Defense Acquisition Trends, 2015: Acquisition in the Era of Budgetary Constraints

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Sequestration Accelerates the Decline in Both Total DoD Obligations and DoD Contract Obligations
R&D Declines Dramatically Since 2009; Services are Relatively Preserved in 2014

Area (% Change 2013-2014)
(Overall DoD: -9% 2013-2014, -31% 2009-2014)

- R&D (-8% 2013-2014, -43% 2009-2014)
- Services (-4% 2013-2014, -28% 2009-2014)
- Products (-14% 2013-2014, -31% 2009-2014)
“Seed Corn” R&D Preserved During Downturn; Five-Year Trough in MDAP Development Pipeline

|-------------|----------------------|-------------------------------------|------------------------------------------|-------------------|------------------------|-----------------------------------------------|---------------------------------|
“Big 5” Defense Vendors See Steep Drop in Share of R&D Contracts Due to Trough in MDAP Development Pipeline
Recent Policy Developments: Better Buying Power 3.0, the FY2016 NDAA, and the Third Offset Strategy

- **Better Buying Power (BBP) 3.0** continues the initiatives of previous iterations, but shifts focus from finding additional efficiencies in the system to preserving U.S. technological superiority into the future.
  - Leverage existing R&D investments made by both DoD and in the commercial firms
  - Increase the use of modular open-system approaches
  - Improve communication between industry and DoD

- **The FY 2016 National Defense Authorization Act (NDAA)** made the most significant changes to the defense acquisition system since the 1990s.
  - Consolidates authority, and therefore accountability, for acquisition in the military services
  - Creates or expands several mechanisms intended to accelerate acquisition programs
  - Streamlines documentation and approvals
  - Seeks to increase access to commercial and non-developmental technologies

- Deputy Secretary of Defense Bob Work laid out the focuses of the **Third Offset Strategy**, identifying human-machine collaboration and combat teaming as the key capabilities to be pursued.
Small Vendors (Particularly in Electronics & Communications) Preserve Market Share as Overall Market Declines
2015 Saw Significant Prime-Level M&As within the Defense Industry, After Several Years of Spin-Offs and Divestitures

• In the last year, numerous mergers and acquisitions have reduced the number of prime defense vendors available to compete for major contracts:
  • Excelis acquired by Harris Corporation
  • Merger of ATK and Orbital Sciences Corporation
  • Merger of CSC Government Services and SRA International (forming CSRA)
  • United Technologies’ Sikorsky business unit acquired by Lockheed Martin

• Under Secretary of Defense for Acquisition, Technology, and Logistics Frank Kendall stated that DoD would be more closely scrutinizing future M&A activity among prime defense vendors, particularly those responsible for major weapons systems.

• This M&A activity starkly contrasts with previous years during the downturn, where the trend had been one of spinoffs and divestitures.

• Notably, most of these major spinoffs have been in the government services sector, particularly for IT services.
Army Continues Rapid Decline in Contract Obligations; Other Components See Trends Reversed from 2013

Component (% Change 2013-2014)
(Overall DoD: -9% 2013-2014, -31% 2009-2014)

- MDA (-22% 2013-2014, -1% 2009-2014)
- Other DoD (0% 2013-2014, 1% 2009-2014)
- DLA (-7% 2013-2014, -22% 2009-2014)
- Air Force (0% 2013-2014, -24% 2009-2014)
- Navy (-11% 2013-2014, -19% 2009-2014)
- Army (-14% 2013-2014, -52% 2009-2014)
Questions?