

# UTILISING SCENARIO PLANNING IN THE TRANSPORT INDUSTRY

Nell, J.H.

Iveco, South Africa.

Cell: 083 005196. E-mail: [jhnell@mighty.co.za](mailto:jhnell@mighty.co.za)

## ABSTRACT

This paper highlights the fact that scenario planning could be utilised in strategic marketing planning in the transport industry. The objectives of the paper are therefore the following:

- To outline the fact that most current strategic marketing planning models do not utilise scenario planning as one of the processes in the model.
- To outline the rationale behind using scenario planning, as well as the reasons and benefits of including scenario planning.
- To outline a new strategic marketing planning model which incorporates the process of scenario planning in the model for implementation in the transport industry.

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*“The greatest danger in times of turbulence is not the turbulence - but to act with yesterday's logic”*

Peter Drucker

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## 1. BACKGROUND

During the past decade the pace of change in South Africa has accelerated tremendously. The impact of these changes, whether politically, economically or socially, is being experienced by almost everyone in the country - but especially by the South African businessman due to the country being accepted back into the world economy.

One of the most significant changes to local business, since rejoining the international market, is the ever increasing number of competitors. Most of these competitors are successful, have lower cost structures, fresh marketing ideas and innovative strategies. This onslaught of competitors is presently being experienced in the transport industry. Therefore, businessmen operating in this industry should revisit their strategies and procedures of strategic marketing planning.

It would appear that many managers in South Africa are not aware of some of these changes and are therefore not future-orientated in planning and implementing marketing strategies.

By focusing more on what the future might hold, managers in the transport industry could be in a better position to identify the indicators of some of these changes earlier. To focus on the future, the process of scenario planning can be utilised. It should be noted that *“The future struggles to be mastered”* (Manning, 1997). However, by using scenario planning as part of the strategic marketing planning process, managers could be in a position to plan better and to cope more effectively with some of these changes. The scenario planning process used and the scenario plans developed in a recent study will be highlighted (Nell, 1999).

## 2. EXISTING STRATEGIC MARKETING PLANNING MODELS

At the recent American Marketing Association's Annual Strategic Marketing Conference, the futility of strategy without good execution, was hammered home by several speakers. Since then, a number of authors have criticised the strategic planning models and the implementation thereof.

One aspect where the present strategic planning models seem to be lacking is found in the way strategists view the future. It seems that the general accepted tendency is to assume that the wider environment is either predictable, or at best going to change slightly. Based on forecasts, strategic thinking is converted into plans that get frozen into budgets and structures.

The plan assumes a future that validates the plan and this view of the future dominates decision making: it is the future one bets on without any way of guaranteeing it will come to pass. This therefore implies that one is "planning by default". It is usually based on some form of extrapolation or prediction.

It is believed that this would be fine if these forecasts held, but the world is increasingly shaken by discontinuities and sudden changes. Uncertainty plagues the future, which implies that generally plans do not hold up to the stream of real events.

This perceived pitfall of strategic planning models does not mean that strategy and planning are invalid. It implies that one has to adapt, by developing a new approach to strategic marketing planning that takes into account the uncertainties of the future. It is here that scenario planning can give new meaning to strategy.

By analogy, this is like making the step from a ballistic artillery shell to a guided heat seeking missile. The former cannot deal with a moving target whilst the latter can. Also, most models reflect an environmental scanning phase as part of the model - this is precisely where the process of scenario planning could be extremely useful.

Scenario planning is not just another type of strategic planning. Most of the strategic planning models do include an environmental scanning phase, but scenario planning, other than what is reflected in these models, does not only review the macro and market environments. It goes a step further as it also identifies the critical success factors and trends, and reviews how these factors may potentially influence the future behaviour of these markets.

Some strategic planning models only mention a typical swot analysis - no mention is made of identifying key success factors. Although some of the models may even identify critical success factors, scenario planning identifies these critical success factors, it speculates on how these factors might develop or eventuate in future. It is one thing to scan the environment and identify critical success factors, but it is an entirely different issue to build alternative futures on how these factors might turn out tomorrow. Therefore, some models do not allow for alternative futures and is perceived to be static over time.

## 3. SCENARIO PLANNING

Scenario planning can be defined as follows:

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*"Scenario planning is a tool for ordering one's perceptions about alternative future environments in which one's decisions might be played out"*

Zchwartz, 1991: 4

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According to Zchwartz's definition, scenario planning arranges perceptions and ideas about the future in such a manner that decision making concerning the future is made with more ease and confidence.

Often scenarios can help people foresee decisions. It seems, according to the definition, that scenarios present management with alternative futures. It is important to note that Zchwartz refers to alternative future environments - something which, as pointed out earlier is believed to be lacking during the typical strategic marketing planning process.

Scenarios explore facts but aim at perceptions inside the heads of decision-makers. The purpose is to gather and transform information of strategic significance into fresh perceptions. Sometimes this transformation process does not happen. But when it works, it is a creative experience that generates a heartfelt "aha" from managers and leads to strategic insights beyond the mind's previous reach. It is common belief that serious information should appear in tables, graphs, and numbers. But important questions about the future are usually too complex or imprecise for the conventional languages of business and science. Instead, scenario planning uses the language of stories (Zchwartz, 1991: 40). Zchwartz's phrase of "*The language of stories*" ties in with Sunter's definition.

Sunter explains scenarios as follows:

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*"Scenarios are stories – stories are about meaning: they help explain why things could happen in a certain way. They give order and meaning to events"*

Sunter, 1995

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These stories should assist management in making better decisions today concerning tomorrow because scenarios are stories about the way the world might turn out tomorrow - a crucial aspect of understanding future possibilities. Stories can help management recognise and adapt timeously to changing forces of the present business environment.

### 3.1 Why Scenario Planning?

Due to the fast changing and extremely competitive business environment, more companies are deciding that contemporary complexity demands a different way of thinking. It is believed that by including scenario planning in the process of strategic marketing planning a unique process is utilised.

Scenario planning rejects the notion that a few high-level executives have the answer and always know what to do. This approach asks teams of players within a company to take an aspect of a company's strategy and imagine it being affected by any of a number of possible scenarios such as a rapid change in the exchange rate, the collapse of a foreign government, or the proliferation of technology.

The resulting narratives are a continuous learning tool that gives management a competitive edge because the process results in them being far less surprised by changes that normally would not be anticipated. One of the greatest attractions of scenario planning is that it is infinitely repeatable. Maybe every six months or, once a year, managers should go back and ask: "*What in the world requires serious re-evaluating or re-thinking?*" (Best, 1995).

As per the definitions already presented, a scenario outlines a possible or probable future. The scenario defines a set of future events or circumstances that would affect the organisation's performance. Scenario planning seeks not only to incorporate changes in the environment, but to develop strategic responses in advance.

The purpose of the technique is to avoid surprise, prevent panic, and eliminate the need to scramble for a response. It requires managers to anticipate problems and opportunities and to prepare courses of action well in advance of an emergency (Bloom & Menefee, 1994: 223).

Although they can incorporate forecasts, scenarios are not specific forecasts or predictions - they are only possibilities of the future. Also, scenarios are not exact descriptions of the future - they are descriptions of potential future environments.

### 3.2 Benefits of Scenario Planning

Scenario planning has the value that it opens peoples' minds to a range of possibilities. It forces management to face the fact that a preferred outcome may not materialise. There are a couple of alternative routes of action management may wish to follow, once it seems apparent that their present strategies might not pan out the way they expected them to. Management may try to influence a number of critical success factors in the market with the view of changing a trend or event Manning (1997: 139).

Even without such a process, scenario planning is valuable to executives, because it takes all the clues one has and puts them together in different perspectives and allows people to think about them without making judgements.

It therefore seems that this is one of the biggest benefits, because there will always be a "most likely" scenario, the one that always exists in people's minds. Yet people reach that scenario by looking backward, not ahead. The clues to looking ahead are usually available. But the fact is, nobody does a very good job of doing this. The rate of change is accelerating. The need for speed to react is so great that decision makers need to have multiple options in front of them at all times, because by the time they see the new picture clearly, it might be too late.

Scenario planning is effective when used properly and when used by managers who have good business judgement. Scenario planning is no substitute for business judgement. It can help to sharpen one's business judgement, but some people are more correct than others about their markets or about their technologies or about what business models will work best for them.

Scenario planning is not a panacea. It doesn't help management to be more correct than they might be ordinarily. It does help them exercise their professional judgement across a wider range of alternatives. Forecasting is out and discontinuity is in. Scenario planning is just about the only mechanism management has to help them analyse the future and think the unthinkable (Ritson, 1997: 24).

However, Drucker once said: "*No time is more usefully wasted than that spent guarding against disasters which do not in the event occur*" (Ritson, 1997: 24). Therefore, one should guard against doing scenarios for the sake of doing scenarios.

Further to the aforementioned, scenarios also offer the following benefits (Bloom & Menefee, 1994: 224). Firstly, rationality and preparedness. Scenarios permit more rational decisions because the decisions are made in advance and in a more orderly fashion. They minimise the need to scramble for a response.

Secondly, integration and awareness. Scenarios describe the dynamics of various social, political, economic, cultural, and other environmental forces, and ways in which they might combine to shape the future.

Also, exploration and experimentation. Managers are often reluctant to steer too far from the middle course because they do not want to be labelled pessimists or out-of-touch idealists. Scenario building allows managers and planners to consider diverse ideas within a formal planning process.

Furthermore, a guide for change. Scenarios can serve as a guide for monitoring change. They allow managers to rehearse the future so that they are able to adapt rather than react to change.

Lastly, facilitation of new and unique ideas. The process allows various points of view to rise through communication channels without being prejudged or automatically dismissed.

### 3.3 The Scenario Planning Process

For clarification purposes, it is necessary to review the steps of scenario planning. A total number of nine steps are used (see Figure 1):

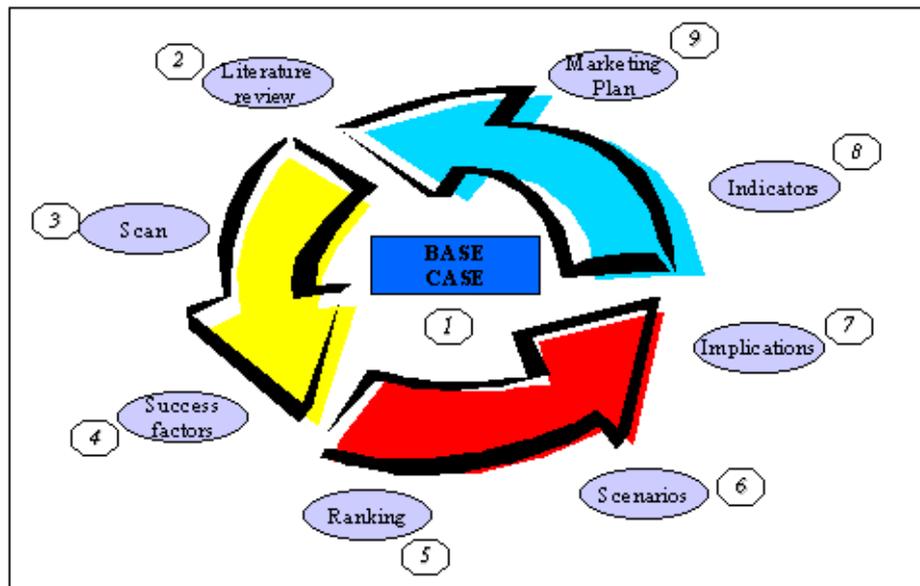


Figure 1. Steps in the scenario planning process.

Step 1 allows for a “base case” to be developed. A “base case” is of significant importance before developing scenarios. The base case establishes management thinking before beginning the scenario process. It is difficult to implement change when the current thinking is not clearly articulated. The scenarios need to challenge the base case. If they cannot, one should not be doing scenarios.

The need for comprehensive environmental scanning has also been identified. Steps 2 and 3 therefore allow for a literature review as well as a macro and market environmental scan. The need to identify critical success factors and trends has been highlighted as Step 4. Step 5 allows for the final critical success factors and trends to be ranked in order of importance before writing the actual scenarios (Step 6).

Step 7 allows for the implications to be outlined before setting up the indicators. Step 8 implies selecting the leading indicators. Once the different scenarios have been fleshed out and their implications for the focal issue determined, then it’s worth spending time and imagination on identifying a few indicators linked to the key events to monitor on an ongoing basis. If those indicators are selected carefully and imaginatively the company will gain a competitive advantage over its competitors in knowing what the future holds for a given industry and how that future is likely to affect strategies and decisions in the industry. Step 9 is to include the scenarios into the strategic marketing plan.

The macro environment encompasses the international, economical, political, legislative, technological, and social disciplines. The market level focuses on international trends in the transport industry, as well as segmenting the transport industry into the respective modes of transport and resultant weight categories in which competitors typically compete.

Thereafter, the market is sub-segmented which aims to identify the key industries applicable to the transport industry. The purpose is to identify and evaluate the significance of critical success factors and trends in each segment. The size and purchasing behaviour of each segment are also reviewed to identify trends. This is followed by a competitor analysis with the aim of identifying their basic demographics such as holding company, intellectual property, subsidiaries, turnover, profit margins, market penetration, and sustainable competitive advantages.

Based on the literature review as well as the environmental scanning phases, expert opinion is required to ascertain the final critical success factors and trends that may affect the transport industry in future. This phase aims to identify the most important critical success factors and trends as perceived by selected experts (most of them closely involved in the transport industry).

#### 4. A RECOMMENDED STRATEGIC MARKETING PLANNING MODEL

Before presenting the model it should be noted that the model does not aim to replace other existing strategic planning models but is developed using scenario planning specifically for the transport industry, thereby adding a new dimension to existing strategic marketing planning models. The model is outlined in Figure 2.

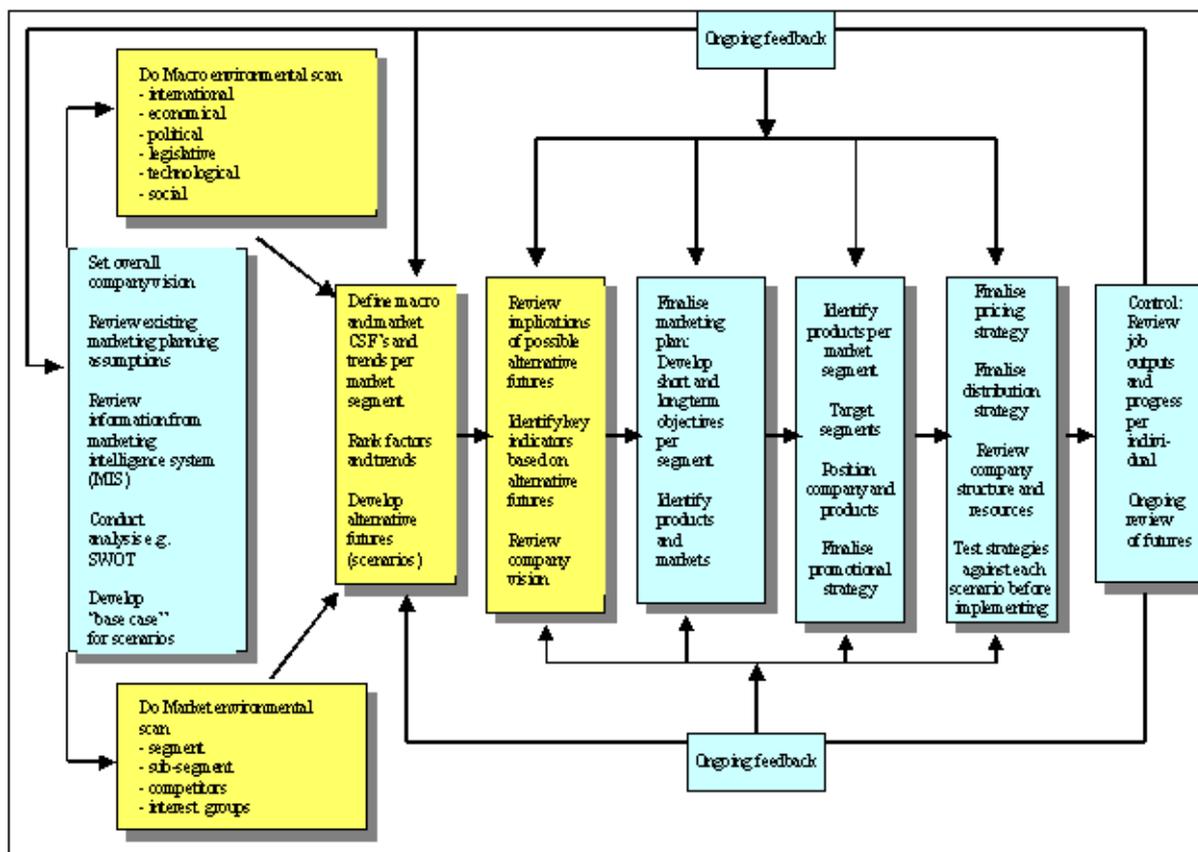


Figure 2. The Nell model of strategic marketing planning.

Other than some existing models, this model does allow for a step to review the company structure and to set the company objectives. It also aims not to be generic across products by including steps to identify products and markets and subsequently to develop products for markets.

This model also mentions setting a company vision. It also, other than some models, allows for implementation and feedback phases.

Due to the fast pace of change world wide, but more specifically in the local transport industry, this model is believed to be of value to management because it suggests a dynamic forward thinking approach, which takes cognisance of these changes, rather than merely extrapolating the past into the future.

In analysing the steps of the model, the following areas are addressed. Firstly, the overall company vision is set or at least revisited. Then all existing marketing planning assumptions are reviewed. All relevant information from the marketing intelligence system (MIS) is re-assessed. A SWOT analysis is conducted. Thereafter, the “base case” for the scenario planning exercise is outlined.

Then a macro environmental scan is conducted. This includes the key critical success factors and trends in the international, economic, political, legislative, technological, and social environments. The market environmental scan follows. This includes reviewing the segmented market based on the most logical method to segment and target the market, analysing the competitors and taking cognisance of the needs and goals of interest groups.

Thereafter the macro and market critical success factors and trends (per market segment) are identified before the ranking takes place. The scenarios are then developed.

This step is followed by reviewing the implications of the possible alternative futures. The key indicators based on these alternative futures are defined. The company vision is reviewed based on the additional information.

The vision is followed by finalising the marketing plan. This includes setting the objectives (both short and long term) per segment. Thereafter products and markets are identified before defining the products for the respective markets.

The target segments are finalised before positioning both the company and the products. This is followed by finalising the promotional, pricing and distribution strategies. The company structure and resources are reviewed and each strategy is tested.

Thereafter the control phase should be undertaken which includes reviewing job outputs and progress per individual. Also reflected in this model is the fact that the alternatives futures should be reviewed periodically. Lastly, to ensure the model remains dynamic over time, ongoing feedback should be undertaken as indicated in the model.

## **5. CONCLUSION**

Due to the fast pace of change world wide, but more specifically in the local transport industry, this model is believed to be of value to management because it suggests a dynamic forward thinking approach. This approach takes cognisance of these changes, rather than merely extrapolating the past into the future as is the case in most forms of planning.

It therefore allows management operating in the transport industry, the opportunity to plan better. This is due to the fact that they know what really affects their business and they have at least some insight as to how the future might turn out.

It is therefore recommended that this model be used in conducting strategic marketing planning in the transport industry.

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