

Escalation Study: OSD vs. Industry Standard

Purpose of Study:

To address Defense Acquisition Process Assessment (DAPA) concerns involving industry program cost growth.

Initial Study Analysis:

Overview

Business Pursuits collected escalation indices for the Office of Secretary of Defense (OSD) and DRI to perform a preliminary comparison of US government escalation rates to industry standard rates. Additionally, Business Pursuits analyzed SAR data to reveal emerging trends in US government defense acquisition costs.

OSD Escalation vs. Industrial Escalation

A preliminary review of the data (*See Figure 1-1*) illustrates the fixed nature of the OSD escalation rate as it increases at a fairly consistent rate of approximately 2.3% annually from 2007 to 2015. In contrast the DRI index appears to be slightly more dynamic throughout the same period. Further comparison of the two indices reveals that the OSD escalates at a different rate than the DRI by approximately .4% to 1.5% per annum. The compounded effect of the variation of escalation rates between the two indices results in a 4.2% to 13.7% difference in escalation for five (2005-2010) and ten (2005-2015) year program durations respectively. The results of this analysis appears to reveal a potential explanation for the Defense Acquisition Process Assessment's stated concern regarding OSD program cost estimates and industry estimates.

	DRI Indices		OSD Indices		Industry vs. OSD Delta	
	Yr. % Change	Cmp. % Change	% Change	Cmp. % Change	Yr. % Change (=DRI Less OSD)	Cmp. % Change (=DRI Less OSD)
2004	5.8%		4.1%		1.7%	
2005	5.2%	N/A	3.7%	N/A	1.5%	N/A
2006	3.2%	3.2%	2.6%	2.6%	0.6%	0.6%
2007	2.9%	6.2%	2.3%	5.0%	0.6%	1.2%
2008	2.7%	9.1%	2.3%	7.4%	0.4%	1.7%
2009	3.2%	12.5%	2.3%	9.9%	0.9%	2.7%
2010	3.7%	16.7%	2.3%	12.4%	1.4%	4.2%
2011	3.7%	20.9%	2.3%	15.0%	1.4%	5.9%
2012	3.5%	25.2%	2.3%	17.6%	1.2%	7.6%
2013	3.6%	29.8%	2.3%	20.4%	1.3%	9.4%
2014	3.7%	34.6%	2.3%	23.1%	1.4%	11.5%
2015	3.8%	39.7%	2.3%	26.0%	1.5%	13.7%

SAR Analysis