

# Is the Military Attracting New Companies? Assessing First-Time Entrants into the Defense Market

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# Research Question

Defense Industrial Base (DIB) policy must reflect a balance between the need for strategic consolidation in certain categories, and the need to retain existing vendors and/or introduce new vendors in others. **To what extent has the Department of War (DoW) achieved these objectives over the last decade?**

## ANALYSIS FRAMEWORK- BETWEEN FISCAL YEAR (FY) 2015-FY2024:

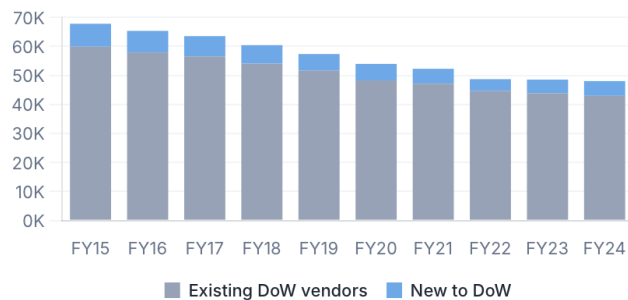
- What types of firms entered and exited the DIB?
- How did new entrants break into the defense market? Are defense-sponsored innovation programs effective on-ramps?
- How long do firms operate in the DIB?
- What drives attrition?

# Sizing the DIB: Growth for a Few at the Expense of Many

*From FY2015 to FY2024, the DIB contracted ~30% while defense spending grew 68%*

## DIB Composition

Vendors by status, FY2015-FY2024

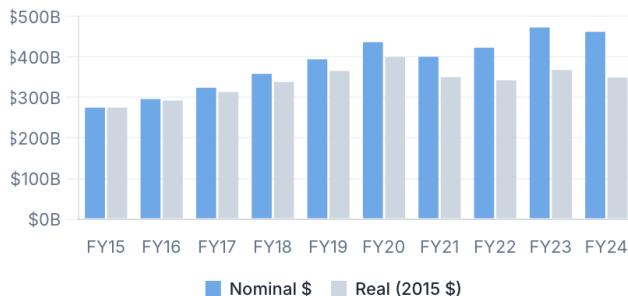


## Analyzing the DIB by Company Type

| Fiscal Year | Total  | Existing | New   | Departing |
|-------------|--------|----------|-------|-----------|
| FY2015      | 67,797 | 59,911   | 7,886 | 11,818    |
| FY2016      | 65,340 | 57,914   | 7,426 | 11,340    |
| FY2017      | 63,537 | 56,534   | 7,003 | 11,359    |
| FY2018      | 60,419 | 54,052   | 6,367 | 10,835    |
| FY2019      | 57,374 | 51,609   | 5,765 | 10,438    |
| FY2020      | 53,965 | 48,267   | 5,698 | 9,432     |
| FY2021      | 52,281 | 47,135   | 5,146 | 9,709     |
| FY2022      | 48,700 | 44,606   | 4,094 | 8,682     |
| FY2023      | 48,554 | 43,833   | 4,721 | 11,236    |
| FY2024      | 48,035 | 42,955   | 5,080 | —         |

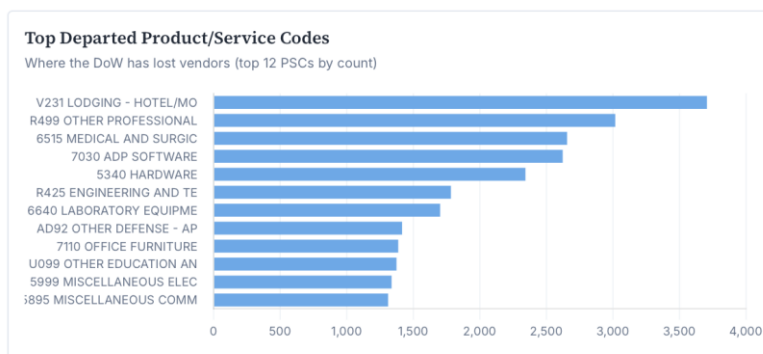
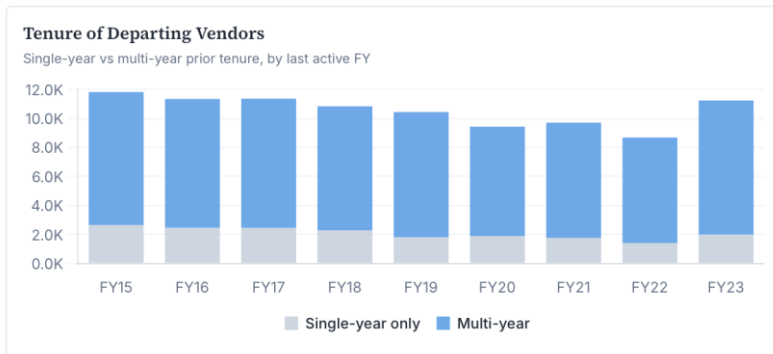
## Defense Spending

Nominal vs 2015-base real (\$B obligated)



# Attrition Deep-Dive: Who Left?

81% of departing vendors had been in the DIB for more than one fiscal year. Losses span R&D, hardware, and services.



| NAICS  | Industry   | Departed | Lost Spend |
|--------|--|----------|------------|
| 721110 | HOTELS AND MOTELS  | 4,143    | \$0.72B    |
| 541330 | ENGINEERING SERVICES   | 3,586    | \$6.85B    |
| 236220 | COMMERCIAL AND INSTITUTIONAL BUILDING CONSTRUCTION                       | 3,065    | \$15.25B   |
| 811310 | COMMERCIAL AND INDUSTRIAL MACHINERY AND EQUIPMENT REPAIR AND MAINTENANCE | 2,735    | \$0.51B    |
| 541712 | RESEARCH AND DEVELOPMENT IN THE PHYSICAL, ENGINEERING, AND LIFE SCIENCES | 2,635    | \$9.34B    |
| 541715 | RESEARCH AND DEVELOPMENT IN THE PHYSICAL, ENGINEERING, AND LIFE SCIENCES | 2,506    | \$2.65B    |
| 332510 | HARDWARE MANUFACTURING   | 2,199    | \$0.18B    |
| 336413 | OTHER AIRCRAFT PARTS AND AUXILIARY EQUIPMENT MANUFACTURING               | 2,141    | \$1.02B    |
| 511210 | SOFTWARE PUBLISHERS  | 2,126    | \$0.56B    |
| 334419 | OTHER ELECTRONIC COMPONENT MANUFACTURING                                 | 1,769    | \$0.33B    |
| 332722 | BOLT, NUT, SCREW, RIVET, AND WASHER MANUFACTURING                        | 1,723    | \$0.18B    |
| 332999 | ALL OTHER MISCELLANEOUS FABRICATED METAL PRODUCT MANUFACTURING           | 1,716    | \$0.30B    |

# New Entrants: No Growth, Not “Innovative,” and Short Lived

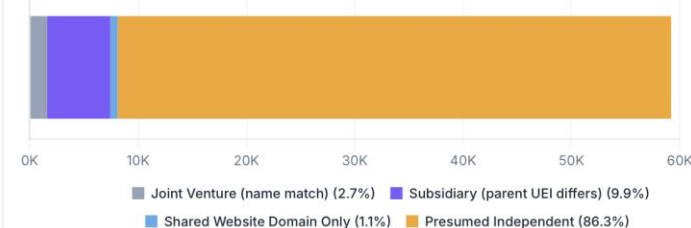
## Annual New-Entrant Volume

First-time DoW vendors per FY



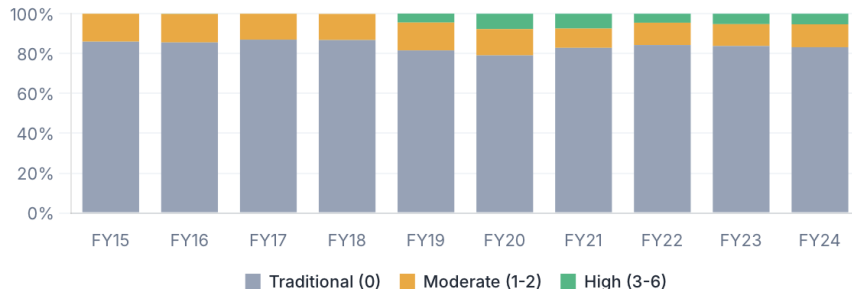
## Affiliation Composition

59,186 new-to-DoW vendors, classified



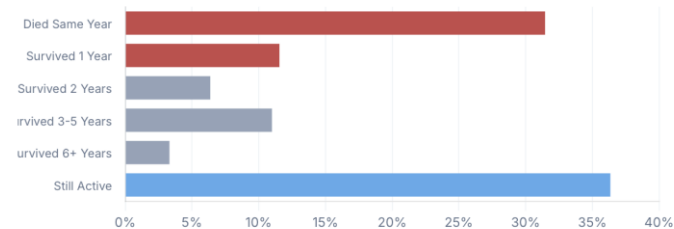
## Innovation Score Distribution

Traditional (0) / Moderate (1-2) / High (3-6) per FY



## Tenure Outcomes (cohorts FY2015 to FY2024)

59,189 new entrants, by what happened next



# The DIB is In Crisis

## Findings

- Large firms benefit from consolidation, as they can absorb the rising costs of working with the DoW that push smaller firms out.
- The DoW has few alternative suppliers when critical vendors face production issues or raise national-security concerns.
- Despite billions in funding for DIB expansion, the DoW is not attracting new entrants. Most new vendors do not look like innovative commercial companies (84.0% are classified as traditional vendors).
- Innovation initiatives benefit entrenched players. SBIR/STTR peaked at 10.4% of new-vendor entry paths; OTAs never exceeded 1.8%.
- Transition support has failed: 43.0% of all new entrants leave the defense market within roughly one year of arrival.

## Recommendations

### **DIB health is a matter of national security.**

The DoW must treat the collapsing DIB as a real-time threat. OSW must maintain a real-time common operating picture of the DIB, continuously monitoring new entrants, attrition, and market consolidation by sector and geography.

### **Bureaucratic fluency is not a warfighting advantage.**

The DoW must require agencies to meet sector-specific goals for contracting with new and existing suppliers. DoW personnel should engage with suppliers directly to identify and mitigate impediments immediately, not through layers of liaison.

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