

U.S. DEFENSE INDUSTRY RELIES HEAVILY ON PA MANUFACTURERS



Pennsylvania's manufacturing sector plays a critical role in our nation's defense.

According to the U.S. Department of Defense (DoD), Pennsylvania ranked 6th among all states in total DoD contract fulfillment during the 2015 fiscal year. That year, commonwealth businesses provided more than \$10.3 billion of goods and services to all branches of our nation's military, including more than \$7.5 billion of manufactured supplies and equipment. Reports generated from the Pennsylvania Defense Contract Analysis website, which accumulates data from a number of public and governmental sources, indicate that state manufacturers were awarded \$6 billion in direct DoD contracts and an additional \$1.59 billion in subcontracts during the 2016 fiscal year, thus remaining on par with the prior year even in the wake of defense spending cutbacks.

While images of an F-35A roaring through the skies, the latest attack submarine emerging amidst the waves or a Stryker armored vehicle bringing well-prepared and well-equipped troops to the assistance of our allies strike up much-deserved feelings of pride and patriotism, it is important to remember that there's no single company, no grand mechanism, that alone manufactures those awe-inspiring machines. The vehicles, artillery systems, protective devices, mission support equipment and technology used by our Armed Forces are the end products of a complex network of thousands of supply chain partners that work together to meet the needs of our military. Pennsylvania is honored and fortunate to be home to nearly 1,200 of those suppliers!

Although large-scale DoD suppliers such as Boeing, Raytheon, Northrup Grumman and L3 Communications often capture the headlines, smaller manufacturers clearly dominate the list of Pennsylvania-based DoD contractors. In fact, of the 1,189 prime and subcontract DoD suppliers listed on the commonwealth's defense system web portal, 867 – or 73% – have 100 or fewer employees. Another 139 support between 101 and 500 employees. Only 183 – or slightly more than 15% – employ 500 or more workers – signifying that small manufacturers play big roles in our nation's defense supply chain.

Manufacturers with 100 or fewer employees were awarded \$865 million in direct DoD contracts and another \$25.5 million in subcontracts in 2016. Those with between 101 and 500 workers secured an additional \$483.9 million in total DoD awards that year. Overall, Pennsylvania's smaller manufacturers were awarded nearly \$1.375 billion in DoD production and service contracts last year. Together, they employ more than 52,300 workers.

In order to preserve Pennsylvania manufacturers' leadership position in supply chains that meet DoD demands and expectations, smaller suppliers need access to consultative services, technical assistance and research and development (R&D) resources similar to those available to their larger counterparts. All too often, however, the private consulting sector overlooks smaller companies, especially those with fewer than 100 employees, due to their need for custom-built solutions, modest discretionary budgets or rural locations.

Fortunately, several public-private partnerships – organizations supported with a combination of federal, state and private industry funds – are available to provide smaller DoD suppliers with the expertise they need to remain innovative, competitive and viable. The nationwide Manufacturing Extension Partnership (MEP) network is the most prominent, and most successful, example of how these partnerships work.



MEP affiliates, seven of which are located in Pennsylvania, receive funding from the U.S. Department of Commerce and the Commonwealth of Pennsylvania. To access that support, however, each affiliate must secure at least an equal level of funding from industry partners or other stakeholders. With those resources, MEP affiliates reach out to otherwise underserved smaller DoD supply chain companies to discuss their needs, assess their operations, introduce them to new technologies and make relevant recommendations. Companies are then free to implement those recommendations in a way that works best for them. If the company elects to use their MEP affiliate to implement any recommendations, there is a reasonable cost for those services – which the MEP reinvests into its future manufacturer outreach efforts. Throughout 2016, this model allowed Pennsylvania’s MEP affiliates to work with more than 100 DoD suppliers, over 60% of which stated that the MEP affiliate was their only source of technical advice.

Given the importance of Pennsylvania’s smaller manufacturers to our nation’s overall DoD supply chain and the jobs that those companies support, prioritization should be given to programs and initiatives that are proven to keep the commonwealth’s industrial sector vibrant, competitive and world-class.

Some budget discussions in Washington and Harrisburg, however, are overlooking these important programs despite a national call for Made In USA and Made In Pennsylvania manufacturing priorities. These arguments conflict what the real data, real effects and real arguments suggest – that smaller manufacturers are driving our state and national economies, contribute significantly to our national defense and, therefore, deserve technical resources that keep them out front and on top.

Bolstering small manufacturer competitiveness and accelerating their adoption of new technologies will become increasingly important as DoD spending increases and the need to rebuild and further modernize our military becomes more urgent. The MEP initiative, with its focus on smaller manufacturers, can ensure that America’s DoD suppliers continue to fulfill the needs of our military and those of our Allies well into the future.

Workers, policy-makers, legislators and the defense industry, itself, should stand up and make their voices heard that funding priorities should better align with the emphasis being placed on Made in USA and Made In Pennsylvania strategies so that our smaller manufacturers can continue to thrive!



Call us at 570-819-8966 to learn how you can help support American manufacturing.