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The Technomic Viewpoint

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The Way We Plan Needs to Change

By Ron Paul

Being profitable in business is simple in theory: find out what customers will want now and in the future, and then provide it at a cost that allows you to generate a profit.

But making the right guesses about the future has never been easy—even over the past decades when the only direction for future foodservice sales was up. And it's far more difficult in uncertain times like these. Will things be better in 2010 and 2011? Or worse? Or just very different from today in ways that we can't yet see clearly? Will consumers be feeling poor or prosperous? Will they continue the habit of frugality, or be ready to kick up their heels as soon as the economy bounces back? What else could have a profound effect on their moods and spending behaviors? How will and should foodservice manufacturers, suppliers and operators react?

The lack of expert agreement about when the economy will recover makes it extremely difficult right now for foodservice operators and suppliers to plan ahead. This is when planning has to become scenario planning. Instead of beginning with the idea, “If this goes on . . .” and extrapolating future consequences of current developing trends, scenario planners ask multiple “What if?” questions. They use the answers to construct a number of internally consistent, plausible futures and then develop winning strategies for each of these.

For example:

- What if restaurant chains focus their new store development in 2010 only outside the United States, and we see no domestic store growth for some time?
- What if the distributor community consolidates even further and new power distributors emerge? How will that affect manufacturers and operators as well as other distributors?
- How would the growth of alternative distribution channels, such as Restaurant Depot and other cash-and-carry stores, alter the foodservice distribution landscape?
- What if there were a major food safety scare leading to a 20 percent drop in sales in a segment?
- What if another spike in oil prices were to significantly increase transportation costs?
- What if we are surprised by a strong economic recovery in early 2010? Will your company be ready?

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Ron Paul founded Technomic more than 40 years ago. As President and CEO, he directs the firm and all aspects of its research and consulting engagements, covering almost every aspect of the foodservice business. Ron has written extensively about management and marketing topics, as well as a broad range of food and foodservice issues. He is a frequent industry speaker and is often quoted in trade, news and business media, including the *New York Times*, *Wall Street Journal*, *USA Today*, *BusinessWeek*, *Newsweek*, CNN-TV and CNBC-TV. He can be contacted at (312) 876-0004 or rpaul@technomic.com.

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Scenario planning is the key to company flexibility. Accurately visualizing a number of plausible scenarios—and having a plan in place for each—will make it easier for your company to quickly take advantage of new conditions as soon as the trends are clear. The classic example of successful scenario planning is Royal Dutch Shell, which back in the early 1970s accurately considered the possibility of an oil supply disruption and price shock caused in part by dwindling U.S. oil reserves and the new negotiating power of OPEC. When war in the Middle East turned the anticipated crisis into a sudden reality, the company was able to take advantage of the new conditions much faster than competing oil companies that had complacently relied on assumptions of stability. As a result, Royal Dutch Shell was able to significantly increase its share of the global oil market.

From Scenarios to Strategies

Scenarios show possible futures but do not make clear the strategies and tactics to deal with them. They become tools for plotting a company's future only when they are paired with action plans that are logical, internally consistent, specific and quantified.

For instance, companies that make a habit of forecasting for three possible futures—of falling, stable or rising sales—usually also have specific plans for what “levers to pull” in each eventuality. They know in advance what warehouses they will open or close, how much staff they will have to hire or lay off, how they will redirect resources and efforts as conditions develop. With a variety of scenarios and strategy prescriptions in place, they avoid rushed last-minute decisions and slow response.

However, annual forecasting is not enough in times like these. As we move into a turbulent 2010, executives need to re-evaluate their scenarios, postulate new scenarios and then plan, re-plan and re-examine their plans frequently. We need to face the fact that we really do not have any way to forecast accurately what the future holds, even on a short time horizon. Scenario planning gives us the mindset and tools to deal with a number of alternative futures.