

Defense Acquisition Trends 2019

Topline DoD Trends

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THE ISSUE

For over a decade, the Defense-Industrial Initiatives Group (DIIG) at CSIS has published an annual report examining trends in what the Department of Defense (DoD) is buying, how DoD is buying it, and from whom DoD is buying. Last year, DIIG found that the defense acquisition system sat at an inflection point after rebounding from the defense drawdown but was still facing “[unanswered questions about continued defense budget growth and the long-term effects of the last few years’ acquisition reform efforts](#).” This year, CSIS will be analyzing the acquisition system through a series of topics papers as part of a revamped process that allows for earlier and more pertinent sharing of data and findings. This paper, the first in our 2019 report series, presents analysis of the topline DoD contracting trends, focusing on the defense acquisition system’s response to the 2018 National Defense Strategy and new administration priorities.¹

FAST FACTS

1. Defense contract obligations increased from \$331.1 billion in FY 2017 to \$364.5 billion in FY 2018, a 10 percent increase.
2. Despite the 2018 National Defense Strategy (NDS) emphasizing modernization priorities, there has not yet been a significant shift toward NDS-related technology in DoD’s investment posture. The growth in Defense R&D contract obligations continues to trail increases for products and services and fell to its lowest share of defense contract obligations this century in FY 2018.
3. DoD contract spending in FY 2018 shifted significantly compared to the first two years of the defense contracting rebound. Aircraft, which had seen the largest growth of any sector during the first two years, declined 5 percent in FY 2018, while Land Vehicles and Facilities & Construction, two of the sectors hardest hit by sequestration and the defense drawdown, bounced back in FY 2018.
4. DoD Other Transaction Authority (OTA) agreement obligations continue to rise significantly, increasing 81 percent in FY 2018. Over the last three years, total DoD OTA obligations have increased 352 percent.
5. Unlike the previous two years, during which the Big Five were the biggest beneficiaries of the defense contracting rebound, the growth in defense contract obligations in FY 2018 was more evenly distributed between Small, Medium, and other Large vendors. In FY 2018, Big Five defense contract obligations declined 1 percent.

INTRODUCTION

Last year, DIIG found that the defense acquisition system sat at an inflection point after rebounding from the defense drawdown but was still facing “[unanswered questions about continued defense budget growth and the long-term effects of the last few years’ acquisition reform efforts](#).”² This paper analyzes the topline DoD contracting trends available in the Federal Procurement Data System (FPDS), providing

critical insights into the defense acquisition system's early response to the 2018 NDS and the new administration's priorities.³ For example, last year, DoD contract data showed that although the new administration made modernization a top priority, the growth in contract obligations between FY 2015 and FY 2017 was largely concentrated among existing product lines over research and development or services. Given previous CSIS research showing that it often takes two years for the contract data to reflect acquisition reforms or changes in priorities, the latest contract data can illuminate whether the administration's priorities have prompted actual changes in acquisition practice.⁴

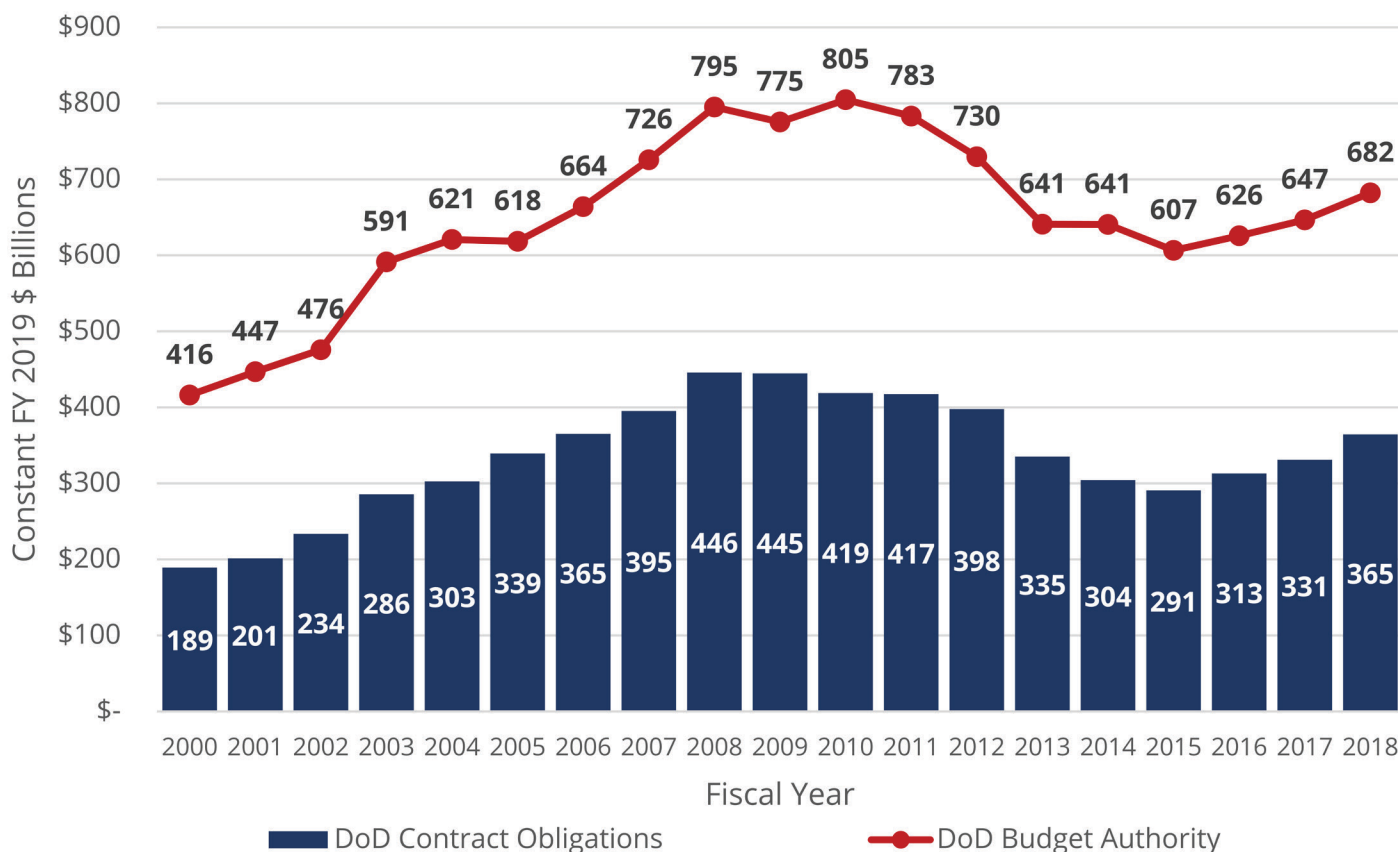
This report uses the methodology used in other CSIS reports on federal contracting. For over a decade, DIIG has issued a series of analytical reports on federal contract spending for national security by the government. These reports are built on FPDS data, which is downloaded in bulk from USAspending.gov. DIIG now maintains its own database of federal spending, which includes data from 1990–2018. This database is a composite of FPDS and DD350 data. For this report, the study team relied on FY 2000–FY 2018 data. All dollar figures are in constant FY 2019 dollars, using the latest Office of Management and Budget (OMB) deflators.

For additional information about the CSIS contracting data analysis methodology, see <https://github.com/CSISdefense/Lookup-Tables>.

For this paper, CSIS focused on the following research questions:

- Has there been a significant shift in DoD's investment between products, services, and research and development (R&D) to reflect the 2018 NDS priorities?
- Have there been significant changes across the different sectors of the defense industrial base?
- Has DoD started to recover from its trough in the development pipeline for major weapon systems?
- What has the defense contracting rebound meant for the composition of the defense industrial base? What has it meant for vendors of different sizes? Has the number of prime vendors and new entrants doing business with DoD continued to decline?
- What are the significant trends in OTA usage across DoD?
- Have there been significant shifts in defense contracting trends between the major DoD components?

Figure 1: Defense Contract Obligations v. Budget Authority, 2000–2018



Source: FPDS; Office of the Under Secretary of Defense (Comptroller/Chief Financial Officer), *Defense Budget Overview: United States Department of Defense Fiscal Year 2020 Budget Request* (Washington, DC: DoD, March 2019), https://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2020/fy2020_Budget_Request_Overview_Book.pdf; CSIS analysis.

DOD CONTRACT SPENDING IN A BUDGETARY CONTEXT

The defense contracting rebound that began in FY 2016 continued into FY 2018. As shown in Figure 1, total defense contract obligations increased from \$331.1 billion in FY 2017 to \$364.5 billion in FY 2018, a 10 percent increase. Over the last three years, defense contract obligations grew 25 percent between FY 2015 and FY 2018.

WHAT IS DOD BUYING?

Despite the 2018 NDS and the new administration's emphasis on modernization priorities, there has not yet been a significant shift toward NDS-related technology in DoD's investment posture.

During the first two years of the defense contracting rebound, defense contract obligations for products significantly outpaced both services and R&D. In FY 2018, services caught up to the pace set by products, as defense services and products contract obligations increased 10 percent and 11 percent, respectively, in-line with total

defense contract obligations growth. Meanwhile, defense R&D contract obligations only increased 4 percent, well below the 10 percent increase in total defense contract obligations. As a result, R&D fell to its lowest share of defense contract obligations this century.

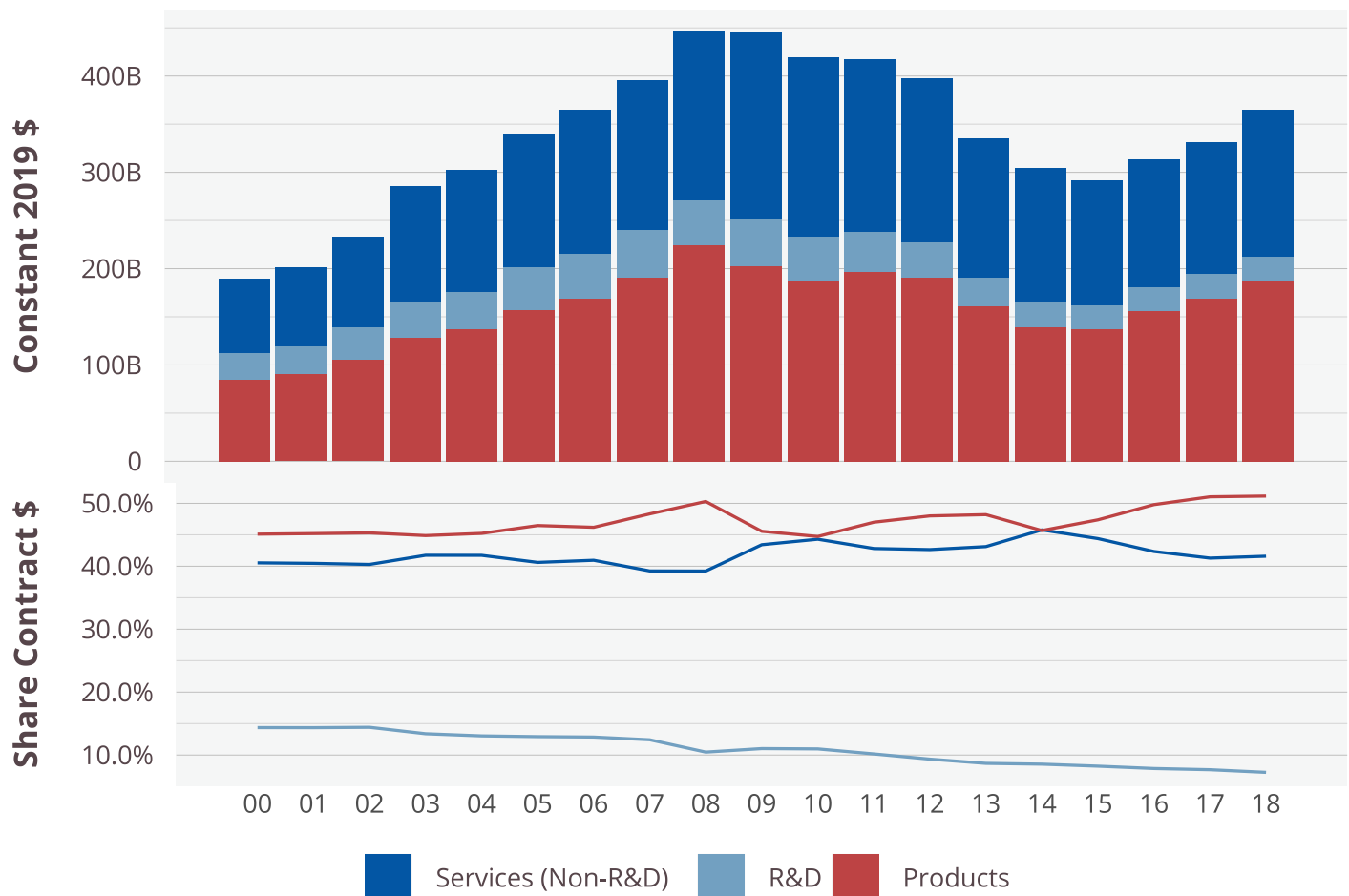
There has not yet been a significant shift toward National Defense Strategy-related technology in DoD's investment posture.

Looking at total growth over the course of the defense contracting rebound, defense products contract obligations are up 35 percent over the last three years. Comparatively, defense services contract obligations increased 17 percent between FY 2015 and FY 2018, while R&D contract obligations increased just 10 percent over that same period.

DEFENSE CONTRACT OBLIGATIONS BY PLATFORM PORTFOLIO

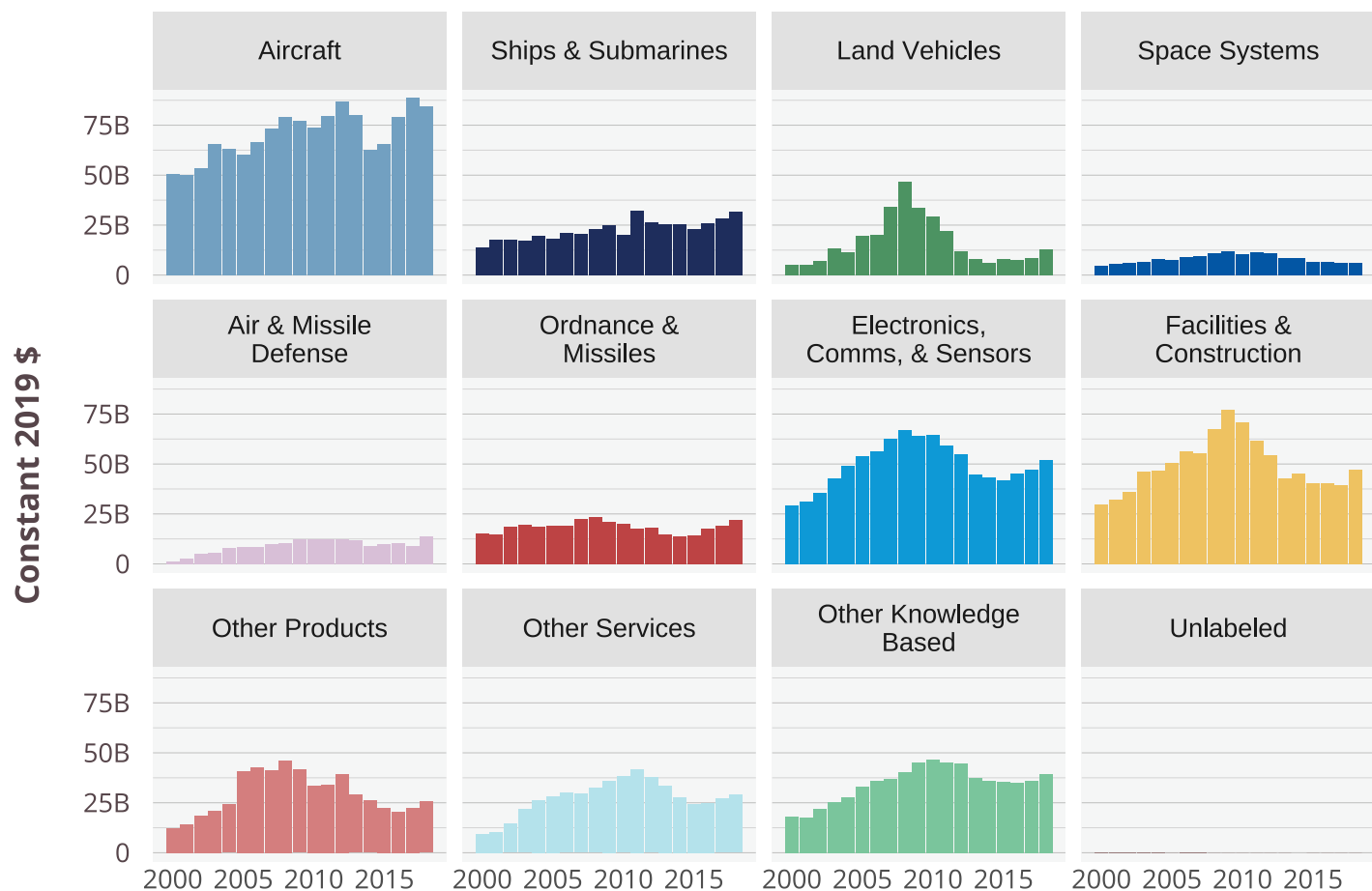
While there have not been significant shifts in DoD's investment pattern between products, services, and R&D,

Figure 2: Defense Contract Obligations by Area, 2000-2018



Source: FPDS; CSIS analysis

Figure 3: Defense Contract Obligations by Platform Portfolio, 2000-2018



Source: FPDS; CSIS analysis

there were more significant changes at the industry sector level in FY 2018.

Aircraft contract obligations increased the most among the eleven platform portfolios during the first year two years of the defense contracting rebound but declined in FY 2018. Between FY 2015 and FY 2017, Aircraft obligations increased 34 percent.⁵ However, Aircraft defense contract obligations fell from \$88.6 billion in FY 2017 to \$84.6 billion in FY 2018, a 5 percent decline. This decline is not outside the norm, as the Aircraft sector, as previously shown during sequestration and the defense drawdown, has been known to whipsaw between growth and decline.⁶ In total, over the course of the defense contracting rebound, Aircraft defense contract obligations have increased 29 percent since FY 2015, a rate slightly higher than topline growth (25 percent).

Air & Missile Defense contract obligations increased 53 percent in FY 2018, continuing the whipsaw this sector has also seen throughout the defense contracting rebound.⁷ Over the last four years, Air & Missile Defense contract obligations rose from \$9.97 billion in FY 2015 to \$10.49

billion in FY 2016 and fell to \$8.92 billion in FY 2017 before rising again to \$13.65 billion in FY 2018. Despite the whipsaw, total Air & Missile Defense contract obligations are up 37 percent since FY 2015.

After several years of declining contracting obligations, the Facilities & Construction sector experienced a large uptick in FY 2018. Facilities & Construction defense contract obligations increased from \$39.5 billion in FY 2017 to \$47.3 billion in FY 2018, a 20 percent increase.

Land Vehicles, the sector heaviest hit by sequestration and the defense drawdown, continued rebounding in FY 2018.⁸ Land Vehicles defense contract obligations totaled \$12.9 billion in FY 2018, a 51 percent increase from the \$8.5 billion obligated in FY 2017. Between FY 2015 and FY 2018, Land Vehicles defense contract obligations have risen from \$7.95 billion to \$12.9 billion, a 62 percent increase.

The Ordnance & Missiles sector continued to grow steadily in FY 2018, a trend that has been ongoing through the course of the defense contracting rebound. Ordnance & Missiles contract obligations increased 17 percent in

FY 2018, rising from \$18.9 billion to \$22.2 billion. Since FY 2015, Ordnance & Missiles contract obligations have increased 56 percent.

There is likely to be continued shifts at the sector level in future years as the acquisition system responds to the modernization priorities outlined in the NDS. One can expect greater spending in the sectors and portfolios emphasized in the NDS: nuclear; space; cyberspace; command, control, communications, computers and intelligence, surveillance, and reconnaissance (C4ISR); and air and missile defense.

DEFENSE CONTRACT OBLIGATIONS BY STAGE OF R&D

Previous CSIS research showed that, in FY 2017, the “seven-year trough in the major weapon systems development pipeline appeared to have bottomed out but does still exist in some stages of R&D and it will still be some time before DoD fully recovers.”⁹ The FY 2018 data show that while this largely still holds true, there are notable differences across the stages of R&D activities.

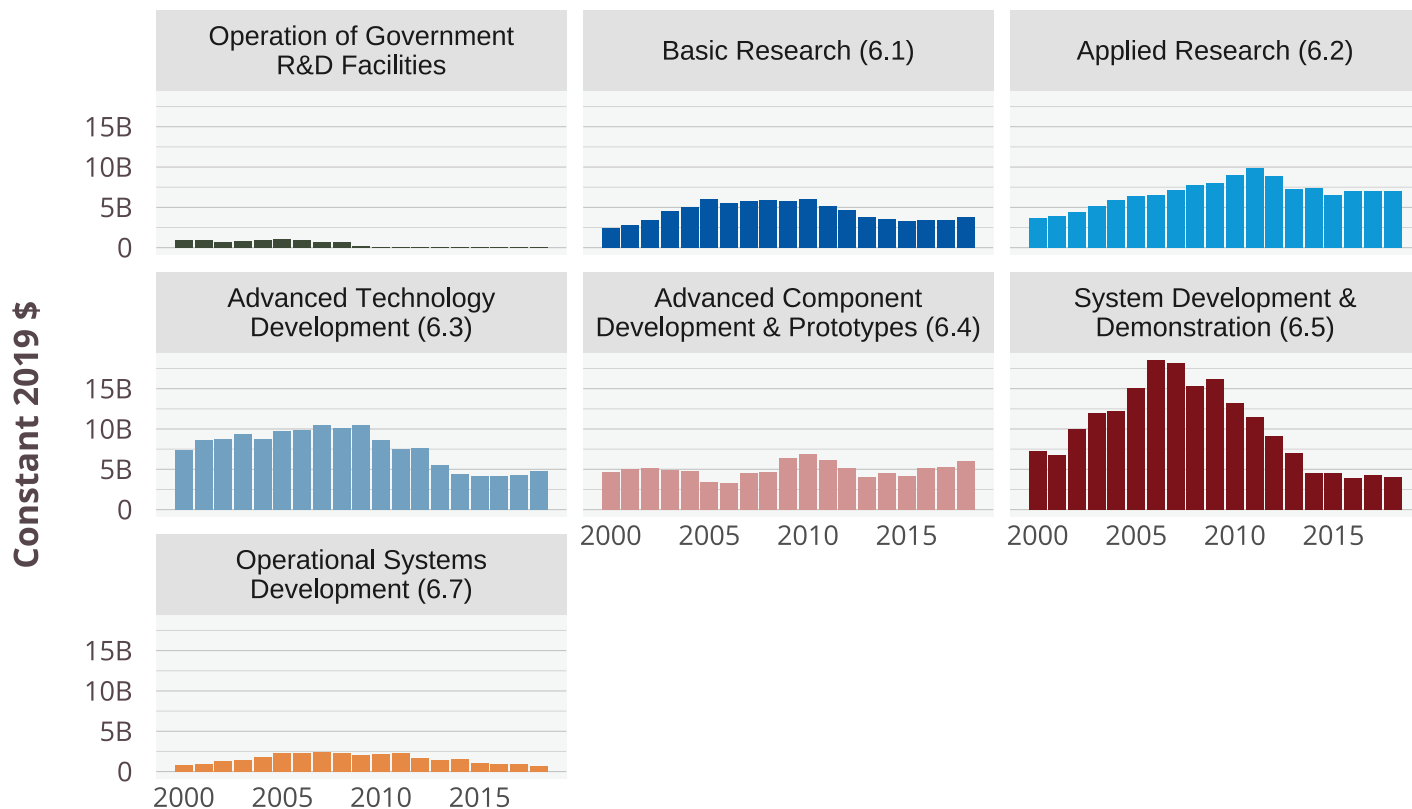
The data show that the two earliest stages of R&D, Basic Research (6.1) and Applied Research (6.2), experienced significantly different trends in FY 2018. Defense Basic

Research contract obligations increased 11 percent in FY 2017, a rate nearly three times the overall growth in defense R&D contract obligations, while Applied Research defense contract obligations declined 1 percent.

Both of the two mid-stage R&D activities, Advanced Technology Development (6.3) and Advanced Component Development & Prototypes (6.4), grew at rates notably above the overall growth in defense R&D contract obligations in FY 2018, in-line with the emphasis in the 2018 NDS on prototyping and experimentation. Advanced Technology Development defense contract obligations increased from \$4.3 billion to \$4.8 billion, an 11 percent increase. Advanced Component Development & Prototypes defense contract obligations increased 14 percent, rising from \$5.3 billion in FY 2017 to \$6.0 billion in FY 2018. Of note, as DoD pushes for increased usage of experimentation and prototyping in the acquisition process, Advanced Component Development & Prototypes accounted for 23 percent of total defense R&D contract obligations in FY 2018, well above its 14 percent historical average.¹⁰

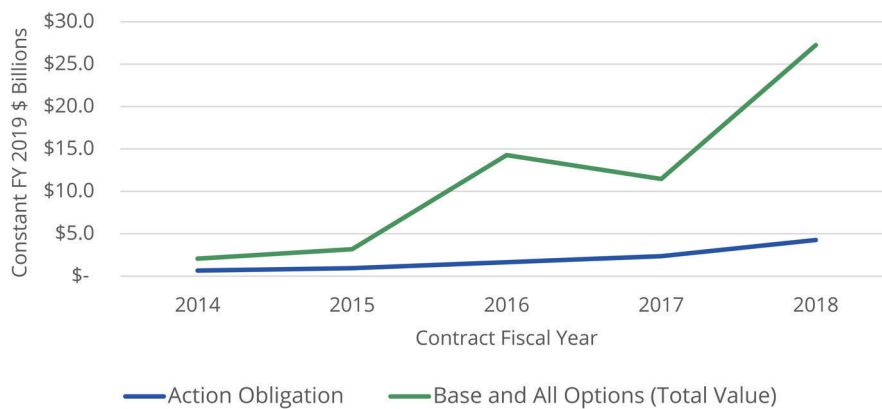
Advanced Technology Development (6.3) and Advanced Component Development & Prototypes (6.4) grew at rates

Figure 4: Defense R&D Contract Obligations, 2000-2018



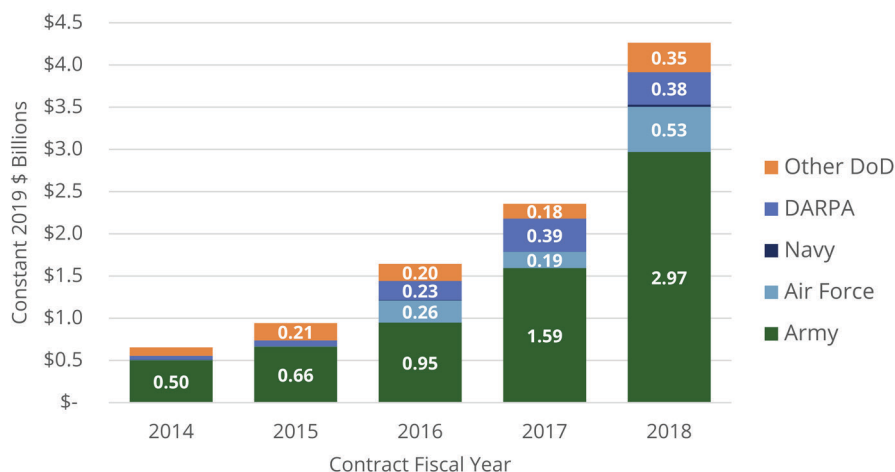
Source: FPDS; CSIS analysis

Figure 5: Defense OTA Obligations v. Total Value, 2014-2018



Source: FPDS; CSIS analysis.

Figure 6: Defense OTA Obligations by Customer, 2014-2018



Source: FPDS; CSIS analysis.

notably above the overall growth in defense R&D contract obligations in FY 2018.

System Development & Demonstration (6.5) contract obligations declined in FY 2018 after having increased in FY 2017, the first year-to-year increase in System Development & Demonstration contract spending since FY 2005. Defense System Development & Demonstration contract obligations fell from \$4.33 billion in FY 2017 to \$4.06 billion, a 6 percent decrease. As a share of total defense R&D contract obligations, System Development & Demonstration fell from 17 percent in FY 2017 to 15 percent in FY 2018, well below the historical average of 27 percent.

OTA USAGE ACROSS DOD

OTAs have had a recent resurgence in DoD in large part due to recent legislative changes aimed at incentivizing their usage and the emphasis of acquisition officials in this

administration. OTAs are an alternative acquisition approach to the traditional Federal Acquisition Regulation-based (FAR) mechanisms, contracts, grants, and cooperative agreements. DoD and other federal agencies can use OTAs to access innovation outside of traditional acquisition. OTAs are more flexible than traditional FAR-based acquisition approaches because they are not subject to the same regulations, policies, and statutes, but they are restricted to a limited set of activities, mainly R&D and prototyping. Previous CSIS research has shown that DoD OTA obligations increased 195 percent between FY 2015 and FY 2017.¹¹ DoD OTA obligations continued rising in FY 2018, increasing 81 percent from FY 2017. In total, DoD OTA obligations have increased 352 percent over the last three years.

As shown in Figure 5, the base and all options (total potential value) of OTA agreements signed in the last few years is increasing at a faster pace than actual OTA obligations. This last year, the total potential value of OTA agreements increased from \$11.1 billion in FY 2017 to \$26.8 billion in FY 2018, a 138 percent increase. Since FY 2015, the total value of OTA agreements has increased 758 percent, compared

to 352 percent growth in OTA obligations. Although DoD will not ultimately exercise all the options contained in these recently signed OTA awards nor necessarily obligate 100 percent of the value of even those options that are exercised, there is clearly a broad-based increase in the potential scope of OTAs, suggesting that OTA obligations are likely to continue rising in the coming years as these OTAs are executed.

The Army has been at the forefront of DoD's OTA resurgence, largely due to its OTA Center of Excellence located at Army Contracting Command New Jersey (ACC-NJ) at Picatinny Arsenal, but over the last year, most of the other DoD components substantially increased their usage of OTAs.¹²

Army OTA obligations increased 86 percent in FY 2018 and rose as a share of total defense OTA obligations from 68 percent in FY 2017 to 70 percent. Over the last three years,

The Army has been at the forefront of DoD's OTA resurgence . . . but over the last year, most of the other DoD components substantially increased their usage of OTAs.

Army OTA obligations have increased 348 percent between FY 2015 and FY 2018.

Prior to the recent legislative changes, the Air Force made some limited use of OTAs, but the service has significantly increased their usage in recent years, particularly this last year. Air Force OTA obligations rose from approximately \$0.19 billion in FY 2017 to \$0.53 billion in FY 2018, a 176 percent increase. Reported Air Force OTA obligations have grown 9,982 percent since FY 2015.

The Navy accounted for less than 1 percent of total defense OTA obligations between FY 2015 and FY 2017. While the Navy still makes very limited use of OTAs, it started to

increase usage of them in FY 2018, spending \$24.96 million in OTAs in FY 2018, compared to the \$7.3 million the service spent in total from FY 2015 to FY 2017.

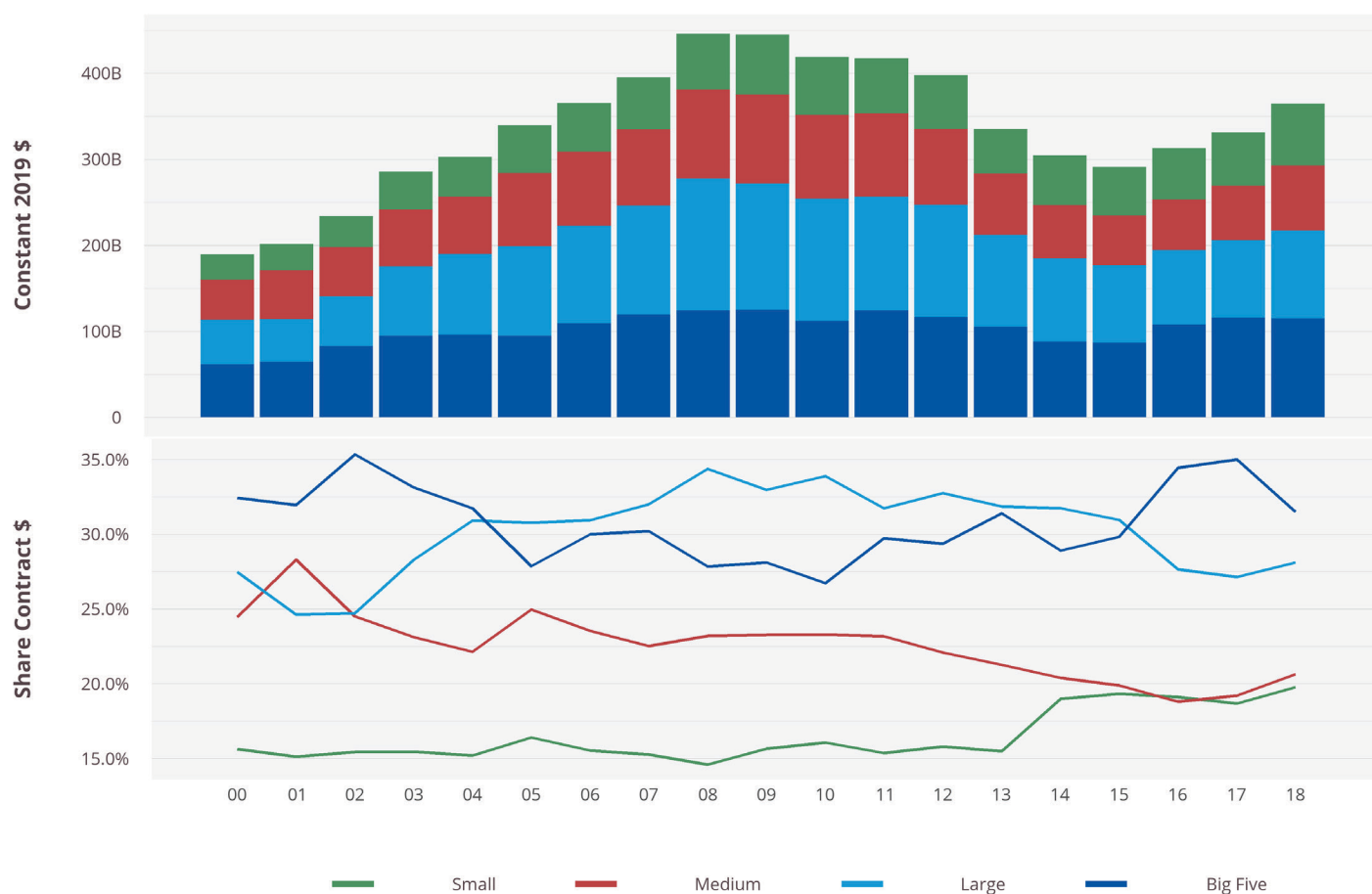
COMPOSITION OF THE DEFENSE INDUSTRY

DEFENSE CONTRACT OBLIGATIONS BY VENDOR SIZE

During the initial two years of the defense contracting rebound, the Big Five fared the best among the four vendor size categories, followed by Small and Medium-sized vendors, who grew at rates slightly below the topline growth, while Large vendors fared the worst, declining by 1 percent.¹³ However, these trends did not hold true in FY 2018, as the Big Five declined slightly while the other three vendors size categories grew at roughly equal rates.

Defense contract obligations awarded to the Big Five fell from \$115.9 billion in FY 2017 to \$114.8 billion in FY 2018, a 1 percent decline. As a share of total defense contract obligations, the Big Five went from 35 percent in FY 2017 to 32 percent in FY 2018. Over the course of the defense contracting rebound, defense contract obligations awarded

Figure 7: Defense Contract Obligations by Vendor Size, 2000-2018



Source: FPDS; CSIS analysis

to the Big Five increased a total of 32 percent from FY 2015 to FY 2018.

Large vendors fared the worst during the initial two years of the rebound, declining 1 percent between FY 2015 and FY 2017, but experienced their own rebound in FY 2018. Defense contract obligations awarded to Large vendors totaled \$102.4 billion in FY 2018, a 14 percent increase from \$89.9 billion in FY 2017. However, Large vendors have yet to recover as a share of total defense contract obligations, accounting for only 28 percent of total defense contract obligations in FY 2018, as opposed to the 31 percent market share in FY 2015.

Small and Medium vendors both continued to benefit from the defense contracting rebound. In FY 2018, defense contract obligations awarded to Small and Medium vendors increased 16 percent and 18 percent, respectively. Between FY 2017 and FY 2018, the share of total defense contract obligations awarded to Medium-size vendors rose from 19 percent to 21 percent, while Small vendors rose from 19 percent to 20 percent.

VENDOR COUNT

Previous CSIS research showed that both the total number of prime vendors doing business with DoD and the number of new prime entrants to the defense market had been declining in recent years.¹⁴ As shown in Figure 8 below, both of these trends continued in FY 2018. The data show that in FY 2018, the number of total prime vendors doing business with DoD declined 9 percent, while the number of new prime vendors declined 7 percent. Since FY 2015, the total number of prime vendors doing business with DoD has fallen 15 percent, while the number of new prime vendors has declined 16 percent. These trends, particularly

the continued decline in number of new entrants, are troublesome, as DoD and the NDS emphasize the National Security Innovation Base and try to attract non-traditional defense companies to do business with DoD.

The number of total prime vendors doing business with DoD declined 9 percent, while the number of new prime vendors declined 7 percent.

DEFENSE COMPONENTS

Navy contract obligations grew 25 percent between FY 2015 and FY 2017, the most of any component, but fell in FY 2018. Navy contract obligations decreased from \$113.1 billion in FY 2017 to \$109.7 billion in FY 2018, a 3 percent decline. As a share of total defense contract obligations, the Navy fell from 34 percent to 30 percent, a market share more in-line with historical averages.

The Air Force continued its year-to-year whipsaw in FY 2018, as Air Force contract obligations increased 15 percent last year. Air Force contract obligations are up 30 percent from FY 2015, but the year-to-year data show the volatility of Air Force contracting trends in recent years. Over the last four years, Air Force contract obligations have gone from \$56.2 billion in FY 2015 to \$68.4 billion in FY 2016 before declining to \$63.1 billion in FY 2017 and then increasing again in FY 2018 to \$72.8 billion.

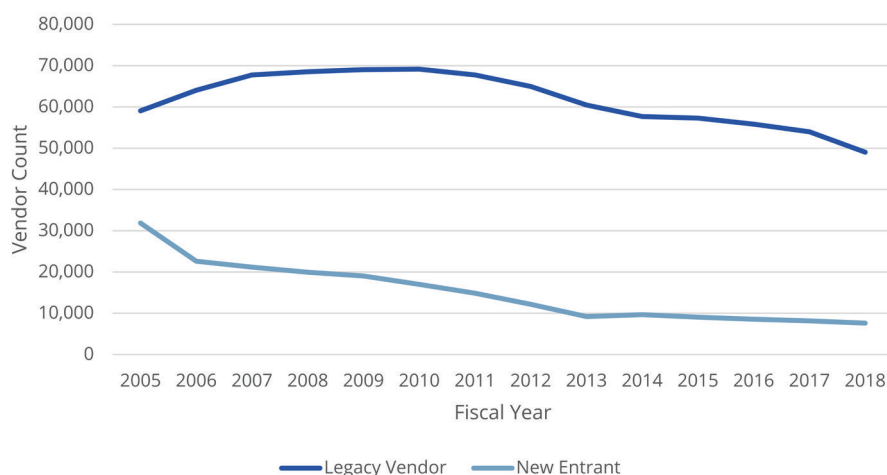
The Army had been growing at a slow but steady rate over the last two years after being the largest bill-payer during sequestration and the defense drawdown, and it saw a large upswing in FY 2018.¹⁵ Army contract obligations increased 15 percent in FY 2018, going from \$80.97 billion to \$93.17 billion.

Both the Defense Logistics Agency (DLA) and the Missile Defense Agency (MDA) grew at rates significantly above the defense topline in FY 2018. In FY 2018, DLA and MDA contracting obligations reached near-historic levels, increasing 26 percent and 51 percent, respectively.

CONCLUSION

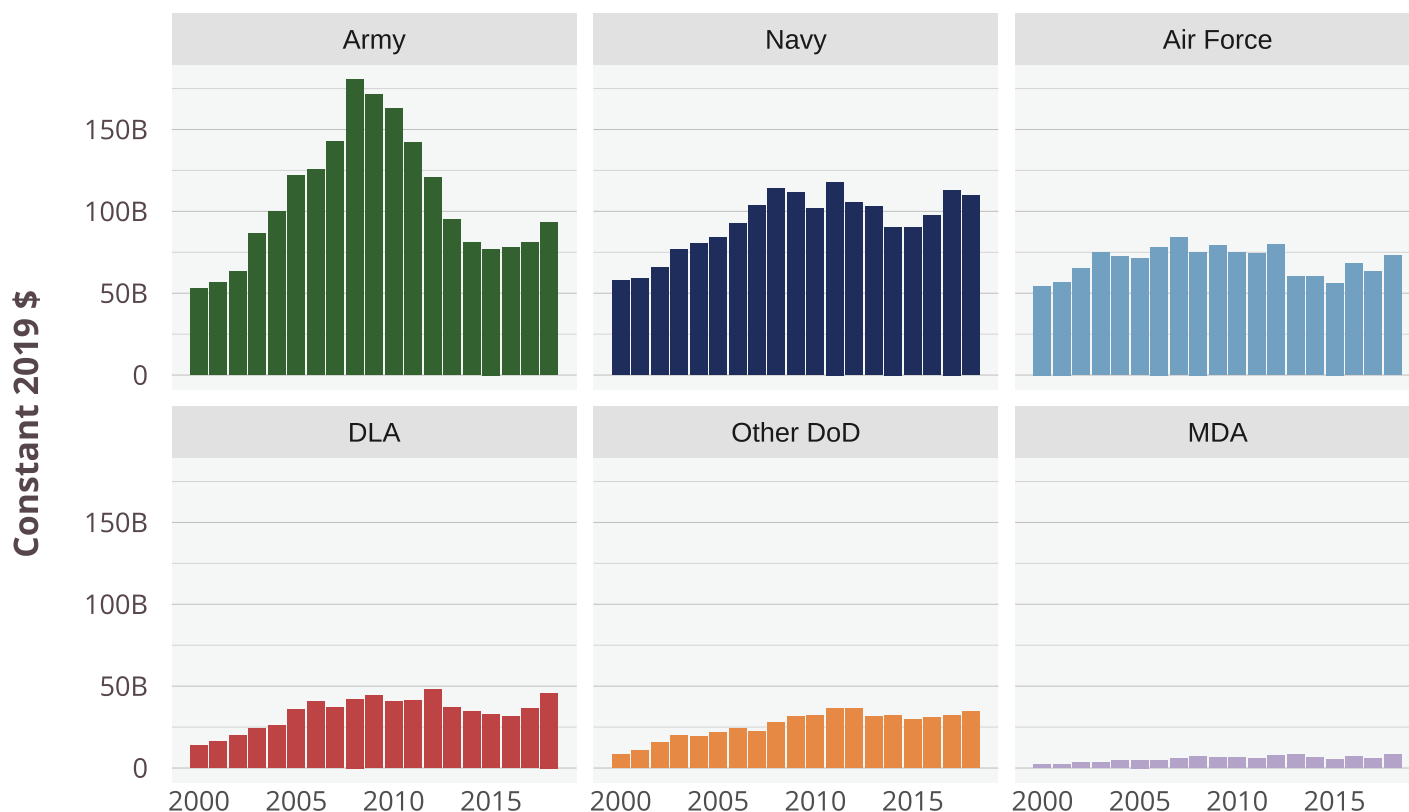
There has been no significant shift in DoD's investment from products to R&D to reflect the modernization priorities emphasized in the 2018 NDS.

Figure 8: DoD Vendor Count, 2005-2018



Source: FPDS; CSIS analysis.

Figure 9: Defense Contract Obligations by Component, 2000-2018



Source: FPDS; CSIS analysis

There was not a significant shift in DoD's FY 2018 investment between products, services, and R&D, despite the 2018 NDS emphasizing modernization and the importance of great power competition. Although the pace of DoD spending on defense services caught up to spending on products in FY 2018, R&D contract obligations continue to trail far behind the other two areas of DoD's investment portfolio. At the same time that DoD is emphasizing the importance of modernization to meet the priorities in the NDS, R&D fell in FY 2018 its lowest point this century as a share of total defense contract obligations. This could portend a significant shift in spending in future years if DoD leadership is committed to NDS implementation.

Aircraft is down; Land Vehicles and Facilities and Construction bounce back; and Air & Missile Defense and Ordnance & Missiles are up.

While there have not been significant shifts in DoD's investment between products, services, and R&D, there were more significant changes at the sector level in FY 2018.

Land Vehicles and Facilities and Construction, two of the sectors hardest hit by sequestration and the defense

drawdown, rebounded rather significantly in FY 2018. Land Vehicles contract obligations increased 51 percent in FY 2018, rising from \$8.5 billion in FY 2017 to \$12.9 billion in FY 2018, the highest level of Land Vehicles spending in the last six years. Facilities and Construction defense contract obligations increased 20 percent in FY 2018, twice the overall rate of growth.

Aircraft contract obligations, which had been the biggest beneficiaries of the first two years of the defense contracting rebound, declined 5 percent in FY 2018. This decline is not too surprising, as the Aircraft sector has been previously shown to be vulnerable to whipsaw between growth and decline.

Other notable trends include the year-to-year volatility in the Air & Missile Defense sector and steady growth in Ordnance & Missiles spending. While Air & Missile Defense contract obligations increased 37 percent from FY 2015 to FY 2018, a rate well above the 25 percent growth in total defense contract obligations, there has been a significant whipsaw year to year. After Air & Missile Defense contract obligations declined 15 percent in FY 2017, contract obligations subsequently increased 53 percent in FY 2018.

Comparatively, Ordnance & Missiles contract spending increased 56 percent from FY 2015 to FY 2018 but with consistent growth year to year. In FY 2018, Ordnance & Missiles obligations increased 51 percent, and spending last year totaled levels not seen since FY 2007 to FY 2009.

The significant shifts at the sector level are likely to continue as DoD responds to the NDS priorities. In FY 2019, it is likely that DoD spending will increase in sectors like Space and Air & Missile defense that were specifically emphasized as modernization priorities in the NDS.

Major weapon systems development pipeline sees an uneven recovery from the trough.

The data show that DoD has made some recovery in its development pipeline for major weapon systems, but recovery has been uneven across the different R&D activities. Despite System Development & Demonstration contract obligations increasing in FY 2017 for the first time since FY 2005, they subsequently declined 6 percent in FY 2018. In FY 2018, System Development & Demonstration contract obligations accounted for just 15 percent of total defense R&D contract obligations, whereas they have historically accounted for approximately 27 percent of annual defense contract obligations.

The largest recovery came in the mid-stage of the weapon systems pipeline, where Advanced Technology Development (6.3) and Advanced Component Development & Prototypes (6.4) grew at rates well above the overall growth in defense R&D contract obligations in FY 2018. Of note, as DoD has been emphasizing increasing experimentation and prototyping in the acquisition process in the NDS and its policy priorities, Advanced Component Development & Prototypes accounted for 23 percent of total defense R&D contract obligations in FY 2018, well above the historical average of 14 percent.¹⁶ Combined with the substantial increase in OTA usage, the increased use of prototyping indicates that alternatives to the traditional defense acquisition system development process are growing robustly.

OTA usage continues increasing across DoD.

OTAs continue to gain popularity across DoD following the recent legislative changes aimed at incentivizing their usage. Total OTA obligations across DoD increased 81 percent in FY 2018 from FY 2017. Over the last three years, total DoD OTA obligations have increased 352 percent from FY 2015.

The data also show that the total potential value of OTA agreements signed in recent years is growing at over twice

the rate of OTA obligations. Between FY 2015 and FY 2018, the total potential value of OTA agreements, were they to exercise all of their options, increased 352 percent.

The Army remains the predominant user of OTAs across DoD, in large part due to its OTA Center of Excellence located at Picatinny Arsenal. However, the other components have substantially increased their usage of OTAs in the last year. Army OTA obligations increased 86 percent last year and are up 348 percent from FY 2015. The Air Force made some-limited use of OTAs prior to the recent legislative changes but has seen a 9,982 percent increase since FY 2015. Finally, the Navy has historically made little use of OTAs, accounting for less than 1 percent of all defense OTA obligations prior to FY 2018. While the Navy did make significantly greater usage of OTAs in FY 2018, they still only accounted for 1 percent of FY 2018 defense OTA obligations.

The Big Five declined in FY 2018, while growth was relatively even between Small, Medium, and Large vendors.

The Big Five benefited the most from the first two years of the defense contracting rebound but their contract obligations declined 1 percent in FY 2018. Instead, the 10 percent increase in total defense contract obligations in FY 2018 was relatively evenly distributed between Large, Medium, and Small vendors. Of note, Small vendors accounted for 20 percent of total defense contract obligations in FY 2018, their highest share of total defense contract obligations this century.

The number of prime vendors and new entrants doing business with DoD continues to decline.

The data show that the number of prime vendors and new entrants doing business with DoD continued declining in FY 2018. The number of prime vendors doing business with DoD declined 9 percent, while the number of new prime entrants declined 7 percent. Although defense contract obligations have increased 25 percent since FY 2015, the number of prime vendors doing business with DoD has fallen 15 percent, while the number of new prime entrants has fallen 16 percent. Given the importance DoD has placed on attracting new entrants, particularly non-traditional defense companies, these trends are worrisome.

Air Force bounces back; Navy starts to decline; Army sees large upswing; and MDA and DLA hit near-historic levels.

There were notable differences in the contracting trends between the military components during the first two years of the defense contracting rebound and the FY 2018 trends.

Air Force contract obligations bounced back in FY 2018, increasing 15 percent from FY 2017. This continued the

Air Force's year-to-year whipsaw between total contract obligations, growing one year and declining the next, a trend that has been ongoing since FY 2015.

The Navy benefited the most during the first two years of the defense contracting rebound, hitting historic levels for this century as a share of total defense contract obligations, but returned to more standard levels in FY 2018, experiencing a 3 percent decline in contract spending from FY 2017.

Army contract obligations, which had been growing at a slow but steady rate over the last two years after being the heaviest hit during sequestration and the defense drawdown, increased 15 percent in FY 2018.

Finally, DLA and MDA contract obligations increased 26 percent and 51 percent, respectively, in FY 2018, as these components of contract spending totaled near-historic levels for this century.

FINAL THOUGHTS & NEXT STEPS

The FY 2018 defense contracting data provide critical insights into the defense acquisition system's early response to the 2018 NDS and the new administration's priorities. While the new administration had the opportunity to influence some of the trends seen in the FY 2017 defense contracting data, FY 2018 represents the first fiscal year fully executed by this administration.

Overall, the defense acquisition system has had a mixed early response to the 2018 NDS and the new administration's priorities. While one can look at most of the contract characteristics analyzed in this paper and see reflections of the NDS and administration priorities, the interconnective thread that sews together the disparate data points is seemingly missing. For example, the platform portfolio contracting trends show increased investment in Air & Missile Defense in FY 2018 but also declining spending in the Space sector, despite its emphasis in the NDS. Furthermore, there were not significant shifts in the composition of DoD's investment portfolio between products and R&D. The weapon systems pipeline trends show Advanced Component Development & Prototypes (6.4) contract obligations at historic levels in FY 2018 as a share of total defense R&D contract obligations but also a return to declining System Development & Demonstration (6.5) contract obligations. While this trend is consistent with the NDS focus on speeding up acquisition, it assumes some risk on responding to peer competitors if alternative acquisition approaches experience challenges in implementation.

If DoD is to succeed at refocusing itself on peer and near-peer competition and forging a new relationship between DoD and the National Security Innovation Base, it will need to recognize that some important interconnective threads are missing from the emerging defense contracting trends and explore why that is. How does DoD balance its investment portfolio while also maintaining readiness through procuring and maintaining existing platforms? Can DoD successfully field major new platforms in the near term despite continued cuts to System Development & Demonstration (6.5) while also leaving room for longer-term modernization funding? Why has DoD continued to struggle to attract new entrants recently despite defense contract spending increasing 25 percent in the last three years and the creation of several policies aimed at attracting new vendors, including non-traditional defense companies? Understanding and addressing these missing interconnective threads are an evergreen issue for every administration. They are of critical importance now, given that decisions today could transform the defense acquisition system and supporting industrial base for the next 10 to 20 years.

This paper presents only the initial findings of the CSIS analysis of the FY 2018 defense contracting trends in FPDS. Unlike in previous years where CSIS has waited to release its analysis as a single report at the end of the year, this year it has chosen to publish its analysis as a series of shorter reports and briefs throughout the year, which will then be combined and published as a single compendium report at the end of the year. Over the course of the next several months, DIIG and CSIS will publish reports that refine and expand the analysis presented here to answer the following research questions:

DoD contract spending in a budgetary context

How has the defense contracting topline responded to the recent increases in the defense budget? How does the growth in defense contract obligations compare to the broader federal contracting landscape?

What is DoD buying?

How has the defense contracting rebound changed what DoD is purchasing? What is the status of the innovation initiatives in the new administration? What is driving the growth in Advanced Technology Development (6.3) and Advanced Component Development & Prototypes (6.4) contract obligations? What is DoD spending on services?

How is DoD buying?

What major acquisition reform efforts are currently underway? How have DoD contracting approaches changed

over time? What performance metrics can be derived from publicly available DoD contract data?

Whom is DoD buying from?

How has the composition of prime vendors changed during the drawdown, and what causes can be identified? Who are the top vendors, and what do they tell us about industrial base consolidation?

What are the defense components buying?

How has the defense contracting rebound affected contract spending within the major DoD components? What are the specific sources of any increases or declines in contract obligations within the major DoD components? ■

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ENDNOTES

1. Significant portions of this report have been adopted from, *Defense Acquisition Trends 2019: A Preliminary Look*, first presented at the 16th Annual Acquisition Research Symposium hosted by the Naval Postgraduate School. For the full paper see: Rhys McCormick, Gregory Sanders, and Andrew P. Hunter, “Defense Acquisition Trends 2019: A Preliminary Look,” in Proceedings of the Sixteenth Annual Acquisition Research Symposium, (Monterey, CA: Naval Postgraduate School, 2019), https://www.researchsymposium.com/conf/app/researchsymposium/unsecured/file/498/SYM-AM-19-031_Panel%201_Hunter.pdf.
2. Rhys McCormick et al., *Defense Acquisition Trends 2018: Defense Contract Spending Bounces Back* (Washington, DC: Center for Strategic and International Studies, April 2019), p. 189, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/190412_DefenseAcquisitionTrends2018.pdf.
3. U.S. Department of Defense, *Summary of the 2018 National Defense Strategy of The United States of America: Sharpening the American Military’s Competitive Edge* (Washington DC: Department of Defense, January 19, 2018), <https://dod.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf>.
4. Rhys McCormick et al., *Measuring the Outcomes of Acquisition Reform by Major DoD Component* (Washington, DC: Center for Strategic and International Studies, September 2015), https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/150930_McCormick_Measuring-OutcomesAcquisitionReform_Web.pdf.
5. Rhys McCormick et al., *Trends in Industry: Key Findings and Insights from 2018 CSIS Research* (Washington, DC: Center for Strategic and International Studies, November 2018), p. 9, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/181130_DIIG_ExecutiveSummaryAnthology_WEB_update.pdf.
6. Rhys McCormick, Greg Sanders, and Andrew Hunter, *Measuring the Impact of Sequestration and the Drawdown on the Defense Industrial Base* (Washington, DC: Center for Strategic and International Studies, December 2017), p. 23, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/180111_McCormick_ImpactOfSequestration_Web.pdf.
7. McCormick et al., *Trends in Industry*.
8. McCormick et al., *Measuring the Impact of Sequestration and the Drawdown on the Defense Industrial Base*.
9. McCormick et al., *Trends in Industry*, p. 11.
10. Rhys McCormick et al., *Defense Acquisition Trends 2018*.
11. McCormick et al., *Trends in Industry*, p. 14.
12. McCormick et al., *Defense Acquisition Trends 2018*, p. 77-78.
13. The Big Five are the five largest defense contractors as measured by total defense contract obligations: Lockheed Martin, Boeing, Northrup Grumman, Raytheon, and General Dynamics. Large Vendors include all other contractors identified by CSIS as having total annual revenue of at least \$3 billion.
14. McCormick et al., *Measuring the Impact of Sequestration and the Drawdown on the Defense Industrial Base*; Samantha Cohen et al., *New Entrants and Small Business Graduation Rates in the Market for Federal Contracts* (Washington, DC: Center for Strategic and International Studies, November 2018), https://csis-prod.s3.amazonaws.com/s3fs-public/publication/181120_NewEntrantsandSmallBusiness_WEB.pdf.
15. McCormick et al., *Defense Acquisition Trends 2018*.
16. Ibid.