Caselet:

The Future of Hardware Retailing
Introduction

The purpose of this document is to show how scenarios—plausible stories about how one’s industry might be shaped in the future—can be used to generate and prioritize strategic options in the face of increasing uncertainty in that industry. It assumes some basic knowledge as to the philosophy of scenario planning and why it might be employed as a strategic tool. (Readers are encouraged to see the document titled “About Scenario Planning” for more background.)

This document should not be viewed as a “how to” manual for conducting a scenario project, and does not detail every step in the process. Rather, it is focused on highlighting the key outcomes generated at selected, key points in a particular scenario planning exercise and showing how one takes broader contextual forces and translates them into practical, relevant choices for the organization.

It is important to note that much of the value in the scenario planning process, and much of the associated learning, comes from the conversations held between the key stakeholders themselves during the process, as well as from the injection of “scenaric thinking” into the ongoing strategic mindset of the organization. For obvious reasons, these aspects of the process can not be fully captured in a document of this nature. However, the example does illustrate the generation of new ideas and insights that can occur during a particular scenario exercise.

The following is an example based on work performed solely by GBN/Monitor consultants and did not involve an actual client.
The Context: Hardware Retailing

Company Profile:
The company is a hardware store retailer in the Western region of the U.S., the owner of 10 urban and suburban stores, and a member of a retail co-operative.

Company Challenge:
The company is interested in better understanding its long-term growth opportunities, especially in the face of an uncertain housing market, increased competition from big box retailers, and changes in its customer base.

Industry: Hardware Retailing

- $17 BN dollar industry
- Comprised mostly of independent businesses affiliated with national wholesalers, as well as larger big box retailers and general merchandisers.
- Wholesalers operate in the form of cooperatives (e.g., Ace, TrueValue) formed by independent hardware store owners
- Co-op member stores can buy merchandise from wholesalers or directly from manufacturers.
**Orientation: The Focal Issue**

In order to answer the questions about future growth opportunities, the team recognized the need to identify the broader landscape of potential customer needs and industry dynamics, i.e., the future of the hardware retailing industry as a whole. This became the “focal issue” around which the scenarios were developed.

What are the long-term growth opportunities for a medium-sized, metro-area hardware retailer in terms of locations, products & services, etc.?

What will the Future of Hardware Retailing look like in the next 10 years?
**Exploration: Driving Forces**

Through selected scanning research, interviews and a facilitated brainstorm, a broad list of issues that would impact the focal issue, ranging from dynamics in the industry to broader, contextual changes in the social, technological, economic, environmental and political spheres (i.e., “STEEP” forces), was identified.

There were some obvious issues raised as well as some more surprising ones, some of which are highlighted below.

### Societal role of homes
- Buyers market vs. renter’s market

### Material resources/energy
- High quality plastics
- Sense of community
- War, famine, epidemic

### Geopolitical stability
- Family structures
- One-stop shopping

### Home ergonomics
- Immigration trends
- Product/how to information growth and availability
- Changes in business metrics
- Electronic home infrastructure

### Urbanization/space
- Education levels
- Lawn care
- Aesthetic importance
- Neighborhood trust

### Age demographics

### Big brand backlash
- Regulations at local level
- Locally produced goods movement
- Virtual shopping satisfaction
- Home equipment
- Tool lending libraries
- Changes in product liability
- Worker skill base and availability

### Customization of products and parts
- Mobile ordering and device use

### Smart homes
- Healthy home products
- Value of personal time

### Telecommuting
- New distribution models
- Contractor power
- Customization vs. convenience tradeoffs
- Functional vs. image orientation

### Consumer attitude towards disposability
- Terrorism/social stability

### Value of face to face interaction

### Importance of design
- International competition

### Choice overload
- Direct marketing technology
- Private branding and celebrities

### Cost of energy and resources
- Commoditization of quality
- Changes in eating habits
- Health and fitness trends/hygiene

### Trends in ethnic DIY
- Global product standardization
- Trends in durability technology
- Consumer debt/financial responsibility
- Specialization in retail

### Experiential shopping/shopping as entertainment
- Visualization/imaging tech trends
- Nanotechnology

### Spirituality/religion
- Home security

### U.S. Economy
- Big box competition
- Climate change events

### U.S. housing downturn
- Overseas manufacturing and margins

### Green technologies
- Trends in liability and arbitration
- Wealth distribution

### Growth in adjacent industries
- Trends in luxury spending
- Energy efficient homes/appliances

### Speed of global transportation logistics
- Level of protectionism
- Growth in community collectives
- Changes in tax codes for homeowners
- Changes in tax codes for small business

### Social value of maintenance/ DIY
- Weather pattern variability
- Global economic downturn/poverty
- Utility vs. aesthetics tradeoffs
**Exploration: Critical Uncertainties**

From the list of driving forces, a subset were deemed most important in shaping the landscape of hardware retail, yet also most “uncertain” in terms of how they will play out. This short list was further refined to express specific dimensions of uncertainty and associated, polar directions in which the issue could evolve.

**Most Important Issues**

1. U.S. Economy
2. Societal Role of Homes
3. Green Technologies
4. Consumer Attitudes Towards Disposability
5. Geopolitical Stability
6. Importance of Design
7. New Distribution Models
8. One Stop Shopping/Experiential Shopping

**Critical Uncertainties**

- **Growing/Stable**
  - State of the U.S. Economy
  - Emphasis of Home Use
  - Steady or strong growth
  - Emphasis of home use shifts towards basic, functional and security purposes

- **Declining/Volatile**
  - Minimal patchy growth at best, with an economic downturn at worst
  - Emphasis of home use shifts towards the expression of people’s personalities, values, and lifestyles

**Note:** All of the forces identified during the discussion are still important in telling the eventual scenario story lines, and worth tracking as issues. However, only selected uncertainties are used to build the initial scenario framework.
**Synthesis: The Scenario Framework**

When the top uncertainties are combined together, the resulting framework — in this case, a matrix — creates the outline for four very different environments in which the retailer, and its customers and competitors, will need to operate.

- **Growing/Stable**
  - **“Safety Rules”**
    Climate change protocols, the needs of seniors, and a sense of collective responsibility for future generations make efficiency and safety top priorities; new standards emerge.
  - **“Mi Casa es Mi Casa”**
    Technological advancement, open markets and a booming economy allow many to customize, personalize and upgrade their homes in diverse ways.

- **Declining/Volatile**
  - **“Scared Simple”**
    Economic downturn leads to social strife and isolation. Security is a top priority, and simple fixes are the norm.
  - **“Feng Shui”**
    Facing economic slowdown, communities respond with an inclination for conservation, simple lifestyles, communal and multi-generational living.
Scenario Storyline: “Safety Rules”

This is a world in which...

The overall U.S. economy is growing at a steady pace, creating a willingness among many to invest in home infrastructure. During this time, a sense of urgency for collective action to be taken around the environment develops after a series of climate change related disasters. After strong scientific evidence causes several Fortune 500 companies to be sued by flood and hurricane victims across the globe for polluting the environment, a “new Kyoto Protocol”, one that is much more strict and much more binding, is developed that spans from the global to the individual level. The community (which encompasses the local, the national or the global, depending on the context) is often prioritized over the individual in matters of home choice. In the spirit of societal decision-making, child safety groups and the increasingly powerful senior lobby simultaneously push for nation-wide changes to make environments safe, comfortable and uniform for all ages and cultures (multilingual signs required, efficiency standards, cookie-cutter ramps, stairs and elevators). Building related products and services are designed to address public, as much as individual, needs.
**Scenario: “Mi Casa es MI Casa”**

This is a world in which…

The U.S. economy is booming and individual uniqueness is highly valued as a positive and necessary attribute of American life. Technological breakthroughs drive costs down and efficient global transportation systems enable many people to create their own customized (I’d like my room temperature set to “my last vacation in Maui”) and prioritized (go light on the plumbing, I’m never home) worlds where international flows of products and people create complex demands and supplies of hardware goods and services. The cost of personalized entertainment declines rapidly with the advent of new technology and intense home media center wars ensue. This is a highly competitive environment for the hardware retail industry – competition can spring up from virtually any type of retailer, anywhere, and advertising mania (catered to individual needs) sweeps the country. Retina scanning and voice activation entry for the tech friendly are not uncommon, as are multilingual devices and cultural/country specific designs for the changing ethnic makeup of the U.S. population. This world is truly “lifestyles of the rich, the famous…and anybody else”.

**DESCRIPTIVE PHRASES:**
- High-tech Unique
- Designer-everything
- Personality
- Individualism
- Booming economy
- Global competition
- Advertising mania
- “Genius” homes
- Green tech
- Bachelor pad of the future
- Dubailand
- Customization
- Expression
**Scenario: “Feng Shui”**

This is a world in which…

The U.S. economy has experienced flat growth and there is a sense of continued uncertainty about what the future will hold in terms of jobs and earnings. Rather than retreat in panic about the economic hardships they are facing, most people look to their community for strength, developing a strong sense of ownership and desire to preserve resources for the long-term. A “back to the basics” movement takes place where people refrain from making luxury home purchases and focus instead on minimalism, simplicity and maintaining pre-existing infrastructure. Volunteerism, community gardens and parks gain popularity and multi-generational living arrangements are not uncommon. There is a strong move to “trash the clutter” and hold on to quality items; instead of big purchases and additions, many people add earthy accents such as potted plants (a natural air purifier), bamboo and wicker baskets to their homes and apartments. Shared/neighborhood bikes, lawnmowers, garden tools etc. also gain popularity.

DESCRIPTIVE PHRASES:
- Economic slowdown
- Back to the basics
- Green
- Keep the infrastructure, trash the clutter
- Gardening
- Earthy
- Minimalism
- Community oriented
- Culture
- Parks
- Multi-generational living
- Making the most of space
- Quality
- Plants
- Simple pleasures
**Scenario: “Scared Simple”**

This is a world in which...

The U.S. economy is facing a significant downturn and social strife is on the rise as people try to hold on to what they have. Home security is a top priority, and gated communities, for those who can afford it, increase in popularity. There is little desire to "show off" externally to one's neighbor's as societal trust is low and most would prefer not to draw attention to themselves ("mind your own business"). Isolationism and market protectionism are features of the global economic environment, in part due to continued uncertainty about geopolitical stability and regional conflict. For many, foreign goods and services are viewed as contributing to the overall economic malaise. Most people are careful about how they spend their money and frugality becomes a virtue, splurging mostly on simple pleasures. In addition, a number of identity theft cases and Internet security breaches have made online shoppers more conservative.

**DESCRIPTIVE PHRASES:**

- Fences
- Security
- Locks
- Economic depression
- Fear of the future
- Cautious
- Suspicious of neighbors
- Gated communities
- Isolationism
- No immigration
- Protectionism
- Don’t attract attention
- Mind your own business
### Implications: Contextual Scenarios → Hardware Retailing

<table>
<thead>
<tr>
<th>The “World”</th>
<th>“Safety Rules”</th>
<th>“Mi Casa es MI Casa”</th>
<th>“Scared Simple”</th>
<th>“Feng Shui”</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Renewed urbanism</td>
<td>New affinity groups</td>
<td>Rolling blackouts and brownouts</td>
<td>Shared service models</td>
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<td></td>
<td>Global and regional standards</td>
<td>Patchwork city planning and regulations</td>
<td>Contractor business declines</td>
<td>“Tribes” gain importance</td>
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<td></td>
<td>Manufacturers go direct to retail</td>
<td>Fashion orientation</td>
<td>Domestic production of goods</td>
<td>Local sourcing, local services</td>
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<td></td>
<td>Local emphasis on efficiency and public safety</td>
<td>Immigration</td>
<td>Urban decay</td>
<td></td>
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<tr>
<td>Homes</td>
<td>Accessibility and ergonomics</td>
<td>Architect entrepreneurs, modern craftsmen</td>
<td>Security</td>
<td>Space maximization (e.g. Murphy beds)</td>
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<tr>
<td></td>
<td>Lower carbon footprint per home</td>
<td>The smart home, upgradeable home</td>
<td>Less municipal service = more DIY</td>
<td>Gardening as civic duty</td>
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<tr>
<td></td>
<td>Explaining/navigating regulation for home owners</td>
<td>Experiential design, ornamentation</td>
<td>Hidden elites</td>
<td>Social network/community-based DIY</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Build up of remote areas, suburbs</td>
<td>Self-sufficiency</td>
<td>Public spaces</td>
</tr>
<tr>
<td>Hardware</td>
<td>Uptick in DIY</td>
<td>Competition from electronic retailers</td>
<td>Upgrades vs. new purchases</td>
<td>Neighborhood/home-grown competition</td>
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<td></td>
<td>Plug ‘n’ play, standard products</td>
<td>Niche fashion retailers, customization</td>
<td>Contractor market declines</td>
<td>Fragmentation and specialization (e.g. gardening, home decor)</td>
</tr>
<tr>
<td></td>
<td>Holistic, life-cycle oriented products</td>
<td>Product fads</td>
<td>High trust required for services</td>
<td>Decline of big box</td>
</tr>
<tr>
<td></td>
<td>Certified materials</td>
<td>Experiential shopping</td>
<td>Quality and longevity over image</td>
<td>Local products</td>
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<td></td>
<td>Service based competition</td>
<td>Strong contractor market</td>
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Options: Emerging Growth Areas for Products and Services

**“Safety Rules”**
- Task-specific displays and integrated packaging
- “Ikea for hardware”
- Virtual consumer DIY design center
- Full life-cycle products (use & disposal)
- Material disposal services
- Energy conservation systems, smart plugs, timers:
- Alternative energy system supplies
- Set locations depending on regulatory standards

**Growing/Stable**
- Integrated showrooms/experiential shopping/virtual or simulated displays
- Establish unique themes per store location
- Home fashion / decor leasing
- Partner with in-store design consultants
- Larger electronics offering
- Custom products through global, low cost supplier relationships

**Shelter and Security**

**“Scared Simple”**
- Focus on storage and emergency supplies
- Reinforcements and upgrades
- Develop security/insurance partnerships
- Water purification kits, generators
- Trust building through brand reputation
- Serve as reference and resource for local contractors
- Focus on urban locations

**Declining/Volatile**
- Enable community-based solutions and purchasing, in-store and online
- High-end tool sharing
- High quality tools
- Arts and crafts supplies
- Refurbishing and restoration supplies
- Gardening, irrigation, water filers
- Organizational/space savers and services; e.g. partner with storage providers
- Serve as reference and resource for local contractors

**State of the U.S. Economy**

**Lifestyle and Values**

**“Feng Shui”**
- Task-specific displays and integrated packaging
- “Ikea for hardware”
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**Emphasis of Home Use**

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Implications and Actions: Prioritization and Portfolio Management

While it is impossible to act on all of the options generated, one can use the scenarios—and a current sense of in which direction the contextual world is heading—to develop an initial prioritization. This includes a mix of activities to start right away as well as areas of further research. In addition, on a regular basis, the current point of view should be revised based on monitoring the contextual trends, and the portfolio of activities, and related levels of investment, adjusted accordingly.

**“Safety Rules”**

- Research state standards, zoning policies and proposed local codes
- Trial task-specific packaging
- Research green products

**“Mi Casa es MI Casa”**

- Increase electronics and A/V product offerings in affluent areas.
- Explore virtual product selection and packaging
- Maintain/grow urban presence

**“Scared Simple”**

- Test emergency products
- Build an online community
- Water filtration products

**“Feng Shui”**

- Research green products
- Robust now: good in all scenarios
- Near term actions: based on currently emerging scenarios
- Longer-term plans and research: minor investment / testing until more clarity

GBN Global Business Network
Key Learnings from the Scenario Planning Exercise*

What changed in the company’s thinking?

“We have to re-evaluate the actors who can affect our operating environment, e.g., Best Buy, Circuit City or Walmart”

“The importance of things like climate change in generating hardware needs”

“How consumer trust and preference might change in an insecure environment”

What are the variances from the traditional approach?

“We would have looked at it department by department or shelf by shelf, rather than looking at the mix in combination”

“Different needs call for different people we should be aligning with — designers, tech specialists, lawyers, police forces, etc.”

“We can look at other retailing sectors and consider how similar principles are already in play in their markets, then think about how they may manifest in our industry later”

*Quotes are actual comments made by the participants in the role-playing exercise
## Examples of Improved Growth Strategy Through Scenario Planning

<table>
<thead>
<tr>
<th>Company/Industry</th>
<th>Before Scenarios</th>
<th>After Scenarios</th>
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<tbody>
<tr>
<td>Global Logistics Company</td>
<td>Long-range opportunities focused on improving efficiency and execution and expanding existing services into new markets</td>
<td>Rewrote company’s charter, positioning it from package delivery to “enabler of global commerce;” pursuit of a broader portfolio of investment and acquisition opportunities</td>
</tr>
<tr>
<td>Global Electronics Company</td>
<td>Continued incremental investments in China to “learn way” into market while managing risks</td>
<td>Allocated several billion dollars to aggressively develop business and brand in China</td>
</tr>
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<td>North American Telecom Company</td>
<td>Contemplating massive investment to enter new markets in developing countries</td>
<td>Reversed decision to expand into new markets once scenarios showed there was substantial room to grow in existing market</td>
</tr>
<tr>
<td>Leading Insurance Company</td>
<td>Static structure of company designed for success in the past was failing to create growth opportunities and fend off competitive threats in a changed and increasing dynamic industry</td>
<td>Decided to spin insurance company out of retail parent and developed strategy for doing so</td>
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<td>Global energy company</td>
<td>Company lacked contextual intelligence necessary to inform investments and create operational alignment in light of industry changes</td>
<td>Realigned investment and policy decisions to a revised corporate point of view, including establishing a new business unit to explore opportunities in renewable and alternative energy technologies</td>
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<td>International shipping and transport company</td>
<td>Ad hoc / opportunistic approach to evaluating investment options, entering new markets, and identifying and responding to emerging risks</td>
<td>Developed more cohesive evaluation criteria for new market entry and picked areas of expansion where emerging structural changes were more attractive or adaptable</td>
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<tr>
<td>Niche software company</td>
<td>Suboptimal execution of ambitious growth opportunities because of paralysis centered on perceived competitive threats</td>
<td>Reassessed the true level of competitive threat; developed a more flexible and resilient strategy and portfolio of business models, including the pursuit of a major acquisition in an emerging competitive space; instituted ongoing competitive scanning</td>
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<td>Multi-line financial services company</td>
<td>Fragmented approach to marketing and selling to loyal customer base</td>
<td>Fine-tuned cross-product/service mix and branding of retail services as consolidation of services became more apparent trend</td>
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<td>High technology company</td>
<td>Criteria for funding innovations/new business opportunities based on old success formulas (“the big play”) despite radical industry changes</td>
<td>Adopted new, more diversified innovation model and criteria to achieve future growth; began realigning organizational structure and capabilities to support changes</td>
</tr>
<tr>
<td>Auto manufacturer</td>
<td>Lack of strategic and organizational alignment on identifying and executing global investments</td>
<td>Organizational shift to establish greater corporate involvement in regional capital investments to identify commonalities and differences more explicitly</td>
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About GBN

GBN specializes in helping organizations adapt and compete more effectively and more responsibly in the face of mounting uncertainty—whether it’s uncertainty about their future, the future of their industry, or the future of the world at large. Founded in 1987 and a member of the Monitor Group since 2000, GBN is a pioneer in the evolution and application of scenario planning, integrating this expertise with experiential learning, insights from a diverse network of thought leaders, and other strategic tools. The firm’s consulting and training services enable its clients—leading companies, governments, and nonprofits—to address five critical outcomes: strategy development, decision-making under uncertainty, innovation, visioning and alignment, and organizational and leadership development.

About Monitor

Founded in 1983 by six entrepreneurs, including Harvard’s Michael Porter and the company’s current chairman, Mark Fuller, Monitor Group has 28 offices worldwide and offers a portfolio of strategic consulting services to clients who seek to grow top-line revenue, shareholder value, and individual and organizational capabilities. The firm works with the world’s foremost business experts and thought leaders to help major multinational companies, governments and philanthropic institutions develop specialized capabilities in areas including competitive strategy, marketing and pricing strategy, innovation, national and regional economic competitiveness, non-profit management, technology/e-business, organizational design and development, and scenario planning. Monitor Group’s separate merchant banking division consists of investment funds (both venture capital and private equity) as well as an M&A advisory service.