

Scenarios in Marketing

From Vision to Decision

Edited by

Gill Ringland and Laurie Young



John Wiley & Sons, Ltd

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John Wiley & Sons Ltd, The Atrium, Southern Gate, Chichester,
West Sussex PO19 8SQ, England

Telephone (+44) 1243 779777

Email (for orders and customer service enquiries): cs-books@wiley.co.uk

Visit our Home Page on www.wiley.com

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Other Wiley Editorial Offices

John Wiley & Sons Inc., 111 River Street, Hoboken, NJ 07030, USA

Jossey-Bass, 989 Market Street, San Francisco, CA 94103-1741, USA

Wiley-VCH Verlag GmbH, Boschstr. 12, D-69469 Weinheim, Germany

John Wiley & Sons Australia Ltd, 42 McDougall Street, Milton, Queensland 4064, Australia

John Wiley & Sons (Asia) Pte Ltd, 2 Clementi Loop #02-01, Jin Xing Distripark, Singapore 129809

John Wiley & Sons Canada Ltd, 6045 Freemont Blvd, Mississauga, ONT, L5R 4J3, Canada

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books.

Library of Congress Cataloging-in-Publication Data:

Scenarios in marketing : from vision to decision / edited by Gill Ringland and Laurie Young.

p. cm.

ISBN-13: 978-0-470-03272-5

ISBN-10: 0-470-03272-3

1. Marketing—Management. 2. Strategic planning. I. Ringland,

Gill. II. Young, Laurie, 1955- .

HF5415.13.S276 2006

658.8'02—dc22

2006020354

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN-13: 978-0-470-03272-5 (HB)

ISBN-10: 0-470-03272-3 (HB)

Typeset in 10/12 Garamond by Laserwords Private Limited, Chennai, India

Printed and bound in Great Britain by TJ International, Padstow, Cornwall, UK

This book is printed on acid-free paper responsibly manufactured from sustainable forestry in which at least two trees are planted for each one used for paper production.

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Acknowledgments

This book owes its genesis to Clare Plimmer of John Wiley & Sons, Ltd, who was convinced that a book should be written on scenarios in marketing. She discussed this with Laura Mazur of Writers 4 Management, who suggested that Laurie Young (author of *Marketing the Professional Services Firm*) and Gill Ringland (author of books on scenarios) might pair up. This book is the result, and the editors would like to thank John Wiley & Sons, Ltd for their support and patience during its gestation.

We attracted an excellent set of contributors to provide chapters within the overall theme of “how scenario thinking can be used to improve the creativity and discipline of marketing”. Their contact details and a short biography are included in the section on contributors: we thank them for their time and contributions, which—of course—were in addition to “a day job”. We would also like to thank Dr Wendy Schultz of Infinite Futures and Paul de Ruijter of De Ruijter Management who contributed additional case studies.

Gill Ringland would like to thank a number of her colleagues at SAMI Consulting for helpful critiques as the work progressed, and to Adrian Davies’s thoughts on the conclusions we reached.

Both of the co-editors would like to thank Laura Mazur for her work on the case studies and the chapters as they came in from the contributors: if we are still sane it is down to Laura!

ONE

Introduction to Scenario Planning

Gill Ringland

SUMMARY

This chapter answers three questions:

- *How can this book help you?*
- *What is a scenario?*
- *How can scenarios be used?*

It defines scenarios and gives the theoretical and experimental underlying basis for their application. It also contains a discussion of when not to use scenarios.

The chapter is contributed by Gill Ringland, the author of several books on scenario planning and the chief executive of SAMI Consulting, which aims to help its customers to make robust decisions in uncertain times.

HOW CAN THIS BOOK HELP YOU?

You have opened this book because you are a marketer, who has heard about scenarios and want to know what they can do for you. Can they bring both creativity and discipline both into marketing? Can the use of scenarios make your organisation more successful?

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Scenarios in Marketing

It's well known that scenarios have made headlines by helping to anticipate events, improving the ability of an organisation to get ahead of the curve. For example, scenario planning has helped:

- Pacific Gas and Electric to prepare for the earthquake in California;
- Shell to anticipate the fall of communism in Russia and its effect on natural gas prices;
- countries such as Guatemala and South Africa to defuse tensions and map a way forward.

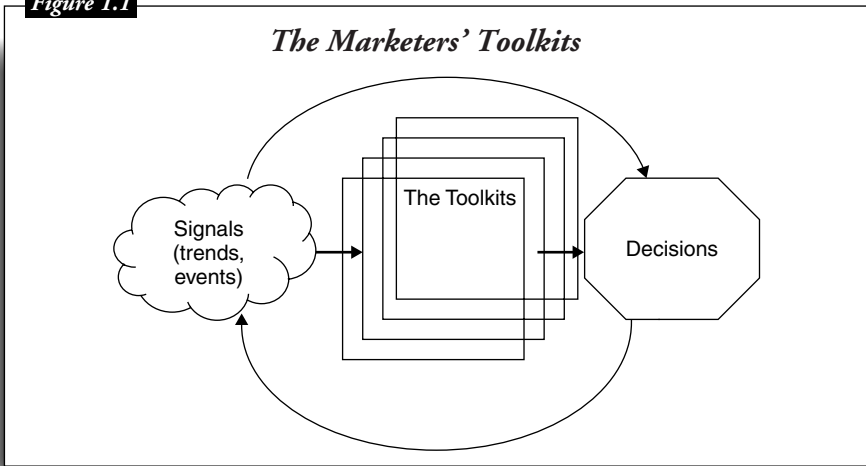
These examples suggest that scenarios work over a long timescale in large geographies. Is scenario thinking then relevant to the types of problems tackled by marketers? The answer is "Yes". Scenarios allow you to explore alternatives to "the official future", which is the set of shared assumptions about the future in the organisation. This official future is usually more comfortable, and hence more potentially misleading, than other possible futures or scenarios.

In Scenario Planning, Gill Ringland (2006) has described a number of marketing case studies where scenarios were developed that effectively challenged "the official future":

- Erste Allgemeine Versicherung, the Austrian insurance company, anticipated the fall of the Berlin Wall and entered new markets in central Europe.
- KRONE, the wiring and cable supplier, developed 200 new product ideas.
- Unilever decided on marketing strategies for Russia and Poland.
- United Distillers (now Diageo) set market strategies for India, South Africa and Turkey.
- Electrolux spotted new consumer markets.

The purpose of this book is to provide a straightforward account of the use of scenarios, oriented towards the concerns and disciplines of people facing marketing decisions. It is intended for marketing practitioners who want to get a view and experience of how to use scenario techniques. It will also appeal to corporate planners and MBA students, as it shows how scenarios fit as part of the marketing tool kit, spanning the space between the signals from the outside world and decision making (see Figure 1.1).

Figure 1.1



MODELS OF THE WORLD

Scenarios are just one example of using models of the world to explore or anticipate “real life”. For instance:

- Wind tunnels are used to test car shapes for aerodynamic features. Does the car become unstable at high speeds, and does it have higher or lower drag factors than other shapes?
- In fatigue tests for airframes, either a life-size airframe or a scaled-down airframe is subjected to stresses and strains in a test rig, where early signs of cracks, fractures or breakages can hopefully be encountered before they are seen in the airframes that fly passengers.
- Mathematical or computer models are used to schedule and allocate resources, within sets of constraints. Linear programming techniques are used to solve problems such as forest management, agricultural production, production planning in factories, and even the selection of hospital menus.

It is clear from these examples that whether physical or computer modelling is used, the predictions for real life are only as good as the ability of the model to contain enough of the rules and constraints of real life. Thus, for instance, a model based on fixed proportions of income being available for discretionary spend, as a way of calculating the market for luxury goods, would cease to be applicable if changes in lifestyle meant that increasing proportions were in fact being spent on

food, through eating in restaurants or snacking on the move (Moore and Hodges, 1970).

Two aspects of a successful model are suggested by these examples:

- The ability to anticipate real world behaviour—which may be unexpected—through exploring the constraints or changes in the external environment, or the relationships between forces.
- The creation of a mental model which allows the user to look for early confirming or disconfirming evidence.

In the case of the airframes that are used to fly passengers, the model could identify the weaker section of the frame and indicate when (after how many flying hours) to look for signs of stress.

In the case of the market for luxury goods, the model might cause the distributor to investigate the cultures in which this change might occur.

How Can Marketers Get Better Models of the World?

This is a difficult question. If we compare good marketers with the Israeli Intelligence Service, for instance, we can look at what happened in the run up to the Yom Kippur War. This example of the difficulties in maintaining a view of alternative possible forms of threat, and hence the ability to react to signals, is given by Cohen and Gooch (1990). It describes how the Israelis, in spite of a superb intelligence operation, were essentially taken by surprise by the Arab attack during the war.

So, how can we avoid being taken by surprise?

Consider the approach taken by the Prussian military thinker Carl von Clausewitz—a major strategic theorist. He became interested in the effect of chance and uncertainty on war because the *“juggernaut of war, based on the strength of its entire people”* defined a new era. War had become one of the largest and most complex of endeavours, and in this context he dismissed the simplistic use of mathematical techniques, which he suggested illuminated tactics but not strategy. On the topic of how to act boldly despite the inherent uncertainties of war, he suggested making *“an educated guess and then gamble that the guess was correct”*. For a more detailed analysis, see Herbig’s article in Handel (1989).

In this context, then, it could be said that scenarios improve the quality of the educated guesses and also provide a framework for deciding what the implications are, and when to gamble.

In Chapter Four and Chapter Eight, and in Appendix One, we discuss some of the methods that have been developed to try to improve the quality of these educated guesses in a marketing environment.

WHAT IS A SCENARIO?

Think of a scenario as a fairy tale or story. Michael Porter (2004) defined scenarios as:

“An internally consistent view of what the future might turn out to be—not a forecast, but one possible future outcome.”

A good set of scenarios are plausible in that they can be “imagined” in terms of current, visible, events or trends that might cause them to happen; the set should not only include a visionary (or normative) scenario, but also some scenarios that challenge the organisation. Scenario planning is the art of using scenarios for decision-making.

The Experimental and Theoretical Basis for Scenario Thinking

Scenario thinking explores the future in a way that provides not only plausible and consistent but also qualitatively different views of the future. Scenarios allow default assumptions to be surfaced and discussed. As an example, see the discussion over business plans at D2D (see Case Study 1.1).

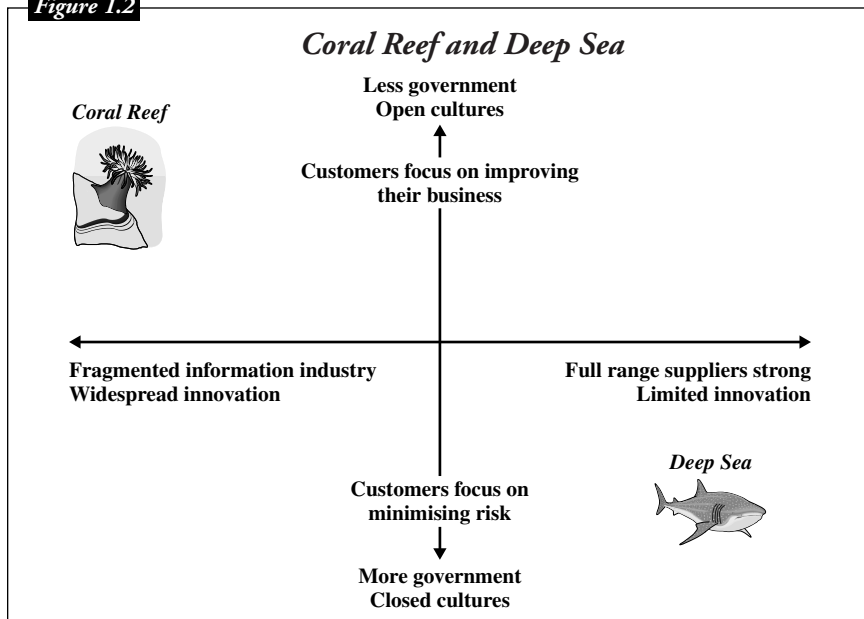
CASE STUDY 1.1 SCENARIOS TO EXPLORE ASSUMPTIONS AT D2D

D2D was ICL’s manufacturing division. The management team of D2D had produced a five-year strategic plan, and headquarters reviewed it with them as a basis for a prospectus for spinning D2D out as an independent company or as part of a contract manufacturing company.

ICL had developed two scenarios for the future of the information industries, shown in Figure 1.2. ***Coral Reef*** was a colourful IT world, with many small companies, a hectic pace of development, and consumer and business customers interested in the latest products. ***Deep Sea*** was a world in which a few large suppliers dominated their own territory for both consumer electronics and business computing, and customers preferred dealing with these established suppliers because they were big enough to sue.

When the management team was introduced to the scenarios, they recognised that their strategic plan had assumed that the world was a ***Coral Reef*** world, but that their competitive advantages—for instance European quality awards and staff policies—were aligned to the ***Deep Sea*** scenario. This meant that

Figure 1.2



the part of their assumed future growth relating to consumer electronics was too optimistic. The team rethought their strategy and plan, focusing on their competitive strengths.

The business was successfully sold to Celestica, to provide the European contract manufacturing facility to add to those in China and Canada.

What Works and What Doesn't

Over the years practitioners have built up a number of rules of thumb on what works and what doesn't.

- Scenario thinking needs to take in a wide range of potential inputs to provide a useful basis for decisions. This may mean extensive desk research, horizon scanning, or interviews, or a mixture of all three, and the presence at the scenario building sessions of "external" or "remarkable" people. Scenarios that are built by only insiders tend to become introverted and pessimistic, with a focus on problems rather than opportunities.
- Scenario building is most useful when it is done in the context of an understanding of why it is being built. Is it to provide a context for decisions;

or as part of building management skills? In the first case it is important that the supporting desk research on the trends is in place; in the second it may be more important to discover what is in the participants' heads.

- Scenarios should be describable in an “elevator speech”¹ with a clear theme, and a set of names. They should relate to a key issue facing the organisation.
- It is often said that there should not be an odd number of scenarios because, in many cultures, it will be assumed that there is a middle or “right” scenario.

The process of scenario building is described in Appendix 1.

The Theoretical Basis Behind Scenario Thinking

Interestingly, a decade or more after the processes were first used, neurobiologists (e.g. Ingvar, 1985) discovered that the brain is actively rehearsing futures even when asleep. This means that by using scenarios to provide additional futures for exploration, the brain can be preparing for potential actions.

As Arie de Geus (1999) says

Every moment of our lives, we instinctually create action plans and programs for the future—anticipating the moment at hand, the next minutes, the emerging hours, the following days, the ongoing weeks, and the anticipated years to come—in one part of our mind.

These plans are sequentially organised, as a series of potential actions: “If this happens, I will do that.” These are not predictions. They do not pretend to tell what will happen. They are time paths into an anticipated future. . . .

Not only does the brain make those time paths in the prefrontal lobes, it stores them. We visit these futures and remember our visits. We have, in other words, a “memory of the future”, continually being formed and optimised in our imaginations and revisited time and time again.” This process “apparently helps us to sort through the plethora of images and sensations coming into the brain, by assigning relevance to them. We perceive something as meaningful if it fits meaningfully with a memory that we have made of an anticipated future.”

The stored time paths serve as templates against which the incoming signals are measured. If the incoming information fits one of the alternative time paths, the input is understood.

We will not perceive a signal from the outside world unless it is relevant to an option for the future that we have already worked out in our imaginations. The

¹ A description taking less than the time it takes to go from the ground floor to the top of the building in an elevator.