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STRATEGY & MARKET SUPPORT



A \$787 B Glass Half Empty or Half Full?

How Business Leaders can Strategically Approach the ARRA for Maximum Success

From C-level corporate leaders to general managers, entrepreneurs, program managers and investors, there is universal interest in the potential opportunities presented by the recently passed American Reinvestment and Recovery Act (ARRA). At a time when there appear to be so few avenues for new growth, the size, diversity and rapid rollout of the plan make the stimulus bill simply too important for companies to ignore, whether they are long-standing government suppliers or new entrants exploring potential growth areas. With funding flowing to such diverse areas as alternative energy, health information technologies, and infrastructure projects, a broad spectrum of players is examining its potential near- and long-term strategies and the challenges associated with implementing those strategies.

TRADITIONAL RESPONSE

Over the past decade, when there has been a significant increase in government spending in response to a national emergency (e.g., 9/11, the war in Iraq, or Hurricane Katrina), companies large and small have responded by pursuing a fairly consistent menu of strategic initiatives to capture a share of this new federal funding (*Figure 1*).

Unfortunately, these traditional responses have often yielded less than optimal results not only for the companies that have tried to implement them, but also the public sector entities they sought to serve.

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Figure 1: Traditional Approaches to Capturing Emergency Government Funding

| Action | Pros | Cons |
|---|---|---|
| "Throwing" massive resources in pursuit of opportunity | Large scale gives a new market/project visibility and importance internally... | ...but scale replaces strategy akin to a soccer game of seven year olds – all chase the ball and nobody is open |
| Silo approach to new markets | Pushes market generation ideas to business levels... | ...but there is limited coordination across the company |
| New product development | Results from creativity and entrepreneurship in an emerging market... | ...but at times due to inadequate processes, the optimal product solution does not find the customer |
| Focus on playing in multiple markets | Aggressive strategy is a powerful driver for company growth... | ...but leads to lack of focus and results in not performing well in any specific market |
| Businesses acquired in developing markets | Present opportunity to acquire talent and products that give a dramatic new capability... | ...but often the acquired businesses' products and models are not fully understood – which leads to both paying too much and unsuccessful integration |
| Promise to over-deliver to the end customer: the government | Stretch targets and desire to make customer satisfied are important.... | ...but often at the expense of ill-defined requirements and limited ability to adjust process once off-track |
| Purely tactical approach to markets and growth | Additional focus around the specific opportunity at hand... | ...but often leads to getting a short-term contract "win" but not building a long-term business or industry |

WHAT MAKES THE 2009 ARRA DIFFERENT

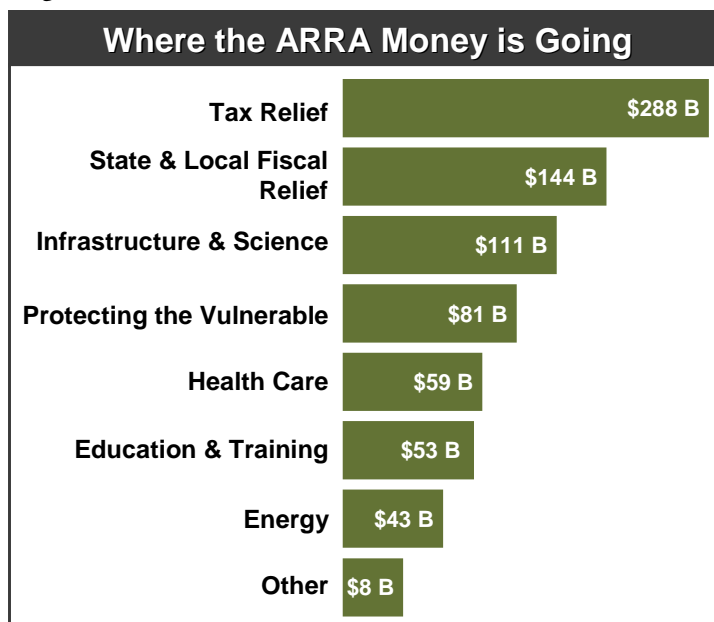
While the realities of doing business with the government will not change overnight, there are specific reasons why a distinctive approach will be required when addressing the potential opportunities contained in the ARRA. To a greater extent than the previous cases of rapid increases in federal spending cited above, the ARRA involves a degree of complexity, scale, pace of implementation and transparency that is wholly unprecedented.

Complexity. While some aspects of the ARRA are relatively straightforward (e.g., tax relief, aid to state and local governments), the elements of most direct interest to industry pose complex challenges for decision-makers. Beyond seeking to stimulate growth by simply funding government consumption, a number of the initiatives seek to promote the emergence and growth of new technologies and industries. This will require a significant degree of innovation by industry and a willingness to tackle the complex strategic challenges associated with emerging, yet unproven market opportunities. The closest recent analogy is the growth of the homeland security market in the aftermath of 9/11. However, with its focus on health, energy, the environment and infrastructure, the ARRA cuts across far more areas, the

ultimate attractiveness of which depends as much on future policy choices and private sector efforts as it does on the immediate funding provided through the stimulus package.

Scale. As illustrated in the chart below, ARRA will result in hundreds of billions of dollars of new spending over the course of the next two years. If, as is intended, this funding

Figure 2



Source: www.Recovery.gov

serves as a stimulus for further private and public investment, the long-term potential opportunities could be significantly larger. Even beyond the simple dollar value of the ARRA itself, the scale and sweep of the various initiatives are dramatic. As the new Administration has made clear, the ARRA is intended to have significant and far reaching impact across a number of critical industries, from energy to healthcare. By seeking not just to stimulate these industries, but to fundamentally affect their future direction, the scale of the impact of the ARRA is potentially vast. While the near term focus is on the ARRA and its implementation, the scale of the long-term market potential is far more significant than the stimulus bill itself.

Pace. The passage of the ARRA marks the largest domestic spending initiative by the US government since The New Deal. Moreover, the bill became law less than 30 days into the new Administration's tenure. The difficult work of implementing its provisions is moving just as quickly, with plans for contract award and reporting requirements being developed. Under ambitious timelines, departments and agencies would start awarding projects by the end of the second quarter 2009. There are parallels in recent years to this implementation timetable (9/11 recovery and response, Iraq, and Hurricane Katrina). However, the pace envisioned for executing the ARRA – combined with its scale and complexity and an entirely new leadership team – makes this an entirely unprecedented endeavor. This raises considerable questions regarding how efficiently and effectively the ARRA is likely to be carried out, thus posing challenges for how industry positions itself for the near- and long-term.

Transparency. In response to the perceived excessive secrecy of the Bush White House, and the abuses associated with previous emergency spending efforts (e.g., Iraq, Katrina), the Obama Administration has made greater transparency a central tenant of its governing philosophy. This emphasis on transparency has only been reinforced by the current global financial crisis, which many inside the Administration view as at least partially the result of a lack of transparency. With the creation of www.recovery.gov, which will document ARRA spending in excruciating detail, the Administration has promised the public that the focus

of the government will be around “doing things right.” As a result, the ARRA will likely be carried out within an environment that places a premium on careful scrutiny and accountability, regardless of whether these ambitions are well-aligned with the goal of rapid implementation.

A RIGOROUS APPROACH IS ESSENTIAL

For industry, there is an urgent need to recognize that old approaches to capitalizing on the opportunities presented by increased government spending are likely to be unworkable this time around. Jumping in quickly – or standing on the sidelines – carries far more risks given the ambitious nature of the Administration's stimulus efforts. In this environment – akin to building an airplane while flying it and being evaluated publicly on success in real time – a more systematic process is required for evaluating opportunities and developing a coherent strategy. Despite the pace of current events, senior executives must pursue an approach that focuses on solid data, analysis, strategic innovation, coordination and execution.

The process outlined below meets these requirements by first focusing on developing (i) a rigorous External Market View of ARRA-driven opportunity space; (ii) a streamlined Internal Capabilities Assessment; and finally (iii) a coordinated Action Plan. Ideally, an executive team would follow the entire process end-to-end, but it is designed in a modular fashion such that a new market entrant can focus quickly on particular components if needed, and still move seamlessly across the entire process.

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EXTERNAL MARKET VIEW

The first task is to clearly and systematically answer the question; what does the external landscape associated with the ARRA opportunities really look like? This involves four key analytic activities.

1. Review and Dissect the Plan. Although the need is obvious, the process of deeply understanding the content and implications of the ARRA is not entirely straightforward. The scale and scope of activities requires a systematic assessment, preferably breaking it down by specific market segment and sub-segment for each potentially viable oppor-

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tunity space. Moreover, it is critical to understand the scale and timing of potential awards, responsible agency or agencies, type of funding and contracting process, and duration of the resulting work. At the same time, this analysis should consider how elements of the ARRA may or may not be amplified by the broader agenda the Administration is pursuing. In the end, it will serve as an input into the broader strategic approach. Notably, this process must be iterative and should reflect ongoing proposals and projects.

2. Evaluate the Value Chain. In too many cases, a firm will jump directly from its initial opportunity assessment to execution planning, without taking the time to systematically understand where its potential play might be strongest. However, as a starting point for an entry into an evolving market, an analysis of the market’s value chain is essential. This applies to all new sectors affected by the ARRA, whether in energy, health IT, infrastructure, or homeland security.

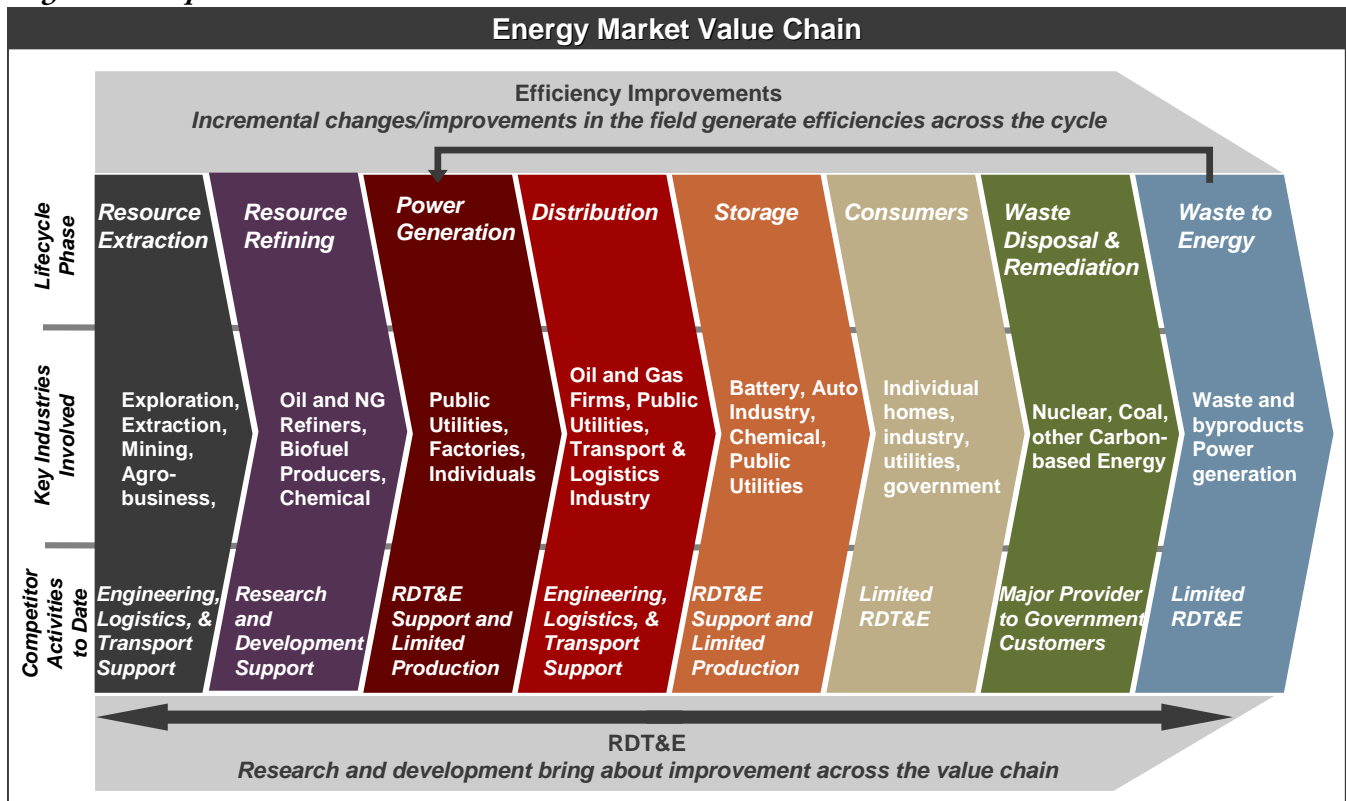
By way of example, the following diagram (Figure 3) illustrates a high-level value chain for the energy sector. Given the complexity, scale, and global reach of the industry, companies must choose carefully where it makes the most sense

for them to play. A hypothetical company that produces advanced technology materials may find only one component of the value chain that makes sense – e.g. in the development of leading edge technologies to support resource extraction. Alternatively, an advanced battery producer may find the only place to participate is in the storage and distribution component.

In neither case would a new entrant to the marketplace likely have the core competencies to compete in other segments of the market (e.g., Consumers) unless the firm were to undergo a complete reinvention. By breaking down the value chain, companies will be better able to focus on the opportunities that present realistic paths forward.

3. Component Breakdown. Once the value chain is dissected, a more complete breakdown of the market dynamics around a particular segment is essential. This must cover all of the typical strategic questions of market size, technology trends, customers, major competitors, and barriers to entry. As an example, for the aforementioned advanced battery producer, a key area of focus along the value chain could be the “Storage” segment with an eye toward understanding the power generation market in solar and fuel cells.

Figure 3: Sample Value Chain



4. Opportunity Analysis. The final step in understanding the market potential is to assess opportunities identified through the value chain and market segmentation along two criteria: ROI and segment complexity. All opportunities are not created equally based on either potential return or on ease of entry. Depending on a particular company's risk profile, R&D capabilities, management team, etc, different approaches to different technologies will be required and a mixed approach of near-term small wins may be combined with longer-term, potentially riskier but higher return bets. A critical question, therefore, is whether a new entrant could succeed through application of existing or evolutionary innovations or whether success would demand dramatic, revolutionary breakthroughs.

INTERNAL CAPABILITIES ASSESSMENT

Having surveyed the external landscape, the analysis must turn inward to clearly assess how well existing business models and capabilities are aligned with the emerging market opportunities. The core question therefore becomes: "How is my business positioned today relative to the emerging ARRA opportunities?"

5. Vision Alignment. While there may be tremendous opportunities for some businesses in health IT, alternative energy, infrastructure, or cyber-security, all companies need not play in all areas, particularly if it represents a move into a wholly unconnected line of business. Making this choice comes down to a fundamental discussion of the company's vision and a review of where it wants to be in the future. Consequently, regardless of the lure of near-term revenues, the firm's senior leadership must ask two basic questions:

- Is the emerging business sector(s) in my core business today?
- If it is not in my core, do I want to change my core business in some way and invest significantly in new sectors?

6. Evaluate Adjacency. Once respective ARRA opportunities are determined to be part of a current or future core business, the next step is to evaluate the closeness of the

adjacency. Ideally, any new opportunity will be both sufficiently large and sufficiently close to the core business that it should clearly be pursued. For the hypothetical battery manufacturer, the Advanced Battery Technology initiative is an obvious case in point. Equally obvious, businesses with lower and riskier ROIs that are not close to the core should be avoided. The primary challenge comes from the opportunities that are somewhat outside the core, but nevertheless are sufficiently large that they become intriguing.

While each opportunity is unique, it is essential not to underestimate the challenges involved in moving

into an unrelated market, even if it has a long-term potential return. Such a challenge may be manageable for some businesses, but not for all. As a result, companies should err on the side of staying closer to the core regarding ARRA opportunities rather than pursuing distant opportunities in hopes of staking footholds in unconnected market areas.

7. Review of the Gaps. For both current and potential customers, real-time market feedback regarding ARRA opportunities needs to be evaluated. This is especially true for markets that are still evolving, where few players really have a grasp of market dynamics. This type of customer discussion should focus on the specific market segments that have risen to the surface based on the analysis conducted to this point. It should be designed to support or refute what by now should be a considerable focus on a few select market opportunities. Key questions to be asked include the following:

- Who are your suppliers, customers, and partners today?
- What are your key interests/needs around ARRA opportunities (e.g., Advanced Battery Technology, Advanced Storage Techniques, Fuel Cells, etc.) – cost reduction, quality, productivity, etc?
- Where is your business going with respect to this new technology/market?
- When (if at all) will your business be impacted by this changing market that is being impacted by the ARRA?

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- How can our business help you with regard to this changing market?
- Why would you want to change the way you do business today in response to these changing technologies?

8. Your Business or Outside Acquisition. A final step before moving to implementation is to evaluate the potential segments and determine whether partners or acquisitions will be necessary to penetrate the identified ARRA opportunity space, as it is often the case that the internal capabilities analysis highlights deficiencies in areas core to the market in question.

To the extent that acquisition of new capabilities is deemed essential, senior leadership should execute a systematic process for identifying prospects. This “funnel exercise” will screen the universe of potential targets by a number of key criteria such as range of revenue, product, company performance, location, and customer base. When conducting the funnel approach, the “front end” should be sufficiently large to ensure a complete picture of the landscape is achieved. In addition, the “back end” should be sufficiently small with robust and discerning criteria so only a handful of relevant profiles remain. The key to any such effort will be speed given the pace of the market’s development.

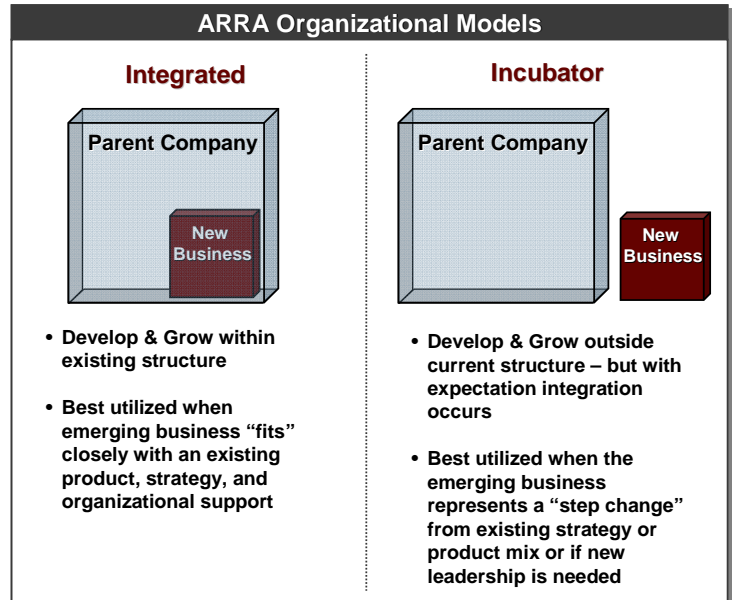
ACTION PLAN

Having determined that there are attractive opportunities for the firm within the ARRA, the next set of questions is centered on the following: “How do we develop and execute a winning strategy?”

9. Placement within Organization or Position. Many of these ARRA-supported opportunities will require significant changes in terms of product offerings, business models and corporate strategies. Whether a *Fortune 100* business or a technology-driven start-up, the question of how to structure itself organizationally to pursue these new opportunities will be critical. Given the need for speed and innovation across these segments, senior management must ask the hard question as to whether the existing structure will support and enhance the growth of an emerging area. If not, then the firm should explore how it might “incubate” the business separately.

10. Limit Scope. Given the sheer scale and diversity of op-

Figure 4



portunities, the initial reaction is often to try and jump at many of them at once, but this will not lead to long-term success. A more effective approach would be to ask several questions before moving ahead:

- Am I today or can I become a market leader in this particular emerging business?
- Can I deliver products and services around this opportunity as early as mid 2009 and continue aggressively through late 2010?
- Do I have a team in place right now that can get me there and if not, am I confident I can find the team who can?

11. Assemble Integrated Team. One common weakness of pursuits of large government awards in recent years - such as those resulting from Iraq, Katrina, and 9/11 - is an uncoordinated “silo approach.” This approach is in many cases driven by a strong point person (e.g., business development or capture) that nevertheless lacks a supporting cast with other critical competencies. As a result, the organization as a whole lacks the ability to bring its full capabilities to bear. Typical pitfalls of this approach have included:

- Significant over-selling of capabilities by the business development organization without coordination by the team actually delivering the products and services;

Figure 5: Optimal Organizational Design

| Business Function | Common Pitfalls | Optimal Roles |
|-----------------------------------|--|---|
| C Level | Directive in approach to opportunities | Coordinate activities of team members such as strategy |
| Corporate Strategy/M&A | Develop strategies without business/technology feedback loop | Size markets, partners, and opportunities based on strong business input |
| Program Managers | Have strategies directed to them which limits effectiveness | Drive the activities and work closely on the front end |
| Capture Support | Success in winning business but over-commit capabilities | Coordinate with other components of team so not operating in a silo |
| Washington Operations | Strong on "identifying dollars" but limited scope in developing overall strategy | Become a more strategic partner to evaluate opportunities instead of tactically "looking for dollars" |
| CTO | Often operates in a silo outside of the business decisions and brought in only when technical problem occurs | Bring in early in the process to evaluate viability of potential new opportunities |
| Rapid Response Team | Often does not exist | Some top performers need to be devoted to the rapid winning and delivery of projects |
| Human Resources | Becomes engaged only when there is a specific talent shortage | Engage earlier in process to predict where talent shortfalls could occur |
| Compliance | Reactive when a problem occurs | Assign at the front end and keep highly engaged at all times |

- Top down approach to opportunities in which a directive is given at a senior level to pursue an opportunity without having an underlying analysis by relevant team members as to whether it makes sense; and
- Limited feedback mechanism and checks/balances because only one portion of the organization is highly engaged in the new opportunity.

In response to ARRA, a significantly more integrated approach should be implemented to optimize the chances for success. This includes coordination across the C-level leadership, technology heads, government operations experts, business development and capture leaders, corporate development, human resources, and compliance.

12. Nail Execution. Once the decision has been made to move forward with particular opportunities from the ARRA, execution becomes critical. While the systematic process outlined above should improve the odds of success, there remain considerable execution risks that must be managed carefully. These risks will be amplified because the government will be trying to execute programs on a scale and scope that will strain their capacity, hence setting the

stage for process and regulatory breakdowns.

Despite the calls for urgent action, firms must recognize that the constraints and scrutiny inherent in government contracting will not go away. Indeed, the President has made it clear that every dollar spent will be subject to unprecedented transparency and accountability. For those able to build the processes and procedures to execute within this environment, the opportunities will be substantial. However, firms that place expediency over careful compliance are likely to find that their actions undermine their long-term prospects, even if they lead to short-term gains.

CONCLUSION

The ARRA represents both a unique challenge and a tremendous opportunity for companies that can innovate, deliver, and effectively manage growth. It will immediately fund and potentially cause significant growth in innovative sectors in the future such as alternative energy, health IT, and infrastructure. An analytical and systematic approach will not guarantee success but will reduce the likelihood of pitfalls for both companies and the government that have occurred over the last decade.

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