



Strategy development

Project report

Strategy development using the Scenario-Technique for a medium sized Retail Enterprise

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Occasion

In the beginning of 2005 a medium sized retail company – based in Germany and active in ca. 40 locations - faced the question of how to strategically reposition itself. In recent years it had become increasingly difficult to bear up against the competitive market. New sales channels (discounter and internet) had gained significance and were fighting for the same customers. The customers had become sensitive to pricing and the margins were shrinking.

The managing director had been active in the company for 3 years and during this time had stabilized the business as well as systematically built up a new team of managers. After two difficult years the profits had increased handsomely in the third year. This success had primarily been increased by lowering cost.

Now the question arose how the company could survive long term. Strategic decisions for the future were to be made, based on thorough analysis and a sound assessment of the realistic operational options for the company. Hence, during the first conversation with flow consulting gmbh the decision was made to start the strategy development process using the Scenario-Technique.

The Scenario-Technique

With the help of the Scenario-Technique optional thinking is developed. This is *not* a matter of committing to a precise positioning. Instead of this, several future variants are developed with the help of scenarios. By doing this perspectives are enabled und business decisions can be directed to possible future developments. At the same time the company compiles strategic variants that can be called on depending on future developments. Management as well as members of staff become more perceptive for indicators that point to one scenario or another. With this, strategic thinking is integrated into the operational levels. On the one side the company acquires a consistent strategy to focus its operational tactics; and on the other side it monitors all market developments that would make rapid redirection necessary.

Why tackle the future?
1. Future developments are not a continuation of current trends. On the contrary, they can be substantially influenced by discontinuities.
2. Future developments often only announce themselves with “weak signals”. The sooner we perceive these signals and react to them the greater our advance will be on competition.
3. If we react too late our expenditure for effective measures will rise. A forecast of future developments strengthens our room to manoeuvre.
4. Tackling the future strengthens the organization; strategic thinking and dealing are linked. The organization becomes more powerful.

The start into the strategy development using the Scenario-Technique begins with the Is-Analysis:

- What is the current situation of the company?
- What strengths, weaknesses, chances and risks are present?

Classical tools like the SWOT-Analysis, Business-Range-Analysis, Customer-Analysis and Competition-Analysis are applied. In doing this the initial positioning for successive deliberations are compiled.

Following this we look into the future:

- How will the environment of the business develop in the future?
- What factors influence that development?
- How do these factors affect each other?
- What trends or projections result from these factors?
- How can conclusive scenarios be depicted?

To avoid single minded thinking the various scenarios are not grouped into best-case and worst-case.

During the assignment it is policy to describe the opposing tendencies: What will the future bring in the event that things don't turn out the way we predict them to?

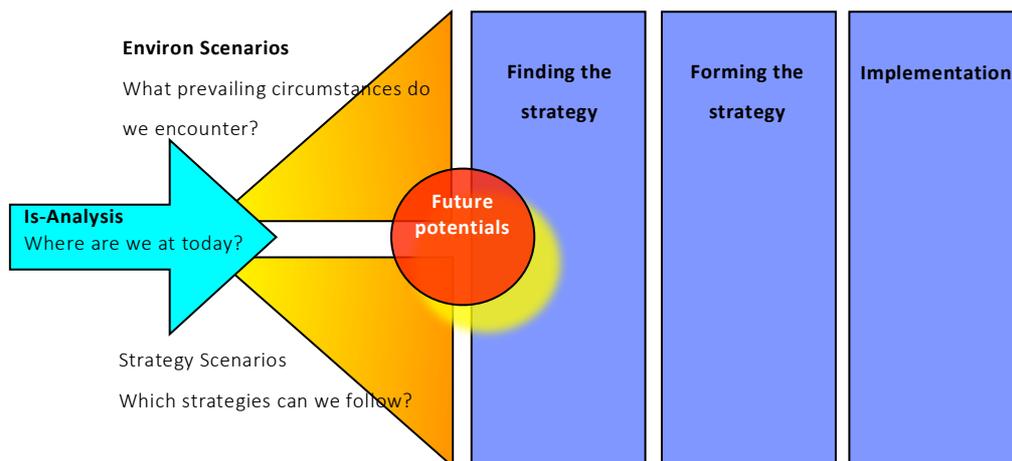
After the description of the Environ-Scenarios the strategic options are developed:

- What does the company have influence on?
- What developments does it have to accept and how can it react to these?

During the strategic options, scenarios are also developed, that include variables. Rather than committing at this point, optional actions are defined.

After this the fulfilment options are evaluated, the vision and philosophy are formed and this is how the final strategy is defined and described. Planning and implementation follow: What must be done in order to work successfully with this strategy in the market?

The phases of strategy development



Grafik modelled after: Gausemeier, Fink, Schlacke, Szenario-Management, München, Wien, 1996

Time Frame

The managing director wanted to take his time for the strategy development. Though the company was under pressure, it was not in a financial crisis that would have made immediate action necessary. Via extensive analysis, the development for the next 10 years was to be discussed and the necessary conclusions were to be compiled.

This process was estimated to take one year. The first consultation for the procedure was held in January 2005 and was followed by three strategy workshops, moderated by two flow consulting gmbh consultants in April, June and October 2005. Further research was carried out between these workshops and individual topics were discussed with a selection of members of staff as well as some conversations with suppliers, partners and competitors. The strategy and the plan-of-action for the operative phase were compiled by the end of October.

The Workshop Participants

Before the work commenced, the circle of workshop participants was discussed. The circle shouldn't be too large in order to stay feasible and capable of discussion.

At the same time the relevant experts from different areas had to be part of the strategy work, otherwise vital knowledge from within the company would be amiss. So the managing director invited the team of managers together with the internal experts from controlling

and marketing to the work phase, as this know-how was currently not present in the management team and so could directly be contributed to the discussion.

The Is-Analysis

The Is-Analysis was the first necessary step. The risk in this analysis is to get tied up in too many details and to remain in operative thinking for too long. Rather than every single detail being relevant, the context is important.

Due to the fact that the workshop participants had compiled the relevant data in the first workshop in April, the Is-Analysis could be completed rapidly. Three analysis had to be executed: SWOT (Strengths, Weaknesses, Opportunities, Threats), Customer-Product analysis and competition analysis. The first central findings where: On the one hand the company owns a strong business area with a manifold product scope, on the other hand there is no visible business focus. The company offers products in many areas, without being outstanding or clearly recognizable in one single area. Over and above this, there was no visible customer focus.

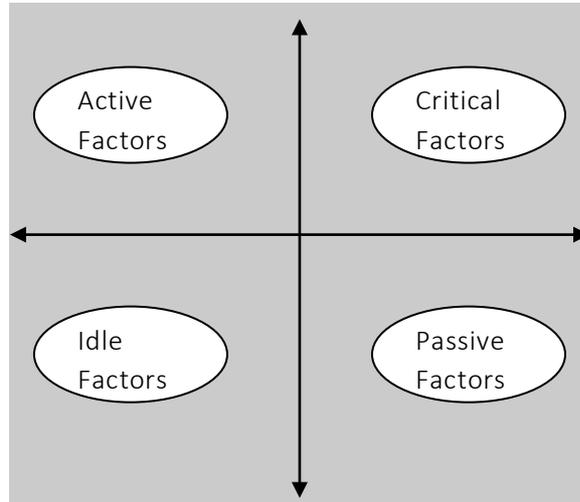
One of the managers expressed it like this: “We dance at all weddings but never come away satisfied.”

Environ-Scenarios

The question of the future development arose right after the description of the initial situation. The workshop participants collected the factors that have direct impact on the business success of the company. With the help of network analysis 7 key factors where extracted that would decidedly influence the future of the company:

- Development of the consumer trend
- Development of the marketing landscape
- Development of the geographic market stream
- Development and politics of the manufacturers
- Technological development in a specific business segment
- Legal parameters
- Development of buying power in the regional markets

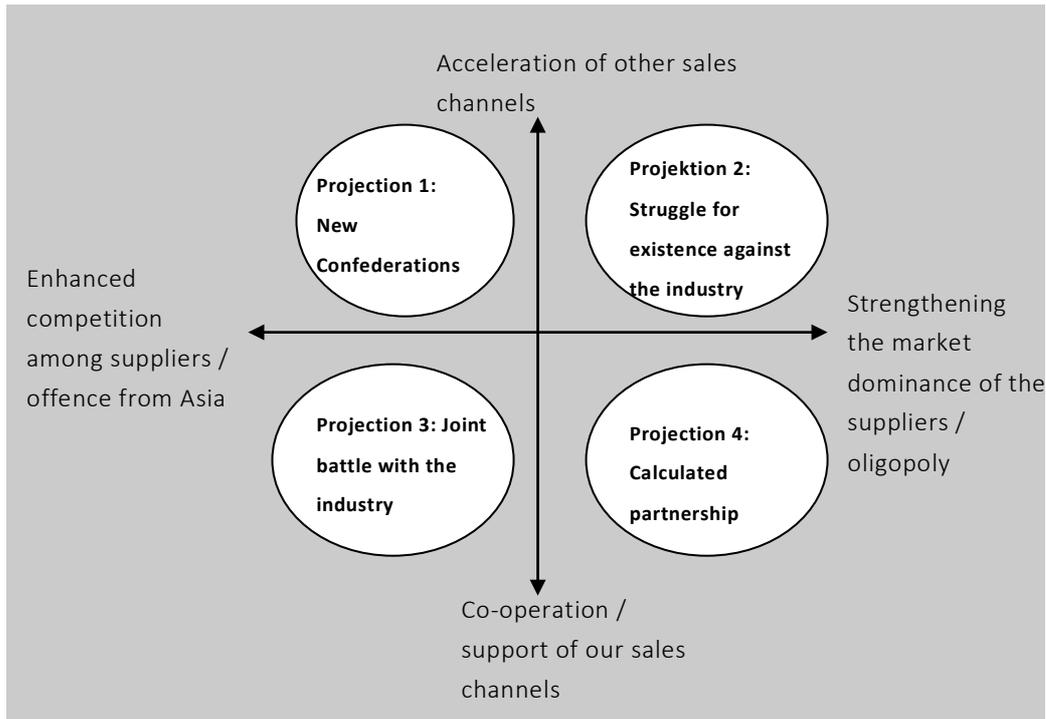
Depiction of the Network Analysis



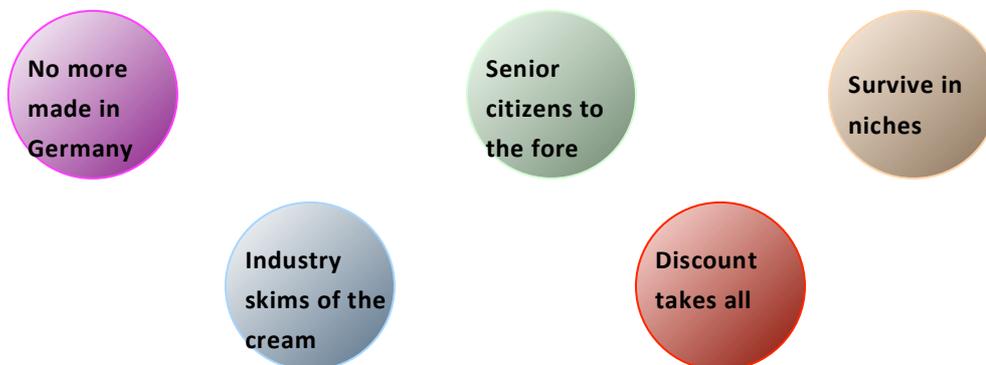
Information on the key factors was collected or rather; the on-hand information was presented to the group. Two market researches were discussed in detail –one on the development of the commercial landscape, one on the development of the consumer trends. As this information was already available in the first workshop it could immediately flow into proceeding work.

Example of future projection on the key factor:

“The development and politics of the manufacturers (industry) of our products”



A total of 24 projections resulted, that were bundled into 5 conclusive Future- Scenarios with the help of a consistency analysis:



The difficulty in these first strategy workshops was mainly clearing the mind for the Strategy-Work. Initially all Future-Discussions were overlaid by traditional mind sets, operative needs and the current operative situation. As a consequence the group decided

to stage the next two-day workshop in a small, out of the way seminar hotel, switch of the mobile phones more often and to arrive the evening before the two-day strategy workshop.

The scenarios were formed and described between the first and the second workshop in small groups. This is a necessary process to enable, after a few weeks, a clear mindset on what exactly is meant with each individual scenario. A scenario is not simply a description of trend; rather it describes a complex context of a possible future. The following leading questions supported the description of the Environ Scenarios:

- What is the title of this scenario?
- How do you describe this scenario in four to six theses?
- Depict the scenario in a small story
- Who are the winners in this scenario?
- Who are the losers in this scenario?
- Which chances are entailed for us in this scenario?
- Which risks are entailed for us in this scenario?
- Which Fulfillment-Options do we have in this scenario?

In the second workshop the scenarios were formed more concrete and the differences of the individual Environ-Scenarios became apparent.

From Environ-Scenarios to strategic scenarios

Whilst clarifying the question what Fulfillment-Options the company has to operate in the different scenarios, the manifold scopes within the company were discerned. This is only successful if those involved in this step do not commit to a strategy or action scenario, rather open mindedly review all variants.

The development of the strategic scenarios proceeded in three steps:

(1) Review of own influence factors

First of all the group reviewed what factors they themselves could influence.

(2) Bundle options into scenarios

Fulfillment-Options were designed for each Environ-Scenario and the individual influence factors. These Fulfillment-Options served as background and incentive for the management team to develop several different strategic scenarios (Fulfillment-Scenarios). The opposition was reviewed for each strategic scenario: What would happen, if we done the exact opposite? This prevented single sidedness within the discussion.

(3) Review future robustness

Thereafter the strategic Fulfillment-Scenarios were checked for long term robustness: Is the Fulfillment-Scenario helpful in operating in a single Environ- Scenario, but counter

productive in all other Environ-Scenarios (future focused)? Or is a Fulfillment-Option helpful in several Environ-Scenarios (future robustness)?

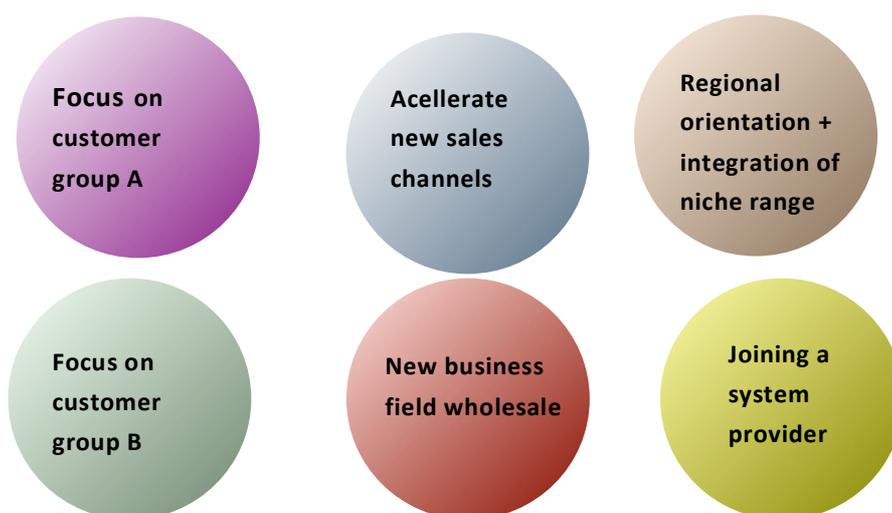
Review of the future robustness of strategic Fulfillment-Scenarios
How well does a strategy option suit which scenario?

	Environ Szenario 1	Environ Szenario 2	Environ Szenario 3	
Strategy Szenario A	+	--	0	Future robust or focused strategy?
Strategy Szenario B	+	++	--	Tight or wide strategy?
Strategy Szenario C	-	+	-	

By means of this method the management team developed six strategic Fulfillment-Options. Finally, as preliminary for the third workshop, the Fulfillment-Scenarios were thoroughly analyzed and described in detail:

- Phrase the strategic Fulfillment-Option in a few sentences.
- What consequences would the implementation of this strategy have on the company (on the organization, human resource politics, location politics, the relationship to suppliers, on finance and so on.)
- What measures would have to be taken first in order to be optimally equipped for this Environ-Scenario?
- What do you have to give up for this?
- What expertise is still required, that is on which topics do you still need to compile further information?

Outline: 6 strategic Fulfilment-Options



Evaluation of the strategic options and decisions

At the third workshop in December 2005 all descriptions of the six strategic options were available. The group had researched, compiled further information and calculated some of the scenarios. Already discussions were underway with some of the partners, for example suppliers; what specific decisions would imply and would the partners go along with it. This provided a good basis to draw the right decisions in this workshop: In what strategic direction was this company to be driven?

During the assessment of the strategic Fulfillment-Options the group agreed to the following three criteria:

(1) Our strategy has to be future robust

“We want to position ourselves in such a fashion, that we are able to react quickly to several developments within our sector. We will continue to watch the developments and re-evaluate the strategy more often. The risk of one sided focus is too high for us. This does not however mean we will continue to “Dance at all weddings”. We will nevertheless align ourselves to one specific strategy and know that we will successively part with some of our pet business sidelines. This will bundle our energies.”

(2) Our strategy has to be action robust

“We want to utilize our strengths. If the strategy makes sense and at the same time takes into account what we are already good at we will be able to take action more promptly. Our risk would be too high if we completely breach new lines of business of which we do not have much knowledge and little experience. Besides, this would be paired with large investments. A repositioning of our current business model seems to be more promising than a complete new business model, which we do not have a full grasp of and in which others are far more advanced than we are.”

(3) Our strategy has to be person robust

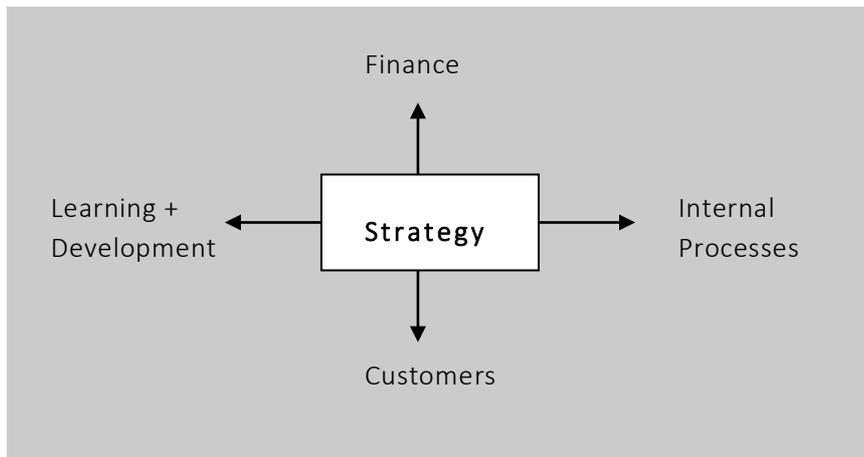
“We have landed in this medium sized business as managers, because we cherish being able to act freely in our business tactics. In this company a lot depends on our energy and drive. If we all sing off the same song sheet and consequently implement the agreed points, we can move a lot. This means that the strategy should be picked in such a manor, that the majority of us can personally identify themselves with it; because if we implement the strategy reluctantly and are not convinced, the likelihood for success will be inhibited. Our company culture stipulates and supports this commitment. We will happily give this toward a strategy of which we are convinced and that we have conjointly developed.”

All 6 strategy scenarios were judged on the basis of these three criteria. The highest scores in this process were administered to the following options:

“Regional orientation + integration of a niche offer” and “Joining a system supplier”. The group integrated these two scenarios into a defined strategy.

Implementation of the strategy

This strategy was concretely formulated. The first indicators were developed with elements from the Balanced Score Card, on the back of which the management team can recognize whether or not the company is on the right track with the chosen strategy. And so the key performance indicators for the 4 levels “finance”, “learning+ development”, “internal processes” and “customers” were assigned. To do this, clear targets were phrased and an implementation plan with responsibilities, timeframes and task packets was adopted. With this the workshop concluded. A strategy review will take place in a years’ time.

How can we recognize that we are successful with with this strategy?**Results**

The strategy development more or less took a year. The operative activity carried on and the first fruits of the strategy development process already became visible within the first year. The confrontation of the future in this condensed manor was new to most of the participants. Each individual obtained a clear picture of how the future of a business can evolve as the result of this. The strategic discussion resulted in a drive in each participant to focus their leadership efforts in the day-to-day business. A meeting was held on a departmental level, on the basis of which the work was reflected and aligned; this lead to a new motivational drive among the members of staff. Some individuals found it difficult to openly go into strategic discussions as this was no “10-metre-race”. However after this year everyone in the management team is convinced to be on the right track. The strategy review in one years’ time will show how far this track has lead and how successful it has been. All participants are aware, that they have to keep an eye on the future. The new strategy bundles the energies in the company and shows a realistic, new perspective for the company.

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