



The last three months have seen a number of developments at SAMI.

We have linked up with PPS plc, a provider of professional services to the public sector. PPS specialise in government markets, with a particular focus on outsourcing in local government. They welcome SAMI's expertise in strategy, as for instance seen in the 'Surrey in 2020' project – this project will be featured

Executive Board Director and shareholder of a software development company in the City of London, supplying bespoke IT systems and consultancy to major financial organisations, Jon brings his knowledge of City markets to bear on SAMI's portfolio of consultancy services. He is a Liveryman of the Worshipful Company of Information Technologists and of the City of London.

SAMI Fellow Professor Ian Jones has become Research Director of the Heriot-Watt University DBA in Strategic Focus.

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From the CEO

in the next issue of VECTOR and in local government publications.

Jon Soar has joined SAMI as Associate Director. For 14 years an

The financial services industry has rather a reputation for lack of foresight. With some notable exceptions companies have tended to react to changes in their environment as they occur rather than planning for them. But SAMI

- **Come Together**, featuring a highly regulated market, a tightly controlled social and business environment, and increased consumer confidence in the industry; and...

health insurance, driven by cost-savings and efficiencies, demands that reinsurers focus on highly effective financial solutions rather than the value-added services-based propositions familiar in the past.

Reshaping reinsurance

conducted a scenarios project for the life and health division of a leading international reinsurer, looking ten years hence to enable its client to understand how changes in risk, business conditions, its target market and consumer behaviour might affect its business.

The project team devised three scenarios:

- **Anarchy in the UK**, in which there is widespread European harmonisation and a major re-shaping of the financial services industry; there is freedom to innovate, and the Internet facilitates disintermediation, giving reinsurers access to the consumer market;

- **Road to Nowhere**, in which political and business short-termism creates an unstable environment that benefits neither the financial services industry nor its customers.

As a result, developments such as rapid market consolidation, tighter regulatory control, decreased availability of personal medical information and the re-ordering of the hierarchy of risk factors (for example obesity, alcohol consumption and drug use) have yielded few surprises. The reinsurer was able to redefine its value proposition and deal effectively with the new needs of its now bigger, more powerful clients. Today's tough business climate of life and

There were important subsidiary benefits of the scenario project too. It forced the company to think

beyond its traditional horizons, not just longitudinally into the future but laterally into the wider environment. It also encouraged the forging of links and regular dialogue with a new network of business, political and other contacts well outside financial services.

And of course, it has been instructive that, whilst scenarios help understand how the world will look in the longer term, the changes that lead to that new world usually start to occur rather sooner.

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VECTOR

FROM SAMI CONSULTING

What is Foresight?

The EC uses the term Foresight to include the methods and tools which help organisations – countries, regions, industries, organisations and even the EU itself – look forward. Foresight allows the development of future scenarios where systemic policies can be simulated, investment and strategic junctions can be identified and milestones be anticipated.



The Berlaymont EC Building, Brussels

on. Almost every country has undertaken one or more Foresight exercises over the past five to ten years. The EU dimension adds value. There are so many

have reached different stages in their use of Foresight. Greece, for example, started its first programme in 2003, while Germany has begun translating results into policy actions. Methods are different too, adapted to the national or regional needs – the UK has been a lead country in Foresight since the early 1990s,

and has recently announced a major step up in its investment in science and technology.

Sound decision-making based on a better understanding of the future is hugely important for all industries. That way firms can plan their R&D programmes and budget for the necessary investment. Foresight can be a key element of progress towards that better understanding, yet the Foresight framework does not have the wide awareness it deserves. The involvement of experts who can forge the link between business and the EC is vital to increasing access to this rich well of knowledge and thus helping companies improve their performance. So we welcome publications like VECTOR, bringing these methods to a wider public.

Dr Paraskevas D. Caracostas heads a team in Brussels charged with



promoting Foresight co-operation between EU member states and regions, and helping to feed the

knowledge gained into EU research policy.

Dr Caracostas can be reached on Paraskevas-Dimit.Caracostas@cec.eu.int

The role of Foresight

Foresight is important because it allows policy makers to think out of the box and to look at impacts of potential policies in possible future situations. It provides a framework for involving new geometries of actors who don't usually collaborate, considering a wider perspective than just one technology or one issue, and bringing a new flavour to discussion.

Role in the EC

The EC has used Foresight over the past 25 years to identify emerging themes – for instance the information economy, biotechnology and the increasing link between science and technology and the evolution of society. Most recently, this link has been seen to be a vital part of economic growth.

For the EU as a whole, Foresight is a success story the EC is building

challenges common to all countries, in areas such as sustainable development, transport systems, health and so on. Economies are so interconnected; no national or regional system is isolated any longer. In accord with the Commission's principle of subsidiarity, regions have found Foresight increasingly useful for writing regional plans. The Science and Technology Foresight Unit works with many regions in all member states – from the original to the newest – to encourage emerging skills in Foresight to develop for strategic planning.

Foresight is all about networking and looking beyond the box and traditional boundaries, so it is easy to see the logic of encouraging closer links between Foresight programmes – which operate invariably at regional or national level. Achieving these links is a challenge, as different countries



Good scenarios offer a number of realistic but different views of the long-term future. If the scope of the scenarios covers the full range of conditions relevant to the organisation's major decisions, the methodology is probably the best available for preparing for the future. Too often, however, having several possible, but distinctly different views of the future seems of dubious relevance to managers consumed by day-to-day and quarterly deadlines. They crave 'likely' forecasts, and don't like having to 'waste' time learning to prepare for a number of business environments that can't all come true. But scenario planning benefits from the input of

emerging are first seen as peripheral issues in the marketplace. Even early signs of important changes in customer attitudes and buying patterns are often difficult to notice, and can easily be ignored, as in "Well, it was a wet summer".

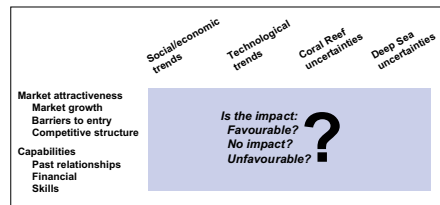
Good scenarios are insurance that line managers' default assumptions will be identified and modified to fit changing conditions. Line managers make many crucial decisions on the spur of the moment, and they rightly use their accumulated experience and instincts in doing so. But what if there have been significant changes in the business or political environment that render their instinctive response inappropriate?

Fig 1: Portfolio management — MA/C matrix

Market attractiveness	High	Double or quits	Try harder	Leader Business 1
	Medium	Phased withdrawal Business 3	Proceed with care	Growth
	Low	Withdraw	Phased withdrawal Business 2	Generate cash
		Weak	Medium	Strong
		Capabilities		

Each of the three businesses was then analysed under each scenario, using a process of questioning under the factors making up the scenarios, as in figure 2:

Fig 2: Effect of scenarios on MA/C



Now the MA/C matrix implied different actions for each business – compare figure 3 with figure 1.

Fig 3: Portfolio management — MA/C matrix

Market attractiveness	High	B1 under Coral Reef		B1 under Deep Sea (Business 1)
	Medium	B3 under Coral Reef (Business 3)		B2 under both scenarios
	Low		B3 under Deep Sea (Business 2)	
		Weak	Medium	Strong
		Capabilities		

Business 1 was the supplier of IT to the UK government. It became less able to compete under the Coral Reef scenario as government opened up the list of suppliers and looked for new innovators. Internal capabilities needed to be developed for Business 1 to stay viable.

Business 2 was ICL's third-party customer service business, slated for disposal. It became attractive under both scenarios, with outsourcing under Deep Sea and new entrants needing a service network under Coral Reef.

Scenarios for line managers

operating managers and they in turn learn a great deal from being exposed to scenarios.

This happens in two ways. Many key decisions in organisations are made at the operational level, with default assumptions based on corporate culture and the experience of the individual. When line managers experience how it would be to conduct their day-to-day operations in scenarios that are different from 'business as usual' they often reveal and then confront their assumptions.

In addition, by virtue of their exposure to customers and competitors, line managers often pick up the subtle signals that are the first alert of significant changes to an organisation's operating environment. By exposing them to various alternative scenarios, organisations can reduce the risk of ignoring the small environmental changes that are the advance warning for major discontinuities.

Capturing multiple images of the future that together encompass the critical uncertainties is one of two key goals of scenario developers. The other goal is to convince managers at all levels to consider seriously the strategic and tactical implications of each scenario.

However, professional scenario developers are seldom totally successful in connecting with line managers, who see their role as ensuring day-to-day delivery of a product or service. This is a problem because many early warning signs of new scenarios

Two scenarios for the IT industry

ICL, an information technology corporation that is now part of the Fujitsu Group, wanted a better understanding of the future of the IT industry in order to develop its strategy. It decided to use scenarios to look at a ten-year horizon, chosen to avoid conflict with defensive behaviour from managers who had five-year strategic plans. ICL developed two scenarios – 'Coral Reef' and 'Deep Sea'.

In the Coral Reef world, IT is a force for innovation in society. IT is talked about and colourful characters and start-ups are visible to the public. The name Coral Reef refers to the metaphor of a reef that is filled with colourful fish and marine life, but where a person with land-based instincts will have to relearn the rules of survival. In this scenario the IT industry plays by rules that differ from those operating managers have previously encountered and expect.

In the Deep Sea scenario, in which IT is largely invisible, as are the creatures of the ocean depths, IT is essential to society, a small set of IT suppliers dominates the industry, and customers select suppliers based on which are 'big enough to sue'.

Scenarios informing decisions

One way in which scenarios were applied to ICL's business was using the market attractiveness/capabilities matrix, which provides diagnostics on business development actions. Figure 1 shows the 'now' positioning of three of ICL's businesses.

Business 3 was ICL's manufacturing software business, also due for disposal under historic criteria. It would be operated in a less attractive market under Deep Sea, due to the encroachment of software suites, including manufacturing software, but was more aligned to ICL's projected competences. Business 3 was still, however, not a suitable candidate for investment.

In another example of scenarios informing decisions, ICL's contract manufacturing unit's business plan was about to be provided to potential purchasers as ICL considered its disposal. The unit's strengths were significant and it was already supplying a number of external customers. When the results of some of the scenario analysis was brought to the attention of the management team, they quickly recognised that their assumptions about the market were aligned with Coral Reef, and assumed strong demand in consumer markets. The unit's strengths however were in professional IT supply with larger batches and longer lead times, aligned with a Deep Sea scenario. Their business plan needed to be rethought before the unit discussed it with potential new owners.

Pattern recognition

The client managers in ICL, like the manufacturing unit management team, all believed that IT was exciting and benefited the customer – a Coral Reef view. However, after several discussions with client managers and customers, it became clear that many customers had a Deep Sea view of IT. This meant that many of ICL's sales campaigns were based on a false premise – that ICL's customers shared ICL's enthusiasm for the potential benefits of IT. On realising this, client managers started to use the scenario language to describe customers' attitudes to IT and the sales collateral was revised.

Examples of early indicators that line managers should be asked to monitor are external events in their environment, for example, significant behaviour changes in:

- Customers
- Suppliers
- Competition
- Mergers, acquisitions, divestments
- Political or economic changes
- The attitudes of other stakeholders.

Market and skills planning

Single-day workshops prove very effective at helping units explore their market assumptions. But it was found to be essential, early in the day, to involve the participants in the scenario worlds by working out how their business – and that of their competitors – would fare under each scenario.

ICL also found there were one or two people who were absolutely clear at the beginning of the workshop that they knew what the future was, and therefore found the scenarios unacceptable. This was addressed by stressing the confirming evidence for both scenarios in current trends, helping people understand that the future was likely to be as confusing as the present and that it was a question of creating shared understanding.

One workshop that involved the managers of the various consultancy practices had an immediate effect. This was to recognise that systems thinking was not just a future lack, but also a current need, and to start a training program with three key individuals.

Conclusions

Scenarios provide a process and mechanism for anticipating change, watching for early warning signs, and creating more robust plans. Senior managers need to understand how to apply scenarios across the organisation, generating options for the strategist, enabling choices for the corporate manager and improving the quality of decisions of line managers.

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