



Highlights of GAO-06-533SP.

## Why GAO Convened This Forum

The Department of Defense (DOD) and other federal agencies face challenges to maintain suppliers capable of meeting current and future mission requirements. Changing security threats, rapidly evolving science and technology, and budget imbalances have created an uncertain acquisition environment. As DOD, Department of Homeland Security, and others seek to fundamentally transform operations, they are giving contractors increased program management responsibilities to develop requirements, design products, and select major system and subsystem contractors. At the same time, the government workforce that manages and oversees these purchases has decreased. An increasingly global and interconnected defense and commercial supplier base also poses significant acquisition challenges.

To identify and discuss key supplier issues, GAO sponsored a 1-day forum in October 2005 where defense policy experts from federal agencies, defense industry, nonprofit organizations, and academia shared insights into the current supplier base environment. As agreed with the participants, GAO's goal was to engage in a dialog on a non-attribution basis to reach consensus on the top challenges facing agencies as they seek to manage the supplier base. This report provides highlights of the forum.

[www.gao.gov/cgi-bin/getrpt?GAO-06-533SP](http://www.gao.gov/cgi-bin/getrpt?GAO-06-533SP).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Ann Calvaresi-Barr at (202) 512-4841 or [calvaresibarra@gao.gov](mailto:calvaresibarra@gao.gov).

## HIGHLIGHTS OF A GAO FORUM

# Managing the Supplier Base in the 21st Century

## What Participants Said

After discussing at length a range of views on the supplier base issues the government faces, participants identified and reached consensus on the top five challenges as well as some potential next steps to address them.

**1. Balancing acquisition risks and rewards.** Participants noted that DOD's current acquisition policy can discourage small innovative businesses and other suppliers from contracting with the government because of perceived risks such as fixed profit margins, uncertain government funding, and navigating the complex federal acquisition environment. To encourage innovation, spur competition, and provide the government with better acquisition options, participants recommended several actions, including developing a flexible acquisition strategy that distinguishes emerging markets from mature ones and providing rewards that incentivize companies with emerging technologies to take more risks.

**2. Difficulty managing U.S. government policies in an international business environment.** According to forum participants, the U.S. government has not struck an appropriate balance between the globalizing U.S. supplier base and protecting U.S.-based companies. Participants explained that DOD and other agencies have not clearly identified U.S. industries and technologies to protect. Participants also suggested that the U.S. may overly restrict technology transfers to allies, which may discourage global suppliers to participate in the U.S. supplier base. To reap the benefits from globalization and expand the supplier base while protecting sensitive technologies, participants suggested adjusting the U.S. export control paradigm to reflect differing national security relationships.

**3. Defining a strategic supplier management policy.** Participants noted that current supplier policy lacks a comprehensive framework to identify and achieve goals. To develop a sound supplier policy, participants recommended that the government clearly identify investment targets, key technologies to develop, and address differences in managing various types of suppliers.

**4. Managing multiple tiers of the supplier base.** Participants noted that the current lack of visibility into the supply chain complicates efforts to maintain a strong supplier base. To better manage the multi-tier supplier base, participants suggested that DOD improve efforts to collect data on the lower tiers of the supply chain.

**5. Workforce skills development and culture change.** Participants agreed that the acquisition workforce—a culture resistant to change—is not equipped to manage in a new acquisition environment. To ensure the federal acquisition workforce has the right skills, forum participants recommended that relevant agencies devote attention to identifying and developing the capabilities of the acquisition workforce.