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## WEDNESDAY SESSIONS VOLUME I

### **Measuring the Success of Acquisition Reform by Major DoD Components**

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# Measuring the Success of Acquisition Reform by Major DoD Components

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## Abstract

This paper works to establish measurements to evaluate the success of the Department of Defense (DoD) components in implementing recent acquisition reform efforts, most notably the Weapon Systems Reform Act of 2009 and the differing iterations of Better Buying Power (BBP). By using publicly available data from the Federal Procurement Data System, this paper addresses three major questions: Have the DoD components increased their rates of effective competition since the introduction of BBP in 2010? How successful have the components been at promoting contracting opportunities for small businesses? Have the DoD components implemented the guidance in BBP 2.0 regarding the proper mix of fixed price and cost plus contracts?

By analyzing contracting trends for the Army, Navy, Air Force, Defense Logistics Agency, Missile Defense Agency, and the “Military Health” programs, this report provides important insights into what the data actually show in regards to the implementation, or non-implementation, of acquisition reform efforts. In future research, the measurements seen in this report will ultimately be used to answer the question, how can the services better institutionalize acquisition reform efforts?



## Introduction<sup>1</sup>

Since the 1950s, an ongoing deliberation among the Department of Defense (DoD), the Congress, and the supporting defense industrial base has focused on reforming the DoD's acquisition and procurement process. Whether it was the 1980s campaign for Congress to reduce "waste, fraud, and abuse" that led to the acquisition reforms in Goldwater Nichols; the 1990s movement to make the acquisition process more "responsive, effective and efficient" that led to the Federal Acquisition Streamlining Act; or the 2000s push to gain control over cost growth that led to the Weapon System Acquisition Reform Act, acquisition reform has generated an extensive range of definitions over its multiple incarnations during the last half century (Hanks et al., 2005, p. 13). Despite many implemented reforms being apparent "successes," the problems of cost and schedule growth have remained significant and persistent within the process. The failure to bring cost and schedule growth under control has repeatedly appeared at the forefront of the many investigations into reform. Accordingly, it can be surmised that "reflecting on the defense acquisition reform studies of the past [six] decades, it is clear that the acquisition system has been strongly resistant to change" (Fox, 2011, p. 189).

This raises the question of why the many different reforms enacted both by the Congress and internal DoD changes have failed to curb the growth of cost and schedule? Some literature suggests that many of the reforms have failed to address root causes, even when they are nominally addressed in the reform package. Speaking to the need to improve incentives for and the training of the acquisition workforce, Ronald Fox, former Assistant Secretary of the Army for acquisition, argues this line of thinking: "As long as defense acquisition is largely in the hands of managers for whom it is merely one step in a career path directed elsewhere, we will continue to see the same quality, cost, and scheduling problems" (U.S. Senate Committee on Homeland Security and Government Affairs, 2014). Meanwhile, others argue that the failure is due to a lack of institutionalization by the DoD components. This paper does not yet take a position on that issue, but based on the initial results in this paper and on past work, the study team does argue that the implementation and institutionalization of reforms significantly varies between DoD components (Ellman, 2014). This variation gives an opportunity to study institutionalization by digging deeper into the differences demonstrated in the contracting data record.

Using publically available data, CSIS first sought to establish measurements for the recent reform events to assess the success of reform and examine differences in performance among the DoD components, before ultimately looking at how DoD components may have institutionalized acquisition reform efforts differently. Leveraging nearly a decade's worth of experience utilizing the Federal Procurement Data System (FPDS), the study team analyzed contracting trends for the major DoD contracting components to measure how well they met the stated objectives of the recent reform efforts. The report first provides a methodology for leveraging the wealth of data in FPDS, before applying that methodology to DoD components to measure implementation of the reforms. The report then provides a background on the recent major reforms and how they sought to change the acquisition system.

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<sup>1</sup> The Center for Strategic and International Studies (CSIS) does not take specific policy positions; accordingly, all views expressed in this presentation should be understood to be solely those of the author(s).



This report breaks out contracts by the policy regime on the date the contract was signed to provide a look at the successes and failures of components implementation under the various reform efforts. CSIS will refine this methodology and expand it to other reform topics in the full technical report for this study.

## **Methodology**

For nearly a decade, the Center for Strategic and International Studies (CSIS) has issued a series of analytical reports on federal contract spending for national security across the government. This report builds and expands on this well-established methodology developed for previous reports in order to assess how the components have implemented the recent round of acquisition reforms.<sup>2</sup>

### ***Inherent Restrictions of FPDS***

Since the analysis presented in this report relies heavily on FPDS data, it incurs notable restrictions:

1. First, contracts awarded as part of overseas contingency operations are not separately classified in FPDS. As a result, we do not distinguish between contracts funded by base budgets and those funded by supplemental appropriations.
2. Second, FPDS includes only prime contracts, and the separate subcontract database has historically been radically incomplete, accounting for less than half of the expected obligations. Therefore, only prime contract data are included in this report.
3. Third, reporting regulations require that only unclassified contracts be included in FPDS. We interpret this to mean that few, if any, classified contracts are in the database. For the DoD, this omits a substantial amount of total contract spending, perhaps as much as 10%. Such omissions are probably most noticeable in R&D contracts.

### ***Constant Dollars and Fiscal Years***

All dollar amounts in this report are reported as constant fiscal year 2014 dollars unless specifically noted otherwise. See <http://csis.org/program/methodology> for the full methodology.

### ***Competition***

The study team followed DoD methodology and calculated competition by using two fields: extent of competition, which is preferred for contract awards, and fair opportunity, which is preferred for task and delivery orders under most Indefinite Delivery Vehicles (IDVs). Additionally, to better evaluate the rate of “effective competition,” the study team categorizes competitively awarded contracts by the number of offers received.<sup>3</sup>

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<sup>2</sup> The Congressional Budget Office recently adopted the methodology the CSIS study team developed to analyze Product or Services categories. See <https://www.cbo.gov/sites/default/files/cbofiles/attachments/49931-FederalContracts.pdf>

<sup>3</sup> CSIS defines *effective competition* as a competitively-sourced contract awarded after receiving two or more offers.



## **Vendor Size**

To analyze the breakdown of competitors in the market into small, medium, and large vendors, the CSIS team assigned each vendor in the database to one of these size categories. Any organization designated as small by the FPDS database—according to the criteria established by the federal government—was categorized as such unless the vendor was a known subsidiary of a larger entity. Due to varying standards across sectors, an organization may meet the criteria for being a small business in certain contract actions and not in others. The study team did not override these inconsistent entries when calculating the distribution of value by vendor size.

Vendors with annual revenue of more than \$3 billion, including from nonfederal sources, are classified as large. This classification is based on the vendor's most recent revenue figure at time of classification. For vendors that have gone out of business or been acquired, this date may be well before 2013. A joint venture between two or more organizations is treated as a single separate entity, and organizations with a large parent are also defined as large. Due to their system integrator role and consistent market share, the study team placed the six largest defense contractors (Lockheed Martin, Boeing, Raytheon, Northrop Grumman, General Dynamics, and United Technologies Corporation) into a separate category called "Big 6 defense vendors." Any vendor assigned a unique identifier by FPDS that is neither small nor large is classified as "medium."

In order to identify large vendors, the study team investigated any vendor with total obligations of \$500 million in a single year or \$2 billion over the study period. Determining revenues is the most labor-intensive part of the process and involves the use of vendor websites, news articles, various databases, and public financial documents. While large vendors are, on rare occasions, reassigned into the middle tier, the vast majority of investigations either maintain the status quo or identify small or medium vendors that should be classified as large.

## **Study Methodology**

The limitations of FPDS restrict the ability of the study team to assess certain elements of the recent acquisition reform efforts. For example, the study team has no visibility into whether contracts are awarded under lowest-price technically acceptable (LPTA) source selection criteria. The study team has attempted to study a variety of such questions through alternate avenues, such as searching for LPTA and variants in solicitations posted to the FedBizOps website, but while that term is commonly referenced by vendors, it often does not appear in the full text description. The end result of these explorations was a determination that the study team's efforts were best spent making more effective use of FPDS than trying to integrate new outside sources. For those reasons, the study team focused on three recurring Better Buying Power (BBP) tenets that are observable through FPDS data:

- Competition: Have the DoD components increased their rate of effective competition since the introduction of BBP in 2010?
- Vendor Size: How successful have the components been at promoting contracting opportunities for small businesses?
- Contract Type: Have the DoD components implemented the guidance in BBP 2.0 regarding the proper mix of fixed price and cost plus contracts?

To assess how the components implemented reform guidance, the CSIS study team analyzed contracts using contract signed dates to divide the recent reforms into three periods for each of the variables above. Contract trends were first separated into new



contracts started during the tenure of Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[ATL]) Ashton Carter, but before any of the recent reforms, to create a baseline from which to compare. Second, the variables were divided based on a series of reforms passed near the mid-point of President Obama’s first term, each of which contained specific guidance regarding that particular variable. Finally, new contracts were divided upon the release of the final BBP 2.0 guidance. The dates for each variable period are as follows:

### **Competition**

- Pre–Better Buying Power 1.0: April 27, 2009–November 2, 2010
- Better Buying Power 1.0: November 3, 2010–April 23, 2013
- Better Buying Power 2.0: April 24, 2013–September 21, 2014

### **Vendor Size**

- Pre–Small Business Task Force: April 27, 2009–September 22, 2010
- Small Business Task Force (SBTF): September 23, 2010–April 23, 2013
- Better Buying Power 2.0: April 24, 2013–September 21, 2014

### **Pricing Mechanism**

- Pre-NDAA: April 27, 2009–March 15, 2011
- 2009 NDAA Section 864: March 16, 2011–April 23, 2013
- Better Buying Power 2.0: April 24, 2013–September 21, 2014

The CSIS study team further studied each period for analysis “within” the reform period, and “throughout” the study time frame. The “within” period represents contract actions within that reform period. For example, a fixed price contract first signed on July 20, 2011, would be considered in the “within” period of the 2009 National Defense Authorization Act (NDAA) Section 864 regime until April 23, 2013. The totality of a contract’s obligations would be considered as part of the “throughout” period.

By looking at both the “within” and “throughout” trends, the study team gained initial insights into the effect that the cyclical nature of contracting might have on assessing acquisition reform. CSIS is also well aware that the acquisition policy changes took place at different points during the fiscal year and that this adds noise to the data. For example, September 30 is the busiest day for obligations of any fiscal year, and the inclusion or exclusion of that date will move the data for reasons unrelated to reform efforts. CSIS will seek to understand and, where possible, adjust for these issues in the final technical report.

In addition to those questions, the study team will significantly expand the variables studied to answer the following key acquisition reform implementation questions in the final technical report:

- Product or Service Area: What impact do the shifts in components acquisition portfolios, resulting from the drawdown of the war efforts, account for changes in trends?
- Contract Vehicle: Have the components shifted away from certain contract vehicles?
- Top Vendors: As the DoD seeks efficiencies and savings, have any vendors moved out of specific markets?



## **Recent Acquisition Reform Efforts**

The major reform efforts that the study team will be testing are the Weapon Systems Acquisition Reform Act of 2009 (WSARA), the 2009 NDAA Section 864, and Better Buying Power (BBP). These reform efforts sought to bring efficiencies to the system, but through different means. WSARA focused more heavily on reducing the time and cost overruns of the Major Defense Acquisition Programs (MDAPs) through increased oversight of the acquisition process. The 2009 NDAA Section 864 focused on enhancing the effective use of cost-reimbursement contracts. BBP focused more on providing acquisition officials policy and program implementation guidance to find efficiencies across all levels of acquisition categories (ACATs), to include MDAPs.

### ***Weapon Systems Acquisition Reform Act of 2009 (WSARA)***

Passed unanimously in both the Senate and the House of Representatives, President Obama signed the Weapon Systems Acquisition Reform Act of 2009 into law on May 22, 2009 (Berteau, 2010). Designed to reform and curtail time and cost overruns of the major weapon systems, WSARA created new oversight positions and made numerous process changes. In signing the bill, President Obama said, “the purpose of this law will be to limit cost overruns before they spiral out of control. It will strengthen oversight and accountability by appointing officials who will be charged with closely monitoring the weapons systems we’re purchasing to ensure that costs are controlled” (The White House, Office of the Press Secretary, 2009).

There were a substantial number of changes made, designed to reduce time and cost overruns in acquiring the largest weapon systems. WSARA created or modified a number of positions within the Office of the Secretary of Defense, including Director of Cost Assessment and Program Evaluation (D, CAPE), Deputy Assistant Secretary of Defense for Developmental Test & Evaluation (DTE), and Director of Performance and Root Cause Analysis.

Other notable acquisition process changes include the following:

- Requirements for competitive acquisition strategies, at both the prime and subcontract levels
- Modifying the requirements process to include
  - Allowing combatant commanders the opportunity to provide inputs on joint requirements
  - Providing that USD(AT&L), USD Comptroller, and D, CAPE serve as advisors to the Joint Requirements Oversight Council
  - Considering Cost, Schedule, and Performance Tradeoffs at requirements generation stage of acquisition process
- Improved cost estimation processes (WSARA, 2009)
- Tougher requirements for continuing programs experiencing critical cost breaches
- A more stringent set of regulations on organizational conflicts of interest

### ***Duncan Hunter Defense Authorization Act for 2009 (2009 NDAA Section 864)***

Section 864 of the Duncan Hunter Defense Authorization Act for 2009, herein the 2009 NDAA Section 864, mandated revisions to the Federal Acquisition Regulations intended to more effectively use and manage cost-reimbursement contracts for the DoD. The resulting changes occurred in four areas: guidance on cost-reimbursement contracts, identification of acquisition plan findings, acquisition workforce resources, contract



administration functions. The guidance on cost-reimbursement contracts explained under what circumstances contracting officers should select a contract type other than firm-fixed-price, under what circumstances cost-reimbursement should be used, and how to combine contract types. The next changes, those surrounding the identification of acquisition plan findings, required greater levels of documentation from the acquisition professionals and managers in the process of selecting a contract type. The third category of changes, acquisition workforce resources, ensured that contracting officers have access to helpful resources, noting cost-reimbursement contracts are more complicated than firm-fixed-price. It also required a properly trained contracting officer's representative (COR) or contracting officer's technical representative (COTR) to be used in managing the contracts. The final area of changes, contract administrative functions, required that contract officers and their administrative office evaluate the accounting systems of contractors during performance (Federal Acquisition Regulation: Proper Use and Management of Cost-Reimbursement Contracts, 2011).

### ***Better Buying Power***

Anticipating the imminent budget tightening that eventually led to the passage of the Budget Control Act, then-Under Secretary of Defense (AT&L) Carter introduced the first iteration of BBP on June 28, 2010 (Carter, 2010). This new initiative supported a Department-wide goal to find efficiencies and savings within the contracted portion of the DoD budget.<sup>4</sup> Under the overarching goal to “do more without more,” the new initiative had seven main objectives (Carter, 2010):

- Deliver the warfighting capability we need for the dollars we have
- Get better buying power for warfighter and taxpayer
- Restore affordability to defense goods and services
- Improve defense industry productivity
- Remove government impediments to leanness
- Avoid program turbulence
- Maintain a vibrant and financially healthy defense industry

Accompanying BBP was a set of implementation guidelines containing general guidance and specific actions for the five major areas: Target Affordability and Controlling Cost Growth, Incentivize Productivity and Innovation in Industry, Promote Real Competition, Improve Tradecraft in Services Acquisition, and Reduce Non-Productive Processes and Bureaucracy (Carter, 2010). To target affordability and control cost growth, then-USD(AT&L) Carter directed acquisition managers to mandate affordability as a requirement for potential acquisition programs, drive productivity growth through will-cost/should-cost management, eliminate redundancy within warfighter portfolios, make production rates economical and hold them stable, and set shorter program timelines and manage to them.

To incentivize productivity and innovation in industry, the guidelines directed acquisition managers to reward contractors for successful supply chain and indirect expense

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<sup>4</sup> The first edition of BBP will hereinafter be referred to as BBP 1.0. When introduced, this new initiative was simply known as Better Buying Power. It was not referred to as BBP 1.0 until after the introduction of BBP 2.0



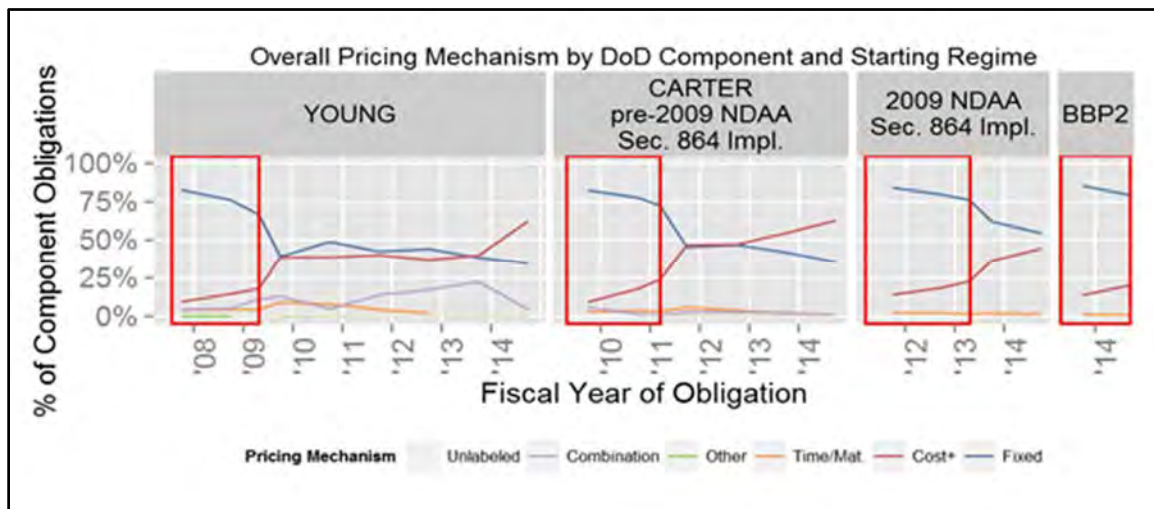
management, increase the use of Fixed-Price Incentive Firm Target (FPIT) contract type, and reinvigorate the industry’s independent R&D and protect the defense technology base. To promote real competition, the guidelines recommended presenting a competitive acquisition strategy at each program milestone, removing obstacles to competition such as requiring open systems architectures, and increasing dynamic small business role in defense marketplace competition.

In 2012, two years after the launch of Better Buying Power 1.0, the DoD published a second iteration of the initiative. According to Under Secretary (AT&L) Frank Kendall (2014), the progression from BBP 1.0 to 2.0 “reflected a change in emphasis from specific ‘best practices’ to an increased emphasis on helping acquisition professionals think critically and make better decisions as they confront the myriad, complex situations we encounter in defense acquisition.” Continuing the efforts of BBP 1.0, BBP 2.0 represented not a major change in policy, but a shift in the cited emphasis while retaining the core initiatives.

The DoD has seen modest success in implementing “achieving affordable programs” and “improving workforce professionalism”—two focus areas especially important to the initiative. The DoD effectively applied affordability caps on existing MDAPs, but has met and will continue to meet considerable challenges in ensuring affordability for critical new portfolios such as strategic deterrence, shipbuilding, and tactical aircraft.

### Pricing Mechanism

This section looks at trends in the use of contract pricing mechanisms (fixed price, cost reimbursement, time & materials, and combination) for the DoD overall and within the major DoD components, before and after major pieces of acquisition reform legislation went into effect (see Figures 1 and 2).



**Figure 1. Overall Pricing Mechanism by DoD Component and Starting Regime**  
**Overall DoD**

For contracts signed prior to the issuance of final guidance for the implementation of Section 864 of the 2009 NDAA, a strong majority (68%) were awarded under fixed price contract types, with most of the remaining (26%) awarded under cost reimbursement contract types.

There was a slight rise in the shares of contract obligations awarded under fixed in the post–2009 NDAA/ Section 864 pre–BBP 2.0 period and those signed in the post–BBP



2.0 period. For contracts signed under the 2009 NDAA Section 864, 76% of contract obligations were fixed price. The share of fixed price contract obligations continued to grow slightly under BBP 2.0, rising to 80%. Under the BBP 2.0 guidance time and materials (T&M), contract types declined, falling from 2% pre-BBP 2.0 to 1% post-BBP 2.0, reflecting guidance in BBP 2.0 to scale back the use of T&M contract types.

### **Army**

Trends within the Army track closely with those of the overall DoD. For contract actions under those contracts prior to final implementation of 2009 NDAA Section 864, only 13% were awarded under cost reimbursement contract types, while 81% were fixed price. For contract actions under those pre-2009 NDAA Section 864 contracts that went into effect “throughout” the post-2009 NDAA Section 864 period, 21% were cost reimbursement, while 72% were fixed price.

Like the overall DoD, the mix of contract pricing mechanism types was largely unchanged between contracts signed in the post-2009 NDAA Section 864/pre-BBP 2.0 period and those signed in the post-BBP 2.0 period: 16% of contract obligations in both periods were awarded under cost reimbursement contract types, while fixed price rose from 80% to 83%, largely drawing from T&M.

### **Navy**

Trends within the Navy also largely follow the pattern seen in the overall DoD. For contract actions “throughout” the pre-2009, the use of cost reimbursement contract types increased to 35%, while fixed price declined to 61%.

Also, like the overall DoD, the mix of contract pricing mechanism types was largely unchanged between contracts signed in the 2009 NDAA Section 864/pre-BBP 2.0 period and those signed in the post-BBP 2.0 period: approximately 25% of contract obligations in both periods were awarded under cost reimbursement contract types, while fixed price accounted for 74% in both periods.

### **Air Force**

Though the trend within Air Force contract obligations follows the same pattern as the overall DoD, the magnitude of the shift is significantly smaller. For contracts signed pre-2009 NDAA Section 864, 25% of pre-2009 NDAA contract actions were awarded under cost reimbursement contract types, compared to 30% for contract actions going into effect post-2009 NDAA Section 864, while use of fixed price declined slightly, from 70% to 66%.

There was actually a small shift in pricing mechanism usage between contracts signed in the post-2009 NDAA Section 864/pre-BBP 2.0 period and those signed in the post-BBP 2.0 period: The use of fixed price contract types declined from 73% to 71%, while cost reimbursement increased from 25% to 28%.

### **Defense Logistics Agency**

Over 98% of Defense Logistics Agency (DLA) contract obligations were awarded under fixed price contract types in all periods, reflecting the fact that the DLA almost exclusively contracts for commercial goods and commodities like fuel.

### **Missile Defense Agency**

Unlike any other major DoD components, an overwhelming majority of Missile Defense Agency (MDA) contract obligations are awarded under cost reimbursement contract types. It is thus not surprising that the trends in contract pricing usage within the MDA differ notably from the other components. For contracts signed pre-2009 NDAA Section 864, there was minimal difference in pricing mechanism usage between pre-2009



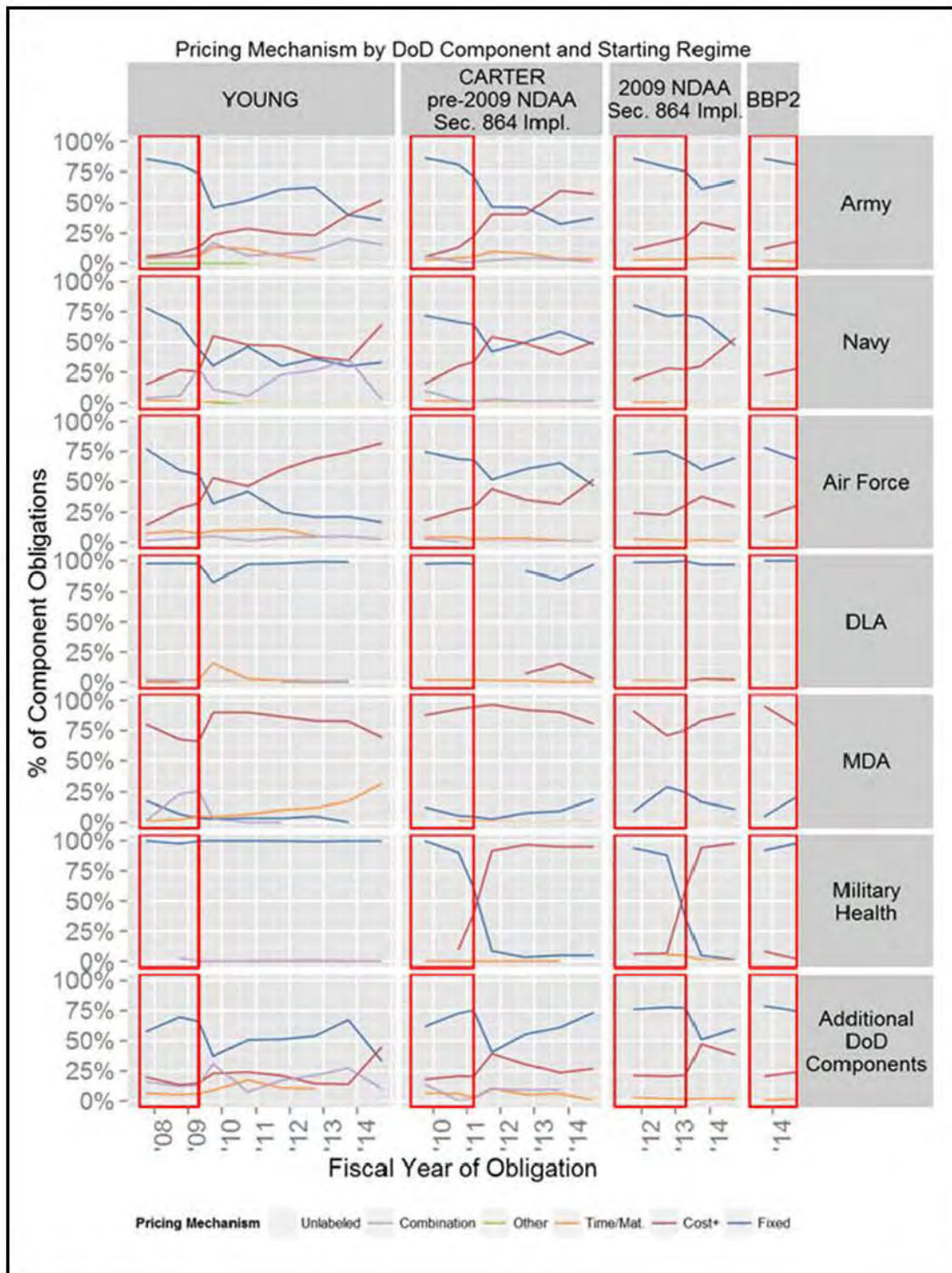
NDAAs Section 864 contract actions (93% cost reimbursement, 5% fixed price) and contract actions that went into effect post-2009 NDAA Section 864 (91% cost reimbursement, 8% fixed price).

The use of fixed price contract types increased dramatically in contracts signed post-2009 NDAA/pre-BBP 2.0, with the share of obligations awarded under fixed price contract types rising to 26%, while cost reimbursement fell to 74%. This trend was reversed in contracts signed post-BBP 2.0, as the new guidance reduced its emphasis on using fixed price contract types: The share of obligations awarded under fixed price contract types fell to 19%, while the share for cost reimbursement rose to 81%.

### ***Military Health***

Pricing mechanism usage fluctuated dramatically for Military Health, largely the result of how few dollars (relatively speaking) were obligated under those programs until recently. It is thus difficult to discern if there are real shifts in pricing mechanism usage between the periods, or if it is the result of increasing contracting activity and a changing contracting mission. The study team will investigate further, in consultation with experts, to better understand contracting behavior within Military Health in recent years.



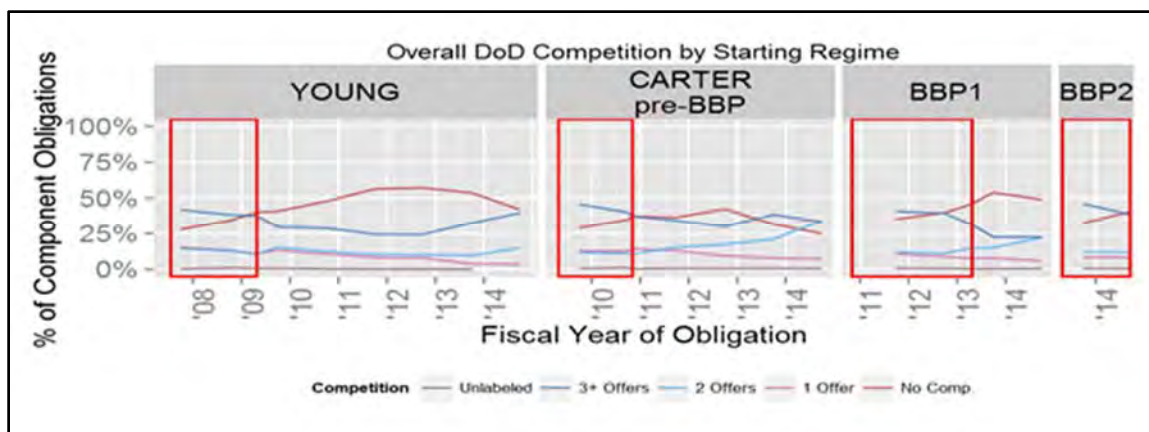


**Figure 2. Pricing Mechanism by DoD Component and Starting Regime**

### Competition

This section looks at trends in competition (effective competition, competition with a single offer, and no competition), for the overall DoD and within the major DoD components, before and after major pieces of acquisition reform legislation went into effect (see Figure 3).





**Figure 3. Overall DoD Competition by Starting Regime**

### Overall DoD

For contracts signed during the Carter AT&L period, but before the issuance of BBP 1.0 guidance, 53% of contract obligations were awarded following effective competition, while 34% were awarded without competition. Interestingly, there was no real difference between the contract obligations during the “within” years before BBP and the totality of contract obligations over the study period. Under the BBP 1.0 guidance, there was a slight decrease in the competitiveness of the DoD contracting marketplace when compared to before the reforms. For contracts implemented during the BBP 1.0 years, 39% of contract obligations were awarded without competition. Looking at the “out” years of the BBP 1.0 guidance, that rate continues to grow, reaching 42% of contract obligations without competition. During BBP 1.0, contract obligations awarded with just a single offer started to decline, falling to 8% “throughout” the study period.

Under the BBP 2.0 guidance, contract obligations awarded without competition fell to 38% of total DoD contract obligations, while the share of contract obligations awarded with effective competition increased to 53%.

### Army

Of the DoD components, the Army has historically had slightly higher average effective competition rates than the other military services. The data show that for Army contracts signed under the the Carter AT&L regime prior to BBP, 56 of contract obligations were awarded following effective competition. The shares of contracting obligations awarded without competition was just 28%. Under the BBP 1.0 guidance, the Army saw a slight decline in the competitiveness of the contracting environment. Both “within” the BBP 1.0 period and “throughout” the study time frame, the shares of contracts signed under BBP following effective competition were 50%. The share of contracts awarded without competition meanwhile rose to 37%. Similar to the overall DoD trend, contracts awarded after competition with just a single offer begin to decline at the start of BBP 2.0.

Beginning with BBP 2.0 guidance, the Army returned to the effective competition rates seen before the recent acquisition reforms. After the issuance of the BBP 2.0 final guidelines, the share of contracts awarded following effective competition rose to 56% of new start Army contracting obligations. Shares of new contracts awarded without competition, or awarded after just a single offer, fell to 34% and 9%, respectively.

## ***Navy***

Prior to the implementation of the final BBP 1.0 guidance, Navy contracting was less competitive than for the overall DoD. For contract actions in the pre-BBP period, 46% of Navy contract obligations were awarded after effective competition—an extended observation of contract actions under those pre-BBP contracts throughout the study time frame shows the share of contract obligations decrease to 42%. Under the BBP 1.0 guidance, Navy contracting became an even less competitive marketplace. For contracts that went into effect before BBP 2.0, 51% of contract obligations were awarded after effective competition. That rate fell to 45% for contract obligations under pre-BBP 2.0 contracts throughout the study time frame. Similar to the overall trends, the data show the start in the decline in contracts awarded after just a single offer after the issuance of the BBP 1.0 guidance.

Under the BBP 2.0 guidance, the trends seen in BBP 1.0 begin to reverse for contracts signed after April 24, 2013, as the Navy awarded 49% of new start contract obligations without competition and 42% following effective competition. The CSIS study team plans to explore this issue in more depth in the final technical report. With the decline in vendors capable of building naval vessels, it's possible that a few large contracts might be responsible for the trends described in this section.

## ***Air Force***

Before BBP 1.0, the Air Force contracting environment was relatively less competitive, compared to the rest of the DoD. For both contract actions during the pre-BBP period, and throughout the study time frame, the Air Force awarded 52% of contract obligations without competition. Of note, while the rest of the DoD components began decreasing the shares of contracts awarded with just a single offer competition during BBP 1.0, that share in the Air Force was already below 10% prior to BBP 1.0 guidance. Under the BBP 1.0 guidance, the Air Force failed to improve their already-below-average rate of effective competition. For contracts signed under the BBP 1.0 guidance, the Air Force awarded 63% of total contract obligations without competition. While the Air Force awarded only 5% of total new start contracts with just a single offer, the rate of effective competition fell to just 32%.

Under the BBP 2.0 guidance, the Air Force saw small improvements in the competitiveness of the Air Force marketplace. Under the guidance, the Air Force awarded 58% of new start contract obligations without competition. Over that same period, they awarded 34% of new start contract obligations following effective competition. While this is an improvement from BBP 1.0, the Air Force is still substantially less competitive than the rest of the Department.

## ***DLA***

Under the recent round of acquisition reform efforts, the DLA improved on already strong effective competition rates. Prior to BBP 1.0, the DLA awarded 69% of contract obligations following effective competition throughout the study period under the Carter regime. Under BBP 1.0, that rate rose to 76% of contract obligations throughout the study period. That rate remained steady with the issuance of BBP 2.0, as the DLA awarded 75% of new start contract obligations following effective competition.

## ***MDA***

Within the MDA, there were notable shifts in the contracting landscape both with the different reforms, and the “within” and “throughout” periods of acquisition reform. The MDA awarded 58% of contracts without competition in the years before the issuance of the final



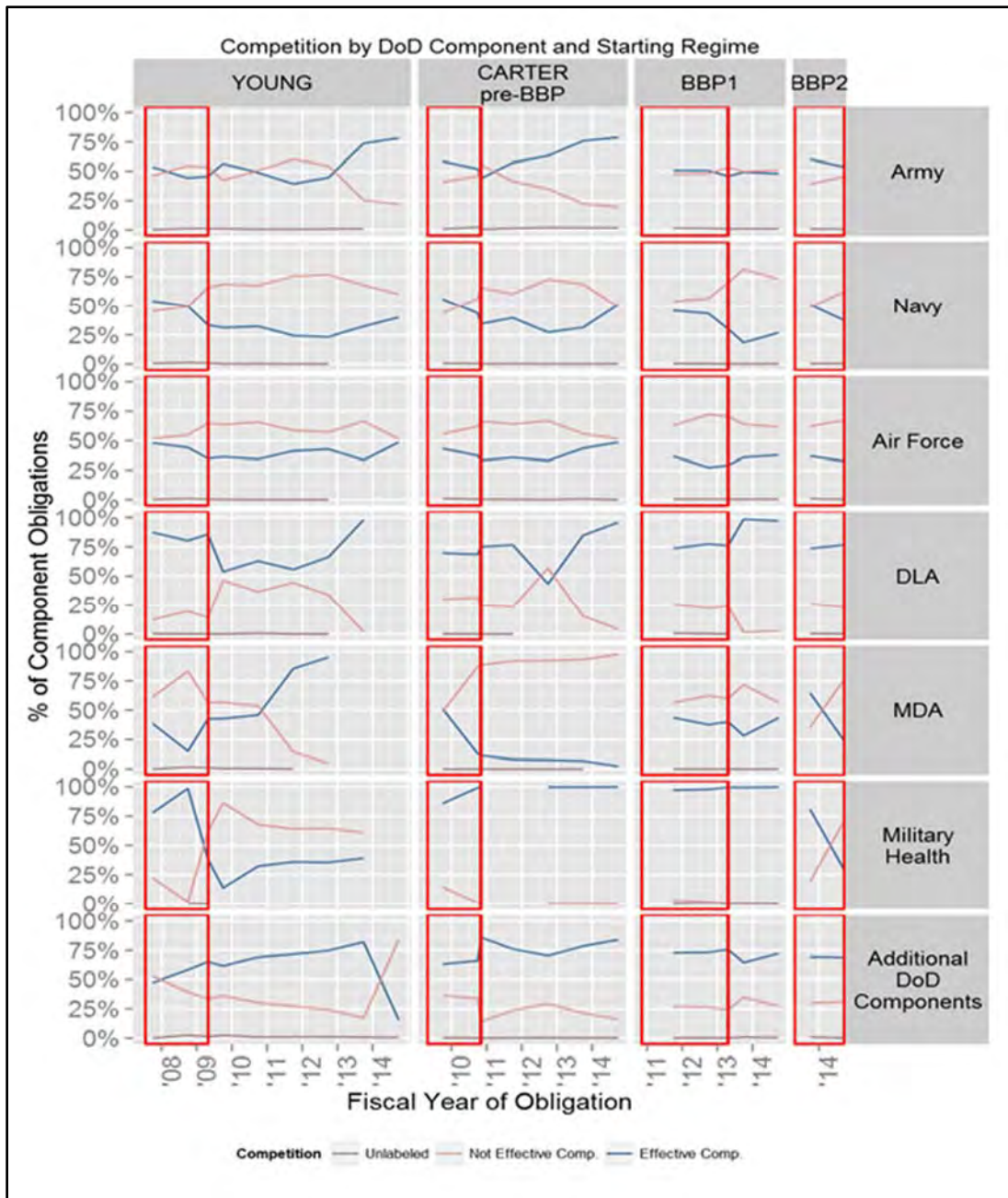
BBP 1.0 guidelines. Looking at contract actions under those pre-BBP contracts across the entire study time frame, that rate rises to 79%.

As the BBP 1.0 reforms went into effect, the share of contracts awarded without competition fell to 50% throughout the study time frame. When the BBP 2.0 guidelines were issued, contracts awarded without competition began to rise again (62% during BBP 2.0). CSIS plans to consult with external experts more familiar with MDA contracting to better understand how much of this is attributable to the cyclical nature of MDA contracting versus difficulties in institutionalizing reforms.

### ***Military Health***

In the years before the issuance of the BBP 2.0 guidance, 99% of Military Health contracts were awarded following effective competition. In 2014, Military Health programs awarded \$1.52 billion in no competition contract obligations, the first substantial awarding of contract obligations without competition for the Military Health programs. CSIS plans to consult with industry experts to identify if this was a one-year trend, or signaling by the DoD for a shift to non-competitive contracting in the Military Health programs.





**Figure 4. Competition by DoD Component and Starting Regime**

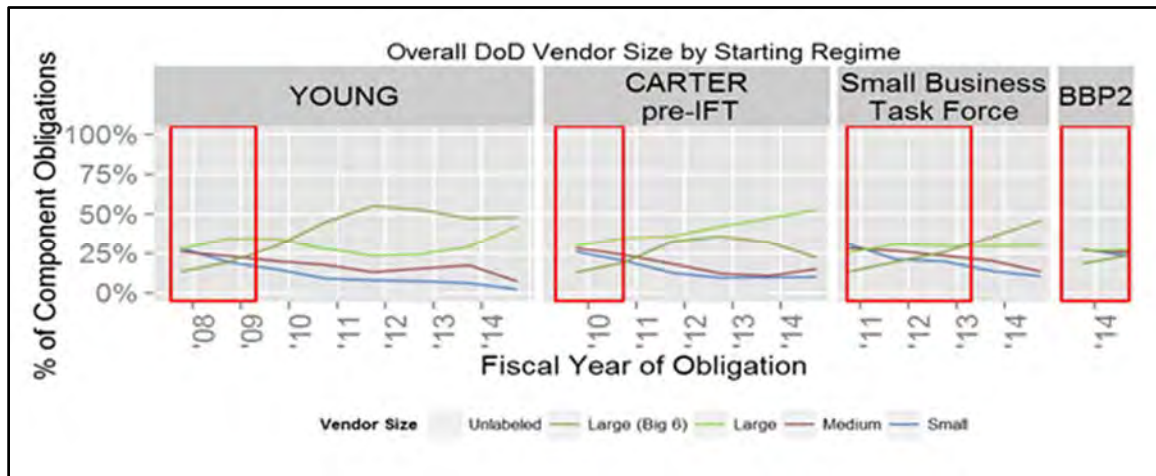
### Vendor Size

This section looks at trends in the share of DoD contract obligations based on vendor size (Big 6, large, medium, and small)<sup>5</sup> for the DoD overall and within the major DoD

<sup>5</sup> See the Methodology section for a detailed description of the four vendor size categories.



components across three periods, set apart by the implementation of two major pieces of acquisition reform legislation: Small Business Task Force and Better Buying Power 2.0. In this section, we calculate market share by examining all obligations for contracts based on the date when the contract was first signed.



**Figure 5. Overall DoD Vendor Size by Starting Regime**

**Overall DoD**

Prior to the implementation of BBP 2.0, the share of contract obligations going towards small businesses remained steady. Under the BBP 2.0 guidance, the share of contract obligations awarded to small businesses rose to 25% of contracts across the Department. This increase in small businesses came as large vendors contract obligations fell. Prior to the implementation of the SBTf and BBP 2.0 guidance, large vendors represented 36% of overall DoD contract obligations. Under the SBTf guidance, that share fell to 30%, before falling even further to 27% under BBP 2.0. The share of contract obligations to medium vendors remained at 23% for both “within”- and “throughout” SBTf, but then increased to 26% after BBP 2.0.

**Army**

Over the course of the study time frame, the Army experienced large shifts in the awarding of contract obligations based on vendor size. Prior to the SBTf and BBP 2.0, the Army awarded 35% of contract obligations to large vendors and just 13% to the Big 6 vendors. With the implementation of BBP 2.0, the share of contract obligations going to large vendors had fallen to 19%, while the share for the Big 6 defense vendors increased to 20%. Small vendors saw incremental increases throughout the study time frame, increasing from 21% of Army contracts before the SBTf, 23% throughout the SBTf, and 29% since the introduction of BBP 2.0. However, it remains to be seen how much of the shift can be accounted for as a result of the drawdowns in Afghanistan and withdrawal from Iraq when compared to the implementation of any acquisition reform guidance. CSIS will explore shifts in the vendor size across Product or Service Code categories in the final report.

**Navy**

Before the implementation of any of the recent acquisition reform efforts, 61% of contract obligations were awarded to large and Big 6 defense vendors. For contracts signed under the SBTf guidelines, the share of contract obligations for the Big 6 defense vendors increased to 38%. The share of contract obligations for small vendors meanwhile fell to 17% throughout. The share for large vendors fell from 30% to 6%.



Under the BBP 2.0 guidelines, small businesses made a resurgence, increasing to 23% of new start contract obligations. The Big 6 defense vendors' share of contract obligations fell from 38% to 29%. Large vendors remained steady at a 26% share of contract obligations, while medium vendors increased from 19% to 22%.

### ***Air Force***

Of all the military components, the Air Force has historically awarded the plurality of contract obligations to the Big 6 defense vendors. Before the recent acquisition reform efforts, the Air Force awarded 43% of new start contract obligations to the Big 6. Meanwhile, small vendors only received 16% of Air Force contract obligations. Under the SBTF guidelines, the shares for the Big 6 continued to grow at the expense of small vendors. Throughout the SBTF guidelines, 49% of new start Air Force contract obligations were awarded to the Big 6, while small vendors received just 16%.

Under BBP 2.0, small vendors made a mini-resurgence, growing from 13% under the SBTF guidelines to 19%. The Big 6 defense vendors' share of new start Air Force contract obligations decreased from 49% to 36%. Under BBP 2.0, the Air Force saw the growth of medium vendors for the first time in the study period. Before and during the SBTF guidelines, medium vendors received 18% of contract obligations, before growing to 26% under the BBP 2.0 guidelines.

### ***DLA***

The share of the DLA's contract obligations for small vendors increased, but only after the implementation of BBP 2.0. The share of obligations to small vendors remained constant at 20% before and after SBTF but grew to 25% after BBP 2.0. Medium vendors' share of obligations grew from 25% to 29%, before declining to 25% after BBP 2.0. Large vendors share declined from 50% pre-SBTF to 46% after SBTF, and held relatively steady (45%) after BBP 2.0.

### ***MDA***

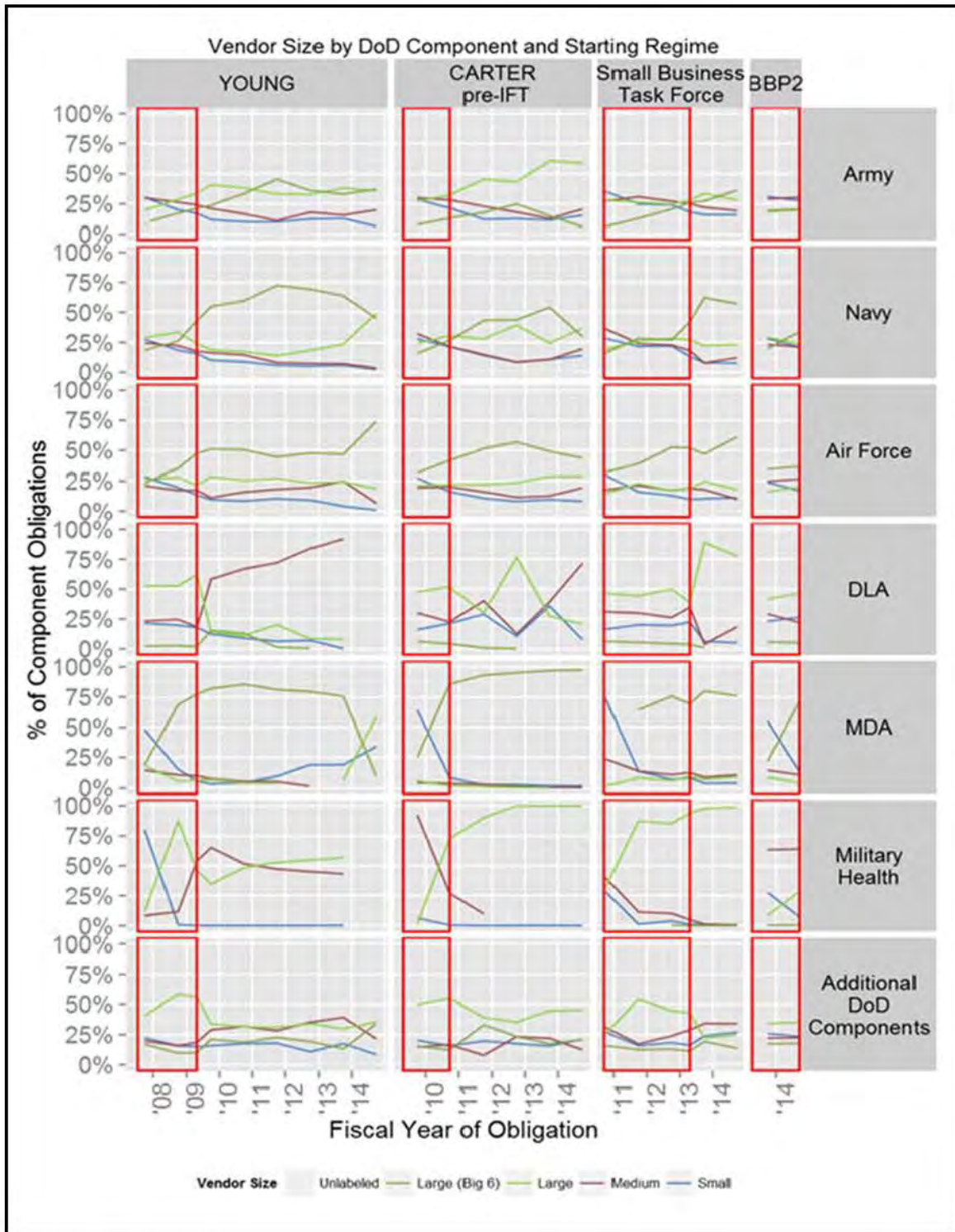
The MDA saw the strongest reaction to policy guidance throughout the study period. Before the implementation of any reform efforts, small vendors were awarded just 5% of contract obligations. After the implementation of the SBTF guidelines, that share increased to 7%. After BBP 2.0 was introduced, that share further increased to 17%.

Throughout the study period, there was also a rise in medium vendor share and a decline in Big 6 vendor share of obligations. Before reforms, the Big 6 and medium vendors were awarded 92% and 2%, respectively. Under the SBTF guidelines, the Big 6 fell to 74% of contract obligations, while medium vendors grew to 11%. Under BBP 2.0 guidelines, the Big 6 fell to 67% of contract obligations while medium vendors remained steady at 11%.

### ***Military Health***

Military Health, while experiencing the same general trend toward small and medium vendors, was uniquely skewed toward medium vendors after the implementation of BBP 2.0. The share of contract obligations going to medium vendors for those contracts signed before and after SBTF remained constant at 3%. After the implementation of BBP 2.0, it increased to 64%. The share of obligations for small businesses increased more modestly, from 0% to 1% to 10%. Big 6 vendors had no market share for any of the periods in our study for Military Health. Large vendors lost market share in an inverse manner to the way medium vendors gained market share. Obligations going to large vendors accounted for 97% of obligations before SBTF, declining to 95% after SBTF, and declined again to 25% after BBP 2.0.





**Figure 6. Vendor Size by DoD Component and Starting Regime**

**Conclusions**

The data presented here provides a first look into how the services are implementing the recent acquisition reform guidelines. In this incarnation, the data is still noisy, in large part due to reform regimes starting during different parts of the year, having varying



lifetimes, the influence of larger external factors such as the wars in Iraq and Afghanistan, and sequestration. As a result, cyclical effects, longer duration contracts, and overseas contracting are key hidden variables. In addition, there are other reform topics the study team would like to address with this methodology, and the study team will be consulting with a range of outside experts to aid in interpretation and refinement. Nonetheless, the data do provide important first insights into the following three areas:

*Using the Appropriate Contract Type:* In recent years, industry has expressed concerns that the recent round of acquisition reforms have over-emphasized the use of fixed price contracts. The data affirm that there has been a rise in fixed price contracting across the Department in the recent round of acquisition reforms. While the Army used predominantly fixed price for new start contracts, even before recent reforms efforts, the share of fixed price contracting has increased slightly since the recent reforms. Both the Navy and the Air Force have seen similar rises in fixed price for new contracts. Even the Missile Defense Agency, which previously predominantly used cost reimbursement contracts, has seen increases in fixed price contracting in recent years. The study team intends to examine the appropriateness of this expansion by using the results of an ongoing parallel study on the topic of when fixed-price contracting is most likely to succeed.

*Increasing the Competitive Contracting Environment:* Across the board, the data show that DoD components made little progress in making contracting more competitive during BBP 1.0, but there is a glimmer of progress for BBP 2.0. While the Army and DLA remained relatively competitive, the Air Force and the Navy both saw effective competition rates decline considerably during BBP 1.0. Since then, both services have made small improvements during BBP 2.0, but it remains too early to tell if these are real shifts or the result of outside forces. In 2014, the Military Health programs saw enormous growth in contract obligations awarded without competition. While it is far too early to form any definitive conclusions, this is a potentially troubling trend.

*Small Business Participation:* Before the introduction of BBP 2.0, the data show little improvement in promoting small businesses' participation in the DoD contracting marketplace. Under BBP 2.0, the share of total DoD contract obligations awarded to small businesses increased. With the recent reforms, the Army leads the promotion of small business, awarding the highest percentage of all new start contracts under BBP 2.0 to small businesses (29%). The Navy meanwhile saw slight decreases under the SBTF guidelines before returning to pre-SBTF levels under BBP 2.0. The Air Force contracting data show that the service has not improved small business participation since the recent reform efforts. Under the SBTF guidelines, Air Force small business participation rates fell and failed to improve under BBP 2.0. The MDA and Military Health, which had previously seen negligible small business participation rates, made small but noticeable improvements.

### **Next Steps**

As mentioned throughout this paper, the study is ongoing. In order to validate these findings, CSIS will consult with outside experts to identify data anomalies and reasons for sudden spikes, such as the growth in fixed price and non-competitive contract obligations for Military Health. In addition to expert validation, CSIS will continue to refine this methodology and expand it to other reform questions. Through this process refinement, expansion, and outside consultation, CSIS will answer the question, where have DoD components better institutionalized acquisition reform?



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