

Characteristics of the DoD Contract Services Industrial Base

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Introduction

The Office of the Under Secretary of Defense; Acquisition, Technology and Logistics, (AT&L) Industrial Policy (AT&L (IP)) continuously evaluates all sectors of the industrial base. Contract services is receiving more attention as a separate sector in its own right and AT&L (IP) recently conducted its first contract services industrial base characterization. This characterization builds upon previous work by the Center for Strategic and International Studies (CSIS) entitled “Structure and Dynamics of the U.S. Federal Professional Services Industrial Base.”

The AT&L, Director of Defense Procurement (AT&L (DPAP)) monitors services in its strategic sourcing initiatives. All DoD services contract actions are classified by Product Service Codes (PSCs) and the PSC schema includes 23 service categories. For analytical purposes it is useful to consolidate these categories into a smaller number of groups which DPAP calls portfolio groups. The groups, in order of spending size using FY07 data, are Research and Development (R&D), Knowledge Based Services (KBS), Facilities Related (FR), Equipment Related (ER), Electronics & Communication Services (ECS), Construction Related (CR), Transportation (Trans) and Medical (Med).

The following observations have been made to form a picture of the DoD services industrial base. They are not necessarily issues or concerns and are generally offered without comment. Please note that the figures are somewhat complex and that the reader may not have seen certain concepts graphically illustrated before. The legend is different for every figure and some contemplation is required to shift gears from one section to the next. This article is the conclusion of the author, and does not represent a DoD opinion or position.

Trend in Services Contracting

Although DoD services contracting has increased significantly in absolute dollar terms over the past decade (see figure 1), services contracting as a portion of all DoD contracting has gradually declined from a high of approximately 58% in FY 1998 to 50% in FY 2008 (see figure 2.)

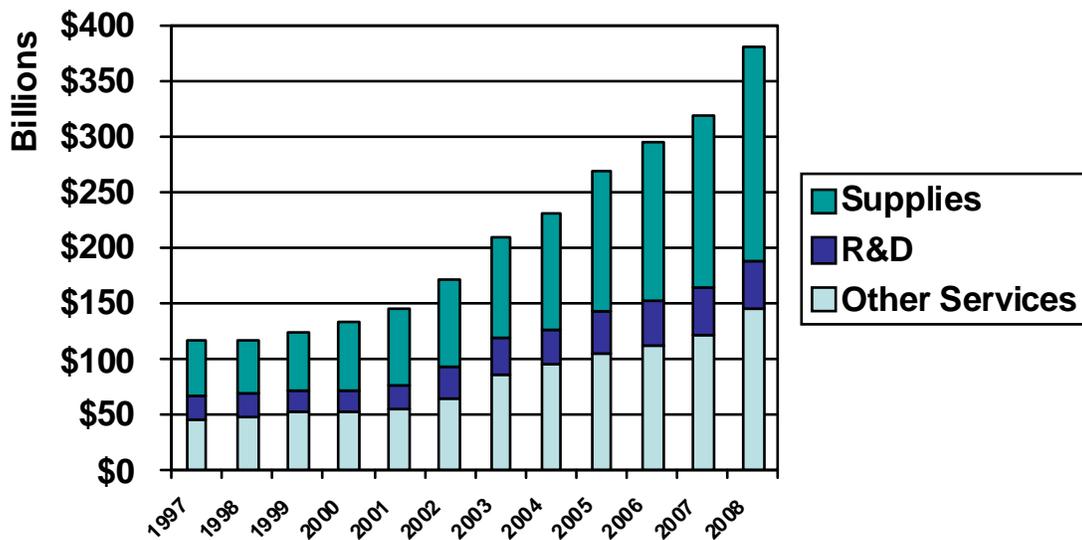
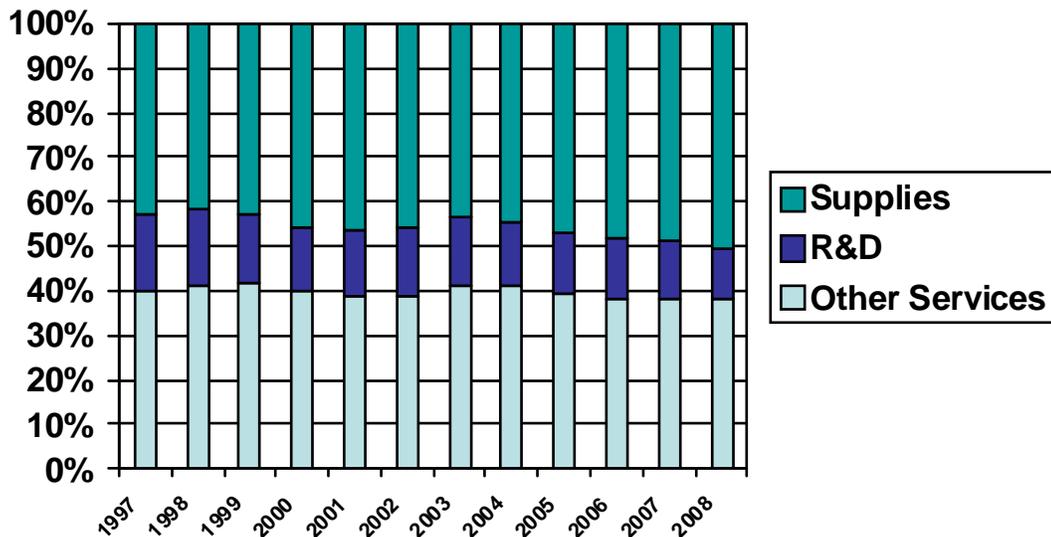


Figure 1 Trend in Unescalated Dollar Value of Contracting



**Figure 2 Trend in Services Percentage Share of Contracting
FY97-FY06 DD350 Data, FY07-FY08 FPDS Data**

Top 10 Defense Contractor Share of Services

Examination of top 10 DoD contractor participation in service groups reveals an interesting breakout into two sectors (see Figure 3), one with a noticeably higher level of participation by top 10 DoD contractors and one with a noticeably lower level. The sector with high top 10 defense contractor participation, representing 68% of services dollars includes R&D, ER, ECS and KBS while the other, representing 32% of services dollars includes Trans, FR, CR and Med. DoD's service contract spending is split 68%

High Top 10 share and 32% Low Top 10 share. At face value, this seems to indicate that that the top 10 DoD contractors are much more focused on some service groups than others, apparently those that are more defense-specific.

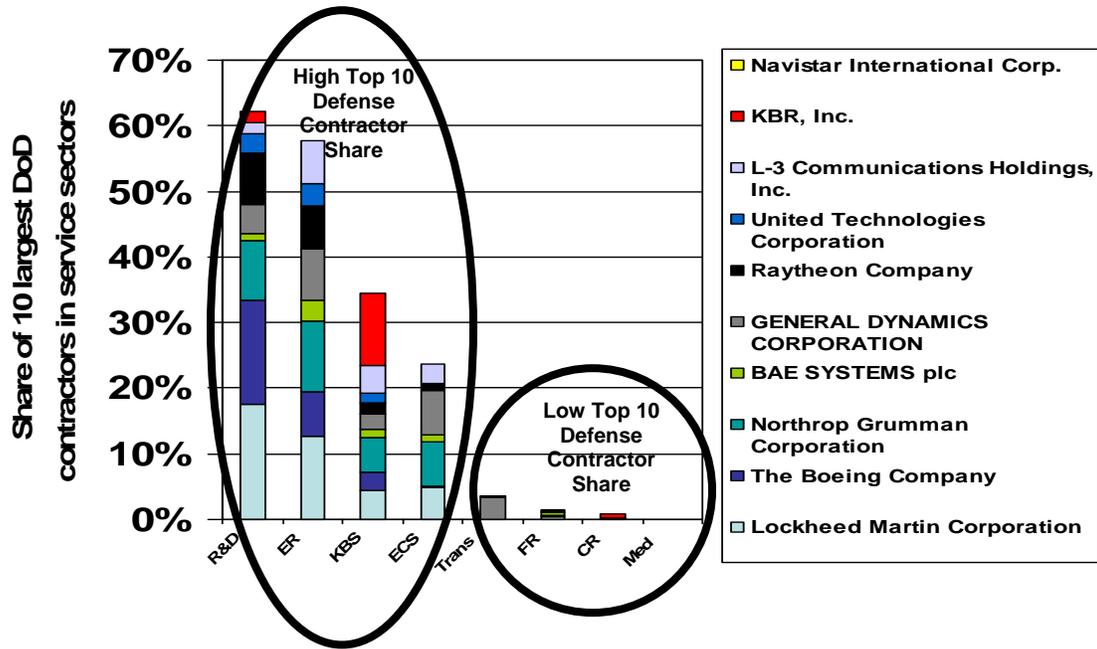


Figure 3 – Defense Industry Services Sector Participation
FY08 FPDS Data (1-15-09)

Relative Levels of Industrial Base Competition - Contracts

For purposes of this study, AT&L(IP) analyzed competition for service contracts from the perspective of the industrial base’s capability and willingness to compete. An indicator that industrial base sources may not be cost-effective in meeting the Department’s needs is sole source procurements. They are best characterized by noncompetitive contracts justified by FAR 6.302-1 “Only One Responsible Source” and are identified separately from noncompetitive contracts justified by “Other Statutory Exceptions.”¹ Additionally, AT&L(IP) analyzed single offers on competitive contracts as an indicator of the industrial base’s unwillingness to compete for DoD dollars. Thus sole source and competed-single offer contracts are grouped together and shown above the blue line in Figure 4 as a potential industrial base area of concern. Everything else, both competed and not competed, is shown below the blue line.

¹ See FAR 6.302-2 through 6.302-7.

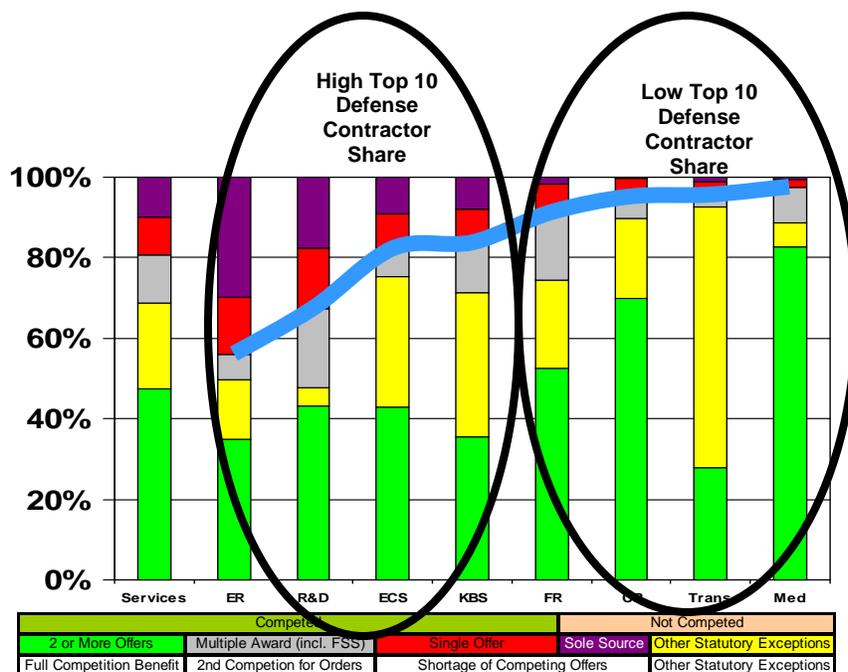


Figure 4 Industrial Base Analysis – Contracts FY08 FPDS Data (1-15-09)

In this perspective, every services group with high top 10 defense contractor participation has a higher percentage of contract dollars above the blue line and has more sole source awards than every segment with lower top 10 contractor participation. Again, the apparent pattern is an arrangement from categories with many defense-specific requirements to those with few.

Orders placed against multiple award contracts, shown in gray, must provide all contract holders the opportunity to compete for orders, unless an exception to fair opportunity is approved. While industry has expressed a number of concerns regarding multiple award contracts, an examination of just exceptions to fair opportunity shows a similar pattern of competition for task orders and a combination of analyses (not presented here) does not significantly change the pattern of the blue line in figure 4.

There are multiple reasons for differing levels of competition and AT&L(IP) is further analyzing the sole source and single offer awards and task orders to determine the industrial base concerns.

Mid-Size Share

A mid-size company squeeze has been discussed in many circles outside of DoD. Here, a company is labeled as “Large” if it had annual revenues of greater than \$1 billion, admittedly an arbitrary number. A company is labeled as “Small” if at the time of a contract award it was identified as a small business by the Small Business Administration and has not yet exceeded \$1 billion in annual revenues or been bought out by a Large company. A company is labeled as “Mid-Size” if it is not small and its revenues are less than \$1 billion. If a company is not small but its revenues are unknown, it is labeled “Unknown.” Business size does not follow the competition pattern or a defense-specific pattern indicating that other factors affect the award of DoD contracts to mid-size businesses. Among the suspected factors is geographic specificity either for a particular locale or its opposite, a national or global business network.

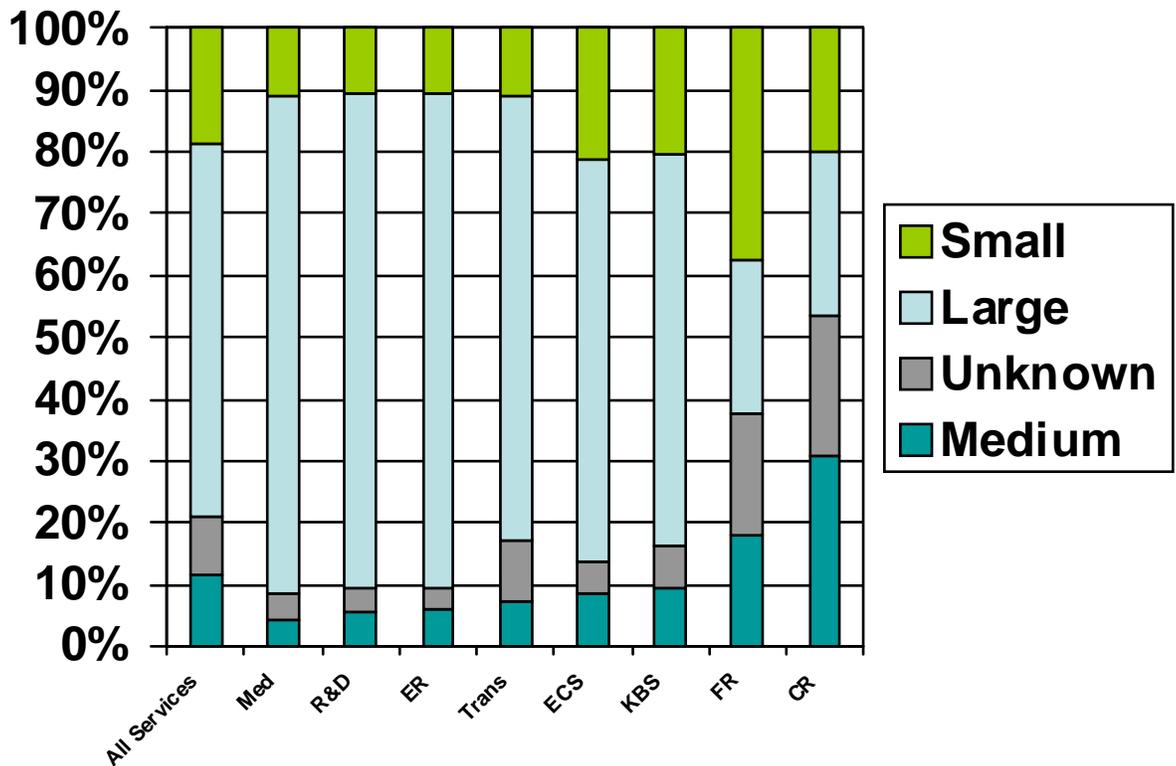


Figure 5 Mid Size Share of Services Contracts, FY08 FPDS Data (1-15-09)

Addressable Market

Because many contracts are for a term of several years, less than 20% of DoD service contracts are new contracts in any given year meaning that a business's addressable market is only a fraction of that year's DoD spending in any particular area. Figure 6 shows graphically for FY06 contract actions by dollar value, the year in which the contract was originally awarded. However, if multiple award contracts were awarded, competition for orders continues throughout the life of the contract among contract holders. For example, in 2006, if a company did not already have a DoD ER contract, less than 20% of fiscal year 2006 ER dollars were open to new competition. Given that DoD contracts are generally not recompeteted every year, this finding is not surprising.

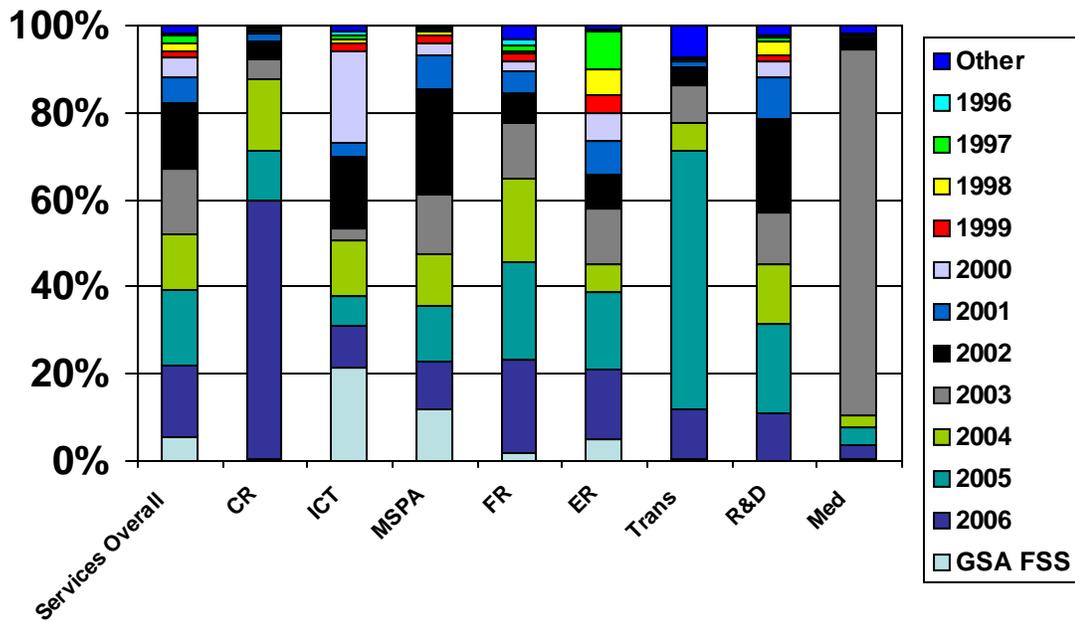


Figure 6 Percentage of FY06 Contract Actions on all Contracts FY06 DD350 Data

Summary

In summary, AT&L (IP)'s characterization of the contract services industry is an on-going work that will continue to focus on having reliable and cost-effective industrial capabilities sufficient to meet strategic objectives. AT&L (IP) continues to believe that one of the best ways to achieve that state is to fully understand the characteristics of the market place, encourage the use of commercial specifications, avoid the use of defense-unique specifications and maintain a competitive environment within industry segments supporting DoD acquisition of services.