

Strategic Initiatives

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Discover.

Analyze.

Strategize.

Implement.

Measure.

Utilizing Scenario Planning in Strategy Development

Organic, Local and Sustainable Food as an Example

Wal-Mart is taking organic milk into the mass marketplace. A bright high school student, Philip Gant, chose Yale University over Harvard University partly because Yale serves sustainable food.¹ William Newhouse produces milk from his small dairy herd, and then pasteurizes, bottles, and markets it 40 miles from his farm in Kansas City to city residents who prefer to buy locally produced milk.² Sales of organic foods grew 16% in 2005 over the prior year while total food sales grew 5.5%.

What's going on here? The conventional food industry has provided consumers with an unparalleled diversity of products at historically low prices. Why are more consumers buying their food outside the conventional industry? Are these a few quirky examples from the fringes of our society, or are we witnessing a significant trend?

Recently, I was talking with the CEO of a dairy company. He's developing a strategy to capitalize on the higher margins available in the niche dairy products like organic milk; but, he also worries that competing products like rBST-free milk might cannibalize organic milk and erode the margins in organic dairy products. How big will these niches become? Will they grow at the expense of conventional milk or at the expense of other niche products? These are issues faced by all food companies – regardless of the specific industry sector.

The New Developments

The various developments are not one coherent movement. In fact, there are vigorous debates among the diverse groups. The participants within a specific movement argue among themselves, e.g., does organic milk have to be produced by cows that can eat grass at will in a pasture, or can they be fed in a more confined environment? →

¹ "More university students call for organic, 'sustainable' food," USA Today, September 27, 2006.

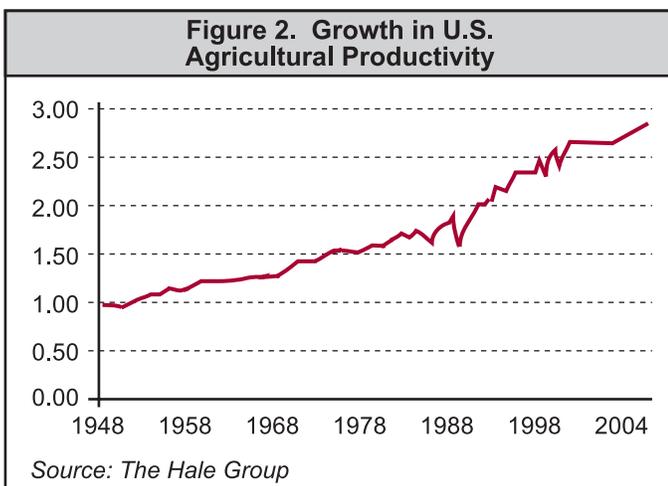
² "Pasture to plate, a fresh approach," The Kansas City Star, September 24, 2006.

Figure 1 provides The Hale Group's definition of various terms.

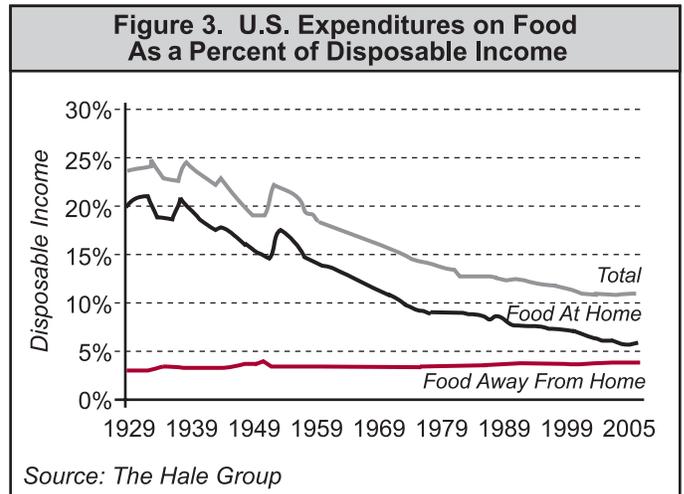


Drivers Behind the Impulse

What is driving the various “food movements” that have emerged? Improved agricultural efficiency has enabled, but not initiated, these developments. Figure 2 shows the relatively steady growth in productivity made by U.S. farmers from 1948 to 2004.



Improved agricultural productivity has led to lower food prices, permitting consumers to spend less of their disposable income on food, as shown in Figure 3.



During the last few decades, the upper middle class became more affluent. William Hale, Founder of The Hale Group, observed that this has led to a bifurcation of the U.S. food shopper. While the majority of Americans is still shopping for less expensive foods that represent good value, a growing segment of the U.S. population is willing to spend more money on food for a variety of lifestyle reasons.

What motivates people to spend more than they have to on food? Why do some consumers buy conventional food?

We categorize motivations by four major drivers:

Health Concerns

Some Americans are concerned that conventional food may not be as healthy as organic, natural, or hormone-free food. The rapid sales growth of these foods can partly be attributed to these concerns. The science underlying this debate is highly complex and ambiguous. Future science might yield results that push the weight of evidence more toward one side of the debate *versus* the other.

Local Buying

Some consumers have an ambivalence about the benefit in “bigness,” industrialization, and globalization. They have a love-hate relationship with the “big box” stores. They love their low prices, but dislike the potential impact on small, local businesses. The desire to support local communities and local busi-

nesses seems to be growing in some circles. This sentiment may be strengthened by a growing concern about globalization.

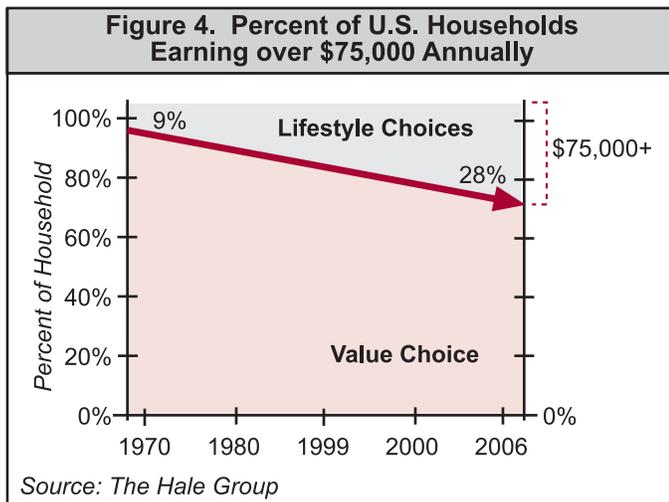
Food Variety

Some consumers choose to spend their disposable income to learn the nuances of unique foods and wines. They share their love of unique foods with others who also appreciate those values, and specialty foods become the focus of social events – not just a way to nourish the body. This force represents the growth of ethnic foods, the slow food movement, and the growth of other highly specialized foods.

Value Shopping

The vast majority of Americans like the conventional food system because it provides good food at very reasonable prices. This segment is still large and dominant. The question is whether it will continue its dominance or whether it will decline considerably over time.

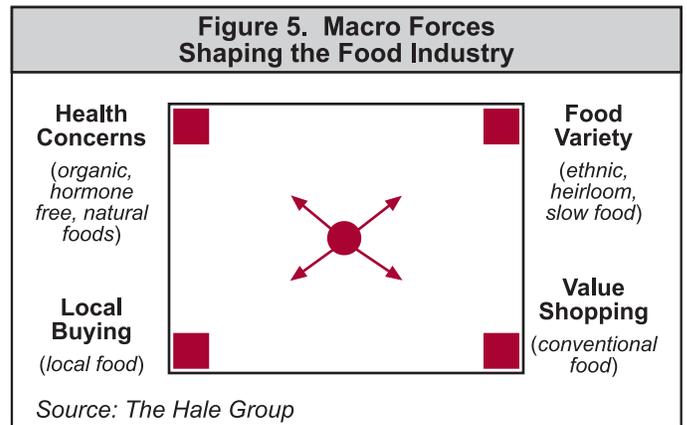
Figure 4 shows the growing number of households earning over \$75,000 (in constant 2003 dollars) from 1980 – 2006.



Envisioning the Future

How will these four forces play out in the foreseeable future? The fact is, no one knows for sure.

Figure 5 depicts these four forces at the corner of a rectangle engaging in a tug-of-war to determine the shape of the food industry. The center of the rectangle represents the equilibrium that currently exists among these four forces.



If one of the forces is weakened, the “center-of-gravity” will move closer toward the other forces. Conversely, if a force is strengthened, the circle moves toward that corner and farther away from the other three.

Let’s envision three possible scenarios for the future.

Scenario 1. Global Protectionism

The U.S. economy continues to grow at a modest, but healthy rate. The war on terror makes Americans wary of the rest of the world. Global trade negotiations are discontinued indefinitely. Americans turn inward and emphasize friends, family, and their local community. Prevailing opinion about a positive correlation between human health and organic food continues to grow.

Scenario 2. A Strained U.S. Economy

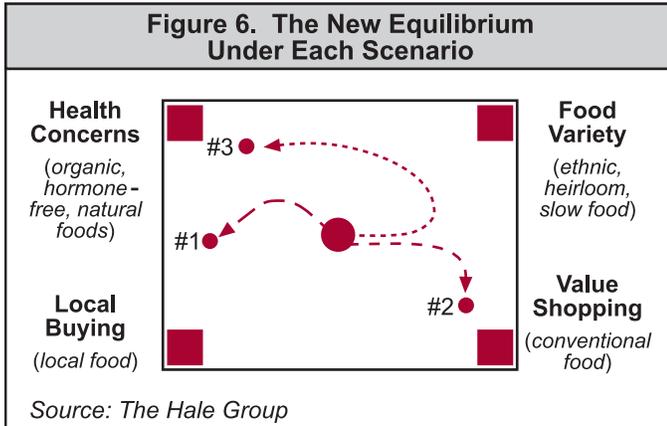
Military expenditures to fight global terrorism rise sharply. Crude oil prices move higher causing a ripple effect throughout the economy. Severe hurricanes and strange weather patterns cause disruptions to some sectors of the economy. Disposable income for all but the very wealthy declines sharply. Most consumers are forced to spend their money on the necessities. Therefore, the purchase of organic, local, or highly unusual foods assumes low priority for the indefinite future.

Scenario 3. A Strained Economy Followed by a Health-Conscious Society

Scenario 3 starts off like Scenario 2, but the world slowly, but surely, wins the battle with terrorism. The economy grows very slowly for several years, but then begins to boom after the defeat of terrorism is evident to all. With an aging population, society becomes even more sensitized to the value of →

good health. New scientific studies support the thesis that organic foods are healthier for us.

The shifting balance affecting “the equilibrium” of the four critical forces and its movement over time for each of the three scenarios is depicted in Figure 6.



Are these the only three possible scenarios? Of course not. All of us can visualize other plausible futures as well.

Strategy Implications

How does this impact a company’s strategy? Each company has to answer that question for itself. The place to start in developing or adjusting a business plan for the future is by asking the following four macro-questions:

- What alternative scenarios seem plausible?
- What are the major strategy implications of each plausible scenario?
- What changes should be made to minimize the threat of some scenarios and to capitalize on the opportunities of other scenarios?
- What indicators should be monitored to detect a shift in the major forces that affect a company?

By being prepared for alternative futures, strategic planning becomes more robust and will improve its likelihood of long-term success.

About The Hale Group

The Hale Group is a consulting and advisory partner assisting companies develop fact-based strategies to contend with an evolving landscape. The underlying philosophy of the firm’s efforts on behalf of its clients, and in collaboration with them, is to formulate strategies that enable clients to break through the market clutter and identify platforms for growth.

The Hale Group has developed proven processes and tools to help organizations gain perspective on the opportunities and challenges within an industry. The level of The Hale Group’s participation can take many forms from addressing the overall process or an individual part of the process. However, in whatever capacity we participate, the desired outcome is for our clients to be successful.

Our products and services include:

- Strategy
- Organizational Effectiveness
- Market Research
- Operating Efficiencies
- Opportunity Analysis
- Mergers & Acquisitions

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