

THE SOLUTION



# Planning for the 2020 Election: Conduct a STEEP Analysis



# Planning for the 2020 Election – Conduct a STEEP Analysis

By Lisa Hicks & Edward Hardy Payne



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**In this article: STEEP Analysis is a valuable tool to aid strategy professionals when considering uncontrollable events that may impact your organization's ability to serve its stakeholders, and ultimately its financial well-being. In addition to industry best practices to consider, this article provides a case example of how a recent bankruptcy occurred as a result of a failure to take a 360-degree perspective in anticipation of Presidential election results.**

For many of us, politics is more than a personal passion. Given the significant discussion in the news about the upcoming 2020 Presidential election, we as strategy professionals are all thinking about what steps we should take to help ensure the continued financial success and growth of our employers. We are all focused on how we will respond to anticipated disruptions in the market and how to be nimble when doing so.

To accomplish this, one of the most important steps to take is scenario planning. If you only plan for one particular set of outcomes, results can be unfortunate, as outlined in a recent article about the plans of United Sporting Companies (USC) to file for bankruptcy protection and then ultimately to liquidate. According to CEO Bradley Johnson, USC boosted inventory before the 2016 White House race, expecting the higher sales that historically follow a Democrat's election. Following the surprise election of President Trump, USC found itself with

excess inventory on its hands and high debt levels, necessitating the bankruptcy filing. Despite having roots going back to the Great Depression, because they failed to consider multiple scenarios, they will soon no longer be a going concern.

We believe USC was smart to consider the impact that a shift in political environment might have on their markets. However, our view is that they made a critical mistake in expecting the election of Hillary Clinton to be a "sure thing", along with the associated likelihood of tighter gun regulations.



## STEER Process - Social

With the election of Hillary Clinton (HRC), how would public opinion on gun control change? The Crime Bill of 1994 banned certain semi-automatic firearms with two or more specific design features, and also prohibited the manufacture of ammunition magazines that held over ten rounds. HRC's campaign explicitly stated she wanted to reinstate the Assault Weapons Ban. Any objective view of her policies would indicate tighter gun laws.



On the other hand, a Trump win would stop or possibly reverse some federal gun restrictions. Reaction from a Clinton victory - Similar to the run up to the 1994-gun law passage, the gun industry would have faced a multifaceted campaign to gain public support for a new gun law.

#### **STEEP Process - Technological**

In addition to the crime bill, the Bill Clinton presidency passed the Brady Bill, requiring 5-day waiting periods. The bill was later determined to be unconstitutional and replaced with instant background checks.

An HRC presidency would have expanded the use of background checks and closed loopholes around the sale and purchasing of firearms. Candidate Trump's gun control policies focused on risk protection orders, training for law enforcement and school employees, and strengthening background checks already in place. President Trump did eventually ban the sale of bump stocks.

Reaction from a Clinton victory - A renewed push to expand background checks to include social media checks, domestic violence checks, and additional regulations on the sale, handling, and storage of firearms.

#### **STEEP Process - Economic**

Although the HRC campaign did not specify new taxes on guns, Democratic House members have introduced legislation to increase the federal excise tax from 10% on handguns and 11% on rifles and shotguns to 20% for all guns and a 50% tax on ammunition.

This legislation would be championed by the HRC administration. Candidate Trump did not mention any

taxes on guns or ammunition and would keep the taxes as they are. Reaction from a Clinton victory - Taxes on firearms and ammunition would certainly go up. Additionally, new fees would have been applied to the sale and distribution of firearms.

#### **STEEP Process - Ecological**

There is not much ecological concern for gun regulations. However, there have been some initiatives to increase the ammunition fees based on lead content of bullets. On the last day of the Obama Administration, the Interior Department banned the use of lead ammunition and fishing tackle on all Federal Wildlife Sanctuaries, wildlife refuges that allow hunting or fishing, as well as in all other hunting or fishing regulated by the agency elsewhere. It has since been repealed. Additionally, some states banned lead ammunition from state lands.

#### **STEEP Process - Political & Legal**

Obviously, the most pressing issue within the STEEP analysis would be new rules, regulations and laws pertaining to the sale and ownership of guns. Congress would have stayed in the GOP's hands after an HRC election, and any gun control legislation would have died on Capitol Hill. However, USC was rightly concerned with agency rules and regulations affecting the sale and ownership of guns. HRC was hostile to the Heller decision and planned to enforce tighter restrictions on gun purchases. Trump on the other hand campaigned on supporting the 2nd Amendment and open carry laws.

#### **Hindsight is 20/20**

Bottomline, the analysis of an HRC victory would result in tighter guns laws, higher prices, and possibly a ban on certain classifications of guns. USC was right to be concerned with an HRC victory. A likely scenario would



have been a run-on gun sales before the new Administration took office. Building their inventory seemed like a smart move.

According to the Bureau of Alcohol, Tobacco and Firearms department (ATF,) there was a 78% increase in firearm applications from 2015-2016. There was good reason to believe a run-on gun sales would take place if Clinton won. Some of the sales in early 2016 were likely the result of consumers buying ahead of the election.

As for a possible Trump win, none of the experts gave him much of a chance to win. A New York Times prediction model gave Candidate Trump a less than 10% chance. However, the Clinton campaign's Blue Wall had several cracks that should have given USC some second

Reaction from a Clinton victory.

Like the 1994 Crime Bill, new restrictions would have been applied to gun sales. Certain types of firearms would have been banned or severely restricted. In addition, a renewed legal battle would likely have taken place to reverse the Heller decision in a lower courts leading up to a new Supreme Court challenge. thoughts betting the company's future on a 'sure thing.' Specifically, 70,000 voters in key counties within Pennsylvania, Michigan and Wisconsin either not showing up or voted for Candidate Trump.

### **How would a strategy professional look at a Trump win?**

Would there be a wholesale shift in gun policy and regulations? No. If anything, a Trump victory would have resulted in a modest increase in gun sales. Excluding the pre-election bump in 2016, firearm process applications only increased 6.3% CAGR from 2012 to 2017.

Could USC have waited until after the election to make its decision to increase its inventory? Could USC have taken measures on the outside chance Candidate Trump could have won? Did USC consider, despite all the expert opinions of an HRC win, a Trump victory?

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### **Not Only for Quadrennial Review**

Recent headlines underscore that a STEEP review should not only be performed in presidential election years. For example, Wayfair, an online furniture company, recently had to deal with an employee walkout in protest of the company selling furniture to the Federal government's detention centers.

A petition stated: "The United States Government and its contractors are responsible for the detention and mistreatment of hundreds of thousands of migrants seeking asylum in our country – we want that to end. We also want to be sure that Wayfair has no part in enabling, supporting, or profiting from this practice." (USA Today, June 26, 2019).



Another example is the “Push for \$15” campaign in certain cities. There are dueling studies about the impact on the increased minimum wage, but regardless of the economic merits to society, employees or employers, analysts would be prudent to consider the ramifications of Societal, Technical, Economic, Ecological and Political/Legal policies on operations.

#### **Best Practices to Consider**

- Study how your company is positioned using STEEP analysis. What are your assumptions of the market conditions? How could the market change based on your assumptions?
- Read the local news, trade publications or the Wall Street Journal and ask how those headlines might affect your business. Ask “What if...”
- Develop a counter plan from the 'expert' opinion and play out your next steps
- Map out the ramifications and a strategic plan for a number of scenarios

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#### **About Valeo Strategy Group**

“Valeo” comes from the Latin “to Win.” At Valeo, our mission is to help our clients outmaneuver and outperform their competitors. For over a decade, many of the Global 2000 have turned to Valeo for critical insights that drive breakthrough strategies and increased market share.

Top-level executives utilize our resources to gather difficult-to-obtain insights about their competitors, potential customers, channel partners and global markets needed to fortify their decision-making. We help to guide successful revenue growth.

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