



Project Profile: Commonwealth of Virginia

Impact Statement

Industry Resilience-supported programs in Virginia helped the state's industrial base adopt cybersecurity controls, export to foreign markets, and institute the necessary production adjustments to supply a broader array of commercial and DoD markets. These activities benefit DoD readiness and resiliency by ensuring the state's defense industrial base can securely support new DoD missions through increased capabilities that allow firms to serve new markets. Furthermore, the state focused entrepreneurial support services on key defense regions, ensuring a growing stable of defense suppliers in these areas.

Key Project Takeaways

Virginia used Industry Resilience funds to support the development and delivery of entrepreneurship, business support, and cybersecurity preparedness services to the Virginia defense industrial base. Entrepreneurship services helped displaced workers and veteran entrepreneurs in defense-reliant regions of the state create and grow businesses that will support defense suppliers and the DoD. Business support services helped contractors develop the capabilities necessary to supply new commercial and foreign markets, in addition to their ability to support a broader array of DoD programs. Cybersecurity preparedness assessment and implementation services helped contractors become compliant with DoD cybersecurity controls and continue their support of the DoD. Overall, OEA-funded programs in Virginia increased the resiliency and the readiness of the DoD and the ability of the state's industrial base to support the warfighter throughout current and evolving DoD missions.

Project Description

Rationale

Virginia has traditionally served as a center for the defense industry. As the home of the Pentagon and iconic defense firms like Newport News Shipbuilding, the Commonwealth's economy has long relied heavily on military expenditures. When defense budgets grow, many Virginia communities prosper. When budgets decline, these communities feel the ripple effects as well. Because of its high dependence on DoD expenditures, Virginia has long sought to diversify its economy by developing and recruiting technology firms like Amazon's HQ2 and by assisting defense firms develop a more diverse base of customers and business activities. The latest DoD data shows that Virginia remains the among the most defense-dependent state in the U.S. Overall defense spending in Virginia topped \$46 billion in FY 2017, accounting for more than 8.9% of gross state product. More than 208,000 Virginians work in defense-related fields. As part of a longstanding commitment to diversify the state's economy, state and local governments in Virginia have long worked as close partners with the Office of Economic Adjustment. With many businesses and communities in the state still vulnerable to changes in defense spending, Virginia officials sought assistance from the OEA Industry Resilience program.

Program Activities

The Commonwealth of Virginia received its first IR grant in 2014 to support the competitiveness of the state's defense industrial base through a series of programmatic investments. While the state's



Secretary of Veterans and Defense Affairs is the grant manager and primary recipient of OEA support, the entity primarily provides a coordinating function. The Secretary devolved funds and program management responsibilities to a small number of statewide and local organizations who operate their own projects targeted at certain regions or certain types of defense industry impacts.

Phase 1 investments funded the development of the Virginia DoD Contract Spending Impact Tool (<http://dod-va.chmuraecon.com/Impact>), a web platform to track contracting activity in the Commonwealth of Virginia, and support for the Virginia Economic Development Partnership's (VEDP) *Going Global Defense Initiative* (GGDI). This latter effort built on Virginia's highly successful export promotion activities to address the special challenges and marketing barriers faced by the state's defense contractors. In addition, funds were deployed to create the Northern Virginia Transition Center, which provided career counseling and other supports at downsizing local defense contractors.

A second phase of OEA grants helped provide additional programming. Activities in this phase supported entrepreneurship programs in Northern Virginia and Hampton Roads, Virginia's two leading centers of defense contracting activity. These efforts included the following:

- Domestic Market Expansion Program: Beginning in 2014, IR funds supported the GENEDGE Alliance, Virginia's MEP network, in providing consulting services and technical assistance to defense dependent firms seeking to enter new commercial markets.
- Capitol Post: Funds were also been deployed to support the start-up and expansion of Capitol Post, an Alexandria-based provider of entrepreneurship training and support to budding veteran small business owners.
- TempO: Formerly known as Gov2Com, this Old Dominion University Research Foundation funded effort helps Hampton Roads area contractors expand into commercial markets.

A third and final phase of grants was approved in 2018. Virginia used this grant to create the Rural Growth Program, a new program focused on aiding small defense firms located in rural parts of the Commonwealth, expanded programming to improve cybersecurity controls among smaller and medium-sized defense suppliers, and developed a stronger regional ecosystem to support Navy and maritime-related innovations in the Hampton Roads region.

Resiliency Impacts

Enhancing Force Multipliers to Support the Defense Industrial Base

State and local leaders in Virginia have a profound appreciation for the importance of Virginia's defense contracting base because of the state's heavy dependency on defense expenditures. Nonetheless, the research and data provided via this project helped refine this understanding and in particular highlight the unique challenges and pressures facing firms operating at lower tiers of the defense industry's supply chain.

Entrepreneurship programming supported by the OEA grant has helped encourage new entrants into the industry. These new company founders, especially military veterans, bring new ideas and energy to the defense contracting community. In Northern Virginia, OEA funds helped the Capitol Post business



incubator and coworking space begin operations. The incubator provides business development services to veteran owned start-ups and hosted a series of workshops and training sessions with the support of IR funds. Capital Post helped spawn 75 new start-up companies, provided office space and support to 125 entrepreneurs, and built a local network that engaged more than 6,600 people. In Hampton Roads, the TempO program worked with 40 local existing companies and numerous potential entrepreneurs. GENEDGE incorporated many of the lessons from TempO's program to enhance its Rural Growth Program, which worked with 14 rural defense suppliers in its first year of operations.

OEA funds helped focus Virginia business development and entrepreneurial support programs in addressing the needs of the defense industrial base. With the strong concentration of defense suppliers in both Northern Virginia and Hampton Roads, many of the entrepreneurs supported by these programs will form businesses that either directly supply the DoD or the defense industrial base. By engaging veteran entrepreneurs, these programs grow the stable of defense-minded entrepreneurs in Virginia, helping the state maintain the strength of its industrial base. Furthermore, OEA funds supported workshops for defense entrepreneurs helped local leaders and business development programs become more attuned to the needs of entrepreneurs serving the defense industrial base, helping them identify and overcome challenges specifically facing defense suppliers. The focusing of community intermediaries on the needs of defense entrepreneurs ultimately benefits the DoD by supporting a pipeline of future veteran-owned defense suppliers new technologies that can benefit the warfighter.

[Commercial Diversification of Defense Companies to Sustain the Industrial Base](#)

The GGDI and DMEP programs helped hundreds of Virginia-based contractors develop market diversification strategies. These strategies helped firms develop new capabilities that meet the needs of commercial markets while also increasing contractors' ability to support new or evolving DoD programs. The ability to service a more diverse set of commercial and DoD customers helps these defense suppliers sustain their business throughout any changes in DoD spending.

The GENEDGE Alliance's Domestic Market Expansion Program (DMEP) focused on helping existing defense suppliers retool, retrain, and reinvigorate their current market offerings through the commercialization of new products. The DMEP team cast a wide net, reaching out to more than 1000 suppliers across Virginia. This initial outreach identified more than 120 firms seeking assistance. Ultimately, DMEP provided extensive support and services to 43 companies. While many companies remain in the midst of implanting these strategies and cannot yet report full results on their impact, early results are promising. So far, participating companies report DMEP support contributed to the creation of 928 new and retained jobs and roughly \$370 million in new sales revenue. Companies supported by DMEP invested more than \$16 million in support of new product development, resulting in the launch of 37 new product and technology offerings.

At VEDP, Industry Resilience funding helped support the Going Global Defense Initiative (GGDI), designed to help defense contractors enter new overseas markets. Over 200 companies attended workshops related to exporting cybersecurity goods and services. This effort proved highly effective, providing specialized support and services to 360 companies across Virginia. Thanks to these large-scale



impacts, VEDP opted to continue the OEA-backed pilot project, and GGDI is now a core part of regular VEDP offerings to business.

The ongoing Rural Growth program has already generated important impacts. Beginning in FY 2019, the program supports lower-tier rural defense suppliers with the ability to expand their product offerings to meet the needs of prime defense suppliers. GENEDGE targeted DoD sub-contractors through analysis of a defense supply chain map developed with support from OEA funds. Rural Growth program support provided to nine rural suppliers generated more than \$33 million in new and retained sales, attracted more than \$2.1 million in outside investments and created 340 new or retained jobs.

The ability for defense suppliers to support new markets ultimately benefits the DoD by making these companies less dependent on a specific DoD program, ensuring their ability to sustain operations in the case of changes in DoD spending. Furthermore, the ability to support new markets enables these companies to provide a broader set of services, including to the DoD. Diversification not only allows defense suppliers to enter commercial or foreign markets, it also enables these firms to support new DoD missions through increased capabilities developed as a result of business support services.

Readiness Impacts

Training and People Support

The various Virginia-based programs supported by OEA funds engaged more than 1000 people in a diverse series of workshops and training programs covering a variety of topics from exporting to cybersecurity to new market development and business planning. OEA funds enabled GENEDGE's cybersecurity preparedness effort to partner with a Shenandoah Valley cybersecurity internship program, supporting the creation of six new jobs in the region. These activities benefit the readiness of the DoD by ensuring the Virginia defense industrial base has the training necessary to institute the quality management and information security controls to support the DoD as its needs evolve.

Improved Capabilities and/or Production Adjustments

The DMEP and Rural Growth programs helped companies implement new production capabilities identified as needed for the company to reach new markets. The DMEP program helped six companies receive ISO certifications in addition other new production capabilities. The Rural Growth program plans to deliver business support services to sixteen clients, with similar impacts as DMEP expected. Four companies supported by the Rural Growth program received business support services, including value chain optimization, ISO System Certification, and technology driven market intelligence.

Cybersecurity Preparedness

GENEDGE's DEFENDCUI-VA is the state's two-part cybersecurity awareness and implementation program to help Virginia defense suppliers meet DFARS-mandated cybersecurity controls. In the first year of the program, twenty companies received detailed cybersecurity assessments and the necessary documentation to meet DFARS 7012 requirements, including a system security plan, incident response plan, and a plan of actions and milestones to address any identified vulnerabilities. Another eleven firms



received support remediating any vulnerabilities identified by the assessment. So far, twenty-three firms applied for support in Year 2 of the program, more than 50% of GENEDGE's target.

Other Community Benefits

OEA Industry Resilience funds helped Virginia greatly improve its ability to support a strong and ready defense industrial base by encouraging the creation and direction of programs in support of defense suppliers. As a result of OEA funds, program better target the needs of existing contractors and encourage entrepreneurs to enter into defense markets. Officials used key lessons learned during earlier phases of the program to design the new Rural Growth programming and the DEFENDCUI-VA efforts to provide cybersecurity training to smaller defense contractors who may lack requisite in-house expertise and technology know-how.

Lessons Learned

Most Important Lessons Learned

- **Be Flexible:** Virginia's IR programs evolved over time to reflect changing market opportunities and the changing needs of local defense suppliers
- **Seed Innovations:** Virginia used IR funds to seed new programs that can hopefully sustain themselves over the long haul. State officials recognized impactful programs supported by OEA funds and proceeded to adopt them as state programs.
- **Recognize Regional Differences:** Virginia crafted programs that reflect the unique issues and needs of various regions across the state. Defense suppliers in Fairfax County, which receives more DoD funds than any county in the country, has a different set of needs than the small defense firms in Shenandoah Valley. The differences in the needs of defense suppliers across the state encouraged the OEA grant to act as a coordinator and devolve program functions to statewide and local organizations that operate their own projects targeting certain regions or certain types of defense industry impacts. Program participants universally praised this decentralized model for limiting bureaucratic burdens and allowing for flexibility in program design and implementation that meet local or sector-specific needs.