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WHITE PAPER

The Department of War's AI-First Strategy Is Changing the Basis of Competition

The contractors best positioned to win the next round of defense work won't necessarily be the ones with the best AI technology.

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EXECUTIVE SUMMARY

What the January 2026 strategy actually asks

Read the Department of War's AI-First Strategy closely and one thing stands out: despite the title, it is not primarily a technology document. The memorandum talks about AI, but it spends a surprising amount of time on speed, accountability, experimentation, talent, and execution. Most organizations are approaching AI as a technology initiative: evaluating tools, modernizing data environments, launching pilots, training employees. That work matters. The question is whether it is enough.

For decades, competitive advantage in government contracting was built on a familiar foundation: technical expertise, past performance, compliance discipline, and scale. Those capabilities still matter. But the strategy puts weight on a different set: decision speed, workforce readiness, organizational adaptability, and the ability to demonstrate measurable outcomes. The contractors that benefit most may not be the firms with the most advanced technology. They will be the organizations that learn faster, adapt faster, and move successful ideas into production more quickly.

> **95% / <1%**
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> 95% of organizations are seeing no measurable return on their generative-AI investment. A separate study of 1,075 C-suite leaders found fewer than 1% reporting significant ROI. The failure rarely sits in the model. It sits in the organization around it.
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> MIT, STATE OF AI IN BUSINESS 2025 · FORBES, 2025

01 · The real message

The strategy is about execution, not AI

Most readers focus on the AI language in the memorandum. The more telling signal is what surrounds it. Across the document, the Department keeps returning to deployment velocity, experimentation, accountability, workforce capability, and measurable progress. Taken together, those themes describe an organization trying to compress how quickly an idea moves from concept to operational use.

That is a real shift. Defense institutions have spent decades optimizing around planning, oversight, compliance, and risk management. Those capabilities remain necessary. But the memorandum clearly signals more emphasis on speed and adaptation, and it puts a date on it: the first Pace-Setting AI Project demonstrations are due to the Deputy Secretary roughly six months out, around July 2026. Whether the full transition happens quickly or slowly is almost beside the point. The direction is set.

02 · A new basis of competition

When everyone has the tools, deployment wins

Historically, defense contracting rewarded organizations that could reliably deliver complex work in highly regulated environments. Technical depth, program discipline, compliance rigor, and proven execution created advantage. AI does not erase those requirements. It adds a new layer of competition on top of them.

As AI capability becomes broadly available, access to technology stops being a differentiator. Over time, most contractors will reach for similar tools, similar models, similar technical footing. The difference in performance will come from how effectively an organization deploys what everyone can buy.

WHAT THE MARKET REWARDED	WHAT THE STRATEGY NOW REWARDS
Past performance	Organizational adaptability
Technical depth	Decision speed
Compliance discipline	Workforce readiness
Scale	Outcome measurement

Look at that second column. Not one item is a technology characteristic. They are all organizational characteristics, and none of them can be purchased. All of them have to be built. That is where many firms are underestimating the work. Most are spending their time discussing technology. Far fewer are discussing who owns the effort, how decisions get made, how outcomes will be measured, or how fast a successful experiment can scale. Those questions will decide who creates value and who stalls at the pilot.

03 · Why initiatives stall

The technology outruns the institution

Across government and industry, organizations have invested heavily in AI. Some have generated real results. Many are still looking for them. When an initiative stalls, the technology usually takes the blame. In practice the causes are more mundane. Decisions take too long. Ownership is unclear. Incentives stay tied to legacy ways of working. Leaders back experimentation in principle but can't adapt governance built for predictability and risk reduction.

The technology moves faster than the institution around it. That holds for contractors as readily as for agencies. The organizations that make progress are the ones that clear operational friction quickly, set clear accountability, and create room to experiment without getting trapped in endless review.

04 · The three AIR lenses

Find the one constraint, not all of them

At Octant Advisory we evaluate AI performance across three connected lenses under the Octant AIR Index™ (the AI Reality Index). The point is not to grade maturity for its own sake. It is to find the single factor holding back the return on everything else.

AIR-O · ORGANIZATIONAL

Governance, operating model, accountability structures, and decision rights: whether the organization can execute in an AI-enabled environment at all.

AIR-L · LEADERSHIP

Whether leaders are prepared to prioritize investment, govern risk, and lead the organization through change.

AIR-T · TECHNOLOGY

The data, infrastructure, integration, and security foundation required to deploy AI effectively.

Organizations rarely struggle evenly across all three. One firm has strong technology and capable leaders, but a governance structure that slows every decision. Another is well aligned organizationally but lacks the infrastructure to scale. A third has the leadership and the structure but not the technical base. The objective is not to improve everything at once. It is to name the binding constraint, the one keeping the AI investment from turning into a mission or business result, and fix that first.

05 · Questions to answer before July

Three questions every leadership team should be able to answer

Before the first demonstrations land, every leadership team selling into this market should be able to answer these questions without flinching.

1 **Who owns AI transformation?**

If the answer is a set of committees, execution is already slow. Accountability diffuses as responsibility spreads. One clear owner changes the cadence.

2 **How fast can we actually decide?**

Governance built to reduce risk has, in many firms, quietly become the thing that prevents adaptation. Decision speed is now a competitive capability, not an afterthought.

3 **Can we prove an outcome, not just activity?**

Activity is easy to show: pilots launched, tools deployed, people trained. The harder, decisive question is whether any of it has moved a mission or business result you can measure.

THE OPPORTUNITY

Move into the model before the Department fully does

The AI-First Strategy will generate a lot of discussion about technology. That is understandable: technology is the visible part of the transformation. The harder work happens inside organizations. Leaders will make decisions about governance, accountability, workforce capability, investment priorities, and operating models. Those decisions draw less attention than technology announcements, and they more often determine whether the effort succeeds.

Over the next several years, contractors will invest heavily in AI platforms, infrastructure, data environments, and automation. Some of that spend will build durable advantage. Some will sink without a trace. The difference won't come down to which tools they picked. It will come down to whether they reshaped their leadership model, governance, operating rhythm, workforce, and measurement systems to fit a genuinely different way of working.

The contractors that emerge strongest may not be the ones furthest ahead today. They will be the ones that learn the fastest over the next three years, adapt as conditions change, and consistently show measurable outcomes. The memorandum is a clear signal of where the Department intends to go. The practical question for contractors is how quickly they can get there too.

ABOUT OCTANT ADVISORY

Octant Advisory helps CEOs, boards, and senior operators convert AI investment into measurable enterprise performance. Built by partners with deep federal AI and executive-search experience. Maria Chaloux led executive recruiting at Accenture Federal Services; Dr. Ian McCulloh served as its Chief Data Scientist and now directs AI executive education at Johns Hopkins. The Octant AIR Index™ (AIR-O, AIR-L, and AIR-T) lets a leadership team find the constraint capping AI value and build a practical plan to clear it. Independent by design.

SOURCES

Artificial Intelligence Strategy for the Department of War, Office of the Secretary of War, January 9, 2026; Secretary's remarks, January 12, 2026. MIT, The State of AI in Business, 2025. Forbes AI Study, 2025 (n=1,075 C-suite leaders). BCG (Vinciane Beauchene), 10-20-70 framework for AI value distribution.