ENVIRONMENTAL FORECASTING

Environmental scanning, monitoring, and competitive intelligence are important inputs for analyzing the external environment. However, they are of little use unless they provide raw material that is reliable enough to help managers make accurate forecasts. Environmental forecasting involves the development of plausible projections about the direction, scope, speed, and intensity of environmental change, Its purpose is to predict change. It asks: How long will it take a new technology to reach the marketplace? Will the present social concern about an issue result in new legislation? Are current lifestyle trends likely to continue?

Some forecasting issues are much more specific to a particular firm and the industry in which it competes. Consider how important it is for Motel 6 to predict future indicators, such as the number of rooms, in the budget segment of the industry. If its predictions are low, it will build too many units, creating a surplus of room capacity that would drive down room rates. Similarly, if Pier 1 Imports is overly optimistic in its forecast of future net disposable income and U.S. housing starts, it will order too much inventory and later be forced to discount merchandise drastically.

A danger of forecasting is that managers may view uncertainty as black and white and ignore important gray areas. Either they assume that the world is certain and open to precise predictions, or they assume it is uncertain and completely unpredictable. The problem? Underestimating uncertainty can lead to strategies that neither defend against threats nor take advantage of opportunities. In 1977 one of the colossal underestimations in business history occurred. Kenneth H. Olsen, then president of Digital Equipment Corp., announced:" There is no reason for individuals to have a computer in their home." The explosion in the personal computer market was not easy to detect in 1977, but it was clearly within the range of possibilities that industry experts were discussing at the time. And, historically, there have been underestimates of the growth potential of new telecommunication services. The electric telegraph was derided by Ralph Waldo Emerson, and the telephone had its skeptics. More recently, and "infamous" McKinsey study in the early 1980s predicted that there would be fewer than 1 million cellular users in the United States by they year 2000. Actually, there were nearly 100 million.

At the other extreme, if managers assume the world is unpredictable, they may abandon the analytical rigor of their traditional planning process and base strategic decisions on gut instinct. Such a "just do it" approach may cause executives to place misinformed bets on emerging products or markets that result in record write-offs. Entrepreneurs and venture capitalists who took the plunge and invested in questionable Internet ventures in the later1990s provide many examples.

A more in-depth approach to forecasting involves scenario analysis. Scenario analysis draws on a range of disciplines and interests, among them economics, psychology, sociology, and demographics. It usually begins with a discussion of participants' thoughts on ways in which societal trends, economics, politics, and technology may affect the issue under discussion. For example, consider Lego. The popular Danish toy manufacturer has a strong position in its market for "construction toys." But what would happen if its market, broadly defined, should change dramatically? After all, Lego is competing not only with producers of similar products. Instead,

it is competing on a much broader canvas for a share of children's playtime. In this market, Lego has a host of competitors, many of them computer based; still others have not yet been invented. Lego may end up with an increasing share of a narrow, shrinking market (much like IBM in the declining days of the mainframe computer). To avoid such a fate, managers must consider their future in a wider context than their narrow, traditional markets. They need to lay down guidelines for at least 10 years in the future to anticipate rapid change.

Dess, Gregory G., G.T. Lumpkin and Marilyn L. Taylor. Strategic Management. 2 ed. New York: McGraw-Hill Irwin, 2005.