6

CHAPTER 19

ARTICULATING THE BUSINESS IDEA: THE KEY TO RELEVANT SCENARIOS

KEES VAN DER HEIJDEN

Scenarios are like miniature hothouse environments where organizations can experiment with a number of unique growing conditions. However, such scenario experiments will fail to generate significant benefits for your organization if they do not provide a realistic challenge for its core business idea—how your firm provides value to customers in a way that is unique from your rivals. In fact, organizations that have not articulated their business idea will find it difficult to create scenarios that are truly relevant to their future. This chapter suggests one approach to identifying the business idea and testing it in scenarios.

A set of scenarios provides any organization with an opportunity to test how and why both its current and potential strategies might win across a range of plausible future worlds. As part of this "stress-testing" of strategy, many organizations have discovered that their strategy, either current or proposed, was not as "all weather" as they had assumed. The great benefit of scenarios therefore is that they can be used to discover problems and difficulties with a strategy well before they become painfully evident in the cut and thrust of marketplace competition and to develop ideas for a new strategy.

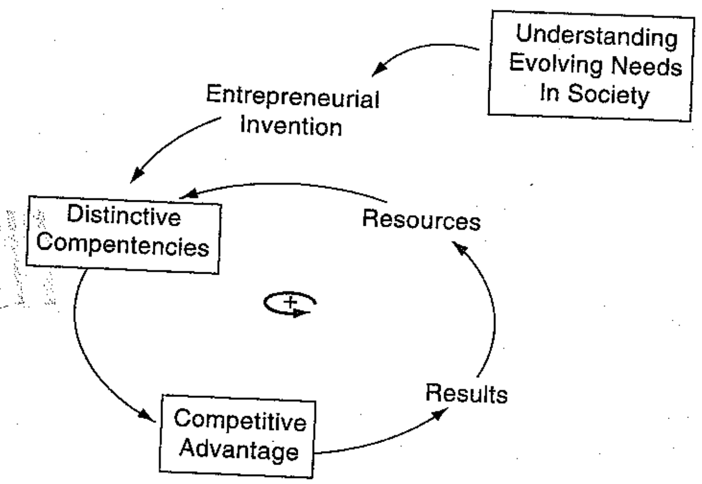
But, before an organization can test its strategy against a set of scenarios, it must know what its strategy is. Although every organization has an implicit or emergent strategy, its essential elements often aren't familiar to rank-and-file management. It is thus not surprising to learn that many organizations find it difficult to derive strategy-related benefits from their scenario work. Clearly, if an organization does not know the success formula underlying its own strategy, it becomes well nigh impossible to use scenarios to critique the "content" of the strategy, to challenge its underlying assumptions, or suggest ways in which it might be changed to win against current and potential rivals.

The purpose of this chapter is to briefly outline an analysis and organizational process to determine the basis and essential underpinnings of an organization's strategy, which we shall refer to as its *business idea*. The goal is to show how the business idea can be studied, tested, and improved through the use of scenarios.

THE BUSINESS IDEA OF AN ORGANIZATION

The first task is therefore to understand and articulate the organization's success formula, measured in terms of its twin purposes of survival and growth. Such a business idea drives every successful organization. This idea is specific to each organization, and no two organizations can have exactly the same one. Strategy development can be viewed as assessing this business idea against the outlook for the environment. The scenario planner, aiming to accelerate organizational learning, first needs to articulate the business idea before it can be studied, discussed, modified, and improved (see Exhibit 19.1).

Exhibit 19.1
The Generic Business Idea



The articulated business idea must be a rational explanation of why the organization has been successful in the past, and how it will be successful in the future. It defines how the business can apply its system of competencies to provide goods and services that the customer values. How much the customer values the services or products and what alternative choices the customer has determines how much economic values the business idea generates.

Let us begin by identifying the four elements that need to be specified in order to develop a complete business idea. These will then be illustrated using a detailed case example.

1. The customer value created.
2. The nature of the competitive advantage exploited.
3. The distinctive competencies which, in their mutually reenforcing interaction, create this competitive advantage, allowing the organization to appropriate some of the value created.

These three elements must then be configured into the fourth element:

4. A positive feedback loop, in which resources generate growth.

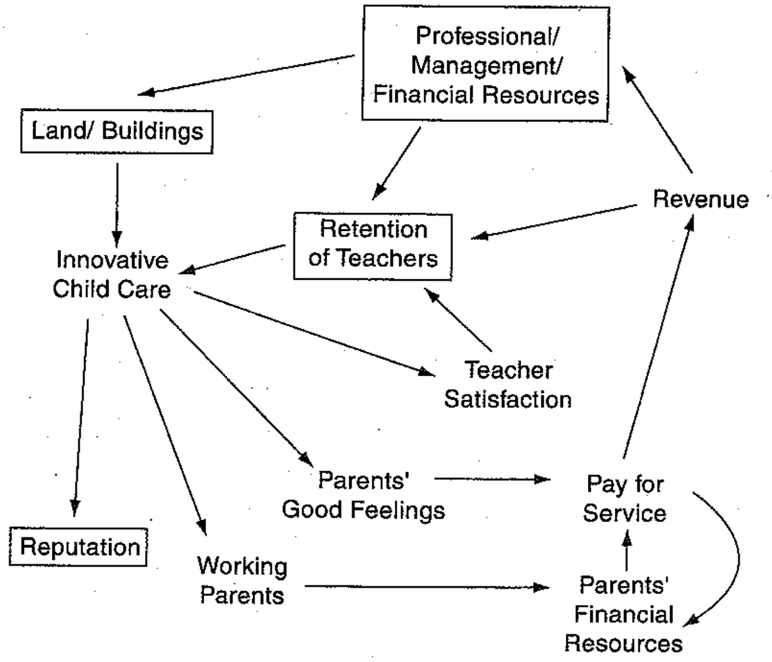
KINDER-CARE: AN EXAMPLE OF A BUSINESS IDEA

Kinder-Care, the largest private provider of day care in the United States was started in the 1960s by Perry Mendel who perceived a need for innovative child care. He reasoned that many mothers and fathers experience a feeling of guilt when they provide their preschool children with simple custodial child care. His entrepreneurial idea was to create centers where children would not only be cared for but would also be surrounded by a learning environment similar to preschools, thus creating a positive image in the minds of the parents (see Exhibit 19.2).

The Kinder-Care system can be understood by reference to the four elements making up its business idea:

1. *The customer value created.* The creation of customer value starts with recognition of parents' needs for beneficial custodial care for their young children. By providing an enriching learning environment, Kinder-Care enables parents to feel more comfortable

Exhibit 19.2
The Kinder-Care Business Idea



about leaving their children in a day-care program. The entrepreneurial invention, an innovative child-care center that provides a learning environment for preschoolers, creates a new type of value for customers.

2. *The nature of the competitive advantage exploited.* The purpose of the Kinder-Care operation is to offer a new enhanced product or solution to parents of young children. It creates value for customers through its differentiated offering compared to rivals. Kinder-Care does not aim to be a low-price leader.
3. *The distinctive competencies exploited.* Kinder-Care has developed a number of competencies that mutually reinforce each other. Together, they allow the realization of the entrepreneurial idea. They include:
   - Knowledge of required personnel characteristics and attributes.
   - Knowledge of facilities.
   - Management systems and expertise.

- Access to specialized facilities.
- Reputation, resulting in parents' trust.

These competencies reinforce each other as shown in Exhibit 19.2. Note that having hired the appropriate personnel (a scarce resource) does not by itself create a distinctive competency for the firm. Any value resulting from that resource alone would eventually be appropriated by the individuals with the requisite characteristics.

4. *The positive feedback loop, driving growth.* The system of feedback loops as shown in Exhibit 19.2 contains a number of growth drivers. For example, more innovative child care leads to more teacher satisfaction, which leads to more retention of motivated teachers, which leads to more innovative child care. Or, innovative child care allows a parent to feel better about going to frequent or full-time work, increasing willingness and ability to pay for the use of more innovative child care. We see that the main strategic loop is a positive feedback loop. This explains the successful growth of Kinder-Care. Innovative child care induces customers to pay for a service that creates increased management and financial capability. This in turn causes an increase in the amount and quality of innovative child care offered.

It does not seem very difficult to imitate the individual distinctive competencies that together provide the basis of Kinder-Care's business idea. One must ask then why Kinder-Care has been so successful. The answer in large measure resides in the way the company has continually developed its business idea and the relatively slow response of its competitors. By growing fast, well ahead of the ability of the competition to catch up, the company has exploited scale effects to the maximum. It has continually developed and strengthened both its management system and the image and reputation associated with the name Kinder-Care. As it successfully did so, it created barriers to entry for newcomers. The company now needs to consider whether these entry barriers are high enough for sustainable competitive advantage.

EVALUATING THE BUSINESS IDEA: THE LIMITS TO GROWTH TESTS

What business growth can a business idea generate? How can it be sustained? What will limit growth? Can these limiting factors be managed?

One useful framework in which to consider the limits to growth in a business idea is Michael Porter's Five-Forces competitive model:[1]

- Demand limits.
- Supply limits.
- Competition limits.
- Limits imposed by the possibility of new entrants.
- Limits imposed by possible alternatives and substitutes.

Each of these limits can be applied to Kinder-Care or any other business idea. In the Kinder-Care example, growth of the business—that is, parents sending their children to a Kinder-Care type of facility—will ultimately lead to a reduction of demand. The potential market will eventually be saturated—there is not an unending supply of children with parents who want day care. Moreover, parents' ability and willingness to pay will limit the market long before the point of saturation is reached. Kinder-Care is thus an example of a demand-limited business idea.

Some examples of the other four growth limitations include:

- *Supply limits.* The business idea of a mining company may be largely dependent on "legal protection" through a concession agreement. The mine owners are granted permission to do a particular type of mining in a specific place. The company may not be able to extend its ability to do this particular type mining beyond its current location. In this case, the exploitation of the business idea is limited on the supply side, restricted by the reserves or deposits available to it.
- *Competition limits.* A rapidly growing company must expect retaliation from its competitors if its successful exploitation of its business idea threatens them.
- *All distinctive competencies depreciate over time.* Most business ideas can be emulated. Any firm exploiting a successful business idea will reach a point where the market created looks attractive to new entrants. At this point, new competitors are prepared to incur the costs of imitation and to enter the market as alternative suppliers.

- *Substitutes.* The emergence of competitors offering substitute products has undercut the business idea of many successful companies. Just consider what the personal computer did to the typewriter industry.

  Such a new entrant generates a negative feedback loop in the business idea. At first it diminishes the business idea's ability to generate economic value for the enterprise. Eventually, if the company can't defend its markets, it loses the capacity to create surplus value. At that point, growth stops.

SCENARIOS AND THE BUSINESS IDEA

A business idea may be a glorious success in one set of competitive conditions but a conspicuous failure in another. Any business idea therefore must be tested for its capacity to win in alternative futures. Doing so establishes a business idea's "degree of fit." Testing a business idea in this manner can be compared to a wind tunnel where an airplane model is subjected to tests to assess its strengths and weaknesses. The purpose is not just to accept or reject individual designs, but to engage in an iterative process of adjustment and improvement, until a model has been developed that will be successful in a wide range of environments. The wind tunnel metaphor clarifies one of the fundamental rules of scenario planning: Once we have decided on the set of scenarios of the future that are considered relevant to our situation, each scenario is treated as equally likely. In wind tunnel terminology, if the wings fall off under one of the specified test conditions, the model has to be redesigned, independent of any assessment of the likelihood of these conditions occurring.

In the process of testing a business idea in a set of scenarios, strategists often develop a value judgment about the scenarios in the set. It is based largely on the degree of change that a scenario requires in the business idea. If little change is needed, the scenario is considered a "good future," one in which growth is possible by exploiting the competencies associated with the business idea. If the existing success formula does not fare well, the particular scenario is seen as less friendly. The narrower the business definition the more likely that futures are seen as unattractive. Organizations that tend to define themselves too narrowly, for example in terms of a specific product, often incur this difficulty.

Underlying such value judgments of certain futures as "attractive" and "unattractive" is a resistance to change. If change were not typically seen as negative, but rather as the source of new business opportunity, then perceptions of good or bad futures would not arise. In business futures, success is relative, and every viable idea is eventually copied by competitors. It is a race, in which every participant who slows down will be overtaken. The winners are those who quickly develop new business concepts—new business ideas—and exploit them efficiently before the competition arrives on the scene. Companies that see themselves in the business of change will not find any scenarios good or bad, but will distinguish them by the different challenges they offer.

Considering Strategic Fit

The analytical task is to "walk" the business idea through a set of scenarios one by one, to study how it would "play out" if each future were to materialize. At the heart of the analysis are the following two questions:

- Will customers value the offerings generated by the business idea's set of competencies?
- Will the organization be able to appropriate enough of the value generated for its own development? Will its competency system be capable of being defended against competitive emulation?

One outcome of this deliberation may be the judgment that the business idea stands firm as the basis for future business, allowing the discussion to move on to the question of how it can be exploited to best advantage.

Alternatively, a business idea, even one that has proved successful in the past, may not stand up to these questions. The management team may decide that it needs to be developed to create a better fit with the anticipated future business environments.

BUILDING FOR THE FUTURE

The business idea generally needs to evolve with changes in the business environment. Management needs to develop a view on what new distinctive competencies will be called for in the future, and they need to work toward getting these in place. This is best achieved by developing a coherent view of a future business idea that will be robust against the various futures the scenarios indicate (this is sometimes called a *strategic* *vision*). The challenge is to decide how to develop the business idea for the future.

A unique business idea, one that generates unique customer value, cannot be bought; it needs to be invented and built. In principle, there are two ways in which a business idea can be advanced and developed:

- By entrepreneurial invention.
- By building on the existing distinctive competencies to create new ones.

Both of these imply discovering new customer value potential and/or a new and more efficient way of harvesting existing customer value. The business idea for the future must:

- Respond to future customer values.
- Be a new unique combination of competencies, which can be exploited in a positive feedback loop.
- Be created on the basis of the current business idea, leveraging existing distinctive competencies.

Building for the future means leveraging competencies that are present today. The ability to invent a new combination within these constraints constitutes the entrepreneurial task facing any management team interested in creating long-term profit potential for the company.

CONSIDERING THE BUSINESS IDEA IN THE MANAGEMENT TEAM

Sometimes companies continue exploiting a successful business idea based on a strong set of distinctive competencies built up in the past. The unique business idea is not always well articulated. Although initially the underlying entrepreneurial idea was clearly understood, it often happens in successful organizations that attention moves to the product and the efficiency of its production system. Companies that have been in business for awhile often lose sight of the complex reasons that customers buy their particular products or services. While things are going well, many managers get on with the day-to-day business, relying on the aging business idea to protect them from competitive onslaught. As time goes on, people in the business often come to take customer value for granted, and managers in the company over time may gradually develop divergent interpretations of the business idea. This is dangerous because distinctive competencies depreciate over time.

If the business idea is not clearly and jointly understood—considering the long lead times required to build most distinctive competencies—the company may run into serious difficulties trying to turn things around once profitability has started to decline. There may not be time or resources to adjust the business idea to the current market. To avoid this situation arising, the management team needs to jointly articulate and understand the basis of a company's success. Divergent notions of the business idea in the management team need to be confronted in open debate. The business idea process introduces a thinking framework and language that allows rational consideration of:

- The current business idea.
- The strengths/weaknesses of the current distinctive competencies in their systemic interaction.
- The outlook for the strength of the distinctive competencies against a set of scenarios relating to the everchanging values in society.

Once a business idea has been articulated, strategic priorities need to be determined to maintain its health. Selection of strategic options for the future should be guided by the options' relevance to maintaining and enhancing the business idea.

Workshop: Surfacing a Business Idea in a Management Team

Effective managers carry the elements of a business idea in their head. The process of articulating their collective knowledge for subsequent discussion, adjustment, and agreement in a management team is an iterative one. First, a prototype representation is quickly developed. The managers then react to this model, in the process expressing their understanding of what drives success. Through a number of iterations, the prototype representation is gradually brought into line with the views of the managers. By employing this process, the managers eventually reach a shared view of the business.

The process may need to be facilitated. The facilitator's role is to remind the management team of the concepts involved, to introduce and lead the process, to take the team through the various steps, and to record the views expressed. Choice of the facilitator is important, and should be limited to team members or well-trusted, experienced outsiders.

The process usually takes a series of three management workshops; but if necessary, it can be completed in one full-day session.

Elements of the Business Idea

A cause-and-effect influence diagram is the best way to show the systemic features of the business idea to bring out the positive feedback loop driving growth. If the company is dominated by one or a few major business sectors, customer value, competitive advantage, and distinctive competencies may be easier to define at the business unit level.

It may be useful for the top management team to prepare the ground for their corporate business idea review by arranging one or more sessions with the business sector managers, in order to develop joint understanding of the basics of these businesses in the team. A possible way of approaching this is by means of one or more strategic evaluation sessions, in which top management discusses the strategic aspects of the business in a "for information only" exchange with the business manager.

Initial Data Requirement

The discussion of the business idea in the management team requires a shared database, which ideally should be generated through an interview/feedback round, to be undertaken by the facilitator. Alternatively, the facilitator develops with the client a strengths, weaknesses, opportunities, threats (SWOT) analysis on flip charts. This is done preferably in a separate team session; but if necessary, the management team may start the business idea workshop with a one-hour SWOT analysis.

The Process

Step 1: Deciding on the Company's Competitive Advantage. The SWOT analysis, developed from individual interviews or as a team exercise, is displayed on the walls of the meeting room. The process of drawing up the first prototype diagram starts with addressing the question of competitive advantage. The facilitator should have developed some initial understanding of the key elements that may end up in the business idea diagram, and prepared these as a checklist, to be used during the meeting if required. To get the process going, the facilitator poses the following question: What is the basis of the company's competitive advantage?

A useful way to think about this: How would you explain to potential customers why they should prefer this organization as supplier/business partner over any other competitor? It raises the question, Who are the customers, and what are their cares and worries? The facilitator may introduce this issue by suggesting to the team that they formulate a sales pitch that clearly differentiates the offering in terms that motivate the customer to buy from this organization rather than another one.

The follow-up question focuses on competencies: What does this organization have to do well in order to deliver on this promise? It is surprising how much time many teams need to answer these seemingly obvious questions. The reason is that managers take the basic strengths of the organization for granted, and do not think a lot about the underlying driving forces while they are absorbed with their day-to-day tasks. The purpose of the competitive advantage question is to come to an understanding of the way the organization is or will be successful. Success can be based on doing better things than others or on doing the same things but at a lower cost. The final answer to the competitive advantage question should be one, or a combination, of the following two:

- Product/service differentiation from competitors.
- Cost leadership over competitors.

A company produces a differentiated product if the nature of the market allows a premium on product differentiation, and if its system of distinctive competencies allows it to put a product/service on the market with enough unique features, in design, quality, support, and availability to make the customers want to pay a premium price. A company is a cost leader if it has a system of distinctive competencies that allows it to make a commodity-type product/service available at a cost consistently at the lower end of the industry cost curve.

Step 2: Addressing the Devil's Advocate Question. Next, the facilitator poses the devil's advocate question: What are the unique factors that allow this company to exploit this competitive advantage, and why are others unable to emulate it? The purpose of discussing this question is to force the managers to rethink their mental model to search for evidence of the underlying system, not stopping at superficial symptoms at the event level. The question to be asked at this point is not, What we are good at? but instead, What do we have that nobody else has, or can easily copy? A company can be a differentiator in the market only if it has competencies that nobody else has or can quickly imitate. Initial ideas on elements of uniqueness are recorded on a flip chart as well, as preparation for the following stages of the process.

Step 3: Developing Cause and Effect. The facilitator now starts the development of the first prototype business idea diagram. As this is an iterative approach, the most flexible recording medium available should be used. The facilitator begins the development of the influence diagram by recording the agreed competitive advantage. He or she then draws an arrow to an element called "profitability," and from there another arrow points to an element called "investment." An arrow from A to B means: A is a cause of B.

The team has started to discuss the sources of the agreed competitive advantage by addressing the devil's advocate question. The facilitator next invites the group to specify the characteristics of the company that generate the competitive advantage. These are recorded, and arrows are drawn from the sources to the competitive advantage recorded.

The facilitator next asks, "What causes these sources of competitive advantage to exist, and how are they sustained." The "what are the causes of the causes" question is repeated until a connection can be made with the item "investment," which is already on the board. Elements may be sustained by investments, either in capital expenditure or operating expenditure. For example, an R&D capability may be maintained by expenditure; personnel loyalty may require generous rewards; or customer loyalty may be bought by a "low everyday price" policy. In such cases, the facilitator will complete the diagram by drawing an arrow from the "investment" box already entered to the element under consideration. All expenditure made to buy a long-term hard or soft asset is considered an investment.

Step 4: Completion of the Diagram. At this point the diagram will contain a number of loose ends, elements for which no sources are shown. This may be due to a number of reasons, two of which are:

- The element may be due to investments, sunk or otherwise, made in the past, the fruits of which are enjoyed by the current organization. In relation to these elements, no further entries on the diagram are required, as the explanation resides in the past only.

- In some cases, the organizational success may be related to the leadership by an individual. If the organization is strongly identified with this individual, such as in the case of an owner/manager, then no further explanatory entries are required.

In all other cases, questioning should continue until all elements in the diagram are explained and connected by arrows.

Step 5: Identifying the Distinctive Competencies. When loose ends have been tied up, the facilitator needs to complete one more task in this team session. This is to identify the distinctive competencies in the diagram. Referring to the devil's advocate question again the facilitator asks the managers to identify the elements in the diagram that are:

- Unique to the company, and by which it distinguishes itself from its competitors.
- Impossible or difficult to emulate by existing or new competitors.

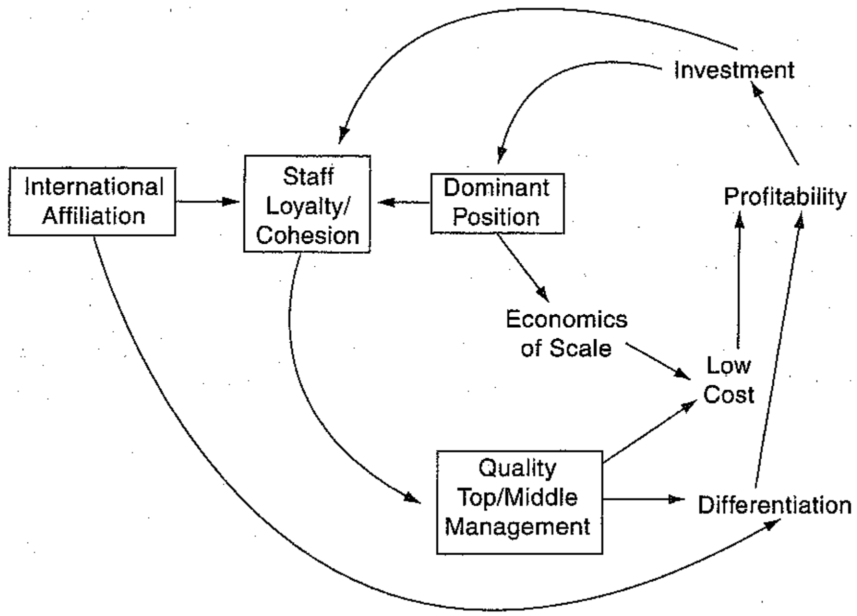
Five categories of distinctive competencies can be distinguished, and the facilitator needs to take the team through this list, making sure that suggestions by the team fit in one of these categories:

1. Activity-specific assets.
2. Legal protection.
3. Reputation and trust.
4. Embedded processes.
5. Networked team knowledge.

Step 6: Cleaning Up. The first part of the team session is now completed. The flip charts with the SWOT analysis will be displayed again during the next session. The first draft business idea diagram will need to be cleaned up and redrawn in an orderly way.

During the meeting break, the facilitator should, if at all possible, reduce the number of elements in the business idea diagram to its essentials. Very often, a rather complex idea can be reduced by combining elements or by replacing them with other concepts that evaluate the situation from a higher conceptual perspective. For example, the diagram might be simplified without losing anything essential (see Exhibit 19.3).

Exhibit 19.3
Reducing the Business Idea to Its Essentials



In this example, the essence of the strategic thrust has now been condensed to three elements:

- Investment in people to retain status of most attractive employer and to achieve "best in class" management.
- Maintaining a dominant market position by continuous investment, to retain a cost leadership position and to support status as most attractive employer.
- Using international affiliation as a source of differentiation in the market, and to support status as most attractive employer.

Step 7: Review of the Business Idea. After reconvening, the management team needs to consider the total picture by testing the results obtained so far. The first test is against the strengths and weaknesses developed in the SWOT analysis. This gives rise to the following questions:

- Have all strengths been reflected in the diagram?
- Can the business idea overcome any structural weaknesses identified?

A useful trigger question to open this part of the discussion is: If we, as a management team, swapped places with that of our best competitor, what would we do to eliminate the competitive advantage of the company we now belong to? In the final analysis, it is the distinctiveness that determines the quality of the business idea.

Step 8: Strategic Repercussions. The vulnerability analysis so far has looked at the business idea against the current situation. Can the result serve as a powerful leading principle for the future as well? In order to consider this, the management team confronts the business idea developed so far with the opportunities and threats identified in the SWOT analysis.

- Does it constitute a strong basis from which to exploit the opportunities?
- What would happen if the threats identified were to become reality?

THE FIT BETWEEN THE BUSINESS IDEA AND THE SCENARIOS

A fully defined business idea first describes the critical success factors in one scenario, the present. The next step is to construct a set of scenarios by identifying the two or three preeminent driving forces of an organization's macroenvironment that are relevant to its business idea, and then by selecting the ones that are most uncertain.

Eventually, after scenarios have been developed and the business idea tested in them, the team should prepare several qualitative strategic objectives. These can take two forms:

- If the existing business idea is seen as a good basis for future business development, objectives will be formulated in terms of existing business areas to be further developed or new business areas to be entered where the business idea can be exploited. The strategy will likely focus on doing more with what the company already has.

- If the existing business idea needs development, objectives will be formulated in terms of building new unique capabilities and competencies, to be created in the company by the leveraging of existing distinctive competencies.

This process is the sort of entrepreneurial thinking that every team can do only for itself. What will be achieved at the end of it is that the team's current success formula will become clarified and tested against scenarios of the future business environment.

Once the business idea has been tested and found viable in a range of possible futures, it becomes the basis of the strategic direction that will be taken. The rest of the strategic management process can then be focused; priorities become clear.

CONCLUSION

Strategy is the art of making choices—investing both for current and future success. To understand these choices clearly, organizations should identify a business idea and test it in substantially different scenarios. This process can help an organization develop a business idea that will serve it well as the future evolves.