Developing strategy in rapidly changing markets

An IBM Institute for Business Value executive brief
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Consider the future of many established businesses: Non-traditional competitors, armed with new technology and skills, traverse industry, geographical and cultural borders to solicit their customers with alternative product and service offerings. Such is the phenomenon that is beginning to occur as a result of innovations in technology, greater accessibility to information and more sophisticated consumers. Take for example, Ithuriel Productions, a successful provider of traditional entertainment — movies, TV productions, and theme parks — but feeling increasing competition from the emerging interactive entertainment market.

Executive summary

This paper will use Ithuriel Productions to demonstrate how a team of executives employed Scenario Envisioning, an innovative technique used to develop a new vision of an industry’s possible future. In the face of Ithuriel’s emerging new competitor, Scenario Envisioning was used to address the company’s key question: “What will happen to our markets when the next generation of customers is offered high-tech interactive entertainment in the home?”

Before using the Scenario Envisioning approach, the company’s strategy was to grow by increasing its output of movies and TV shows similar to currently successful productions and to acquire movie and TV distribution companies. As a result of Scenario Envisioning, Ithuriel reconsidered the various possible directions that the industry’s future might take and altered its strategy accordingly. The new strategy included:

• Abandoning its costly bidding war with established rivals for movie and TV distribution companies
• Producing fewer “cloned” TV series and movies
• Searching for partners with cutting-edge interactive software capabilities
• Acquiring several small companies with competencies in software technology and the skills to produce and distribute interactive entertainment.

IBM Business Consulting Services’ Scenario Envisioning has been developed to assist companies in mapping the possible future of an industry in transition. Decision makers are using Scenario Envisioning to rethink how the driving forces of their industry might combine in surprising ways. In these new models of the future, they test current strategy and develop and explore other options. Executives practice operating and understanding their business in states that current rivals don’t expect, making decisions today that will enhance their organization’s chances of succeeding tomorrow.
**The complexities of planning in rapidly changing markets**

Perplexed by the future? As the media business evolves, fundamental conflicts between past and present economics models, and how media firms work together to create value, have been revealed. A few years ago, planners labeled such industry transformation “discontinuity,” or a break in established trends. A more descriptive word is “convergence,” one type of discontinuity that creates a new set of customer values and products when two or more industries or technologies collide. This phenomenon has already redefined many markets and is even transforming whole industries. Executives today tasked with formulating strategic plans face the uncertain future of these converging industries.

**The new face of the entertainment industry**

Some believe that convergence is about to happen to the entertainment industry in a spectacular way. On the industry horizon is the prospect of broadband TV in the home — virtually unlimited two-way television connecting the home and the world. Here today for consumers’ entertainment pleasure are the new technologies of the Internet, video gaming and virtual reality. How might these technologies combine to restructure the entertainment industry?

For now, blockbuster movies and network TV are the entertainment choices of the mass audience, and in most parts of the country, virtual reality games have only a cult following. However, will convergence of digital technology, motion pictures, and the new frontier of limitless television connectivity transform the industry? If it does, what will the entertainment business of the next decade look like?

**The banking industry’s transformation**

In the banking industry, the branch bank is becoming less of a transactional service center and more of a one-stop shop for financial services. Now banking customers get customized financial data, plan for retirement and invest in stocks. But banks don’t just compete with each other; their best customers easily migrate to financial services firms accessible worldwide over the Internet with just a few clicks of a computer mouse. In effect, the banking industry has already converged with the financial services industry, even crossing traditional regulatory boundaries in the global market. Because banking is becoming an information-driven industry, will it eventually compete with information technology giant firms like Microsoft or Internet retailers like Amazon.com?
Animated realtime, online newspapers

Newspaper publishing is colliding with the Internet, television entertainment, cable TV, and online community technology. Will newspapers dated 2005 arrive at our doorstep with an enclosed CD or DVD that offers as much advertising as today’s yellow pages and all the network TV commercials for the week? Will traditional newspapers lose their affluent customers to mass customized digital “newspapers” that instantly transmit information to subscribers online on the subjects they have requested? Will newspapers of the future be constantly updated in realtime as the reading audience plays a larger role in shaping, critiquing and editorializing the content?

As we can see, convergence is really driven by the interaction between rapidly evolving technology, innovative offerings by new competitors, and changing consumer choices in a global marketplace. Traditional methods of industry analysis and forecasting cannot anticipate customer demand for products based on technologies that don’t yet exist. So how can executives in industries in transition position their companies to be competitive?

In the next few pages, we will see how a major corporation in the entertainment industry, Ithuriel Productions, gradually became alarmed as it realized its future customers could be attracted to amusements it didn’t have the skills or technology to produce. We will discover how its executives responded by adopting the Scenario Envisioning approach to planning strategically in a rapidly changing environment.

Before this company could start down this path, however, senior management had to be convinced that its real rivals for the future were alliances of companies with high tech competencies and unique creative skills, not just the established movie studios they had competed with for decades. These upstart rivals for the entertainment dollar are a minuscule threat today, but could one day transform the industry. These types of instances, where initially small markets eventually mature into businesses that disrupt the traditional industry structure, are discussed in detail in “The Innovator’s Dilemma” by Clayton M. Christensen published in 1997 by Harvard Business School Press. Once the potential for competition between the companies that now dominate the market and start-ups that want to replace them became apparent, Ithuriel needed a map of the battlefields of the future. Scenario Envisioning prepared the company for its looming crisis of industry convergence. Similar battles are being fought in a host of other industries worldwide.
Formulating strategy on the brink of industry change

Ithuriel Productions is a large and diverse entertainment company. It is best known as a leading participant in the traditional mass-market entertainment industry — a business that knows how to market a dazzling combination of glamorous actors and actresses, spine-tingling special effects, and dramatic stories. This corporation has three major divisions: motion pictures, television, and theme parks. Its brands and products are instantly recognized throughout the world.

Although the entertainment industry has mastered the art of telling stories to the world through movies and TV, in recent years its younger customers are feeling the lure of an exciting new media: interactive entertainment. Ithuriel executives know that interactive activities on the Internet and in video gaming are becoming ever more sophisticated. Could these emerging offerings someday steal substantial audience away from traditional entertainment, much as talking pictures long ago made silent films obsolete?

Ithuriel's executives were increasingly concerned that new technologies and changes in consumer attitudes about entertainment could transform its markets over the next decade. But before they could formulate a plan to address these issues, they needed a set of future scenarios that looked at a breakthrough future — one that wasn’t just a product of past and present trends. Only within this new context could they begin to develop strategic options. And only then could they position themselves to respond effectively.

The plan: Shift, develop and expand

Rather than looking only at existing strengths and trends, as is typical of traditional corporate planning, Ithuriel adopted a creative approach to formulating a long-term plan using Scenario Envisioning. A team of Ithuriel executives and consultants first envisioned a transformed future industry and then developed a set of distinctly different market scenarios to study various aspects of their new vision. These future scenarios for the entertainment industry were used to simulate specific business outcomes. In effect, the scenarios were used as flight simulators for trial run operations in future markets. The scenarios mimicked such market conditions as changing consumer preferences around the world; future business systems; possible competitive actions within and from outside the core entertainment industry; strategic options available to Ithuriel; capabilities required to execute options; business unit capability gaps and the steps that might be taken to overcome them.

Ithuriel's scenario-based strategy formulation process enabled its executives to experience what it would be like to do business in various non-traditional future environments. They then used the scenarios to try out a number of alternative investment options and strategic maneuvers. Their key findings and decisions were:

• Shift in power along value chain — With the on-going digitization of content, most scenarios address the heightened importance of content creation and content presentation (including personal video recorders, media guides and media.
players). In comparison, the value of distribution capabilities decreases in the long term in the in-home leisure environment. This is because broadband TV and the Internet would lead to an open-user environment where distribution may become a commodity. Alternatively, the value of traditional one-way distribution will decrease as technology opens a new broad channel between the consumer and interactive entertainment providers.

This potential outcome would threaten Ithuriel’s current strategy of vertical integration into traditional TV distribution. The executive team therefore decided to abandon this approach to growth. By gaining an understanding of the implication of industry trends long before its rivals, Ithuriel had a head-start in investing in technologies and capabilities needed to compete in the interactive entertainment market.

- New channels — Out-of home entertainment — such as sophisticated arcade games and new kinds of “edutainment” and “infotainment” — became very important in one of the scenarios modeled. By considering these offerings, Ithuriel executives gained exposure to potential business segments and innovative models for future goods and services. This added a new dimension of options to their overall strategy.

- New opportunities — One of the scenario options that Ithuriel decided to pursue was called “New Media” (digital content creation, distribution and presentation through the Internet to software driven access devices). A detailed assessment was conducted of the opportunities, required capabilities, capability gaps and potential action steps needed to overcome current capability gaps. The executives developed detailed profiles of companies with critical competencies and a set of selection criteria for potential alliances. Ithuriel is currently targeting opportunities and joint-venture/acquisition prospects in this area.

This new approach to growth is vastly different than the company’s original plan to acquire movie production and TV distribution companies, a strategy that anticipates competition only on the familiar turf of its long-established rivals. Through Scenario Envisioning, Ithuriel gained unique insights into the evolving industry and positioned itself advantageously for the future.

**Exploring the unknown: The benefits of Scenario Envisioning**

Most managers expect scenario projects to begin with prefabricated world visions of economic and geopolitical trends. In contrast, Scenario Envisioning develops customized pictures of a company’s future markets that are distinctly different from the present and yet quite possible. Hence, managers experience what it would be like to operate in new markets and serve customers with new needs.
Yet another well-known scenario method attempts to predict the most probable future through computerized number crunching exercises. Scenario Envisioning takes a different approach, looking at the future as a small set of scenario possibilities that all have implications for a business or market. Scenario Envisioning does not rank the probability of individual scenarios or attempt to make predictions. Instead, managers learn what it would be like to operate in each and every scenario.

The Scenario Envisioning learning process begins when managers participate in imagining how political, technological, economic, and social forces may combine in various ways to influence their particular customers and markets. But Scenario Envisioning is not merely a sophisticated version of industry analysis. Instead of merely projecting past or current trends, Scenario Envisioning studies unknowns: nascent technology, possible consumer responses to offerings not yet invented, potential regulatory action, and possible competitive initiatives. By combining these unknowns in imaginative, yet logical ways, Scenario Envisioning opens windows on vistas of alternative futures. As a learning technique, Scenario Envisioning has numerous benefits:

- Scenario Envisioning creates a set of scenarios that enable management to experience the possible results of major shifts in the industry value chain and the competitive environment that will occur as industry borders are redefined and new participants seek market entry.

- Managers can use the scenarios they develop to test operating decisions under a variety of conditions, including changes in consumer preferences, technology advances, alliances and mergers, and potential competitive actions. The scenarios and outcome simulations become proving grounds for assessing new opportunities and threats as well as options and alternative strategies.

- Scenario Envisioning enables corporations to draft a blueprint of their repositioning alternatives. This approach combines scenario development and value chain change analysis to identify segments of an industry with increasing economic potential and segments with decreasing economic potential. The technique maps how industries could be transformed in several scenarios. Using these new pictures of the future as a guide, managers draft action plans to enter business segments that may become highly attractive and exit segments that stand to become less attractive.

- Scenario Envisioning trains managers to develop the capability of “competitive foresight.” That is, they experience operating under possible future competitive conditions.
Scenario Envisioning: An updated approach to strategic planning

Through IBM Business Consulting Services' work with companies in evolving industries, a ten-step approach has been developed that previews innovative and non-traditional industry and market possibilities.

Phase 1: Develop future industry scenarios

Innovative hypotheses about the future, based on extensive expert industry knowledge and research, are formulated for study and review. The scenario team then converts these theories of logical futures — ones that diverge from past and present trends — into a set of distinctly different scenarios. For example, Ithuriel developed four scenarios based on the interplay between changing consumer choices and broadband TV in in-home entertainment distribution technology.
• Step 1. Define the broad future industry and market context within which the scenarios will be developed. For example, for the banking industry, the broader context may be financial services or even personal information services.

• Step 2. Identify the paramount forces that will shape this industry and market context. For example, what consumer, regulatory, social, legal and technological changes can or could exert the most powerful influence on your industry? How do these interact on a global basis? Which of these is the most uncertain?

• Step 3. Identify the boundary parameters — the full range of uncertainty — of the paramount forces. For example, if regulation is one of the paramount forces, could the industry be intensively regulated or completely deregulated?

• Step 4. Develop logical but innovative hypotheses that explain how the most powerful and uncertain forces could interact. For example, will a major segment of the banking industry evolve into an online personal wealth building industry, fostered by deregulation and increasing consumer technological capability?

• Step 5. Create a set of scenarios that show how a few key unpredictable forces with the highest impact could interact. Using a matrix model, the interaction of two or more unpredictable conditions results in a number of distinct possibilities. The goal is to cover a comprehensive spectrum of market conditions.

• Step 6. Test the credibility of the scenarios by assessing the viability of enabling events required to make them happen. For example, as today’s youngsters quickly adapt to interactive games, will the market for this type of entertainment continue to grow as they mature?

• Step 7. Plot the evolutionary paths of the scenarios. For example, the delivery of broadband TV to the home by fiber optic cable may not occur for many years. In the meantime, a variety of alternative technologies such as direct broadcast satellite TV, high-speed DSL phone lines, and cable modems, may flourish.

**Phase 2: Assess economic potential and define strategy options**

Key business outcomes of the scenarios such as value chains and competitive dynamics are simulated. By viewing the potential evolutionary paths of markets, decision makers can anticipate what moves will put a company into the most advantageous position. For Ithuriel, the economic potential shifted dramatically from entertainment distribution to entertainment content creation and end-user presentation devices in two plausible scenarios.

Once economic potential is assessed, optimal strategic options are developed based on a preview of the company’s capabilities and its capability gaps in the scenarios. For example, the best options for Ithuriel in two of the scenarios were to develop interactive content and improve its product branding. As a result, the
company is considering dropping its present strategy of vertically integrating into the
distribution of traditional non-interactive entertainment content such as movies and
TV shows.

• Step 8. Simulate business outcomes such as new value chains and new
competitor dynamics created by the evolutionary paths of the scenarios. This will
identify which segments of your industry may have increased profit potential and
which types of market participants are likely to reap the profits.

• Step 9. Assess your company’s capabilities and compare them to capabilities
needed to compete in the various scenarios. Identify the company’s capability
gaps and develop potential solutions to overcome them.

• Step 10. Develop, prioritize, and select a portfolio of optimal strategic options
to compete successfully in each of the scenarios, and compare them with the
present direction. This will allow the company to rehearse its potential future.

A brief history of scenario planning
Scenario planning has been used as a learning tool for more than four decades. It began as a
military secret weapon in the 1950s when scenarios were developed by Herman Kahn as part
of strategy studies conducted by the RAND Institute for the U.S. government. “Thinking the
unthinkable” is the phrase most frequently associated with Kahn’s work.

In the late 1960s, Royal Dutch/Shell scenarios considered “unthinkable” structural changes in
the oil industry. When the formation of the Organization of Petroleum Exporting Countries (OPEC)
ignited a price explosion in the mid-1970s, Shell executives began to take their scenario planning
seriously. Under the guidance of a succession of champions, Shell has continued to develop
and evolve its scenario work. Over the years, these managers have repeatedly warned that the
scenario approach succeeds only to the extent that it advances learning and changes the mindset
of decision makers. Currently at Shell, managers routinely consider scenario alternatives before
taking important action.

As word of Shell’s success spread in the years following the oil crisis, scenario planning went
through a brief period of faddish popularity. A few companies attempted to use it to determine the
“most likely” future. This is a misuse of the technique. The scenario approach can help executives
examine a small set of possible futures, but it cannot forecast which one will actually occur.

Those misguided projects provided a valuable cautionary lesson: Scenarios should not be used
to make predictions. In recent years, scenario planning, performed in conjunction with strategic
management techniques, has proven its worth as a decision supporting and learning experience
for executives seeking to explore areas of uncertainty in the future.
Ithuriel Productions has asked IBM Business Consulting Services to assist it to preview the path of industry evolution. The company was well aware that new technologies and changes in consumer attitudes about entertainment could impact its markets worldwide over the next ten years, but it needed a clearer map of what the industry might look like in order to develop strategic options. A Scenario Envisioning project was designed to look at:

- The near-, medium- and longer-term path of industry and market evolution
- New market opportunities
- Threats from competitive actions of core and emerging participants
- The skill sets required to compete effectively in the medium- and longer-term future
- The firm’s current capabilities and the capability gaps it will have in various scenarios
- Specific investments or alliances to fill those gaps
- The best strategy options for the near and longer term.

Ithuriel’s Scenario Envisioning team included senior executives, staff and line managers, and IBM Business Consulting Services consultants.

**Phase 1: Develop future industry scenarios**

Step 1. Define the future industry and market context. As noted earlier, Ithuriel has three major divisions: movies, TV, and theme parks. Not surprisingly, management tended to see the industry as if it were comprised mainly of these markets. Taking into account, however, the dramatic technological convergence that is occurring to provide customers with new offerings, the scenario team expanded its view of the future industry to encompass the whole leisure entertainment environment. Mass-market entertainment options include in-home and out-of-home traditional entertainment, such as movies and TV shows, as well as emerging offerings such as on-line services, reality or participatory programming and video gaming. Several notable competitors for Ithuriel’s theme parks are:

- **Sony Metreon®, a one-of-a-kind entertainment center and technology marketplace in San Francisco.** Covering 350,000 square feet on four levels, Metreon houses 15 movie theatres, an IMAX theatre, three interactive attractions, nine restaurants and world-class shopping.

- **Playdium®, the leader in the introduction of location-based entertainment centers in Canada.** There are Playdiums — with approximately 200 video games and simulators and outdoor attractions such as go-cart tracks — in Toronto, Vancouver and Edmonton. In addition, Playdium has equipped and operates 50 game centers across Canada.
- Universal CityWalk®, destination pedestrian promenades outside the Universal theme parks in Hollywood, Orlando and Osaka, Japan. Each admission-free CityWalk incorporates several dozen shops, restaurants and clubs. Bundled packages include movies, meals and multi-club packages.

Step 2. Identify the paramount forces that will shape this industry or market. Scenario Envisioning is designed to organize the many hundreds of influences that will shape the future environment into a coherent set of primary forces. Some, like demographics, are forecastable; others, like consumer preferences, are not. Scenario Envisioning selects for study only those forces that have both the greatest impact and highest uncertainty. The process separates out high impact forces that are definitely predictable; they are the province of operations and short-term planning. Exhibit 1 illustrates the framework used for this activity. The paramount forces relevant to Ithuriel’s industry were:

- Technology developments in content, distribution and end-user presentation
- Consumer disposition
- Government content and industry regulation.

### Exhibit 1: The impact/uncertainty matrix.

<table>
<thead>
<tr>
<th>Level of Impact</th>
<th>Critical planning issues</th>
<th>Near-future scenario drivers</th>
<th>Longer-term future scenario drivers</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>Important planning issues</td>
<td>Current operations and planning issues</td>
<td>Near-future scenario drivers</td>
</tr>
<tr>
<td>Low</td>
<td>Issues to monitor</td>
<td>Issues to monitor</td>
<td>Monitor; re-assess impact</td>
</tr>
</tbody>
</table>

Degree of uncertainty

Relevant to Scenario Envisioning
Step 3. Identify the boundary parameters of key forces. To create distinctly different scenarios, these powerful and uncertain forces were expressed in terms of their extreme possibilities, that is, their boundary parameters. The team proposed these dimensions:

- Content technology would range from low impact (traditional movies or TV shows; limited development of interactive computer/TV entertainment) to high impact (new interactive computer generated forms; synthesis of TV and computer entertainment)
- Home entertainment distribution technology would range from one-to-many broadcast to a mass-market (current TV and cable offerings) to one-to-one broadband communications with individual consumers (high-speed data access, and satellite radio)
- Presentation technology would range from limited customization capability and sophistication (traditional TV sets, VCRs, and amusement parks) to sophisticated customization capability (personal video recorders, programming guides, video game platforms with artificial intelligence)
- In the mass market, consumer behavior would range from passive (a nation of couch potatoes) to active (a nation of adventurous and inquisitive stimulation seekers)
- Governmental control of content or industry structure would range from strict regulation to complete deregulation.

Step 4. Develop logical but innovative hypotheses that explain how the most powerful and uncertain forces could interact. One fresh insight of the Ithuriel Productions scenario team was that if the advent of two-way broadband communication and interactive technology would stimulate new consumer demand for active entertainment, it naturally followed that content technology will take new forms to be more interactive and high impact. People wouldn’t be content to just watch movie action heroes like Sylvester Stallone. In the future they would want to be — in virtual reality — their favorite action hero.

The scenario team’s intent was to create a “breakout” hypothesis — one that fractures the boundaries of conventional thinking about the future course of the industry. They first realized that demographics no longer define consumers; their mindsets now describe them. At the end of this step, the team’s working hypothesis was that the evolution of the new leisure industry would be greatly shaped by the availability of low cost two-way broadband communication in the home and also by consumers who want to play and interact rather than just watch.
Step 5. Create a set of scenarios. A set of four scenarios was created by the interplay of the two paramount uncertainties — distribution technology to the home and consumer disposition.

- The world of today — passive consumer/broadcast technology
- In search of stimulation — active consumer/broadcast technology
- Full service on demand — passive consumer/broadband technology
- Brave new world — active consumer/broadband technology.

Exhibit 2 illustrates the model used to develop the four scenarios.

The Ithuriel Productions scenario team then created a business context for these four unique futures:

- The world of today — The great majority of the home entertainment audiences are passive consumers of movies, network and cable TV. Leisure activities include visits to traditional theme parks or theatrical entertainment. This scenario is equivalent to the current planning environment.
• In search of stimulation — Consumers seek more active entertainment, but the home broadband communication revolution is delayed. Instead, consumers buy increasingly sophisticated software and game-playing hardware and often go out to run high-tech equipment in arcades and outlets offering thrilling environments for interactive games.

• Full service on demand — Inexpensive broadband technology arrives but the majority of consumers are grazers and browsers, not participants. They can shop, bank, visit with a doctor, go to school, and work from home via online services. But for entertainment, the majority select from an endless library of movies and TV shows available around the clock.

• Brave new world — Both the entertainment tastes of the consumer and the technology undergo metamorphosis. Broadband communications in the home shrinks the cost of virtual entertainment experiences. As more and more of the world enters the home via broadband, the consumer develops a taste for participatory media, including interactive games and full video chat, with people throughout the global village. For vacation, instead of just roller coaster rides, a family visit to a high-tech entertainment park could include a virtual reality trip to Africa capped by a fertility festival or a ride over Victoria Falls in a simulated barrel.

Step 6. Test the credibility of the scenarios. These scenarios were then tested through interviews with industry, technology and consumer experts and industry executives. The significant enabling or disenabling events that would make the scenarios happen were identified and assessed. For example, a key enabler of the “In search of stimulation” scenario is that today’s younger generation continues to maintain its passion for intensely interactive and engaging entertainment as they mature. Similarly, one of the key inhibitors is consumer unwillingness to pay for in-home distribution of broadband TV because they have invested in sophisticated “stand-alone” devices such as video game players and multimedia PCs.

Step 7. Plot the evolutionary paths of the scenarios. The “In search of stimulation” scenario charts how the mass-market active consumer profile will evolve over several years as the younger generations mature and become the largest group with the greatest buying power. As they mature, quite a few Generation X’ers may emulate their parents and become passive “couch potatoes.” Such consumer behavior patterns and their pace of evolution were assessed and plotted for all the scenarios.

Phase 2: Assess the profit potential and define strategy options

Step 8. Simulate select business outcomes in each scenario using value chain and competitive dynamics analysis. Based on the stimulation seeking, game-playing consumer profile of the “In search of stimulation” scenario, the team anticipated a value chain more suited to the new non-traditional competitors such as high-tech companies proficient in interactive technology and game writing software. Interestingly, all scenarios indicated that the relative profit potential of content creation and end-user presentation would increase, but the profit potential for distribution would decrease.
Exhibits 3 and 4 illustrate these business outcomes for the “In search of stimulation” scenario in further detail.

Exhibit 3: Value chains.

**Highly interactive with extensive consumer participation**

In-home entertainment

- Linear, push and pull model
- Menu-driven, customized presentation
- Extensive consumer interaction with content
- Consumer participation in content creation
- Relative values of C and P higher than D

Out-of-home entertainment

- C&P unbundled
- Non-linear, push and pull model
- Extensive consumer interaction with content
- Consumer participation in content creation
- Relative values of C, D and P equally important

C = Content creation  D = Distribution  P = Presentation to consumer

Exhibit 4: Competitive dynamics.

- High-tech
- Consumer electronics
- Online/Internet services
- Satellite services

Competitive threats

- Location-based entertainment
- Consumer electronics
- Hotels/gaming
- Retail/restaurants

Traditional entertainment

- Content creators
- Broadcast TV
- Cable TV
- Publishing
- Theatrical exhibitors
- Theme parks
- Arcades

Exhibit 3 and 4 illustrate these business outcomes for the “In search of stimulation” scenario in further detail.
Step 9. Assess Ithuriel’s capabilities to compete in each scenario. As the entertainment industry evolves, it will become increasingly apparent that the skills needed to direct and produce movies are quite different from those required to design and market games. In the “In search of stimulation” scenario, for example, Ithuriel will be hampered by its lack of software, technical talent and interactive storytelling experience. A potential way to gain these skills would be to form strategic alliances with interactive content developers such as Microsoft, Electronic Arts and Pixar. Exhibit 5 illustrates this analysis.
Step 10. Develop a portfolio of optimal strategic options and compare them with the present strategies. The team prepared a portfolio of optimal strategic options based on an analysis of Ithuriel Productions’ opportunities in each scenario. Its executives were surprised to learn that many of the best options derived from Scenario Envisioning would take the company in a quite different direction than its current forecasting-based strategy. For example, the optimal in-home content strategy derived from Scenario Envisioning was to focus on branding and diversify into interactive software. Contrast that with the company’s previous plans to increase its “cookie cutter” output of movies and TV shows. Scenario Envisioning indicates that Ithuriel Productions’ optimal in-home distribution strategy was to maintain only a limited presence. This would be a significant departure from the company’s former plan to integrate vertically into TV distribution. Exhibit 6 illustrates the company’s portfolio of options.

Exhibit 6: Portfolio of optional strategic options.
Conclusion

By using Scenario Envisioning, Ithuriel Productions learned how to rehearse investing and operating in the future. While this case focused primarily on one of the four scenarios, to show the full extent of the learning process for Ithuriel it would be necessary to present all of the scenarios in complete detail.

As this case shows, when the future for any industry is uncertain and evolving rapidly, Scenario Envisioning facilitates innovative decision-making. As a direct result of this Scenario Envisioning exercise, Ithuriel made a number of significant course reversals. For example, it stopped acquiring movie and TV distribution companies and went searching for partners with cutting-edge interactive software capabilities.

Clearly, the organization that can quickly visualize future business environments around the world and rehearse what it would be like to operate in them will gain substantial competitive foresight. Within the parameters of a set of scenarios, future business operations and strategies can be simulated to assess:

• Changes in consumer disposition
• Speed and path of technology introduction
• Impact of government regulation
• Changes in importance of parts of the value chain
• Competitive dynamics
• Capability gaps
• Optimal alliance partners and acquisition candidates
• Corporate and business unit options.

The Scenario Envisioning process encourages a team of company managers to experiment with future business conditions unbounded by the “official future” of the organization. They can ask imaginative questions, experiment with innovative answers, and simulate unorthodox outcomes — and do it quickly. By providing a practical opportunity to rehearse and learn from a set of highly consequential, plausible futures, Scenario Envisioning can prepare managers for the future today.
About the Author

Saul J. Berman is an IBM Business Consulting partner and Strategy Change Solutions Global Strategy and Business Development Executive. He has over 20 years consulting experience advising senior management of large corporate and start-up organizations in the United States, Japan, Europe and Australia. Dr. Berman is a frequent speaker at leading industry and strategic planning conferences.

About IBM’s Strategic Change practice

Our Strategic Change Solutions help clients transform their enterprise and operations by:

- Framing industry opportunities and challenges into specific strategic options;
- Formulating actionable strategies that intersect business and technology; and
- Accelerating implementation through tailored operations and change programs.

In these ways, we enhance our clients’ competitiveness and increase their sources of economic value.

For more information about our approaches, or to answer any questions about your company’s possibilities, please contact:

Saul J. Berman, Los Angeles
1 818 539 3353
saul.berman@us.ibm.com

Peter Korsten, Netherlands
31 36 5454468
peter.korsten@nl.ibm.com

Eric R. Pelander, Chicago
1 312 245 7601
pelander@us.ibm.com

Matthias Hartmann, Germany
49 40 36958 x267
matthias.hartmann@de.ibm.com

Grace Chopard, AsiaPac
61 2 8266 7748
grace.chopard@au1.ibm.com
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References

1 This case is a composite of several IBM Business Consulting Services' scenario consulting assignments with a number of clients in several industries. It includes research by IBM Business Consulting Services on scenario development and non-proprietary entertainment industry research.

2 Aspects of this concept were introduced in an article originally published in 1993 by the Department of Mathematical Sciences at San Diego State University entitled “The Technological Singularity.” In this paper, Vernor Vinge argues that a “Technological Singularity” is when our ability to understand the acceleration of technological progress breaks down because our old rules for evaluating technology advancement are no longer applicable. One of the main consequences of this is that our ability to understand advances in technology will continue to deteriorate as technology improvements occur faster and faster. This implies that as time goes on it will become more difficult for us to understand or predict how technology applies to and transforms the media businesses, as well as other industries.

3 Ithuriel Productions takes its name from an angel in John Milton’s “Paradise Lost.” According to Milton, the angel Ithuriel carried a magic spear, which could reveal truths others could not see.