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Air Force Faces Puzzling Decline in Competition for Services

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Increasing competition for defense contracts has been a continuing effort for Department of Defense (DoD) policymakers under the recent series of “Better Buying Power” acquisition reform initiatives. In [prior work on competition trends within DoD](#), CSIS noted that the rate of effective competition (that is, competitively sourced contracts receiving at least two offers)¹ for overall DoD contract obligations has remained near 50 percent in every year since 2008. Within those trends, however, there are significant differences in levels of competition both between the major DoD components (Army, Navy, Air Force) and between what is being contracted for (products, services, and research and development). Most notably, there has been a significant decline in effective competition for services within the Air Force since 2011.

This data is surprising, because the Air Force is widely seen as being at the forefront within DoD in improving tradecraft in the acquisition of services. The Air Force was the first of the military services to appoint a senior manager for services acquisition, and in 2013 issued a guidance memo on “policy for the acquisition and management of services contracts.” To reconcile the apparent conflict between the Air Force’s extensive efforts to improve services acquisition and the apparent decline in their rate of effective competition for services, this paper examines the factors driving the Air Force’s low and declining rates of effective competition for services contracts.² Using contract data from the publicly available Federal Procurement Data System (FPDS), and building upon prior CSIS research on defense competition, this study focuses on one specific question: Is the Air Force’s low rate of effective competition for services contracts simply a factor of the particular kinds of services it contracts for, or is the Air Force getting lower-than-expected rates of effective competition for services contracts, even accounting for the particular mix of services in its contracting portfolio?

This study uses data from FPDS to examine possible alternate explanations for the decline in effective competition for Air Force services contract obligations, such as shifts in the Air Force’s services contracting portfolio, data classification changes, and cuts to services contracts disproportionately affecting effectively competed contracts. Ultimately, the study concludes that none of these alternative explanations, individually or collectively, explain more than a third of the decline in the rate of effective competition for Air Force services. Instead, the data show that, for specific types of services that make up significant portions of the Air

¹ While competitive pressures can and frequently do exist even in contracting scenarios involving fewer than two offers, the existence of at least two offers still represents a reasonable baseline standard for assessing the degree to which the full benefits intended as a result of the policy preference for competition are likely to be achieved.

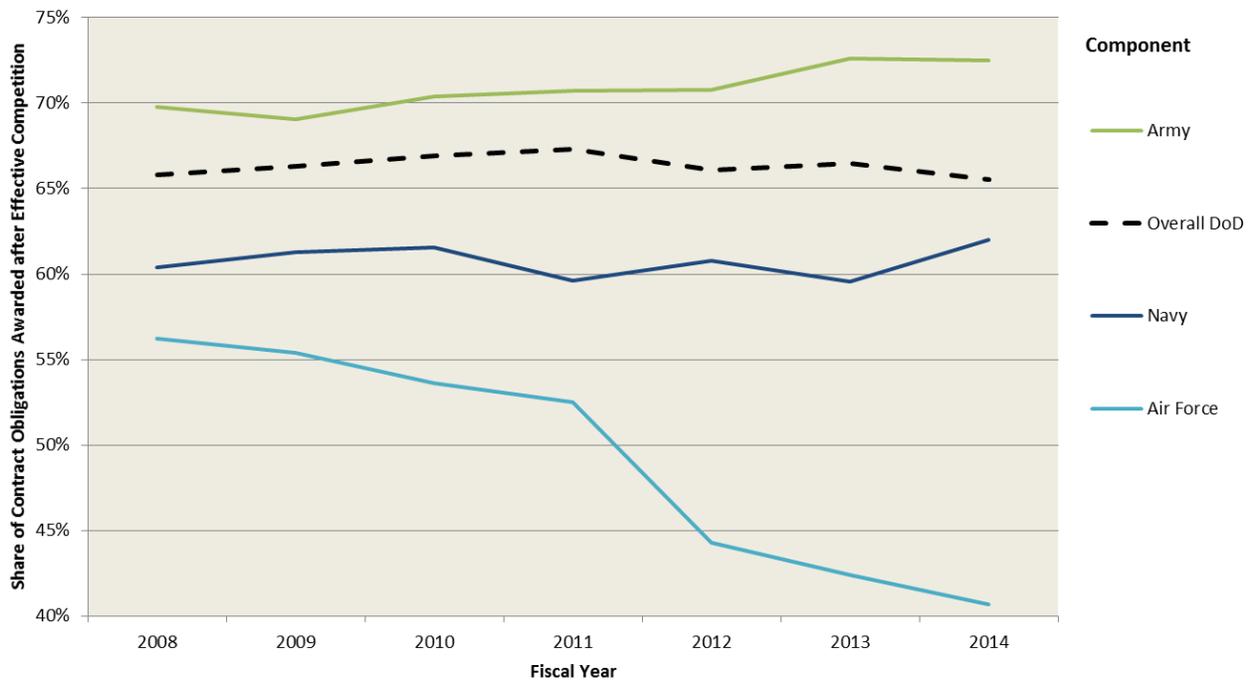
² Note that CSIS classifies R&D as its own category of contracts, so R&D contracts are not included in this analysis.

Force services contracting portfolio, the Air Force achieves rates of effective competition significantly lower than for those specific services in DoD overall. And, in some cases, those already-low rates of effective competition for specific types of services have declined significantly in recent years. More analysis is required to understand exactly why competition is declining during a period of significant policy focus on services acquisition, and what implications this decline might have for DoD's efforts to improve tradecraft in services.

Effective Competition Rate for Air Force Services Lags behind Other DoD Components

Since 2008, two-thirds of overall DoD services contract obligations have been awarded after effective competition in every year. As seen in Figure 1, however, there are significant differences in the rates of effective competition for services between the Army, Navy, and Air Force. (The black dotted line shows the rate of effective competition for overall DoD services.)

Figure 1: Rate of Effective Competition for Services Contract Obligations, by Component, 2008–2014



Source: FPDS; CSIS analysis.

Within the Air Force, just 56 percent of its services contract obligations were awarded after effective competition in 2008. That rate declined gradually over the next few years, to 52 percent in 2011, and that share has declined sharply since, to 41 percent in 2014. Meanwhile, the rates of effective competition for Army services (between 69 percent and 73 percent) and Navy services (between 60 percent and 62 percent) have been largely stable over the same period.³ There was not a decline in the level of effective competition in the other major DoD components; this is solely an issue within Air Force contracting.

³ CSIS also reviewed data on effective competition by component going back to 2000, to ensure that the Air Force decline was not a return to levels seen before the Iraq and Afghanistan wars. In fact, nearly 60 percent of contract obligations for

Rates of Effective Competition for Different Categories of Air Force Services

One possible explanation for the Air Force’s low and declining rate of effective competition for services contracts is that the decline was a function of shifts in the Air Force services contracting portfolio. In other words, perhaps the Air Force was spending increasing shares of its services contract obligations on categories of services for which there is less competition historically, rather than actually seeing declining rates of competition. To examine this, CSIS examined the shares of Air Force services contract obligations going to the five categories of services: equipment-related services (ERS); facilities-related services and construction (FRS&C); information and communications technology (ICT) services; medical (MED) services; and professional, administrative, and management support (PAMS) services. Table 1 shows the shares of Air Force services going to each of these five services categories:

Table 1: Share of Air Force Services Contract Obligations, by Services Category, 2008–2014

	2008	2009	2010	2011	2012	2013	2014
ERS	25%	25%	26%	29%	33%	32%	34%
FRS&C	22%	23%	22%	21%	17%	16%	18%
ICT	10%	9%	8%	8%	6%	8%	6%
MED	1%	1%	1%	1%	1%	1%	1%
PAMS	41%	41%	42%	41%	42%	43%	40%

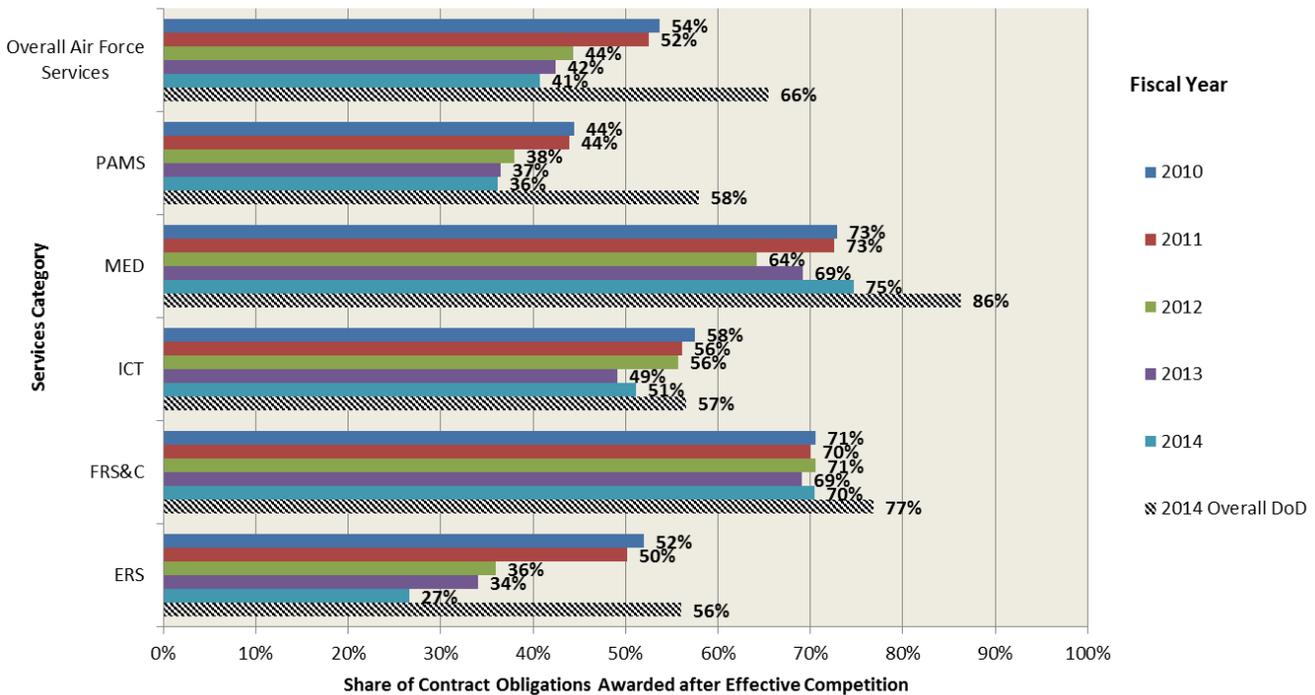
Source: FPDS; CSIS analysis.

The data show a decline in the share of Air Force services contract obligations awarded for FRS&C, which traditionally has high rates of effective competition, and a comparable increase in the share awarded for ERS, which traditionally sees rates of competition lower than those of overall DoD services. The shift observed in Table 1, however, is not large enough to explain the 15-percentage-point decline in effective competition for Air Force services. If effective competition rates for ERS and FRS&C in the Air Force had remained steady, this shift alone would only explain a small portion of the total decline, approximately 2 to 3 percentage points.

Since shifts in the mix of services within the Air Force’s services contracting portfolio are not the primary driver of the decline in effective competition, CSIS next investigated whether there were actual declines in the rates of effective competition for the different categories of services within the Air Forces’ services contracting portfolio. Figure 2 shows the rates of effective competition for the five services categories, as well as overall Air Force services, between 2010 and 2014; the chart also includes the rates of effective competition for those categories for DoD overall, for comparison.

Air Force Services were awarded after effective competition from 2000–2002; that rate remained in the low to mid-50s for most of the remaining years in the 2000s, before the sharp decline between 2011 and 2012.

Figure 2: Rate of Effective Competition for Air Force Services Contract Obligations, by Services Category, 2010–2014



Source: FPDS; CSIS analysis.

The data show that, for the two services categories that account for the largest shares of overall Air Force services contract obligations (PAMS and ERS), the Air Force achieved lower rates of effective competition than does DoD overall even back in 2010, and those rates have declined precipitously in recent years. For PAMS services within the Air Force, effective competition declined from 44 percent in 2010 and 2011 to 36 percent in 2014, compared to 58 percent for overall DoD in 2014. Similarly, for ERS within the Air Force, effective competition declined by almost half, from 52 percent in 2010 to 27 percent in 2014, compared to 56 percent for overall DoD in 2014.

Another possible explanation for the decline in effective competition for Air Force services contracts is that as the Air Force complied with DoD-wide guidance to reduce obligations for services contracts, effectively competed contracts bore a disproportionate share of the cuts. If this were the case, the data would likely show that the declines in competition were the result of significant reductions in effectively competed contract obligations, rather than increases in contract obligations awarded without effective competition.

However, the data show that there have been significant increases in contract obligations awarded without effective competition in both PAMS and ERS. PAMS contract obligations declined by 11 percent between 2010 and 2014, and while effectively competed contract obligations fell more steeply over that period (-28 percent), PAMS contract obligations awarded without competition actually rose by 16 percent. ERS contract obligations actually increased by 23 percent between 2010 and 2014. Over that period, while effectively competed contract obligations declined by 37 percent, ERS contract obligations awarded without competition nearly doubled. A significant portion of the increase in ERS contract obligations awarded without competition in 2013 and 2014 was the result of data recoding; contract obligations for “Space Transportation & Launch,” which had

previously been categorized as a product, was reclassified as a service (under ERS) over the course of fiscal years 2013 and 2014. Accounting for \$2.4 billion in uncompleted contract obligations in 2014, this reclassification explains virtually all the decline in ERS effective competition in 2014, but does not explain the larger decline seen in 2012. This data reclassification, in the context of overall Air Force services, explains approximately two percentage points of the overall decline in the rate of effective competition.

The significant increases in services contract obligations awarded without competition point to an actual decline in competition for Air Forces services, rather than an overall decline that disproportionately falls on effectively competed contracts. From this data, CSIS concludes that shifts in the composition of the Air Force’s services contracting portfolio cannot be explained by cuts in services contracts disproportionately falling on effective competed contracts.

Is the Air Force Getting Less Competition for Specific Types of Services?

To better understand what is driving the low-and-declining rate of effective competition for Air Force services, CSIS looked at the specific Product and Service Codes (PSCs) that comprise ERS and PAMS. Focusing on PSCs that accounted for significant portions of ERS or PAMS contract obligations, CSIS looked for specific types of ERS or PAMS where the Air Force was getting lower levels of effective competition than DoD as a whole, or where effective competition rates had declined significantly in recent years. Tables 2 and 3 show those PSCs, their 2011 and 2014 Air Force effective competition rates, and their 2014 effective competition rates in DoD as a whole.⁴

Table 2: Effective Competition for PSCs within ERS, Air Force vs. Overall DoD

ERS PSCs	Air Force 2011 Effective Competition Rate	Air Force 2014 Effective Competition Rate	Overall DoD 2014 Effective Competition Rate
Maintenance/Repair of Aircraft	58%	43%	57%
Maintenance/Repair of Aircraft Components	9%	9%	26%
Maintenance/Repair of Electrical – Electrical Equipment	1%	2%	27%
Maintenance/Repair of Engines & Turbines	51%	40%	37%

Source: FPDS; CSIS analysis.

Taken together, the four ERS PSCs above accounted for over half of Air Force ERS contract obligations in 2014.⁵ Within the Air Force, both “Maintenance/Repair of Aircraft” and “Maintenance/Repair of Engines & Turbines” have seen significant declines in effective competition rate, although the latter was still higher than the overall

⁴ The year 2011 is used as a baseline in this section because the most significant decline in the rate of effective competition for Air Force services took place between 2011 and 2012.

⁵ For “Maintenance/Repair of Aircraft,” the Air Force accounts for slightly more than half of total DoD contract obligations under that PSC. For the other three PSCs, the Air Force accounts for between two-thirds and three-quarters of total DoD contract obligations.

DoD rate in 2014. For “Maintenance/Repair of Aircraft Components” and “Maintenance/Repair of Electrical – Electrical Equipment,” there were no declines in effective competition rates within the Air Force, but the rates were well below those for contract obligations under those PSCs DoD-wide.

Table 3: Effective Competition for PSCs within PAMS, Air Force vs. Overall DoD

PAMS PSCs	Air Force 2011 Effective Competition Rate	Air Force 2014 Effective Competition Rate	Overall DoD 2014 Effective Competition Rate
Engineering & Technical Services	47%	29%	54%
Logistics Support Services	9%	17%	65%
Other Professional Services	39%	20%	48%
Systems Engineering Services	25%	31%	70%

Source: FPDS; CSIS analysis.

Taken together, the four ERS PSCs in Table 3 accounted for two-thirds of Air Force PAMS contract obligations in 2014.⁶ “Engineering & Technical Services” and “Other Professional Services” both saw significant declines in the rate of effective competition between 2011 and 2014, to rates well below those seen in overall DoD. Interestingly, within Air Force “Engineering & Technical Services,” the source of the decline in the rate of effective competition seems to come from contract obligations not related to aircraft platforms. “Engineering & Technical Services” related to aircraft platforms have been almost entirely uncompetitive, but the rate of effective competition for “Engineering & Technical Services” not related to aircraft platforms has declined significantly, from 60 percent in 2011 to 46 percent in 2014.

For “Logistics Support Services” and “System Engineering Services,” rates of effective competition have increased moderately in recent years, but those rates are still well below the rates seen for overall DoD under those PSCs.

The data presented in this section show that the low and declining rate of effective competition for Air Force services can be traced to specific types of services for which the Air Force rate of effective competition is either notably lower than for DoD overall, and/or the rate within the Air Force has declined precipitously in recent years.

Analysis and Final Thoughts

Of the 15 percentage points of decline in the rate of competition for Air Force services since 2008, only 4 to 5 percentage points were due to either data reclassification or shifts in the Air Force’s services contracting portfolio. Based on the analysis in this study, the low and declining rate of effective competition for Air Force services contracts cannot be fully, or even largely, be explained by those factors, or by cuts to services contracts disproportionately affecting effectively competed contracts. The data show that, for particular types of services that make up significant portions of the Air Force’s services contracting portfolio, the Air Force achieves lower rates of effective competition than does DoD overall for similar services. And in many cases, those already-low rates of effective competition have declined significantly in recent years.

⁶ For all four PAMS PSCs listed in Table 3, Air Force contract obligations accounted for approximately one-third of total DoD contract obligations under those PSCs.

These results were somewhat surprising to CSIS, given the widespread view among DoD officials and industry experts that the Air Force was ahead of the other major DoD components in improving tradecraft in services acquisition. A declining rate of effective competition does not necessarily mean that the Air Force is paying more or getting lesser performance quality from its services contracts, but it is a possible warning sign that warrants further inquiry. One possible explanation for this contradiction is that the Air Force may be discouraging competition “for the sake of competition”—that is, competition where, even if more than one bid is received, it is obvious that one bidder is almost certain to win the competition. CSIS has no direct knowledge that such a policy is in place, however, and FPDS data does not provide any visibility into the question.

Given the nature of the military aircraft industrial base that supports the Air Force, low rates of competition, even for services, are not surprising. Particularly for ERS, most maintenance and repair for major aircraft platforms and systems will end up being performed by the original developer/manufacturer, for reasons including ownership of technical data rights. With that said, even accounting for the limitation on competition for some services related to aircraft, the low and declining rate of effective competition for Air Force services is noteworthy. “Engineering & Technical Services” provides a prime example: while the aircraft-related portion of obligations under that PSC have historically been almost entirely uncompetitive, the non-aircraft portion has seen a significant decline in effective competition in recent years.

It may still be the case that there are unique factors—particular to specific large services contracts that have been awarded without effective competition in recent years—that explain the declining rate of effective competition for Air Force services. The available data does not allow CSIS to determine whether the declining rate of effective competition for Air Force services contracts indicates a shortfall in services tradecraft. Nonetheless, given the strong emphasis on promoting effective competition in DoD contracting from DoD and congressional policymakers, as well as prominent officials within the Air Force, the real decline in competition for Air Force services contracts calls for increased attention and scrutiny. CSIS urges policymakers inside the Air Force, within the broader DoD, and in Congress to determine if the low and declining rates of effective competition for Air Force services are the result of factors outside of the Air Force’s control (such as industrial base limitations), or are the result of services tradecraft that can be improved.

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