

Spending Trends: DoD Enterprise Resource Planning Systems

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The Department of Defense spends almost \$7 billion per year to maintain and operate its nearly 3,000 business systems. With an annual IT budget of more than \$35 billion, this spending on business systems accounts for approximately 20% of the DoD's IT budget per year. That's a lot of money and in a time of increasing fiscal tightness, the DoD has been working for years to implement large-scale Enterprise Resource Planning (ERP) systems that will enable the department to decrease spending on its business systems and finally achieve a legislatively-mandated clean audit by FY 2017. Because the size of the DoD's investment in ERPs is so large and the work has gone on for so long, this week's post will take a look at annual spending on many of the largest ERPs being implemented.

The ERPs Examined

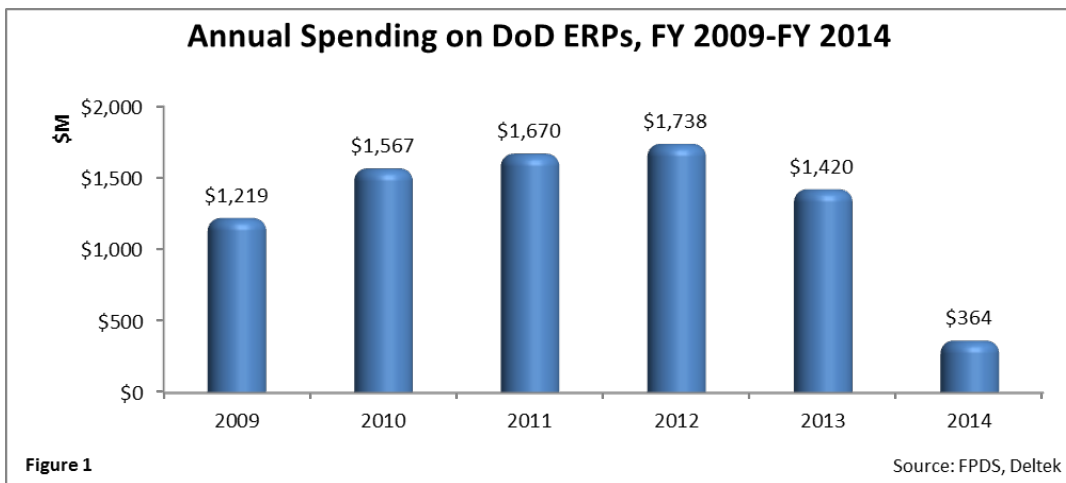
The table below contains a list of the 16 DoD ERPs for which spending data was compiled. This is not a complete list of the ERPs being implemented across the department, but it does include most of the largest systems. Multiple instances of these systems being implemented in the various military departments are also included.

Air Force	Army
Expeditionary Combat Support System (ECSS)	General Fund Enterprise Business Systems (GFEBs)
Defense Enterprise Accounting and Management System (DEAMS)	Global Combat Support System – Army (GCSS-A)
Global Combat Support System – Air Force (GCSS-AF)	Global Command and Control System – Army (GCCS-A)
Global Command and Control System – Air Force (GCCS-AF)	Integrated Personnel and Pay System – Army (IPPS-A)
	Logistics Modernization Program (LMP)
Navy/Marine Corps	Defense-Wide
Global Combat Support System – Marine Corps (GCSS-MC) Logistics Chain Management, Increment 1	Defense Agencies Initiative (DAI)
Global Command and Control System – Maritime Increment (GCCS-M)	DLA Enterprise Business System (EBS)
Navy ERP	Global Combat Support System – Joint (GCSS-J)
	Global Command and Control System – (GCCS-J)

Before going further, a comment must be made about the limitations to the government provided data. The Office of Management and Budget (OMB) requires that every fiscal year departments must submit what is called a Capital Asset Plan and Business Case Summary for every one of its major IT investments. These documents, referred to as Exhibit 300s, contain the numbers of contracts awarded for work related to the investment. It is these contract numbers that have been used for the spending tables below. Unfortunately, spending data is not available for each of the contracts listed, so the data presented here is only for contracts with verifiable spending data.

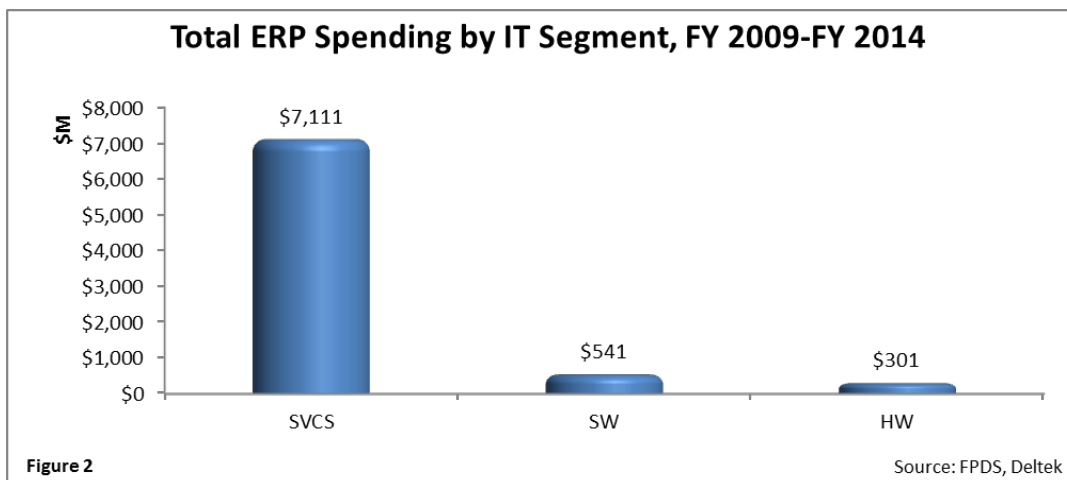
Spending Trends

Figure 1 below shows that annual spending on DoD ERPs increased every year from FY 2009 to FY 2012. That trend ended in FY 2013 as spending declined by \$318 million due to the impact of sequestration; illustrating that even programs mandated by Congress are not immune to the across the board cuts sequestration demands. If sequestration continues in FY 2015 and beyond (as looks likely) it is safe to assume that spending will continue trending down to flat. Concerning FY 2014, \$364 million was spent in Q1. If this trend holds steady throughout the fiscal year, spending will total at least \$1.45 billion, reflecting a bit of a rebound due to the restoration of some funding by Congress. It is doubtful that spending will re-attain levels seen in FY 2011-FY 2012. Last but not least, annual spending on these DoD ERPs averaged \$1.52 billion from FY 2009 to FY 2013.



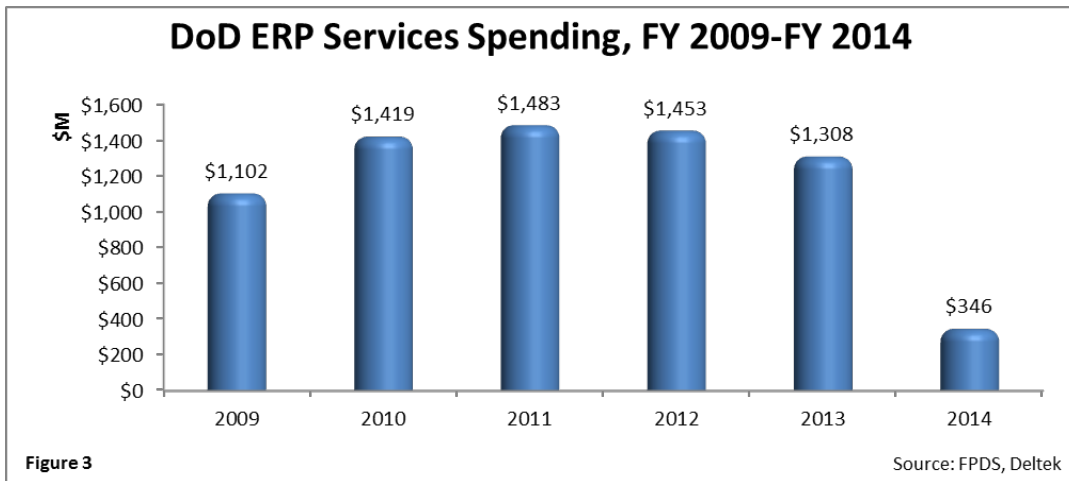
Total Spending by IT Segment

Government reports obligations by Product Service Codes and contracting personnel are notorious for selecting codes that do not accurately reflect the product or service being rendered. This being what it is, the following data is to be taken with a grain of salt. In Figure 2 below categories of PSCs used for obligations on DoD ERP projects have been grouped into IT market segments – Hardware, Software, and Services. Of the three, services spending far outweighs spending on either hardware or software, coming in at a total of \$7.1 billion obligated from FY 2009 to FY 2014. Obligations for software come in second with \$541 million spent over the same 5.3 year period. Obligations for hardware total \$301 million.



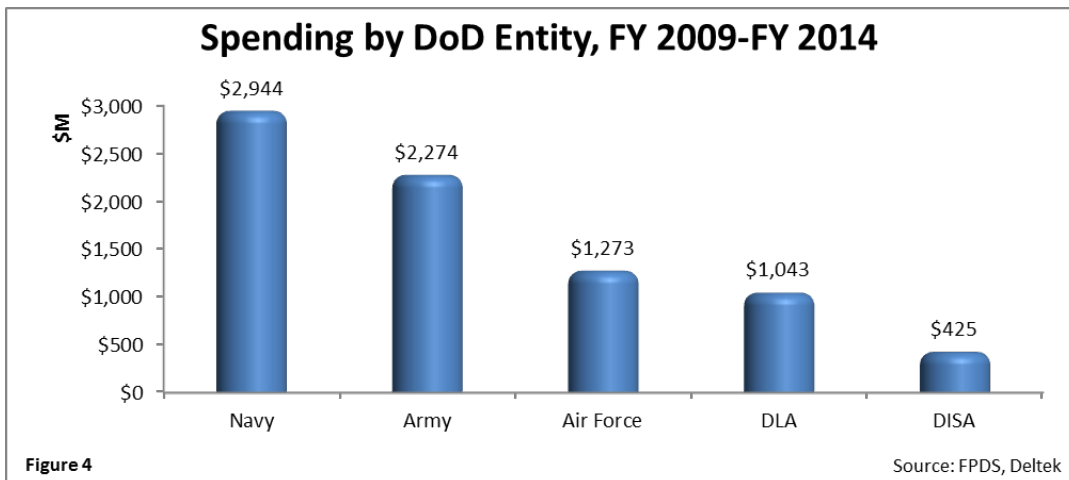
Services Spending Trend

Taking a closer look at spending on services related to DoD ERPs, Figure 3 shows that it tracks very closely with the overall trend shown in Figure 1 above. The exception would be FY 2012, which saw the beginning of a decline in services spending whereas overall DoD ERP spending continue to rise in FY 2012 before declining in FY 2013.



Spending by Defense Entity

Finally, Figure 4 shows spending on DoD ERPs from FY 2009 to FY 2014 by Defense entity. Data for only the top 5 organizations has been included here. Of these, the Navy leads the way with just under \$3 billion in obligations on its ERPs. Army comes next with \$2.3 billion in obligations, followed by the Air Force with approximately \$1.3 billion.



Implications

Several implications can be drawn from this data:

- **No IT program is immune from sequestration.** Sequestration took a bite out of all IT spending across the DoD, including spending on critical ERP implementations that will enable the DoD to meet Congressional mandates for achieving a clean audit by FY 2017.
- **Spending is rebounding somewhat in FY 2014.** The approval of an FY 2014 budget rolling back some sequestration cuts will provide some relief to vendors working on DoD's ERPs. This relief will not amount to a full recovery of spending levels attained in FY 2012, but it will provide breathing space until sequestration cuts reappear in FY 2015.
- **Services spending is likely to suffer in FY 2015.** The return of sequestration in FY 2015 is likely to translate into a big decline in services spending related to DoD ERPs. Software and hardware spending are also likely to suffer, but proportionally less than services spending given that far more is spent on services annually.