

# Issue Brief

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## More Than Dollars:

Defense Contracts Stimulate  
Business Growth



**positively** Department of Employment  
and Economic Development  
*Minnesota*

**Analysis and Evaluation**

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Defense contracts dynamically impact companies and stimulate business growth, according to a survey of businesses involved in defense contracting. Defense-funded work was cited as an important reason leading to an increase in number of high-skilled workers, investment in equipment, profits, and business-to-business collaboration.

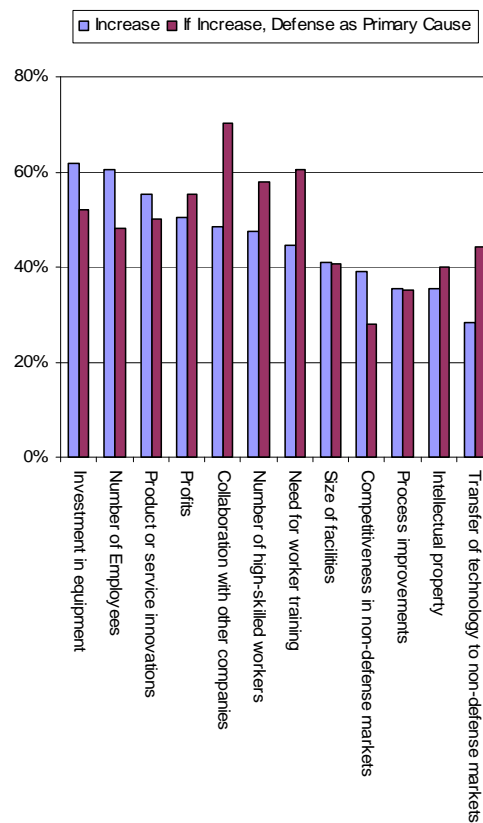
The Minnesota Department of Employment and Economic Development (DEED), in partnership with the Defense Alliance of Minnesota, surveyed over 600 businesses that had either received defense contracts in 2005 or were members of the Defense Alliance.<sup>1</sup> These companies were asked about various forms of business change and whether defense spending was the primary cause of the change.

DEED first began studying Minnesota’s defense industry in 2005. “Under the Radar,” an issue brief with statistics on defense contracting in Minnesota, was published in November 2006.<sup>2</sup> Following that issue brief, this analysis takes the understanding of defense spending and Minnesota businesses to the next level.

**Defense Contracts and Business Change**

Businesses were asked whether their business had experienced an increase, decrease, or no change during the past two years in a variety of business areas, such as employees, profits, intellectual property, and collaboration with other companies. Respondents were also asked if defense work was the primary cause of the change. Included in Figure 1 are the key results of the impact defense contracts have on Minnesota businesses.

Figure 1: Percent of Respondents Who Experienced Business Changes with Defense Work as the Primary Cause



Source: Defense Survey Results, Minnesota Department of Employment and Economic Development, 2007.

Overall, the areas with the largest share of increases included:

- Investment in equipment (62 percent),
- Number of employees (61 percent),
- Product or service innovations (55 percent),
- Profits (51 percent), and
- Collaboration with other companies (48 percent).

Among businesses indicating an increase, the largest shares of respondents indicating defense work as the primary cause were a bit different:

- Collaboration with other companies (70 percent),
- Need for worker training (61 percent),

- Number of high-skilled workers (58 percent),
- Profits (55 percent), and
- Investment in equipment (52 percent).

The two areas lowest rated for increases (intellectual property and transfer of technology to non-defense markets) still had at least 40 percent of respondents with increases indicate defense work as the primary cause. Overall, these results show that defense contracts positively impact Minnesota businesses in a variety of ways.

Respondents were also asked about the types of innovations they have undertaken since becoming a defense contractor. Improving an existing product or service ranked highest, mentioned by 64 percent of respondents. A new product or service (54 percent of respondents) and a new application of an existing product (46 percent) also ranked highly. See Figure 2 for more detail.

Figure 2: Innovations Undertaken Since Becoming a Defense Contractor

Improve existing product/service	64%
New product/service	54%
New application of existing product	46%
Reduce product/service cost	30%
Bringing product/service to market sooner	24%
None	12%
Other	4%

Source: Defense Survey Results, Minnesota Department of Employment and Economic Development, 2007.

**Other Survey Results**

Survey respondents were asked several other questions about how the business became involved in defense contracting and the business’s current mix of defense contracts.

What type of defense contract was your business first awarded?

Prime contract	46%
Subcontract by a company with a prime contract	33%
SBIR/STTR research grant	10%
Other	11%

Who suggested defense contracting as a strategy for your business?

Someone within my company	54%
A defense agency	15%
Another company	11%
Other public agency	1%
Other	19%

When was your business awarded its first defense contract?

Within the past two years	14%
2-10 years ago	46%
11-20 years ago	20%
More than 20 years ago	21%

What is your current mix of defense contracts?

Mostly prime contracts	48%
Mostly subcontracts	33%
Mostly SBIR/STTR grants	9%
Mix of above	10%

Source: Defense Survey Results, Minnesota Department of Employment and Economic Development, 2007.

An open-ended question about what defense spending has meant to their business was also asked. These comments typically ran the gamut of defense contract experience. Some respondents indicated that a small share of sales came from defense contracts while others were entirely defense-related.

Some companies saw defense contracts as an increasing share of their business, while others saw a decreasing trend. Some respondents viewed defense contracts as providing a stable environment, while others saw it as a sporadic revenue source. The most frequent comment, however, was that defense contracts were a good opportunity for businesses to diversify the market for their goods and services.

## **Conclusions**

DEED's previous study and the results of this survey show that opportunities to seek out defense contracts and grants exist for Minnesota businesses. Opportunities exist in traditional defense industries (aerospace, ammunition, etc.), less-traditional defense industries (food products, services, medical devices, etc.), and in defense sustainment (maintaining aging defense assets). Defense contracts and grants have the potential to produce a positive dynamic impact on these businesses.

Opportunities also exist for economic development, workforce development and education to support businesses interested in pursuing defense contracts. Defense contracts create jobs, often requiring a high skill level. Ensuring that defense contractors have the skilled workforce and other resources necessary helps Minnesota share in the benefits of defense contracting.

On the other hand, there is risk associated with defense contracting. The overall level of defense spending by the Department of Defense (DoD) is cyclical, as spending increases and levels off periodically. Defense spending priorities also change over time. Companies with a large share of total sales from defense contracts are exposed to that risk. Increasingly, a greater portion of defense spending is directed to goods and services that also have commercial applications, which may mitigate the risks involved to business.

Ultimately, there are opportunities in defense contracting for a variety of businesses. Businesses looking to diversify their market could consider defense contracting as an option.

## **Key Defense Links**

For businesses interested in learning more about the opportunities available through defense contracting, there are a variety of Minnesota and national resources available:

- Defense Alliance of Minnesota ([www.defensealliance.com](http://www.defensealliance.com))
- Midwest Center for Defense Sustainment ([www.defensesustainment.com](http://www.defensesustainment.com))
- "Doing Business with DoD," ([www.acq.osd.mil/osbp/doing\\_business/index.htm](http://www.acq.osd.mil/osbp/doing_business/index.htm))
- Point of Entry for Federal Procurement ([www.fedbizopps.gov](http://www.fedbizopps.gov))
- Minnesota's SBIR/STTR (Small Business Innovation Research/Small Business Technology Transfer) Program ([www.deed.state.mn.us/sbir](http://www.deed.state.mn.us/sbir))
- DoD's SBIR/STTR Program ([www.acq.osd.mil/osbp/sbir/](http://www.acq.osd.mil/osbp/sbir/))
- Minnesota's Procurement Technical Assistance Center (PTAC) Program ([www.ptac-meda.net](http://www.ptac-meda.net))

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<sup>1</sup> The survey was sent to 611 contacts that either received a prime contract in 2005 or were a member of the Defense Alliance of Minnesota. Responses were received from 156 companies for a response rate of 25.5 percent and a margin of error of 6.8 percent. In all, 96 responses were received from companies that considered themselves defense contractors.

<sup>2</sup> For a copy of "Under the Radar," go to [positivelyminnesota.com/facts/PDFs/defense.pdf](http://positivelyminnesota.com/facts/PDFs/defense.pdf).