
„Business Wargaming“

A New Approach to Strategy Development and Learning?

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ATKEARNEY

One thought to start off...

Impossibility Theorem

"One thing a person cannot do, no matter how rigorous his analysis or heroic his imagination, is to draw up a list of things that would never occur to him."

Thomas Schelling

Over the last months, we saw massive and little anticipated changes in the business environment!

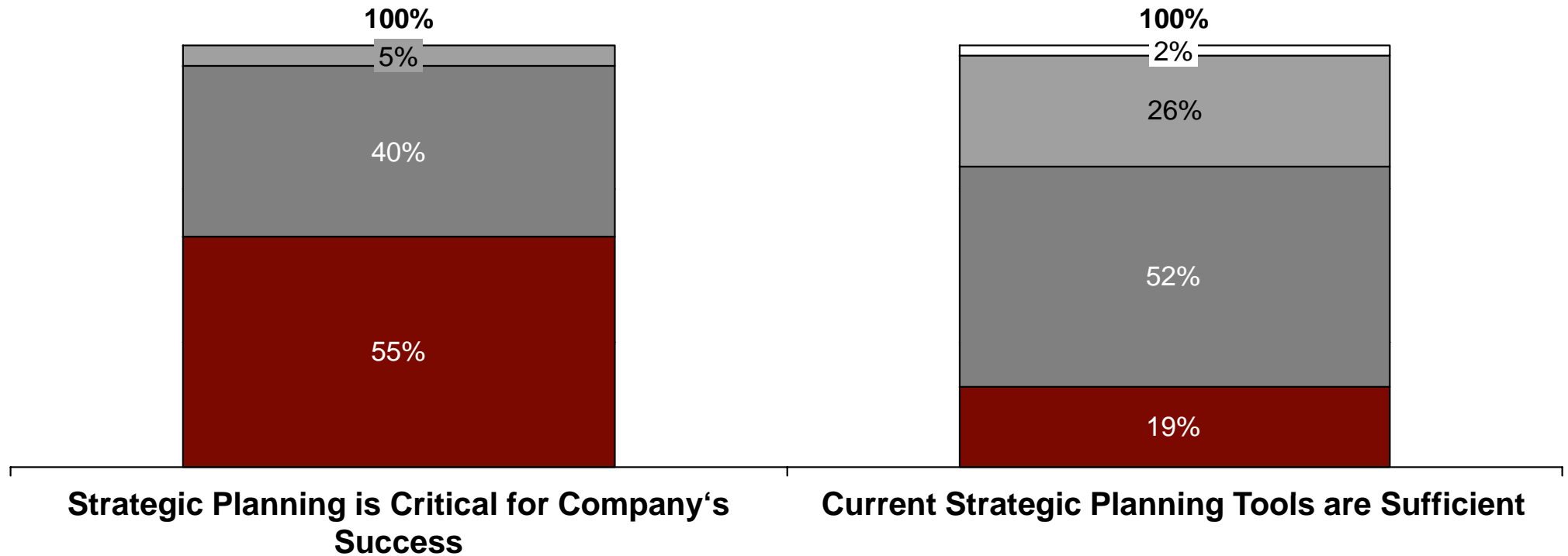
Selection of Symptoms

- Major shifts in the banking, insurance and pension-plan landscape
- Increasing national debts and influence
- Liquidity constraints paired with higher risk premiums
- Roller-coasting raw material prices
- Capital expenditures are either moved back or cancelled all together
- Smaller budgets and degrees of freedom
- General insecurity – consumption is on the decline
- Recession in several economies – increasing unemployment

Higher factor volatility + unexpected events → Higher Insecurity

While most companies see the value of strategic planning, 28% consider the current tools as insufficient.

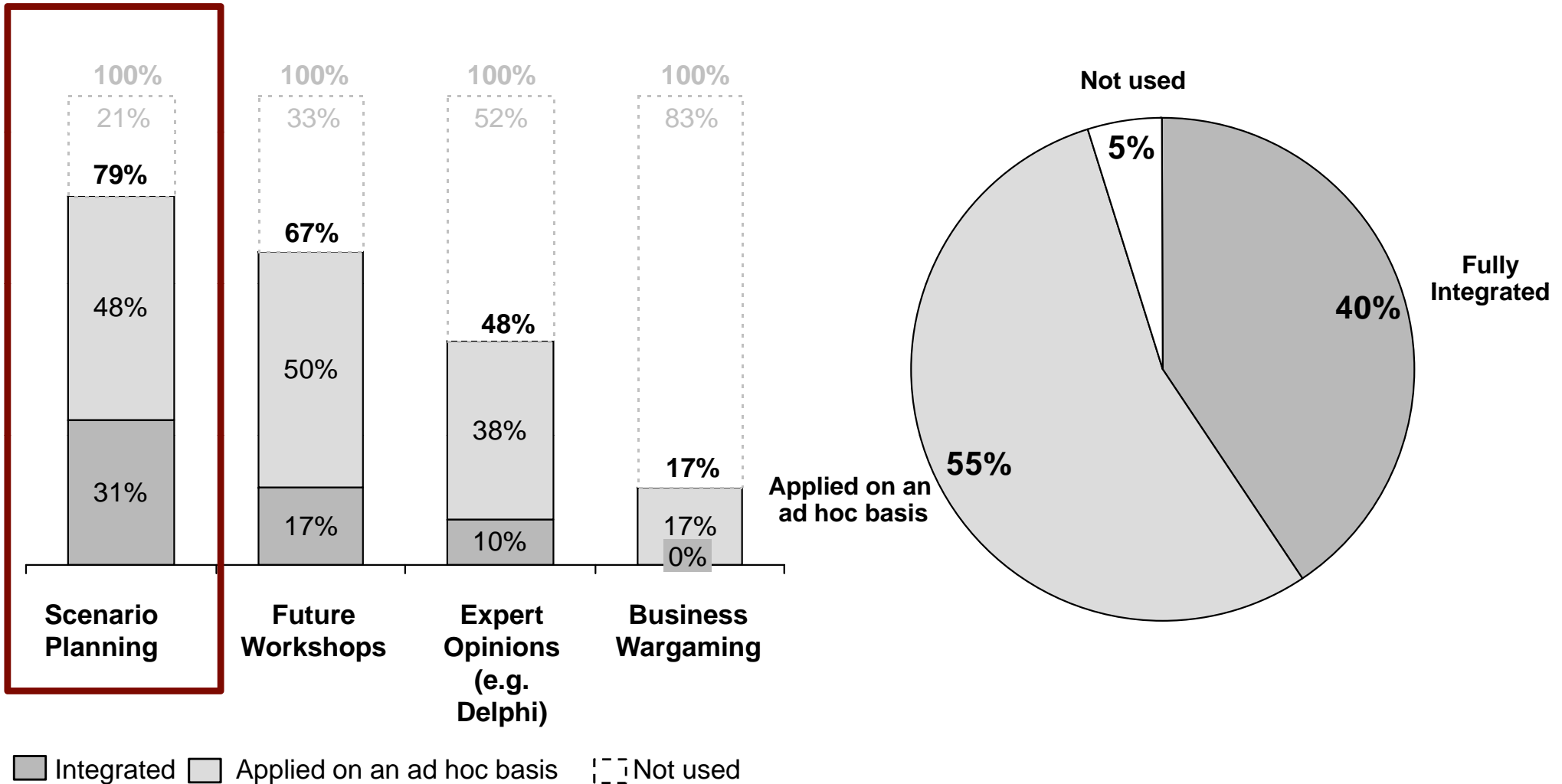
Assessment of relevance and efficiency of strategic planning (in %)



Do not agree
 Do less agree
 Do agree
 Fully agree

40% of companies integrate future-focused methodologies into their strategic planning process.

Integration of future-focused methodologies



But even when using scenarios, some major deficits still remain.

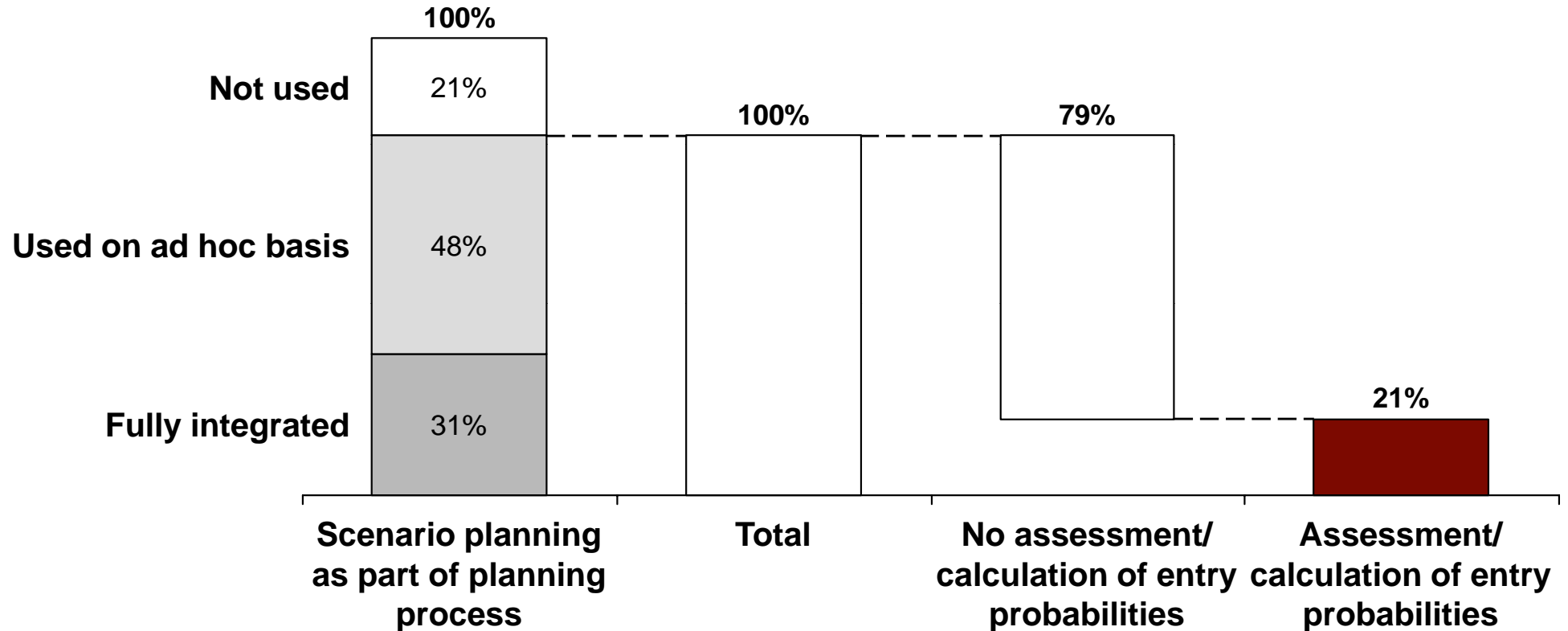
	Advantages	Shortfalls
Classic Analysis	<ul style="list-style-type: none"> • Helps understand past trends and developments • Helps reach assumptions about the future based on the past(Extrapolation) 	<ul style="list-style-type: none"> • The data lies in the past and do not offer insights into the future • Disruptive changes (e.g. new business models) can not be captured
Scenario Planning	<ul style="list-style-type: none"> • Helps to think in alternatives and assign them probabilities • Helps to develop a comprehensive and interlinked strategy 	<ul style="list-style-type: none"> • Scenarios are rational and safe expansions of the past • Scenarios are „black and white” – the reality includes many gray tones • Scenarios are biased by the people, who develop them

Deficits

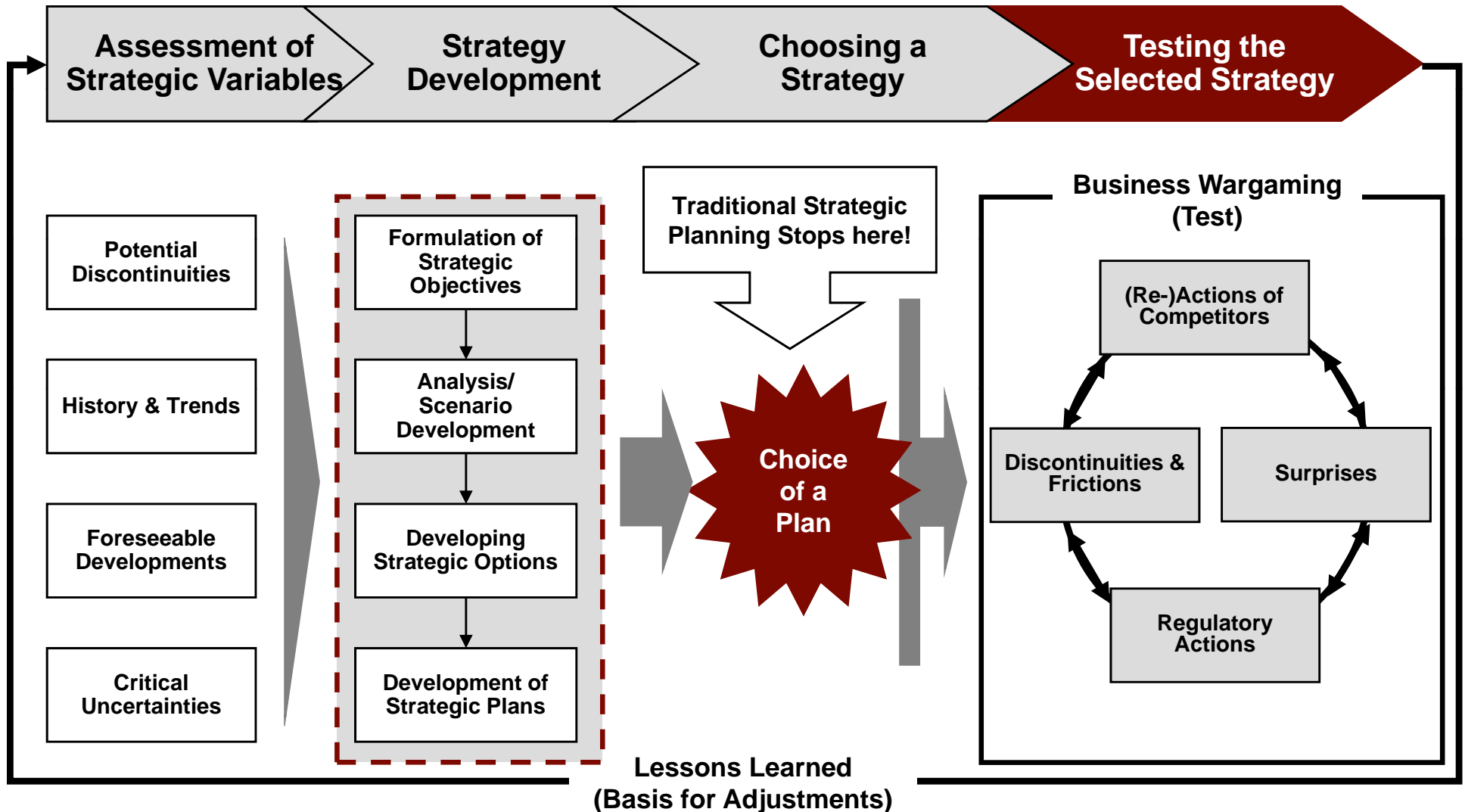
- **Lack of future-orientation**
- **Confined by the boundaries of the scenarios**
- **Limited contingency planning in the case of abrupt or disruptive changes**
- **Lack of buy in and support of management (only limited involvement during development)**

Let aside that many companies do not use the full potential of working with scenarios.

Use of Entry Probabilities (in %)



Business Wargaming leverages traditional strategic planning process by adding one important step.

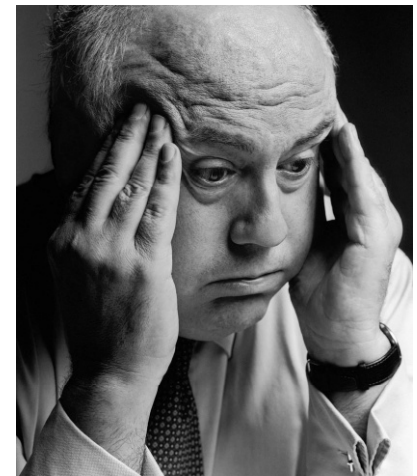


Business Wargaming – also called dynamic strategy simulations – originated in the military



Why Business Wargaming?

- Better understand the forces at work in the marketplace and how they affect the business
- Provide top managers with experience competitors lack
- Gain the buy-in from top managers to act on this understanding and experience
 - Buy-in comes from confidence in assumptions and potential outcomes
 - Confidence comes from looking forward and responding to the potential discontinuities and surprises a company might face in the future marketplace



Basic assumption is that the old rules don't apply any more



Hey they're lighting their arrows! Can they *do* that?

© 1997 Gary Larson

Business Wargaming allows to anticipate the dynamics in the corporate environment and to prepare accordingly...

Business Wargaming is not ...

- A business school game with a finite number of lessons to be learned
- A computer simulation with answers built into the system
- An off-the-shelf product, which is modified for each client and sold over and over again

Business Wargaming ...

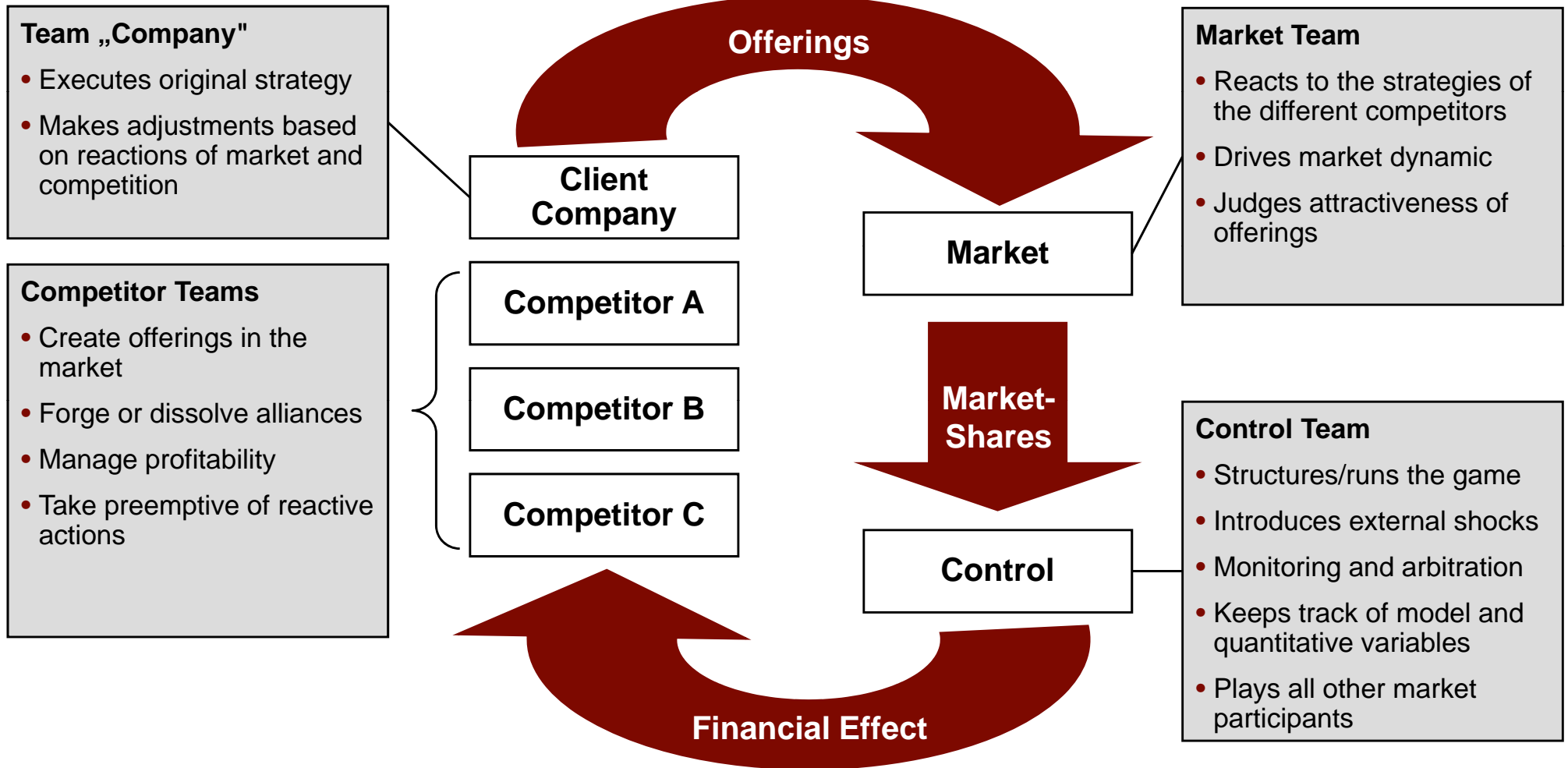
- Starts on a blank sheet of paper
- Is designed for each client anew
- Answers specific questions
- Combines human decision making with quantitative measures
- Allows managers to test strategies in a dynamic environment and see what happens
- Saves time, money and grief as it allows to prepare for the “unforeseen”

Wargaming is a powerful, risk-free process for thinking about the future

- Players are likely to detect weaknesses or gaps in their own strategy
- New insights are derived concerning already known and not totally assessed issues
- Players understand possible competitor (re-)actions
- Players can prepare for unexpected events
- Players think creative about the future
- Players gain trust into the strategic plan
- Players Reduce risk
- Include management buy-in for future strategic plans

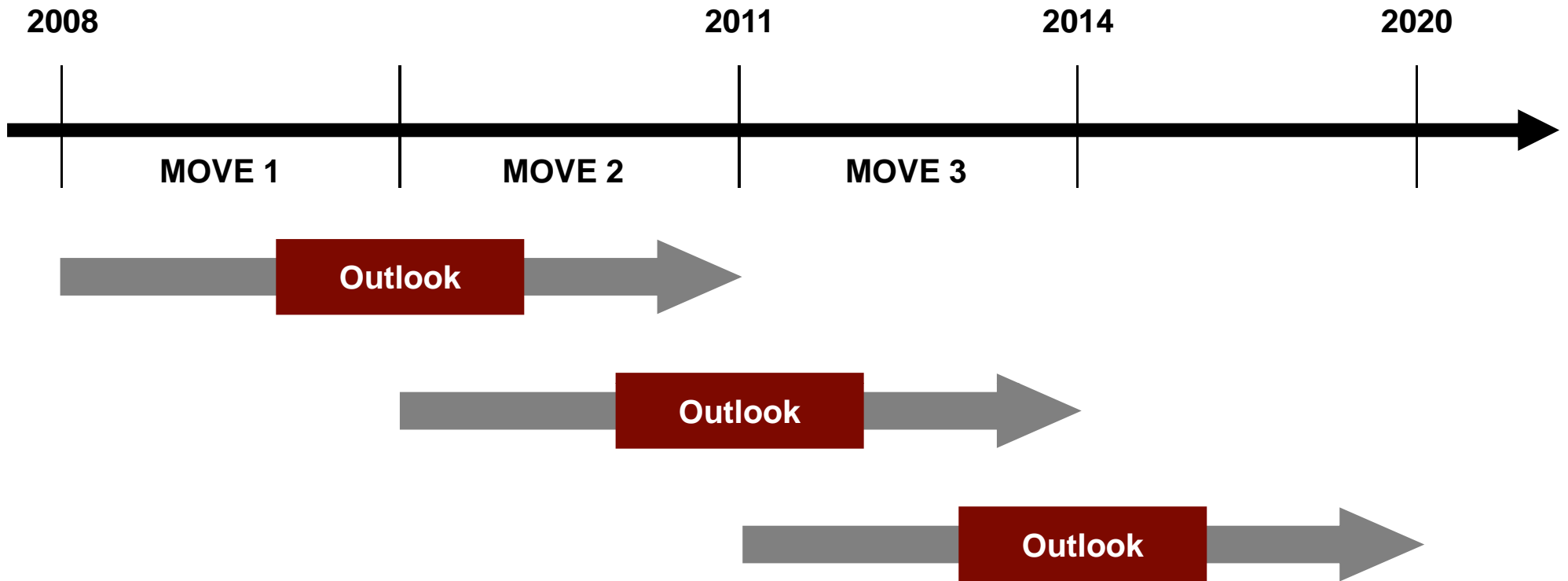
During a Wargame, managers take the role of their firm, their competitors, their customers and even the regulator.

Illustrative



**Wargames are typically played out over 3 "Moves",
simulating a certain period in time.**

Illustrative



Typical questions that you can address using a wargaming approach:

- **Industry Consolidation** – No attractive partner left? What can I do?
 - Examples: Media, Telco, Automotive, Airlines
- **Changes of Business Model** – Loss of control over my market?
 - Examples: Pharma, PCs, Mobile Phones, Market Liberalization
- **How can I win?**
 - Examples: Technology Jumps, Product Introductions, Market Liberalization
- **How well am I prepared?**
 - Examples: Different Events, (Financial-) Crisis Planning
- **How do I make money in a commodity business?**
 - Examples: Music distribution, Automotive, PCs, Mobile Phones, Energy, Chemicals
- **How much is really necessary?**
 - Examples: Weapon Systems, Star Wars/SDI
- **Where is the next threat coming from?**
 - Example: Low-Cost Competitors, Global Shifts in Power, Terrorism

Business Wargaming can be applied for several different purposes and at different levels

- Testing strategies (Corporate, Business Unit, M&A)
- Crisis preparation
- Developing foresight
- Change Management
- Education and Recruiting
- Other possible fields are:
 - Reputation management (Corporate/National)
 - Strategic Early Warning Systems
 - Innovation-impulses (primarily on the product-level)

Case Examples

Changing Market Conditions



Several Major Airlines

<p>Key questions</p>	<ul style="list-style-type: none"> • How strong can an airline be outside the major alliances? • What is the value of any secondary carrier? Can a secondary carrier operate without integration into a major alliance system? • How much control are you willing to give up in order to gain access to the routes and landing slots which are critical for your survival? • Where are conditions taking the airline industry? Is the “hub and spoke” system the future, or will some other business model emerge?
<p>Key Learnings</p>	<ul style="list-style-type: none"> • The business model for air travel has fundamentally changed <ul style="list-style-type: none"> • Past – national airlines have been in partnership with national governments • Today – cheap air travel is a basic fight; the public asks for low priced, reliable services and frequent connections to major hubs • An existence outside powerful alliances is difficult • There is no apparent solution to combine of customers demand for low-priced air travel with the ambition to remain as an independent national carrier • No other routes have more travelers, more growth and profit than the transatlantic routes • The control of the home market depends primarily on the ability to feed enough passengers to the north Atlantic routes

Market launch new technology



Large European mobile operator

<p>Key questions</p>	<ul style="list-style-type: none"> • What are the opportunities in mobile data? • What are the success factors for a successful positioning and how can this position be defended?
<p>Key Learnings</p>	<ul style="list-style-type: none"> • It is not so much about technology, but rather what technology allows you to do • The handset is a key success factor • Less is more. Rather the right features as everything in one device. The market is limited in its capacity to absorb new features • There was no “killer-application” like SMS for 3G mobile • The right combination of hardware, software, and access to content will bring success • Content partnerships are very important • Mobile network operators are at a danger of becoming pure commodity providers • A simplification of the price structure was urgently needed (flat rate model)
<p>Results</p>	<ul style="list-style-type: none"> • The company had a solid strategy for the consumer segment, while the potential in the business segment was underestimated and not sufficiently addressed • The company addressed the threat though commoditization by executing targeted content and portal strategies

Key Account Management



Fast Moving Consumer Goods Company (White-Label)

Key Questions	<ul style="list-style-type: none"> • What are the key success factors to break into new key accounts? • How do I defend my position vs. aggressive competitors? • How can I reach sustained product leadership by integrating suppliers and customers in my innovation process?
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Key Learnings	<ul style="list-style-type: none"> • Success goes beyond the development and production of goods. • Competence and advice in category management are important differentiators, which help to establish entry barriers. • Other services such as labeling, legal clearance, logistics etc. are part of the value equation • Integrated innovation processes help secure long-term product leadership. • The LOHAs movement is an important driver in the market going forward. <p>Special Point:</p> <ul style="list-style-type: none"> • A relatively young „Account Team“ had to compete against its predecessors, which had penetrated the account originally and since all have been promoted. They now played a formidable and experienced adversary trying to win the account back.
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Development of the Portable Audio Market



Recruiting Game at top business schools (The CEO Challenge)

Key Questions	<ul style="list-style-type: none"> • How will the market for portable audio devices develop? • Can Apple defend, expand it's dominant market position? • What will the devices of the future look like?
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Key Learnings	<ul style="list-style-type: none"> • Apple will be able to successfully and profitably defend its position. • The biggest threat for Apple is not coming from portable audio device manufacturers, but mobile phone manufacturers. • Trend towards simple user interfaces (software GUI instead of many buttons) • Trend towards hybrid devices (phone and audio players) → Prediction of iPhone • Believed-to-be-dead brands will be reactivated; e.g. Sony Ericsson with the new-old "Walkman" logo • The right combination of hardware, software, and access to content will bring success
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What happens at a CEO Challenge?

- 30 students, from top business schools – come together to participate in a unique three day event
- They receive a crash course in strategy development and business wargaming, the industry to be simulated as well the specifics of the simulation
- The participants are broken into 5-6 smaller teams and they are lead by a team of 5-6 staff
- In these teams they create a vision and strategy for real companies reacting to ever changing market conditions or simulate the market
- Students also have the opportunity to interact with staff in casual settings

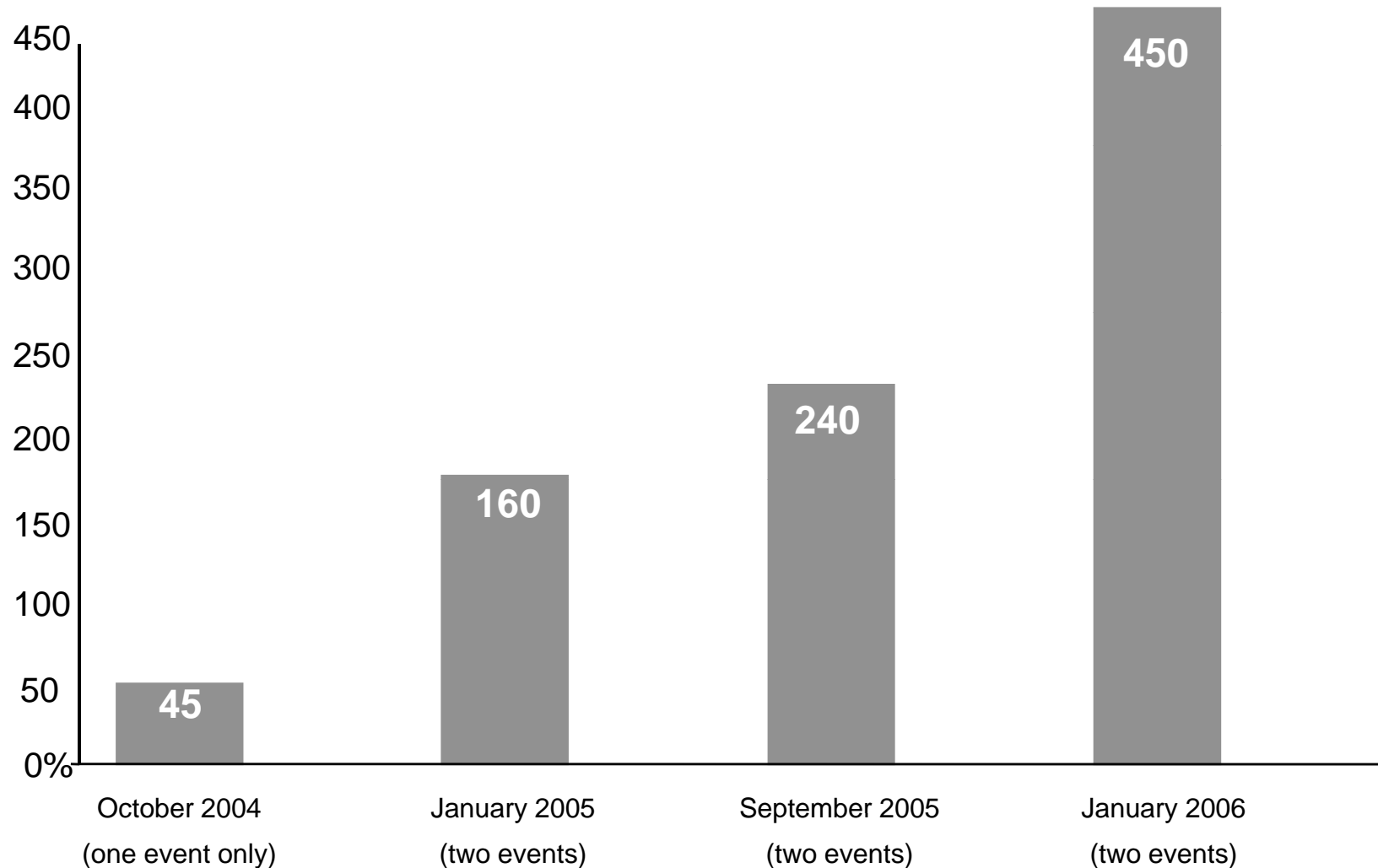


pictures from various events



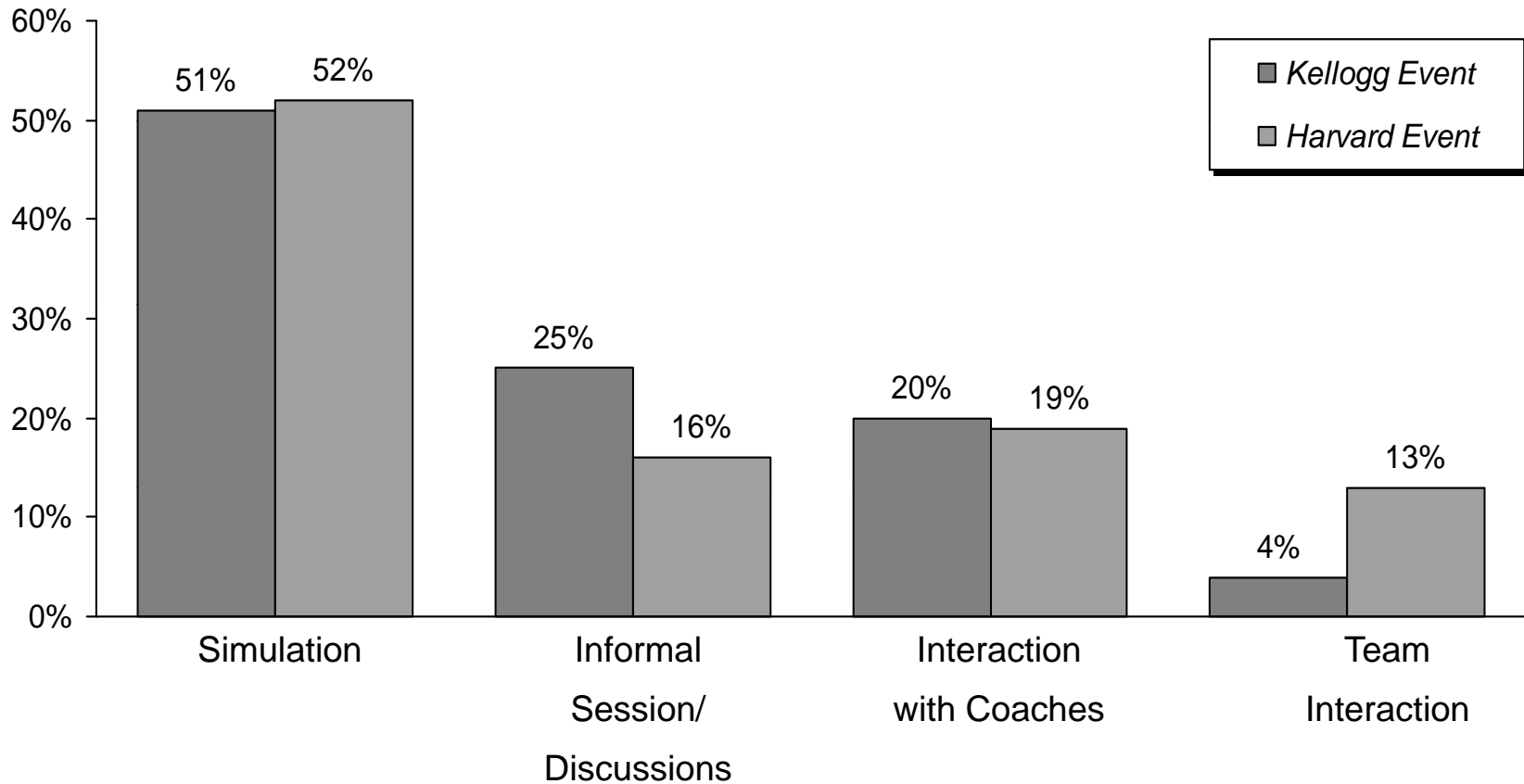
Applications have risen sharply since the first event

Number of applicants



The major learning for participants came from the simulation itself

Which activity helped you best understand what a consultant does?



Source: Participant Survey

All participants agree that the CEO challenge is a truly unique event

Selection from all events

Testimonials
<ul style="list-style-type: none"> ▶ “Fantastic - it really was an unforgettable experience.” ▶ “One of its kind” ▶ “The methodology is as close to real life as it gets” ▶ “It is very unique - especially in terms of exclusivity” ▶ “More creative and informational. A genius idea really”

Testimonials
<ul style="list-style-type: none"> ▶ “This is definitely unique.” ▶ “Very Unique. I have never even heard of an event like this. Very cool” ▶ “Very original - way to lead the pack!” ▶ “No other company has a similar event. Most of them are competitive.” ▶ “I haven’t seen wargaming before, so it is a unique and cool proposition. This is much better than a case study” ▶ “Awesome! Nobody else does anything like this.”

Source: Participant Survey

Feedback of participants

Selection

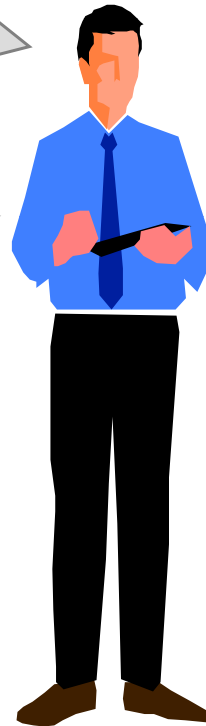
"We looked at us and the industry through the eyes of our competitors and the marketplace. The world was really different and we began to understand why they sometimes didn't do what we thought they might do."

"I have never understood why they never acted the way as we thought they would."

"We are now making our decisions quicker, better coordinated and a whole lot smarter".

"We were shocked... We learned a lot."

"One sale - which would have been lost previously - played for this simulation." (CEO)



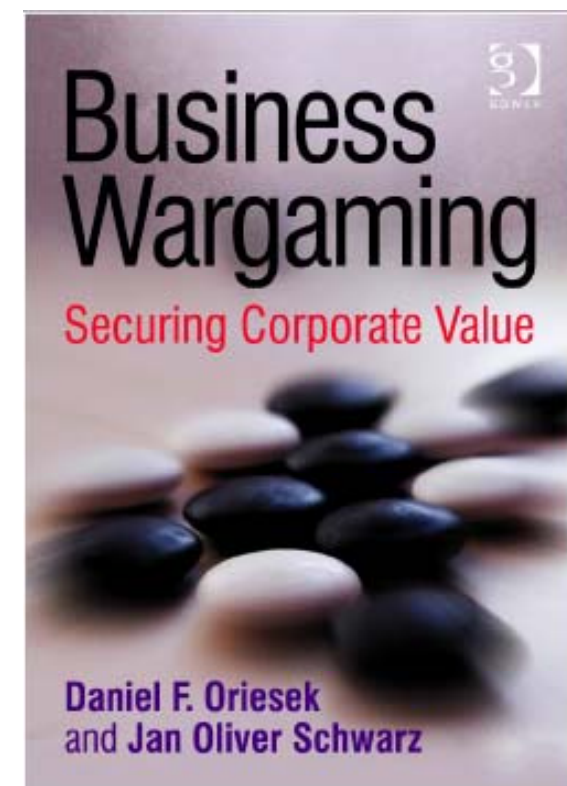
If you would like to know more about this topic, please have a look at our new book...

Business Wargaming
Securing Corporate Value

Daniel F. Oriesek & Jan Oliver Schwarz

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