Scenario Planning: Fostering Long-Term Strategic Thinking
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**GUIDEBOOK SUMMARY**

**Firm:** Merck & Co., Inc.  
**Industry:** Pharmaceutical  
**Headquarters:** Whitehouse Station, New Jersey, United States  
**Geographic Footprint:** Global  
**Ownership:** Public  
**Revenue (2010):** $45.987 billion USD

**Problem:**  
Facing significant changes in the global pharmaceutical industry, Merck’s senior executives need to anticipate how different strategies will hold up against the future state of the U.S. healthcare system.

**Solution:**  
Merck’s corporate strategy function undertakes a scenario-planning exercise that creates and analyzes multiple situations in which the firm might find itself in the future. The process forces participants to:  
- Gather internal insights and external expertise to establish plausible scenarios for the future of healthcare  
- Consider investment implications in the context of each scenario  
- Integrate scenario-based conclusions into Merck’s strategy planning

**Business Results:**  
- The scenario-planning exercise helps influence Merck’s long-term strategies, which in turn helps Merck optimize its core business while simultaneously enhancing complementary businesses.

**Resources Required:**  
- A cross-divisional executive team, including VPs, managing directors, and functional heads  
- External expertise in scenario-planning methodologies  
- A year-long commitment to form a scenario-planning team, conduct two scenario-planning meetings, and develop scenario-based deliverables

**Applicability of Best Practice to Executive Functions:**

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<thead>
<tr>
<th>Function</th>
<th>Applicability</th>
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<tbody>
<tr>
<td>CEO Leadership</td>
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<tr>
<td>Corporate Strategy</td>
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Merck uses scenario planning to highlight the importance of long-term strategic thinking

### Scenario-Planning Overview

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<th>Step</th>
<th>Description</th>
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<td>1.</td>
<td>Conduct Situational Analysis</td>
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<td>2.</td>
<td>Build a Cross-Divisional Team</td>
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<td>3.</td>
<td>Develop Scenarios</td>
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<td>4.</td>
<td>Run Scenario Analysis</td>
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<td>5.</td>
<td>Synthesize Results</td>
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<td>6.</td>
<td>Integrate Conclusions with Strategic Planning</td>
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#### Objective
- Select a tool to enhance long-range strategic planning.

#### Objective
- Build a scenario-planning team that provides credibility and objectivity.

#### Objective
- Create plausible scenarios that challenge commonly held assumptions about the future.

#### Objective
- Prompt C-Level consideration of the scenarios' implications for Merck's future.

#### Objective
- Compile scenario evaluation data in an actionable format.

#### Objective
- Incorporate scenario-based conclusions into corporate strategy.

#### Key Activities

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<th>Step</th>
<th>Key Activities</th>
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<tbody>
<tr>
<td>1.</td>
<td>- Identify requirements for long-term strategy</td>
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<td>- Identify areas where current approaches could be enhanced</td>
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<td>- Develop an understanding of the benefits and limitations of scenario planning</td>
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<td>2.</td>
<td>- Enlist the participation of a diverse group of senior leaders</td>
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<td>- Select an outside scenario-planning vendor as a facilitator</td>
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<td>3.</td>
<td>- Compile internal and external insights on the industry and environment</td>
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<td>- Identify Critical Uncertainties, which serve as the basis for scenario development</td>
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<td>- Hold a two-day workshop with key executives to develop scenarios, identify indicators of the future, and assess strategic implications</td>
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<td>4.</td>
<td>- Lead scenario-planning exercise with senior management to socialize each scenario</td>
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<td>- Discuss the scenarios' potential implications for future resource allocation decisions</td>
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<td>5.</td>
<td>- Consolidate response data to identify trends among respondents</td>
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<td>- Issue corporate white paper and video presenting consolidated executive views on the scenarios</td>
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<td>6.</td>
<td>- Develop alternative strategies designed to address scenario implications</td>
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<td>- Include strategic choices and investments in updated long-range planning</td>
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**Source:** Merck & Co., Inc.; Growth Team Membership™ research.
After more than a decade of high revenue growth, Merck, along with the entire pharmaceutical industry, is facing in the late 2000s:
- Slowing innovation
- Margin compression
- Greater competition

Given these shifts, Merck needs to assess how to evolve its strategy as a healthcare company. Accordingly, Merck’s Strategy Office decides to examine how the healthcare industry will evolve and what future states may arise by 2018. Specifically, the firm seeks to understand:
- How its current strategy might perform in diverse future states or a blend of them
- How different elements of the business model might fare
- What potential alternative long-term strategies are viable

The Strategy Office must identify a strategy planning tool that will:
- Help focus executive management and the organization on a path to continued growth
- Scrutinize the assumptions and uncertainties underpinning strategic decisions
- Engender new thinking about industry trends and their implications
- Embed long-term time horizons in strategic planning

Scenario planning allows Merck’s senior executives to:
- Understand how healthcare might evolve over the next decade
- Develop a common vision of possible but uncertain industry futures
- Examine whether Merck’s current strategies are robust enough to survive alternative future states
- Evaluate what Merck would do differently if a particular scenario came to fruition
- Monitor the environment for signs of a particular scenario unfolding

Scenario planning does not predict the future
Scenarios are not mutually exclusive
Scenarios are often interrelated—some scenarios may overlap, play out differently across geographies, or lead to one another over time

**WHAT IS SCENARIO PLANNING?**
Scenario planning is the process through which an organization develops a series of challenging, different—yet plausible—scenarios about the future and explores the risks and opportunities that each scenario offers.

**Considerations**
- Scenario planning does not predict the future
- Scenarios are not mutually exclusive
- Scenarios are often interrelated—some scenarios may overlap, play out differently across geographies, or lead to one another over time

*Source: Merck & Co., Inc.; Growth Team Membership™ research.*
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