

Identifying Growth Opportunities Through Scenario Planning



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Caselet:

The Future of Hardware Retailing

GBN Global Business Network
a member of the Monitor Group

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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

Industry: Hardware Retailing

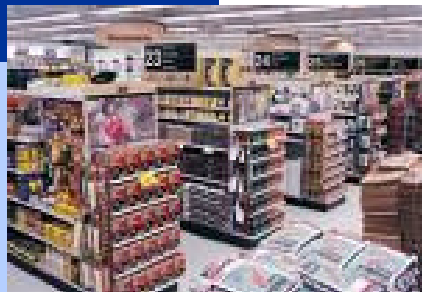
- \$17 BN dollar industry
- Comprised mostly of independent businesses affiliated with national wholesalers, as well as larger big box retailers and general merchandisers.
- Wholesalers operate in the form of cooperatives (e.g., Ace, TrueValue) formed by independent hardware store owners
- Co-op member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

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.



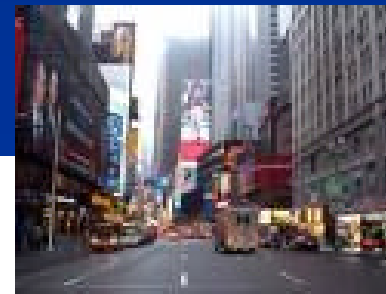
Orientation: The Focal Issue

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

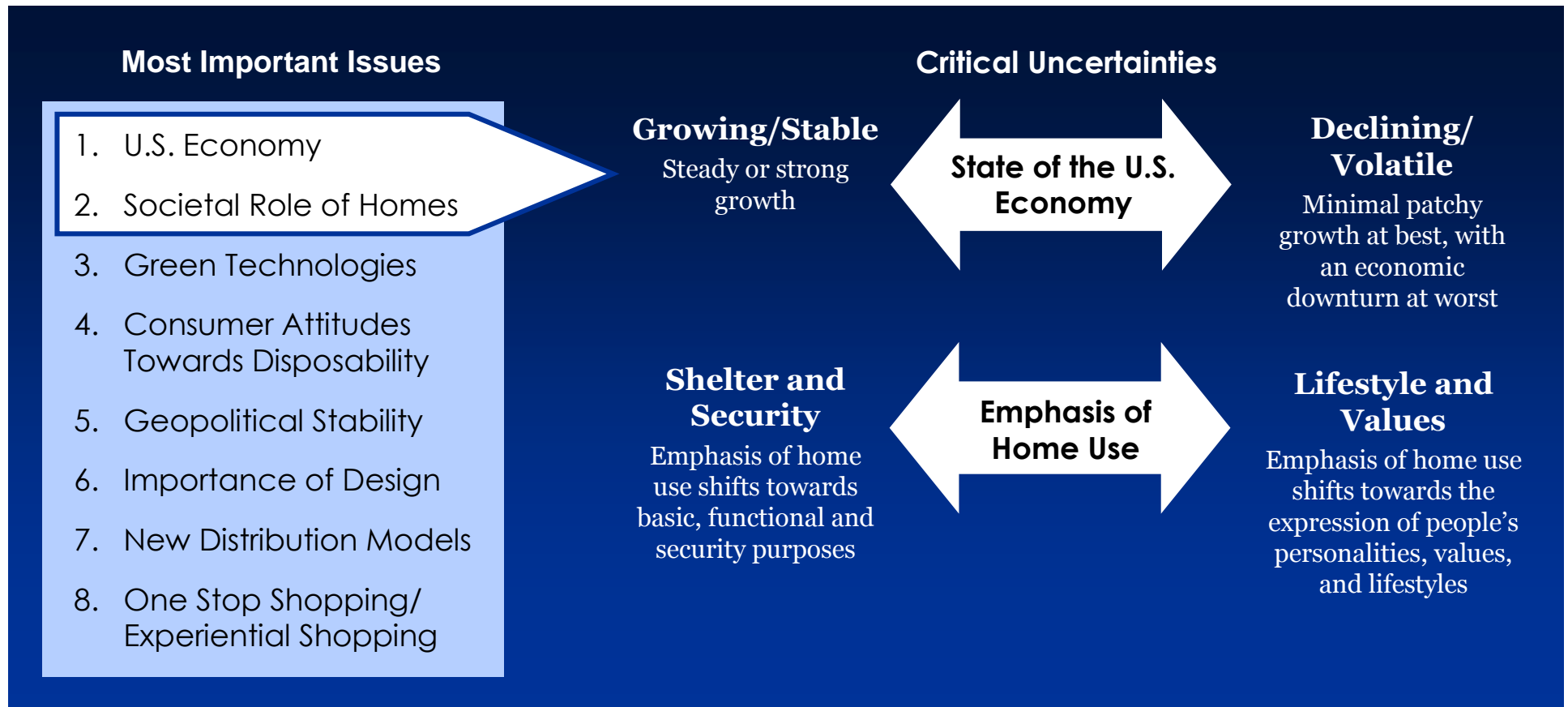
Weather pattern variability

Global economic downturn/poverty

Utility vs. aesthetics tradeoffs

Exploration: Critical Uncertainties

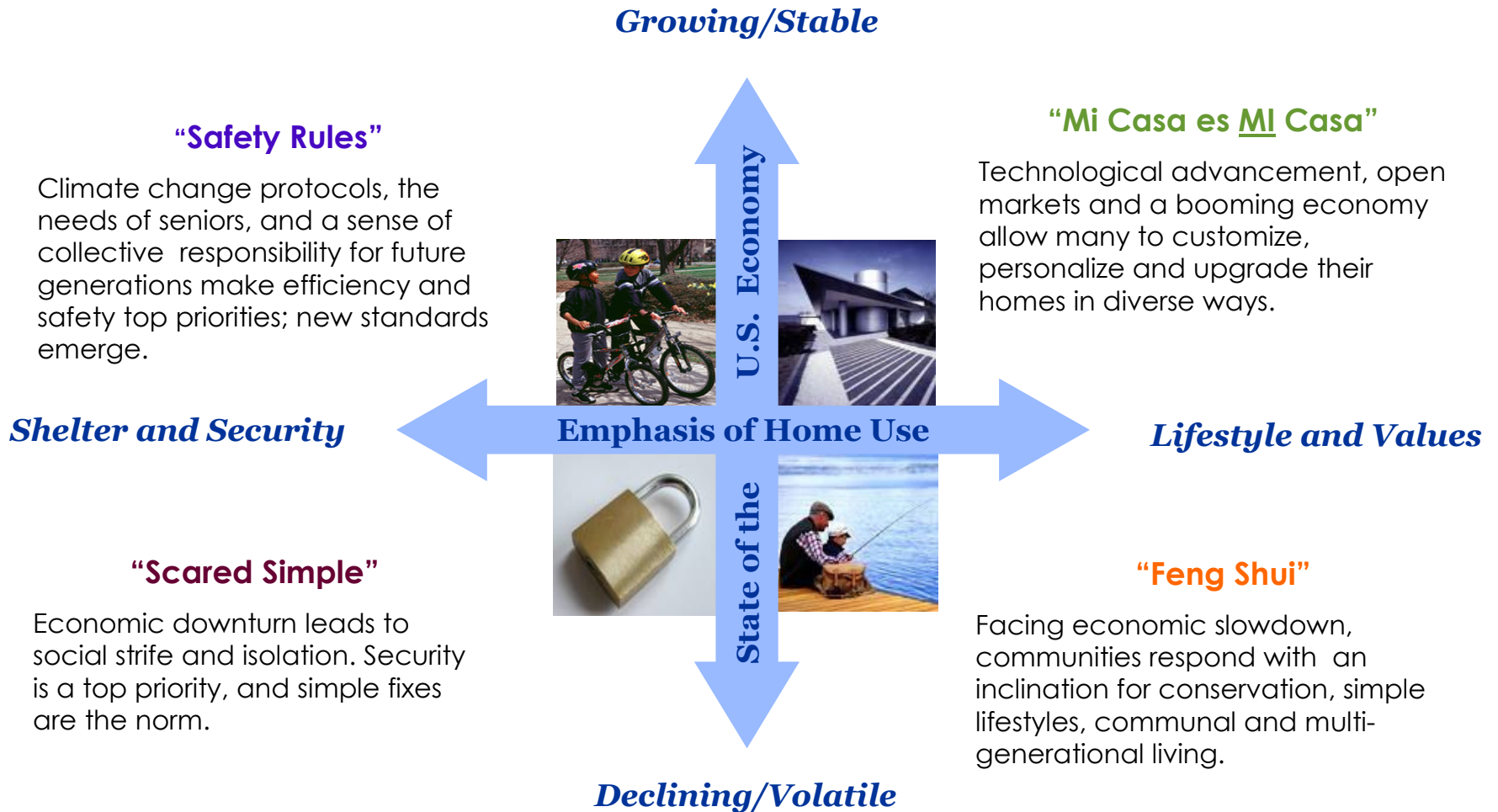
From the list of driving forces, a subset were deemed most important in shaping the landscape of hardware retail, yet also most “uncertain” in terms of how they will play out. This short list was further refined to express specific dimensions of uncertainty and associated, polar directions in which the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



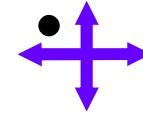
Note: All of the forces identified during the discussion are still important in telling the eventual scenario story lines, and worth tracking as issues. However, only selected uncertainties are used to build the initial scenario framework.

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.



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.

DESCRIPTIVE PHRASES:

Moderate economic growth

Standardization

Unique could be dangerous

Highly litigious environment

Lawsuits

Child safety

Elderly lobbying group

Community safety

Climate change

Kyoto protocol

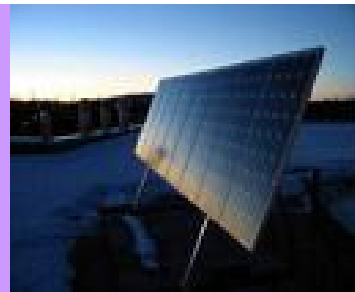
Green technology

Cookie cutter safety

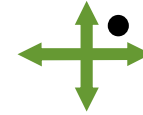
Cookie cutter efficiency

Healthy homes

High health care costs



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

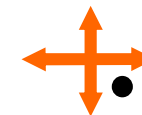
Bachelor pad of the future

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

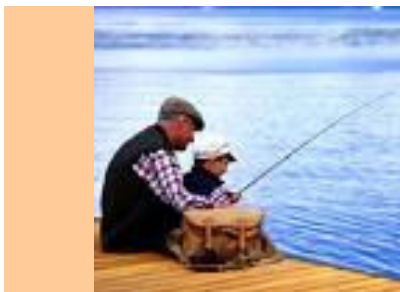
Parks

Multi-generational living

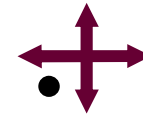
**Making the most of space
Quality**

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

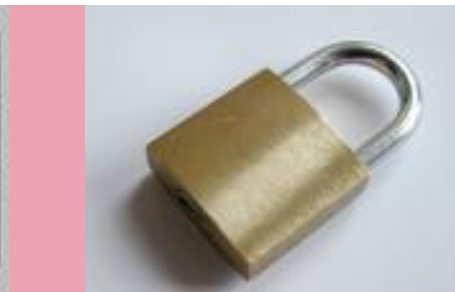
Isolationism

No immigration

Protectionism

Don’t attract attention

Mind your own business



Implications: Contextual Scenarios → Hardware Retailing

	“Safety Rules”	“Mi Casa es MI Casa”	“Scared Simple”	“Feng Shui”
The “World”	<ul style="list-style-type: none"> ▪ Renewed urbanism ▪ Global and regional standards ▪ Manufacturers go direct to retail ▪ Local emphasis on efficiency and public safety 	<ul style="list-style-type: none"> ▪ New affinity groups ▪ Patchwork city planning and regulations ▪ Fashion orientation ▪ Immigration ▪ Global sourcing 	<ul style="list-style-type: none"> ▪ Rolling blackouts and brownouts ▪ Contractor business declines ▪ Domestic production of goods ▪ Urban decay 	<ul style="list-style-type: none"> ▪ Shared service models ▪ “Tribes” gain importance ▪ Local sourcing, local services
Homes	<ul style="list-style-type: none"> ▪ Accessibility and ergonomics ▪ Lower carbon footprint per home ▪ Explaining/navigating regulation for home owners 	<ul style="list-style-type: none"> ▪ Architect entrepreneurs, modern craftsmen ▪ The smart home, upgradeable home ▪ Experiential design, ornamentation ▪ Build up of remote areas, suburbs 	<ul style="list-style-type: none"> ▪ Security ▪ Less municipal service = more DIY ▪ Hidden elites ▪ Self-sufficiency ▪ Decorative and functional, rather than structural 	<ul style="list-style-type: none"> ▪ Space maximization (e.g. Murphy beds) ▪ Gardening as civic duty ▪ Social network/ community-based DIY ▪ Public spaces
Hardware	<ul style="list-style-type: none"> ▪ Uptick in DIY ▪ Plug ‘n’ play, standard products ▪ Holistic, life-cycle oriented products ▪ Certified materials ▪ Service based competition ▪ On-line sales and marketing 	<ul style="list-style-type: none"> ▪ Competition from electronic retailers ▪ Niche fashion retailers, customization ▪ Product fads ▪ Experiential shopping ▪ Strong contractor market 	<ul style="list-style-type: none"> ▪ Upgrades vs. new purchases ▪ Contractor market declines ▪ High trust required for services ▪ Quality and longevity over image 	<ul style="list-style-type: none"> ▪ Neighborhood/ home-grown competition ▪ Fragmentation and specialization (e.g. gardening, home decor) ▪ Decline of big box ▪ Local products

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

“Mi Casa es MI Casa”

- ❑ 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

Growing/Stable

U.S. Economy



Shelter and Security

Emphasis of Home Use

Lifestyle and Values

“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

State of the



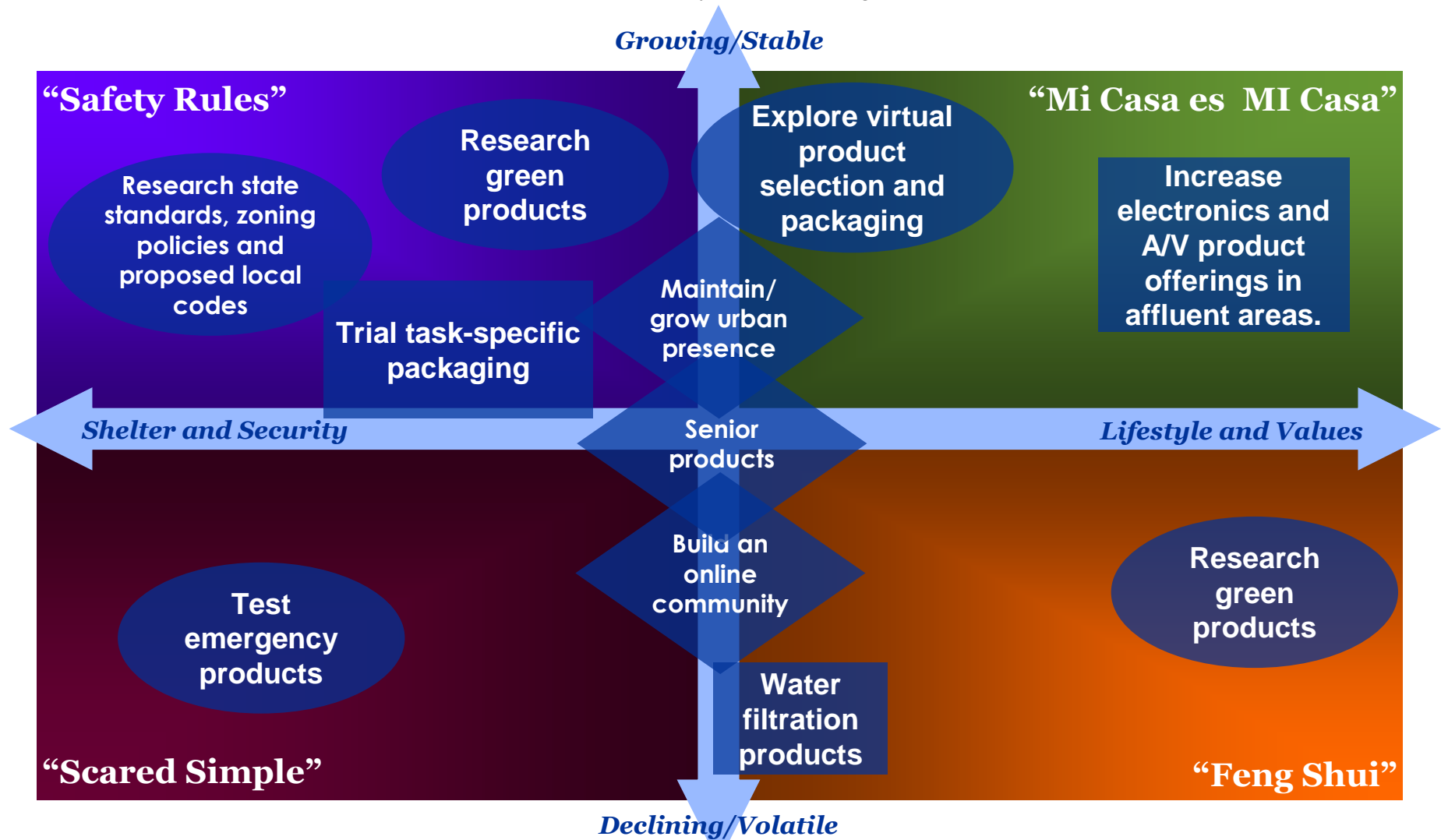
“Feng Shui”

- ❑ 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 filters
- ❑ Organizational/space savers and services; e.g. partner with storage providers
- ❑ Serve as reference and resource for local contractors

Declining/Volatile

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.



◆ 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

*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”

Examples of Improved Growth Strategy Through Scenario Planning

Company/Industry	Before Scenarios	After Scenarios
Global Logistics Company	Long-range opportunities focused on improving efficiency and execution and expanding existing services into new markets	Rewrote company's charter, positioning it from package delivery to "enabler of global commerce;" pursuit of a broader portfolio of investment and acquisition opportunities
Global Electronics Company	Continued incremental investments in China to "learn way" into market while managing risks	Allocated several billion dollars to aggressively develop business and brand in China
North American Telecom Company	Contemplating massive investment to enter new markets in developing countries	Reversed decision to expand into new markets once scenarios showed there was substantial room to grow in existing market
Leading Insurance Company	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	Decided to spin insurance company out of retail parent and developed strategy for doing so

Examples of Improved Growth Strategy Through Scenario Planning

Company/Industry	Before Scenarios	After Scenarios
Global energy company	Company lacked contextual intelligence necessary to inform investments and create operational alignment in light of industry changes	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
International shipping and transport company	Ad hoc / opportunistic approach to evaluating investment options, entering new markets, and identifying and responding to emerging risks	Developed more cohesive evaluation criteria for new market entry and picked areas of expansion where emerging structural changes were more attractive or adaptable
Niche software company	Suboptimal execution of ambitious growth opportunities because of paralysis centered on perceived competitive threats	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

Examples of Improved Growth Strategy Through Scenario Planning

Company/Industry	Before Scenarios	After Scenarios
Multi-line financial services company	Fragmented approach to marketing and selling to loyal customer base	Fine-tuned cross-product/service mix and branding of retail services as consolidation of services became more apparent trend
High technology company	Criteria for funding innovations/new business opportunities based on old success formulas ("the big play") despite radical industry changes	Adopted new, more diversified innovation model and criteria to achieve future growth; began realigning organizational structure and capabilities to support changes
Auto manufacturer	Lack of strategic and organizational alignment on identifying and executing global investments	Organizational shift to establish greater corporate involvement in regional capital investments to identify commonalities and differences more explicitly

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.