Strategic Risk Insights—Case Studies

Opening Sentence: Strategic Risk Insights was founded in 2019, but our consultants have been active in risk and strategy consulting for a number of years. We know how to create and cement strong, value creating relationships with our clients. Here’s a sample of the work we’ve done.

**Newman’s Own: Navigating survival risk.**

Newman’s Own, a producer of unique salad dressings, popcorn, pizza, salsa, and a host of other food products was founded in 1982 by actor Paul Newman. Because Newman didn’t need the profits, he settled on a unique value proposition: the company would donate 100% of profits to charity. He established the Newman’s Own Foundation to receive those profits and distribute them to charities in selected areas. The company prominently displays “100% of profits to charity” and that relationship is the basis of its brand. To date, Newman’s Own has donated over $550 Million to charity.

Paul Newman died in 2008 and the ownership of the food company transferred to the foundation. While this would ensure Paul’s legacy of “100% of profits to charity,” it also ran afoul of a 1969 provision in the U. S. Tax Code that prohibited private foundations from owning more than 20% of a company. Newman’s own had until 2013 to make the change, and the IRS granted a five-year extension. In November of 2018, Newman’s Own would have to restructure, and abandon its source of competitive advantage.

The leadership of Newman’s Own decided to try changing the tax law, which took an act of Congress. Our consultants engaged with Newman’s Own Foundation in 2017 to help them deal with long term political risk. As a foundation wholly owned by a corporation, Newman’s Own ran afoul of US tax laws. Most Representatives and Senators were sympathetic to the cause, but they wanted to make sure that changing the tax code would help more businesses than Newman’s Own. They needed hard data and insightful analysis to help them convince Congress that this was a strategic opportunity and not a threat.

Paul Godfrey provided the foundation with a quantitative model that helped Representatives and Senators understand the potential strategic upside for Newman’s Own, the philanthropic sector of the economy, and US society in general. We found that a change in the law would encourage other companies to become “philanthropic enterprises” like Newman’s Own, and the economic impact would be substantial as time went on. Our analysis provided the foundation’s leaders with more ammunition to convince a wavering and congress reluctant to pass any legislation to capitalize on this strategic opportunity.

Newman’s Own used this consulting product, plus a number of other reports we produced for them, to continue to press for a Congressional vote. The case for changing the law was clear to all; however, getting Congress to pass any law was a challenge. The bill that contained the change found itself included in the Bipartisan Budget Act of 2018 and become law on 09 February of that year. Newman’s Own was ready to engage specialized lawyers to begin to restructure the company. The law passed—literally—in the nick of time.

Political risk quite often becomes strategic risk—changes in public policies, regulatory approaches, and the orientation of political leaders towards business creates a classic case of strategic risk: a new and uncertain environment that can either bolster or bust-up a company’s competitive advantage. Political risks are difficult to manage and having a strong partner that produces robust and rigorously derived forecasts can help a company navigate the challenges waters of the political system. In the Newman’s Own case, it was about much more than just eliminating a strategic threat, it was about capitalizing on a huge opportunity to improve civil society in the United States.

**Mitsubishi: Understanding competitor risk and its impact on strategy**

Mitsubishi Compressor Corporation (MCC) is a subsidiary of Mitsubishi Heavy Industries, one of Japan’s largest conglomerates. MCC produces and sells compressors for the Oil and Gas market. It takes pressure to move Oil or Natural Gas to the surface, to move it along miles (sometimes hundreds) of pipelines from the field the refinery, and to move oil through the refining process. Compressors are complex marvels of engineering, and the sale of compressor can help a company generate follow-on sales of replacement parts and service contracts.

The industry featured some of the world’s best manufacturing companies, including General Electric (GE), Dresser Rand, Siemens Corporation, Mitsubishi. The landscape of the industry changed dramatically when Siemens merged with Dresser Rand in 2015 and GE bought Baker Hughes—a well-healed market leader—in 2017. Mitsubishi now faced competitors with potentially greater scale, market reach, and internal cash flows to finance new projects. As a smaller player in a consolidated industry, MCC faced substantial strategic risk from its competitors. MCC needed help.

Our teams began with a deep dive into each of the new behemoths. How would the combination of these companies make them better? For GE, the purchase of Baker Hughes represented a big bet to build market share in the Oil and Gas industry. At the time, this looked like a substantial growth market that would be a great portfolio addition to an old-line, high quality manufacturing company. Siemens was looking to increase its share in the US market, and Dresser Rand offered them an opportunity to gain share quickly.

As we dug deeper, we found that the benefits these two mergers hoped to bring about weren’t forthcoming. GE, besides being a talented manufacturer, was new to the industry, and the challenge lay in digesting the smaller, nimbler Baker Hughes into a huge bureaucracy. The challenge of integration meant that both companies would be focused internally, and not on the market itself. Siemens had overpaid for Dresser Rand and had proved unable to generate the kinds of synergies that would allow them to earn a return on a huge investment.

Our teams provided MCC’s leadership steam with a clear and objective view of the new competitive environment, one that went behind the press releases or articles in the business press. Our ability to do in-depth interviews with many in the industry gave us insights on the situation that showed significant opportunities for MCC, as well as real threats. Our leadership team continued to monitor the situation after the engagement ended, and we have provided MCC with periodic updates of the situation.

Consolidation, or fragmentation, in an industry changes the competitive landscape in some obvious and some subtle ways. It can seem to executives that consolidation comes “out of the blue,” but understanding the strengths and weaknesses of your competition, and your own company, can help you create scenarios and plans for consolidation or fragmentation. For MCC, as for many smaller players in an industry, changes in the competitive landscape often bring as many opportunities for growth as they do threats to survival.