contractors
- Subcontractors
- Active bidders

