

SCENARIO PLANNING

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The world is a smaller place. Firms cannot set global growth plans without considering Asia Pacific with its one billion potential consumers and the influence it has in shaping the world market. Applying competitive intelligence (CI) to create a clear picture of the Asian market helps companies understand its opportunities as well as its threats.

THE VALUE OF SCENARIO PLANNING

Firms looking to develop long-term growth strategies in the Asia market cannot afford to ignore scenario planning. While we can't exactly predict what the Asian market industry will look like in five or ten years time, it is *critical* for executives to consider drivers that will shape this market. These drivers are variable market or industry conditions, and their behavior will directly influence future industry conditions. For example, drivers can include competitors, economic climate, political, social, demographic, technological, and other factors.

As a form of competitive intelligence, scenario planning considers a range of future industry "worlds" comprised of those drivers in which industry players behave differently. Speculating about the future from this perspective enables CI and strategic planners to set strategies that allows for different possible outcomes. Rather than base strategy on a single projection of the future, scenario planning allows executives to assess the risk of multiple future outcomes and set a strategy or groups of strategies that plans for all possible "worlds."

Scenario planning involves five distinct steps:

- 1) Brainstorm drivers
- 2) Group drivers

- 3) Develop scenarios
- 4) Develop core and contingent strategies
- 5) Create an early warning program

Using scenarios as part of the competitive intelligence process allows companies to develop strategies that are robust in the face of market uncertainty, particularly in new markets. Furthermore, scenarios raise awareness among company personnel of the impact and implications of external changes. Finally, scenario planning positions a CI team to generate early warning indicators that will provide as much advance notice of emerging changes as possible.

CASE STUDY

The following is a detailed case study that describes the framework for utilizing scenario planning. Specifically, it highlights how and why a U.S. specialty chemicals company

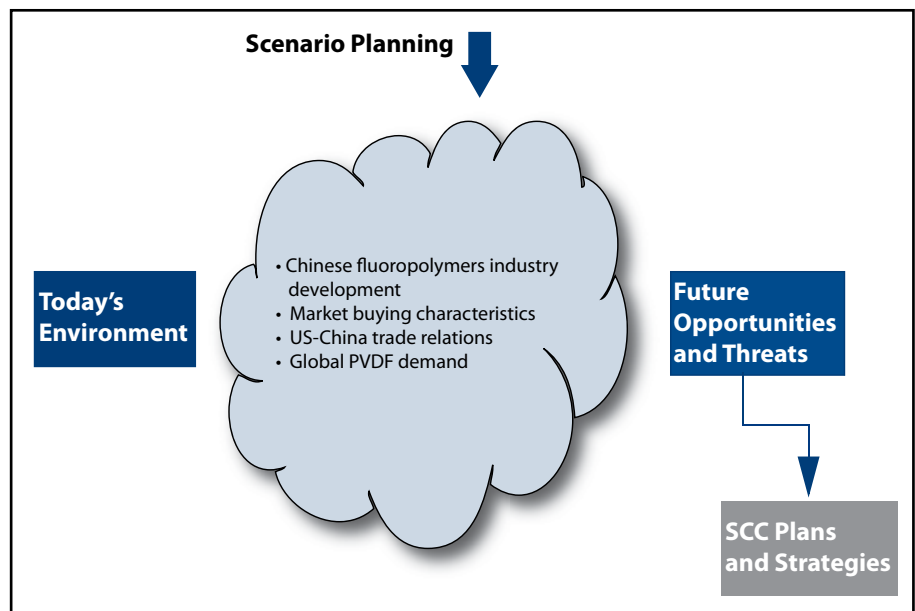


Figure 1: THE SCENARIO PLANNING PROCESS

Scenario Planning is a tool that enables organizations to create strategies by considering multiple plausible future environments in which the organization may be forced to operate.

(SCC) employed scenario planning with the help of its CI team to assess the future of Chinese chemical producers in world markets and the impact of these low-cost Asian competitors into their key markets. (This case study is based on an Outward Insights and Frost & Sullivan eBroadcast, September 4, 2008.)

The situation: The SCC was worried about the potential for Chinese chemical producers to enter key markets with products that carried nearly equivalent technical performance specifications but at prices nearly 60% lower. A high degree of uncertainty existed, however, retarding the timing, likelihood, and impact of potential Chinese market entry. This chemical company was unsure of how to prepare for this potential threat.

The threat from China: In 2005 China's fine and specialty chemicals industry had an annual growth rate of 9%. The industry contained over 5,300 producers with a total production value of US\$14.5 billion.

Key questions facing SCC management: Will Chinese chemical producers enter our key markets? If they do, will their products match the performance characteristics of ours? What, if any, assistance is being provided by the Chinese government to improve the quality of Chinese-produced chemicals? If Chinese products are not of equivalent quality, will their price differential be enough to cause our customers to switch?

China's competitive advantage: Chinese manufacturers could potentially bring several competitive advantages to key markets, including low manufacturing costs, market access, a high degree of vertical integration, and favorable government export policies.

The solution: Scenario planning: See Figure 1.

1. Brainstorm Drivers

A group of SCC managers met and during a brainstorming session identified more than 70+ drivers. The drivers represented business conditions present today, but that were changeable. A sample of those drivers included:

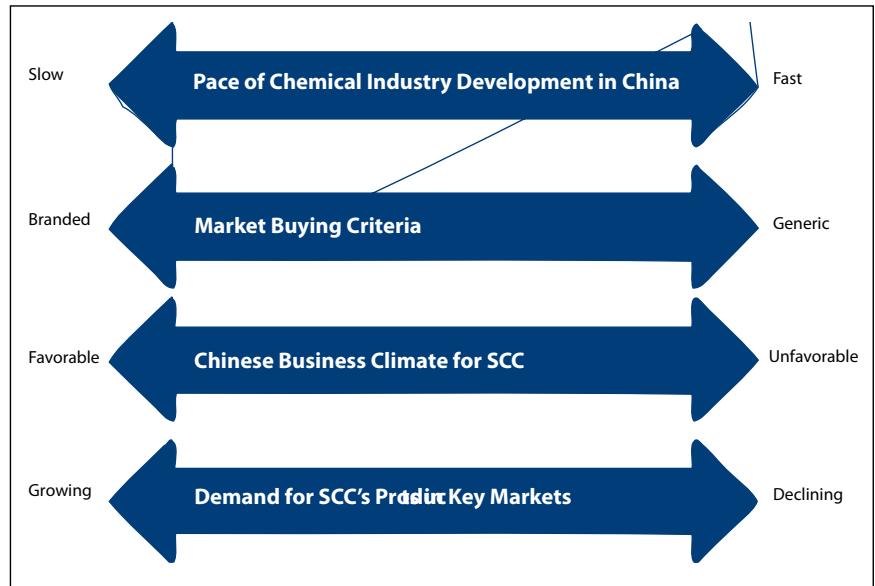


Figure 2: The scenario planning process confronted the key uncertainties that SCC faced

- Chinese R&D (process chemistry and technology)
- Chinese manufacturing process
- Product quality among Chinese producers
- China national branding (acquire or build)
- Market acceptance of generics
- Price-quality trade-off
- Continued political stability in China
- Developed vs. developing country environmental regulations

The behavior of the drivers is what will determine how the future unfolds. Identifying them at the beginning of the scenario planning process ensures that the resulting strategies will take into account the various ways the drivers can behave.

2. Group Drivers

The managers then grouped the drivers into four categories that represented the key uncertainties facing SCC. (See Figure 2.)

When to Use Scenario Planning:

- Highly volatile environment with lots of complexity
- Answers to key questions include lots of 'it depends'

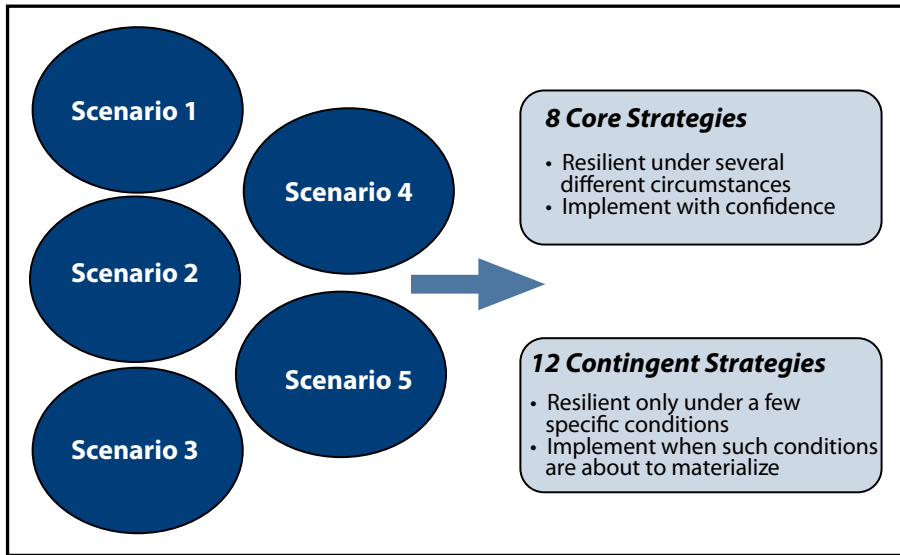


Figure 3: The scenario process yielded a total of 20 discrete strategic options

3. Develop Scenarios

From the list of drivers, the group created multiple scenarios. SCC chose five that represented the main threats and opportunities. (See figure 3.)

4. Develop Core and Contingent Strategies

Those five scenarios allowed SCC to develop *core strategies* (eight strategic options) tested as resilient in a variety of different future conditions. They also have a high potential to be effective regardless of what future circumstances materialize. SCC had to prioritize these options against available resources, core competencies, and risk tolerance. *Contingent strategies* (twelve strategic options) proved resilient under only a limited set of future circumstances, and should be implemented only when external conditions warrant.

5. Create an Early Warning Program

Developing an effective early warning monitoring program helps to alert companies when specific conditions are materializing, and provide a high degree of flexibility and advance notice to implement appropriate strategies. To develop such a program, the CI team should work with executives to identify the appropriate warning indicators that alert them that a scenario is emerging. (See Figure 4.)

IN CLOSING

The scenario planning process provides a robust framework that allows executives to develop strategies on several different plausible futures as a means to manage uncertainty. As in the case of SCC, scenario planning can help your firm to think about its future in light of the competitive threats posed by high-growth markets such as Asia. CI teams should consider this often under-utilized analytical tool when presented with a situation that is difficult to predict a single likely outcome.

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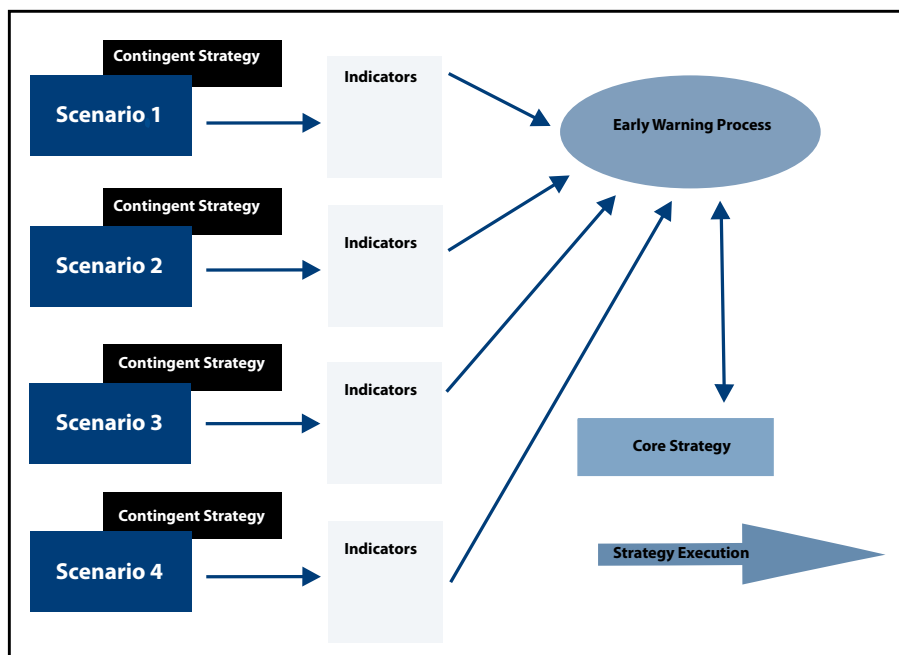


Figure 2: Scenarios used to develop an intelligence early warning process