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Shutdowns show need for a concrete business plan. But how?

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GETTY IMAGES (MINERVA STUDIO)

In 1971, two analysts at Royal Dutch Shell sensed changes afoot in the Middle East that they concluded would destabilize the oil industry. They prodded management to begin forming contingency plans should prices skyrocket.

Sure enough, in October 1973, the members of OPEC declared an oil embargo targeting the U.S., the United Kingdom and six other nations. Six months later, the price of oil would spike from $3 a barrel to $12. An energy crisis gripped the world, and gas rationing became a way of life for U.S. consumers.

Shell diversified into coal, nuclear power, metals and coal and placed offshore bets on the oil fields in the North Sea, risky investments that fueled what's considered the most arduous offshore development the company had undertaken. But Shell actually came out of the crisis stronger, and was well positioned to withstand the subsequent oil shock of 1979 in the wake of the Iranian revolution. Scenario planning went mainstream.

An equivalent oil shock in Greater Washington — a record-long government shutdown — gives businesses of all stripes a new set of inputs to think through their own updated scenario planning exercises. Because, as we know, it could very well happen again, perhaps in another few weeks. The political arena is too polarized while the overall backlash is too muted.

So how do organizations work this kind of uncertainty into their long-range planning and day-to-day operations? Experts say it's possible: Rethink the worst case, plan for it and view it as an opportunity for growth.

"Coming out of it, if a business has survived this and they got through it one way or another, you emerged from something like this as a stronger business in a couple of ways," said Scott McIntyre, CEO of McLean-based Guidehouse LLP, the former U.S. public sector consulting business of PricewaterhouseCoopers that was acquired last year by an affiliate of private equity giant Veritas Capital.

Looking inward

One clear way is being ready to spring back into the market immediately once the government reopened. That assumes, McIntyre said, that your organization preserved its capacity — by paying its people and keeping them engaged and focused on serving customers as soon as they got the green light.

“Companies that have furloughed or laid off people are not ready to jump back into the void they’ve created now with a headcount shortfall,” he said.

“Another latency is the organizational inertia in not getting back into the market in a timely manner,” McIntyre added. “That’s one of the reasons a lot of companies, ours included, shifted things like training and housekeeping and [intellectual property] development into that void, so that there wasn’t any of that distraction when our clients needed us Monday morning.”

Keeping your selling, general and administrative expenses well under control also preserves capacity because it helps build a strong balance sheet. Financial and operational disciplines — particularly in advance of a crisis — can help a company withstand even a record-long shutdown.

Chris Helmrath, managing director of SC&H Capital, a McLean independent investment bank, leads the firm’s mergers and acquisitions practice and corporate financial advisory and management consulting services, and sees the Shell oil shock scenario and other scenario planning examples as particularly instructive here. This shutdown, he said, is really no different at a business level, though it feels different because of the politics.

Necessary adjustments

The focus, then, needs to shift.

“You have to, as a business owner, take a step back and really say to yourself, ‘What could happen that could derail the way I do business today,’ and think about what would I do if that happened,” said Helmrath, who’s taught corporate strategy at two business schools and has advised companies through multiple shutdowns and a few recessions.

“You determine what you can and cannot change but what may prove vital to your business either in or out of your control, and create plans to think about what you would do if that happened,” he said.

That could be thinking about how to better diversify your client base, especially if you’re doing IT support and program management work rather than high-end, highly specialized, mission-critical technical work for defense and intelligence customers. It could be analyzing potential societal, economic, technological and political shifts, as well as shifts in competition. It could be zeroing in on a couple of critical uncertainties, Helmrath said — for an agribusiness, for example, that’s food prices and consumer demand.

It could even be some pretty basic financial forecasting. A business doing $1 million in revenue and dependent on the government for business could model out the impact of a 35-day shutdown, with 15 more days worked in to account for payment systems getting back up to speed. That’s 50 total days, which comes out to about one-seventh of the year, or about 14 percent of sales — so sock away

$140,000 to cover a future shock.

And all of that flows into building a strong brand, both for customers and current and future employers. Greater Washington's economy is strong enough to sustain another shutdown, though no one wants another 35-day standoff. After all, while the shutdown will cost the economy about $3 billion in projected output this year, according to the Congressional Budget Office, that works out to 0.02 percent of projected annual GDP in 2019 — real money, to be sure, but not a knockout blow.

The bigger pain points were largely reflected at a micro, not macro, level. Just before the shutdown ended, the U.S. Chamber of Commerce and Arlington-based Professional Services Council estimated roughly 11,900 small contractors in D.C., Maryland and Virginia could stand to lose a combined $1.1 billion worth of work. And one-third of small businesses that the chamber polled said they had no rainy day funds to cover them. The differentiator, experts said, is creating a culture with high morale and productivity.

"Thinly capitalized companies, well-capitalized companies all went into this thing with their eyes wide open, knowing it was going to be tough, not knowing how long that toughness would last," Guidehouse's McIntyre said. "The better companies stood behind their people."

Stories of survival

Business planning can go a long way for any company. But in the end, it comes down to on-the-ground decisions and game-time calls to pivot and persevere your way through a roadblock as big as a record-long government shutdown. These three business organizations saw need swell and, for some, work falter. Here's how they rode through the country's longest-ever shutdown — and how they hope to face the next.

Montgomery College

The 35-day shutdown had placed many college students in hot water. And that meant local schools such as Montgomery College had to step up and respond — even as they now prepare for a potential repeat of the situation.

At Montgomery College, the county's community college, the students affected were often furloughed workers themselves — or their parents were. Delayed paychecks led to delayed tuition payments.

Montgomery College said it went into high gear to help students and families struggling to make payments. It allowed affected families that had not applied for financial aid prior to the shutdown to do so. It also notified students that institutional grants were still available and that flexible payment plans could be set up.

It even dipped into its MC Foundation emergency funds, money raised through private donations that is typically set aside each year to help students pay for books, food, transportation and rent. The college didn't quantify how much in additional emergency funding it doled out to students, or where those funds stand now. Its total emergency assistance in the last four years has ranged from about $20,000 to $35,000 per year.

College officials said the emergency assistance for furloughed students won't affect or decrease the amount available for future scholarship funds.While both funding pots stem from private donors, they remain their own delineated pots.

“Emergency funds and scholarships are different,” said Donna Pina, director of finance for the MC Foundation. “When the donor sets up a [scholarship] donation for the foundation, the donor sets up the criteria.”

If another shutdown arrives Feb 15, the community college said it will continue using emergency funds for students on a case-by-case basis.

However, “these emergency dollars are finite,” said Montgomery College President DeRionne Pollard. And Montgomery College will “be certainly doing some massive campaigns so that donors replenish the funds.”

— Soe Han Tha

Capital Area Food Bank

January was not a typical month for the Capital Area Food Bank.

With 362,000 federal workers furloughed in the region, the District’s largest food bank had to exhaust several resources to feed a population that’s not accustomed to receiving food assistance. Its workers, and those of its partners, set up and staffed seven pop-up food distribution centers every weekend starting in early January, in Alexandria, Largo, Camp Springs, Rockville, Greenbelt, Gainesville and Brentwood. They doled out groceries to around 4,000 people.

And now, CEO Radha Muthiah said the effects of the shutdown will last well into the year, especially with a sequel potentially looming on the horizon. If that shutdown indeed occurs, Muthiah estimates needing to provide an extra 600,000 meals if federal workers are furloughed once again, boosting the total number of anticipated meals for the food bank’s beneficiaries to 2 million.

“This week, we’re looking at what if we had to provide 2 million meals,” Muthiah said this week. “It’s about trying to be as accurate as possible and trying to make the process as efficient and easy for those in need.”

In January, the food bank served about 300,000 extra meals — or 20 percent more than typically budgeted for the month. They were able to raise $300,000 more in donations to cover those costs, from organizations such as the United Way of the National Capital Area and corporate sponsors such as Pepco, Safeway, Nestle and PNC Bank. In all, the Capital Area Food Bank has 450 food assistance partners across the region, some of which reported 5 percent to 10 percent increases during the shutdown.

For February, the food bank is particularly worried about its regular clientele, 50 percent to 60 percent of whom Muthiah said are beneficiaries of the federal Supplemental Nutrition Assistance Program. The last SNAP disbursement was made Jan. 17, earlier than usual, which means recipients may have to wait until March for their next payment, increasing reliance and strain on the D.C. food bank.

If another shutdown were to bump up the Capital Area Food Bank’s demand to 2 million meals, Muthiah estimates that would require just shy of $1 million in donations. Though, she doesn’t normally expect a big intake this time of year.

“The end of the year is when people think about their charitable donations,” she said. “It’s rare for people to be thinking about it in a big way in January and February.”

Muthiah said given that federal workers anticipate receiving back pay soon, the food bank may temporarily discontinue the pop-up centers. But it’s always prepared bring them back when needed.

“The individuals we saw at the pop-ups are living paycheck to paycheck,” she said. “There was a window for people to get a sense of what it’s like for hundreds of thousands of people on a day-to-day basis.”

— Katishi Maake

Business Management Associates

Business Management Associates began strategic planning in October. Its vision statement, its organizational chart, job titles and descriptions — everything was on the table as founder and CEO LaJuanna Russell set a course to grow the $9 million government contractor.

The record 35-day government shutdown, which kicked in right after the Alexandria company had concluded its skull sessions, only reaffirmed for Russell the need for such an exercise. Her management consulting firm — which assists agencies with human resources projects — had to furlough 30 percent of its 100-member staff as stop-work orders landed.

She wasn’t surprised by the shutdown itself but the length caught her off guard. Those 30 people returned to the fold this week, she said, but “do I feel 100 percent confident that they’re not looking, they haven’t been looking during this whole period? They’re not trying to find something more stable? I can’t say that.”

For Russell, this shutdown brought back memories of the 16-day shutdown in 2013. Her revenue fell 50 percent, from $3 million to $1.5 million. She had to let people go and some of her management team went on part-time schedules to conserve cash.

Coming out of that shutdown, she saw what market uncertainty did to her customers: They either spent like crazy once they were back online, or they pulled back completely and waited for the dust to settle a bit. It was different in 2013 because of sequestration, but the challenge for a small business is the same — it may not have the business development feet on the street to glean critical market intelligence on who’s ready to spend on a contract and who’s been spooked.

The company has since worked to diversify its client base, adding the departments of Justice and Energy to its financial regulatory agency footprint and working more with the Department of Homeland Security. But Justice, Energy, Treasury and DHS were among the unfunded departments this go-round.

“It was like, did that work at all or what?” Russell said with a self-deprecating chuckle. “You’ve got to laugh or you’re going to cry, all day.”

— Robert J. Terry

Robert J. Terry
Senior Staff Reporter
Washington Business Journal