

Pentagon spending increases in region

Defense orders balloon amid two wars, Katrina shortages

By Sylvia A. Smith

Washington editor

WASHINGTON – When Mark Thrasher’s small Angola business was making parts for the automotive business, there was always a question about what would happen next.

“The automotive industry is just so volatile,” he said.

But since Thrasher Welding and Machine Shop began selling to the Pentagon in 2005, work has been steady and reliable.

Thrasher’s two-man shop has sold more than \$660,000 in metal parts to the Pentagon since its first sale – \$526 worth of stainless steel parts.

Thrasher’s entry into the defense contracting arena came at a time when the Pentagon’s budget for planes, armor, high-tech gear, weapons, fuel and even the Hoosier-made meals-ready-to-eat was escalating.

The agency’s spending on the supplies and equipment more than doubled since 2001, the beginning of the war in Afghanistan. The Pentagon issued \$145 billion in contracts in the 2001 fiscal year. Five years later, the value of contracts increased to \$295 billion.

Northeast Indiana has seen a similar dramatic increase in defense contracts.

According to the federal government’s database on contracts, northeast Indiana businesses got \$188 million in Pentagon orders in 2004, the earliest year for which comprehensive information is available. In 2007, the region’s defense industry sector got \$319 million in Defense Department business.

Much of that goes to the four large military suppliers – ITT, Raytheon, Undersea Sensor Systems and BAE. Collectively, their northeast Indiana operations have sold the Defense Department \$384 million of equipment since 2004.

“It’s obviously a huge strength for us,” said Joni Howell, manager of government and community affairs for the Greater Fort Wayne Chamber of Commerce.

The Chamber of Commerce and other economic development organizations peg the region’s defense contracts at \$1 billion a year, although the government’s statistics put the figure lower.

There is no dispute, however, that the Defense Department is buying more supplies and services from northeast Indiana businesses than ever before and that many more small and midsized businesses are dealing directly with the government.

The increased defense contracts among the “biggies” also opened business opportunities for many smaller operations, which supply parts to the giants.

ITT, for instance, bought \$23.7 million worth of components last year from suppliers in a 30-mile radius, spokesman Tim White said.

The parts are used in the production of field combat radios – SINGCARS. The Fort Wayne-based ITT division is one of two suppliers of the radios. ITT's most recent multiyear contract is for \$2.5 billion.

As they have gotten experience as subcontractors, some smaller businesses have learned how to bid for and win defense contracts on their own.

More than 50 businesses in northeast Indiana sold supplies to the Defense Department last year, the government reported. Nearly half of them did less than \$20,000 in government business.

"We've gone from 125 employees a year and a half ago to more than 250 now," said Gerry Pettit, vice president of operations for Stuart Integrated Systems.

"This is a direct of ITT and our overall customer base being in the military end of it," he said.

The plant on Wallace Street makes components for ITT and other prime contractors throughout the country and also deals directly with Uncle Sam. Since 2002, Stuart has won nearly \$1.3 million in orders from the Pentagon.

Pettit said some – but not all – of the increase in Stuart's government work is because of the Afghanistan and Iraq wars. Another factor, he said, is the decision by the government and major prime contractors to stop relying on one supplier for a particular part or product. The reason: Hurricane Katrina.

Pettit said when Gulf Coast companies were wiped out by Hurricane Katrina, the government or major contractors had to scramble for substitutes.

"It taught the industry not to sole source," he said.

That change in approach created business for other suppliers.

There's a definite spill-over effect of having ITT, Raytheon, USSI and BAE in the region, said John Sampson, president of the Northeast Indiana Regional Partnership.

Engineering-based manufacturing and high-tech communication spawns the need for not only parts suppliers but also specialized education.

Indiana University-Purdue University Fort Wayne recently created master's degree programs in technology and engineering at the urging of defense contractors in the region, Chancellor Mike Wartell said.

Wartell said he has seen a dramatic growth and shift in the region's defense industry in the 15 years he has been in Fort Wayne.

He pointed to engineers and executives with ITT, Raytheon (formerly Magnavox) who retired or left their jobs and then founded related businesses.

A case in point is Don Willis, who left Magnavox after 22 years and founded a company that developed software to help officers and soldiers make real-time battlefield decisions. He sold the business to General Dynamics for nearly \$100 million.

"And so now we have a big General Dynamics operation" in Fort Wayne, Wartell said.

Like ITT and BAE, General Dynamics is consistently among the five largest defense contractors in the U.S.

sylviasmith@jg.net

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