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## **Fashionably fit for the future?**

A demonstrative study unravelling the concept of scenario planning

Tutor:  
Hans Knutsson

Authors:  
Johanna Friberg 840415  
Patrice Lusth 800321

## Abstract

<b>Title:</b>	Fashionably fit for the future? – A demonstrative study unravelling the concept of scenario planning
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<b>Authors:</b>	Johanna Friberg, Patrice Lusth
<b>Tutor:</b>	Hans Knutsson
<b>Key words:</b>	strategy formulation, scenario planning, trends, expansion, strategic fit
<b>Purpose:</b>	The purpose of this thesis is to clarify and evaluate the concept of scenario planning
<b>Methodology:</b>	Our research methodology has a qualitative approach and uses deductive reasoning. The theoretical field of strategy formulation has been reviewed and in specific the concept scenario planning was unravelled and mapped. Thereafter, our model was tested in a case study where the empirical data was collected through personal interviews.
<b>Theoretical field:</b>	Literature and articles from the strategic management field have been reviewed with a focus on strategy formulation, scenario planning and Williamson's theory for the creation of a portfolio for strategic options.
<b>Empirical base:</b>	Personal interviews and secondary sources such as financial reports, articles mainly from industry media and articles found in the databases ELIN and Affärsdata.
<b>Analysis:</b>	The analysis work constitutes the testing of our model for scenario planning, integrated into Williamson's portfolio of strategic options for the future.
<b>Result:</b>	The work has resulted in a clarified model of scenario planning with links to strategic management schools. The testing of this restructured model has shown that it can be used not only on the specific case company but also on other companies acting in a similar situation or context.

## Sammanfattning

<b>Titel:</b>	Fashionably fit for the future? – En klarläggande studie som reder ut konceptet scenarioplanering
<b>Seminariedatum:</b>	16 januari 2008
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<b>Författare:</b>	Johanna Friberg, Patrice Lusth
<b>Handledare:</b>	Hans Knutsson
<b>Nyckelord:</b>	scenarioplanering, trender, expansion, strategiformulering, strategic fit
<b>Syfte:</b>	Syftet med denna uppsats är att utvärdera och reda ut konceptet scenarioplanering.
<b>Metod:</b>	Uppsatsen har en kvalitativ ansats och för ett deduktivt resonemang. Teorier inom strategiformulering har studerats och specifikt scenarioplanering har utvärderats kartlagts. Därpå testades vår modell i en fallstudie, i vilken empiriska data insamlades genom personliga intervjuer.
<b>Teori:</b>	Fokus på teorier om strategiformulering, scenarioplanering och Williamssons artikel för skapandet av en strategisk portfölj.
<b>Empiri:</b>	Personliga intervjuer och sekundära källor såsom årsredovisningar, artiklar från branschmedia och artiklar funna i ELIN och Affärsdata har använts.
<b>Analys:</b>	Analysen grundar sig i prövningen av vår egen modell för scenarioplanering, integrerad i Williamsons teori om skapandet av en strategiportfölj. Fallföretagets förmågor är satt i relation med riskerna och sannolikheterna för varje scenario och därefter sammansatt i en strategiportfölj baserad på de tre potentiella framtida scenarier.
<b>Resultat:</b>	Arbetet har resulterat en klarlagd modell för scenarioplanering, med länkar till strategisk styrning. Testet av den omstrukturerade modellen visar att den inte bara kan användas på detta företag, utan sannolikt även på andra företag som befinner sig i en liknande situation eller kontext.

## **Preface**

This master thesis in Strategic Management was written between November 2007 and January 2008 at the Lund University School of Economics and Management. Our hope is that we in this thesis succeed in sharing some of our obtained knowledge in an interesting way.

We would like to take this opportunity to thank the people of importance for the completion of our work.

First of all we would like to thank our advisor Hans Knutsson for his expertise, constructive feedback and trust. His professional collaboration and availability have made our work efficient, fun and convenient.

We would also like to thank Jessica Syrén and Jörgen Appelqvist at Gina Tricot AB for putting aside time for us and for sharing your company's facts, figures and ideas. We appreciate your availability and enthusiasm, and we hope that you find it interesting to read the result of our study.

Finally, a light tap on our own shoulders for a well-functioning teamwork!

Lund, 16<sup>th</sup> January 2008

*Johanna Friberg*

*Patrice Lusth*

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# 1. INTRODUCTION

*This chapter introduces the reader to the chosen subject and its surrounding problematic. Our aim is to develop a model to create strategic options for the future, using scenario planning. The company included in this case study is a fast expanding Swedish fashion chain, acting among international giants in the mature and highly competitive retail industry.*

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*“The real voyage of discovery consists, not in seeking new landscapes, but in having new eyes” – Marcel Proust*

People have always tried predicting the future and spot patterns that indicate upcoming trends – from the myth of the Delphic Oracle and Nostradamus, to today’s trend forecasters. Global situations that to a large extent affect our behaviour, such as environmental changes, technology development, or the threat of global deceases, create powerful trends in the society. In a system that functions as our market economy, everyone plays a role for its future development. Companies constantly have to review their surrounding environment and therefore consult external experts in different areas to be able to cope with change. All of this makes us in constant need of information, but the risk of information overflow can also be worth considering.

So, what is the situation today? The Internet and information technology has dramatically changed the way we live and work. Increasing individualism, information availability, lowered production costs due to technology development and the trade of goods and services across borders are already old news, but they keep stimulating an ever-dynamic market. For many years, the talk about strategic management of companies has developed into a jungle of theories and buzzwords. Apparently, companies have to be faster and cleverer than their competitors to survive (remember the Red Queen Race? <sup>1</sup>). Still, it happens that firms succeed without any formal business plans. Are they doomed to fail – or are they just lucky?

Ged Davis, Managing director of the World Economic Forum's Centre for Strategic Insight, once said: “At times, the world can look so complex and

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<sup>1</sup> “The Red Queen race” is a metaphor taken from Lewis Carroll’s *Alice in Wonderland – Through the looking glass*. It has been used in strategic management, among others, for describing when a company has to run double its speed to be able to beat its competitors.

unpredictable that it becomes hard to make decisions. Scenario building is a discipline for breaking through this barrier.” Companies have to be able to catch opportunities when they appear, and therefore it seems important to be prepared for different future scenarios, especially in good times when business are going well.

“The Swedish fashion wonder” – that is what the companies who crossed the borders were called. They spread Scandinavian fashion and design over Europe and further from the 1980’s until today – obviously H&M, but also smaller actors such as Filippa K, J. Lindeberg and Odd Molly among others (de Angelis and Elmlid, 2006). They were all once upon based on one person’s, or a family’s, entrepreneurial drive. This “phenomenon” has since many years caught the authors’ attention, and it is now time for us to combine our curiosity for the retail and fashion industry with knowledge obtained during our years at university.

Gina Tricot is not a designer brand, neither is it an internationally well-known retail chain. It is a small fashion company based in Borås in the south of Sweden. They are not the most recent actor on the market, but their choice to establish fast and as a fashion retail chain from the start, and doing it with great success so far, has been given a lot of attention in the press lately. They seem to be on their way to expand dramatically – or have they just reached their peak of success? We believe they constitute a good case for performing scenario planning and therefore we took a closer look at Gina Tricot’s management to see if we could formulate ideas on how they would act for persistent success internationally.

This brings us to the following description of how this work has proceeded and the reasons why we chose to focus on the field of strategic scenario planning

### 1.1. PROBLEM DISCUSSION

When establishing on new markets, there is a need for companies to have a formulated strategy. Instead of having a short perspective, a longer forecasting of the future possibilities would be more accurate. In a recent article by Mike Eskew in Harvard Business Review (2007) it is argued that those organisations that are more likely to fail in the age of globalization – with rapid technology change, just-in time outsourcing and empowered consumers – are those that are slaves to short term planning. Companies cannot create solutions for their customers week by week; instead there is a requirement for having a longer perspective of five to ten years, according to Eskew. He admits that this entails great effort from a



company and recommends research of its customers and the use of scenario planning to foresee the future.

Henry Mintzberg (1994) had another view of developing and formulating strategy. He criticizes strategic planning and claims that strategy is developed intuitively and can merely be recognized in retrospect, through the analysis and by seeing the patterns in what has actually happened. This point of view is according to Kees van der Heijden (1997) not that attractive to most managers, because they believe there is a strong correlation between their carefully formulated strategic plans and the resulting success as well as failures of the company. Taking great strategic decisions by rolling the dice is an extremely unsatisfactory approach.

Scenario-planning methods can be used as a way to take different uncertainties into account and analyze the firm's external and internal environment to create future scenarios and formulate strategic plans. According to Stephen M. Millet (1988), the scenario process offers a creatively yet systematically way of thinking for organizations, about the future, thereafter trying to develop strategies testing each future environment.

The scenario planning method had its breakthrough in the 1970's with the researchers Peter Schwartz and Kees van der Heijden. Since then, scenario planning has developed to become a vaguely described technique in literature, often published by consultants and marketing analysts that are using similar methods. But, what is scenario planning really all about? Is it just a concept used to sell flashy consultancy services or is it a fully designed method combining different strategic management perspectives to create strategies for the future? To enable the use of scenario planning in our case study, we felt an urge to bring order among the different authors and theories – a need to evaluate and hence analyze the concept of scenario planning and its relation to management theories.

This brings us to our final formulation of the purpose of this thesis: to clarify and evaluate the concept of scenario planning.

## 2. RESEARCH METHODOLOGY

*The journey towards a completed study and its report consists of several processes, which are presented and argued for in this chapter. Our research methodology is of a qualitative character, and has its base in the theoretical field of scenario formulation. We discovered a need to unravel different scenario planning concepts and a modified research model for scenario planning based on existing theories was created. Our model was then to be tested in a case study, in which we chose a Swedish retail company that is experiencing strong growth and internationalization.*

### 2.1. METHODOLOGY I: THE RESEARCH AND THE PROBLEM

As both authors have an interest in and experience from the fashion industry, as well as an academic background within the field of strategic management, we found that strategic planning within the retail industry was an area we were interested of looking more into. The Swedish fashion retail chain Gina Tricot caught our attention as they occurred more frequently in the media. Several possible subjects occurred to us; for example because of the fashion business mature nature, we found it interesting to see what Gina Tricot's plan was: to remain on the Nordic market or expand internationally? Having met with Gina Tricot the first time, we noticed the company's unwillingness to focus on the past. We also got further understanding for the complex situation in taking strategic decisions for the future. Since many unstable factors were affecting the decision-making, we wanted to find theories that take uncertainties into consideration. As authors and students within the strategic management field, we wanted to come up with suggestions on how the company could prepare for the future. This is where our work with finding out a way for formulating strategies for a company in their situation started.

#### 2.1.1. Qualitative Research and Deductive reasoning

A qualitative case study can be used in order to generate or to test hypotheses. We chose a case company on which to test our model and the result should be of value for the work on formulating strategies for the company's future. According to *The Sage handbook of qualitative research* (Denzin and Lincoln, 2005) qualitative research allows the use of overlapping or different disciplines and

subject matters. To describe qualitative research in a simplified way, it focuses on and wants to understand the reasons why people are behaving in a certain way and why they are making certain decisions. Hence, the social reality is interpreted based on the individuals figuring in it and a very small population can also be studied, unlike what is required within quantitative research (Bryman and Bell, 2003). In order to collect the empirical material and gain understanding of a company's situation and decision making for our scenario analysis model, the choice of qualitative research with a case study was appropriate.

The collection of data in qualitative research typically follows one of the four following methods: participation in the environment, direct observation, personal interviews and/or the analysis of written information and documents. (Marshall, 1999) This is in accordance with our research; we chose to focus to conduct semi-structured personal interviews with a few managers (and the founder) at the chosen case company's head office. We also had the possibility to make observations and to participate in the company activity such as the meeting with Swedish Trade council in Copenhagen. However, this participation and observation were within a very limited time and therefore of limited value for our research. The interviews have functioned as the primary base for our interpretations for the analysis work. Initially, we had ideas of interview themes, but as the first interview and the following theory studies had been carried out, new insights came up and the questions developed with the purpose as the work proceeded. Out of those interviews we saw patterns and collected useful data to be applied when testing our model.

Deductive reasoning (Bryman and Bell, 2003) is mirrored in the development of the research question which took shape as the authors gained further understanding about the case company and successively deepened knowledge regarding theories on strategic planning and scenario planning. To stimulate strategic decision making for the future, the construction of scenarios felt necessary and therefore this theoretical field was investigated. Williamson's model for the construction of future options was then discovered. We believe this is useful since it employs scenario analyses to put scenarios into a context and composing them into strategies for the future. It takes into account likely futures as well as the company's current situation to optimize their future business. In a short initial phase, our research followed an inductive method, which is also often associated to qualitative research. However, as we described earlier, a deeper review of the scenario planning literature made us realize that our research would have its focus on evaluation and structuring of the theoretical field. A scan of the literature and a comparison of the different models on scenario planning indicated a need to unravel and to define what scenario planning really is all

about? The decision was taken to create a comprehensive map over its main theories, linking these with relevant areas within strategic management and subsequently construct a modified, graspable model for scenario planning. Hence, this thesis' overall methodology follows the deductive reasoning, and its purpose is to clarify and evaluate the concept of scenario planning and then test the resulting model in a case study.

### **2.1.2. Theoretical frame**

The theoretical framework consists of our interpretation of Williamson's method for creating strategy as options for the future. We have modified this model, with the replacement of our model for scenario planning. The work on developing and connecting its processes has also implied the relations to a wider strategic management field, in particular we have used the SWOT/TOWS analysis, resource based view, organisational learning as well as Porter's Strategic Fit. For our case study in particular, the framework also has links to an entrepreneurial context. This will be described in further detail below.

## **2.2. METHODOLOGY II: THE DEVELOPMENT OF OUR MODEL**

As explained above, the model used for the analysis is the deducted result of our review and evaluation of theories. This also means that the model, in combination with Williamson's model, also describes our continuous methodological work when developing a portfolio of strategic options for the case company's future. Our model itself, is described in detail in the theoretical chapter, is meant to be of use for the scenario analysis of any company. This makes the choice of case company important, since it should be a representative sample that can provide enough information for us when testing the model. The result ought to show its validity for, if not any company, any similar company or a company in a similar situation.

### **2.2.1. Collection of empirical data**

The empirical base for this study is collected through personal interviews with key persons within the chosen company. The interviewees were chosen after the criteria management position and key knowledge in the internationalization and new store establishment processes, to maximize the relevance and validity of the empirical data to be used in the analysis based on the testing of our model. We also chose to consider the time aspect; since we preferred personal interviews, it

was important to find a date when we could match a meeting with the CEO. Since our work was performed during late autumn and winter, the public holidays over Christmas together with the peak sales period meant that our planning was crucial for gaining access to our chosen firm. We met the company three times, twice in Borås and once as listeners with possibilities to ask questions at a meeting with the Swedish Trade Council in Copenhagen. The interviews were semi-structured, following certain themes based on our research focus and the theoretical frame (see Appendix A). We also wanted to follow up questions and facts that had occurred in recent interviews in printed media (Veckans Affärer, 2007-10-25; *Dagens Nyheter ekonomi*, 2007-04-25; Holm, 2006). In the initial meeting we presented our mission, as well as had an open conversation, to establish a trustworthy collaboration with the interviewees. Hence, the first interview was of a more open character than the following meetings where the theoretical focus had taken shape.

We chose not to make any recordings of the interviews, mainly due to the probability that the presence of a record player would have affected the outcome of the interviews (Bryman and Bell, 2003). However, a record player was brought to the interviews in case we felt the need to record a particular conversation (e.g. in case there would be more than one person interviewed at a time). In this way we managed to keep a relaxed and open conversation (ibid). By carrying out the interviews in pairs it was also easier to follow up questions and make reflections while taking notes. The empirical data was assembled immediately after the interviews, through a common review of the notes made.

During the research process, the collection of secondary data for the construction of scenarios was pursued from reading recent articles and literature from well-known trend analysts and trend blogs such as [www.trendwatching.com](http://www.trendwatching.com). Also articles from business journals and other industry media was used. Searches were made in the database Affärsdata, which can be reached from the Lund University Library network. In addition printed articles and electronic sources such as Market, Dagens Handel, Dagens Industri and Affärsvärlden were used. Some facts and figures were also collected from the company's annual report and website.

### 2.3. A CRITICAL REVIEW ON THE QUALITY OF THE RESEARCH

When pursuing a research paper on master level within a certain time limit, in our case approximately ten weeks, we preferred using a method where we could focus equally on all parts of the work process. We also believed in raising the quality of the methodology and the empirical material by making a case study based on interviews in one company, rather than testing our model on several companies. Qualitative research has been criticized for focusing primarily on the empirical information more than on theory (Bryman et al, 2003). It might also be a difficult to keep an objective position when studying and collecting empirical information from personal interviews with one case company in a business that the authors also have a particular interest in. What likely has had a positive effect is the authors' understanding and experience of the case company's business, which helped us in maintaining constructive conversations and to reflect upon interview statements.

Recordings of the interviews may also have helped in avoiding the "interview effect" (Bryman et al, 2003). Instead we chose to re-check certain questions towards the interviewed persons later in the process. Still, relevant empirical data might have been lost, which may have affected our analysis. Though, one positive effect from this could be that it gives our thesis a unique position, and we thereby avoid "inventing the wheel" when basing assumptions on previous authors (Bryman et al, 2003).

However, the most uncertainty in this work is the focus on the future, which is unknown for most people. We therefore believe that a lot of importance lies in following a clear logic in the analysis to show our reflections and thoughts about the company's future business scenarios. The transferability of the scenarios that are built up based on business characteristics and put together into company strategies are obviously not transferable to another company. Though, we would like to stress the probable transferability of our developed model of six levels for scenario planning, which constituted the structure of the analysis.

### 3. THE THEORETICAL FIELD

*In this chapter, an overview of the theoretical framework introduces the reader to our chosen perspective and it ends in our modified model for scenario planning.*

*P. J. Williamson's theory "Strategy as options on the future" uses scenario planning to create a portfolio of strategies that are optimized to maintain company value in the future. The step for creating scenarios has been modified in our study: strategic management theories have been linked to the processes in our structured map of scenario planning methods. Our theoretical framework therefore revolves around the field of scenario planning and strategy formulation.*

*The chosen case company is acting in an entrepreneurial context and therefore we have included theories on entrepreneurship in this chapter.*

#### 3.1. FRAMEWORK

Williamson's strategy-creating process consists of four steps for finding a way of combining planning and opportunism in the company's future. To avoid the two situations where the company is caught as either a Prisoner due to lack of awareness of its capabilities, or a Trader due to lack of knowledge of new potential markets – we have critically dug into Williamson's second and third steps and created a modified scenario analysis model. Finally, the fourth step is important for the completion of the analysis. By providing our recommended portfolio of strategic options, Williamson's guidance is taken into account when combining planning and opportunism. Companies have different characteristics – our specific case company acts in an entrepreneurial context – which is why theories on entrepreneurship are taken into account in the last step. This does not affect

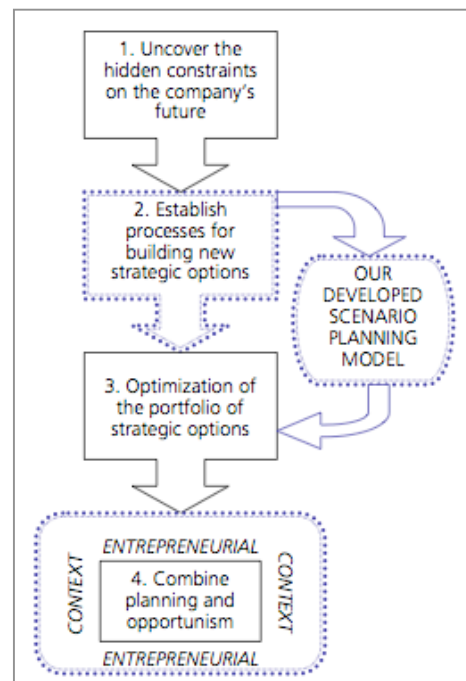


Figure 1. Theoretical framework based upon Williamson's Strategy as options on the future.

our model itself, but it may affect the result put together in the fourth step.

### 3.2. STRATEGY AS OPTIONS ON THE FUTURE – WILLIAMSON

In Williamson's article *Strategy as options on the future* (Williamson, 1999), the author emphasizes the significance for a company to have a portfolio of options on the future since the environment is under constant change and ambiguity. A portfolio of strategic options is essential primarily due to imprecise forecasts, since a precise prediction of the long-term economic and market environment is almost impossible. If a company overestimates its future sales levels, a range of the carefully created strategic plans based on imprecise forecasts will lead to over investments. Through successfully creating a portfolio of strategic options on the future, a company can use these forecasts to quickly change its strategic directions in reaction to changes in the marketplace. Therefore, there are two required investments for building a portfolio of strategic options according to Williamson, the first is developing new capabilities, and the second is to learn about new, potential markets.

With the new capabilities and the new knowledge of potential markets, a company can establish a portfolio of future options by working through the four steps defined by P. J. Williamson. Initially "uncover the hidden constraints on the company's future", secondly "establish processes for building new strategic options", followed by an "optimization of the portfolio of strategic options" and finally "combine planning and opportunism".

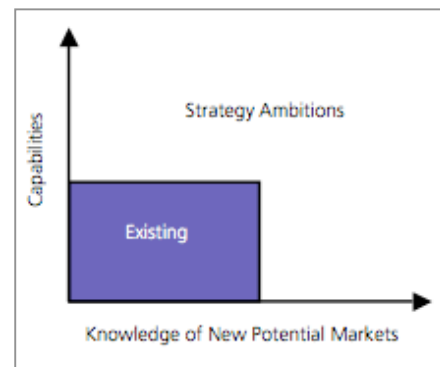


Figure 2. Hidden constraints: Narrow capabilities and market knowledge.  
Source: Williamson (1999)

#### Step 1: Uncover the hidden constraints on the company's future

For a company to be successful there is a need to focus on a specific geographic and customer market segment, and find out more about the customer's behaviour than any competitor. Based on a particular cost structure, price and margin, the company creates a profit driver which is supported by investment in the competence to produce, source and distribute a service or product that these consumers put value in. As time passes, this profit driver is repeatedly adjusted to



obtain economies of scope and scale. Companies must continuously look over their capabilities, invest in new, and create more knowledge about potential markets, otherwise a risk will be to lose their competitive advantages and be caught in a box. Williamson divides this into two characteristic models below.

“The Trader” (Aware but Incapable): The trader is a company with possibly helpful information about new markets, but the company has no capability to use it for value creation apart from selling the information or using it to arbitrage a goods, hence a trader. The importance for such a company is to systematically expand their collection of capabilities that can create value, and not have too narrow capabilities to exploit the knowledge of different markets and customer behaviours.

“The Prisoner” (Capable but Unaware): In opposition to above, some companies have created extraordinary capabilities. But due to their lack of knowledge about new potential markets, they become prisoners.

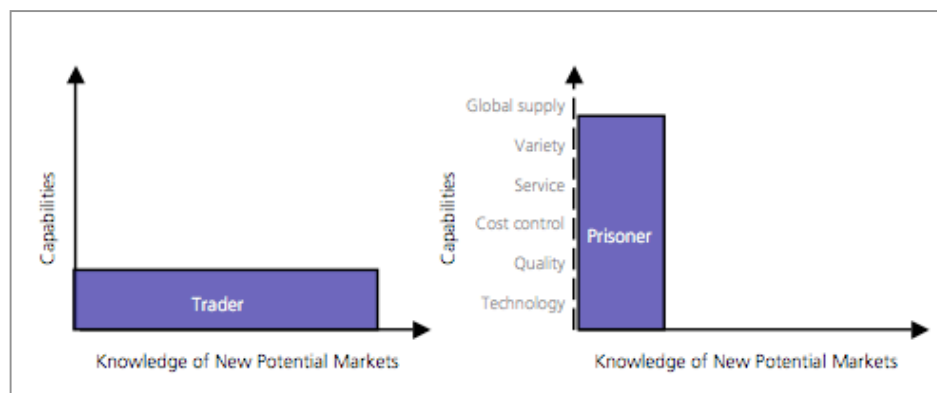


Figure 3. The Trader and the Prisoner. Source: Williamson (1999)

## Step 2: Establish processes for building new strategic options

Next step in the course of action is to establish processes to minimize the cost of maintaining and building the collection of strategic options. Through a number of cost-effective methods of growing knowledge of customer behaviour or potential markets, the company can build up its option portfolio. By looking at “maverick” competitors the company can find new ideas and expand its portfolio of strategic options. Through market research and focusing on customer’s complaints the company can create an understanding of the customers’ perception of its products and through this increase its strategic options for the future. The company could also leverage their suppliers’ knowledge by different partnerships with important suppliers as well as acquiring a minority equity stake in suppliers with potential new and innovative technologies. Rather than earn profits directly,

by entering new markets a company could also see and learn what is potentially significant for its global operations.

### **Step 3: Optimization of the portfolio of strategic options**

For managers to evaluate whether the strategic option portfolio is right for the future environment that the company will compete in, there are two driving factors that need to be analyzed. First of all – are there any other capabilities that could meet the potential customers' needs? Secondly – which markets in the future and behaviour of new consumers does the company need to know about?

There are different techniques for creating an understanding of the market environment and for the development new capabilities. Scenario planning (see chapter 3.3 below) is one approach where you create a table of main alternatives and identify the options that are technically feasible. Thereafter, the decision has to be made whether that particular option should be added in the strategic portfolio or not and the decisions should pursue from the following three considerations: *1) The costs of construction and maintenance of the option, 2) An estimated probability whether the company will exercise the options or not, 3) The capacity and probability for the chosen option to create future options.*

The decisions should then depend on trade-offs between the predicted value of an option and the creation cost, not the cost of exercising it.

### **Step 4: Combine planning and opportunism**

An essential role in the strategy process is both planning and opportunism. In order to create new strategic space, a company can plan the potential markets and the needed successive capabilities to manoeuvre the future. Opportunism plays a crucial part since companies cannot plan the accurate options to select. For a company a crucial factor is to keep opportunism within the boundaries of the firm's general direction and not choose the options that would wander from the long-term mission of the company.



### 3.3. SCENARIO PLANNING MODELS

*“Relying on a single forecast of the future is not a very clever thing to do”*

– Graham May (2001)

Scenario planning has its roots in the military where it has been used in order to increase successful and fast decisions on the battlefield. History has taught war leaders that planning and preparations are crucial factors for success, as it increases the level of responsiveness. (van der Heijden, 2002) Several recognized authors refer to scenario planning; some of their definitions are presented here:

*“An internally consistent view of what the future might turn out to be – not a forecast, but one future possible outcome”* – Michael Porter (1985)

*“A tool for ordering one’s perceptions about alternative future environments in which one’s decision might be played out right”* – Peter Schwartz (1991)

*“That part of strategic planning that relates to the tools and technologies for managing the uncertainties of the future”* – Gill Ringland (1998)

Strategic planning consists of various kinds of forecasts where a rather unique form is scenario planning. By exploring trends and interdependencies among macro-environmental factors, scenario planning involves a learning process that attempts to create story plots for probable future scenarios. Since scenario planning is a variation of strategic planning, the general aim is to create a consistency, what Michael Porter calls a strategic fit, between the company’s internal objectives, culture, resources and capabilities and its external surroundings (Porter, 1996). Through an evaluation of the organization’s existing capabilities with the scale of opportunities and threats in its future, scenario planning manages to map out the strategic fit for the company in the future environment (Desmarais, 2000).

These words sure describe the field, however, for the readers understanding of the theoretical processes a more comprehensive overview over existing scenario planning approaches is necessary. This outline will also function as a foundation for our research in formulating strategies for a our case company in the uncertain environment they are acting in.

### **3.3.1. The Global Business Network – Peter Schwartz**

According to Schwartz in his book *The Art of the long view* (1999), scenarios are instruments to guide us in creating a long view in a world of huge uncertainty. The name is derived from the theatrical phrase “scenario” – a play or a film script. Scenarios are stories that show possible future states of tomorrow, and these stories can help to prepare and guide a company in the adaptation to the changing aspects of the current environment. Schwartz’s checklist for developing scenarios follows:

#### **Step 1: Identify focal issue or decision**

In the developing process of creating scenarios, the scenario creator should choose a “from the inside out” perspective instead of the “from the outside in” view. The scenario process should start through a question or a specific decision, and then build out toward the environment.

#### **Step 2: Key forces in the local environment**

In step two the importance is to map out and collect facts about competitors, customers and suppliers. The next step is to list the key factors influencing the success and failure of the decision.

#### **Step 3: Driving forces**

The third step contains of a listing the driving forces in the macro-environment. This to see which driving forces that can influence the key factors identified earlier. The research may cover new technologies, economic forces, political factors, markets and environmental changes. Through this a trend might show, but another important thing is to try to see a trend brake, which is usually a harder thing to foresee.

#### **Step 4: Rank by importance and uncertainty**

On the basis of two criteria a ranking of the driving forces and key factors are made. The first criterion is the grade of importance for the success of the central decision or issue detected in the first step; the second is the level of uncertainty those trends and factors are surrounded by. The importance is to identify and choose two or three trends or factors that are most uncertain and most important.

### **Step 5: Selecting the scenario logics**

The result of the ranking done in step four ends up in the axes along which potential scenarios will differ. In the scenario-making process, the most important step is this: determining the axes. The goal is to create a few scenarios whose alteration make a difference to the ones that are in charge of making the decisions. The scenarios should be few and developed in detail or the process scatters.

### **Step 6: Fleshing out the scenarios**

By returning to step two and three, looking at the key factors and trends, a range of blueprint scenarios can be made. In every scenario each trend and key factor should be given some attention. The next step is to weave the different pieces together in a story.

### **Step 7: Implications**

After the scenarios have been mapped out in some detail, the time is to go back to step one, emphasizing the decision or central issue to review the future. By looking at how the decision seem in each scenario as well as the vulnerabilities that have been exposed, a strategy for the future can be created.

### **Step 8: Selection of leading indicators**

The last step includes looking at the different scenarios and trying to figure out the scenario that is closest to the future reality. If the scenarios have been constructed using the previous seven steps, they are able to translate movements of a few key indicators into a systematic set of industry-specific implications. The logical consistency that was built into the scenarios will lead to logical implications of important indicators to be drawn out of the scenarios.

### 3.3.2. Scenario Planning – Kees van der Heijden

In Kees van der Heijden's model for scenario planning the business idea plays a central role. The business idea is embedded in the language of the organization and is also the company's mental model of the forces behind its existing and future success. (van der Heijden, 2002)

According to van der Heijden the business idea is based on two components: profit potential and distinctive competencies. The profit potential is how the Business Idea creates value for stakeholders and a how it maintains a credible profit potential. Distinctive competencies are the competencies that are unique and that make it extremely difficult for other companies to imitate. Kees van der Heijden claims that if the business idea and its distinctive competencies are effective it produces competitive advantages. Further the Business Idea contains a reinforcing feedback loop where the competitive advantage generates knowledge and resources, which in turn are used to increase the competencies driving the competitive advantage, leading to more resources, and so on. This loop can either increase the profitability and growth of the company or collapse, which leads to a

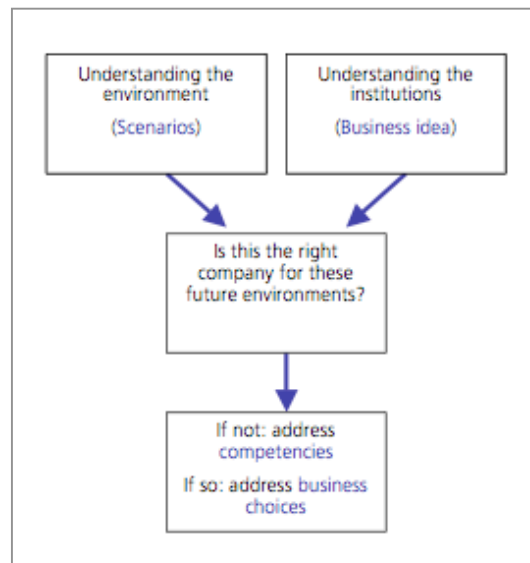


Figure 4. Van der Heijden's model for scenario planning. Source: van der Heijden (2002)

decline in the success and results in a negative loop. In order to define a complete Business Idea, the following four steps summarizes what is stated above:

- 1) The societal/customer value must be created which includes a unique insight in the involving needs and scarcity in society
- 2) A differentiation or a structural cost advantage strategy must be chosen and the nature of the competitive advantage exploited
- 3) The distinctive competencies, which in their reciprocally strengthening interaction, create competitive advantages
- 4) Through a fourth element, these three parts are integrated and configured

Through a strengthening feedback loop the created resources drive the growth of the business idea. The next phase according to van der Heijden is reflecting back upon the business idea against the uncertain future. For a successful future development of the company, a necessity will be a good fit between the surrounding world and the organization. In the uncertain future van der Heijden identifies three elements of risk:

*Risks:* Historical events with a similar pattern that enable us to estimate probabilities for different potential outcomes.

*Structural uncertainties:* The possible outcomes are known but there are no facts for evaluating how likely the incident may happen.

*Unknowables:* Events that happen that we cannot predict or imagine.

An evaluation of the uncertainties needs to be completed prior to a business decision can be made. In the scenario analysis the structural uncertainties are captured and are interpreted in different ways to create a variety of future outcomes. Scenarios are also to be seen as conditions for the business idea and a way to test the strength of Business Idea. Kees van der Heijden finally mentions five important aspects when creating a scenario:

1. There has to be a minimum of two scenarios to reflect uncertainty. There could also be three or four but more than four has proven to be organizationally unworkable.
2. Every scenario has to reflect current knowledge and develop logically in a cause and effect way to give a credible result.

3. The scenarios have to be consistent internally, which means that the events within the scenario must be related through cause and effect argumentation without flaws.
4. The scenarios should be relevant to the company's issue of concern.
5. The scenarios must hold a new and original angle on the company's issues.

### 3.3.3. The TAIDA™ method

The third and last method of our review of theories on scenario planning is the more recently spread, and trademarked, TAIDA™ method. It was Hans Bandhold with colleagues at the consultancy company Kairos future who developed The TAIDA™ method, which is a framework for thinking and mapping the future. It is also a well-used model for scenario planning. The TAIDA™ method's work sequence (Bandhold and Lindgren, 2003) is as follows:

#### **Tracking: Listen and see ongoing changes in the environment**

The driving forces in the surrounding world effects the long-term development in the business environment. For tracking, a natural starting point is therefore to look at trends in the surrounding world. The main purpose with tracking is to trace the upcoming changes that might have influence on the focal question.

When the trends have been identified the next step is to compare them regarding predictability and impact on the focal issue. Those trends that show both high predictability and high impact will be used as foundations for the scenarios.

#### **Analyse: Evaluate what is really happening**

The tracking phase often results in a range of separate trends covering a lot of diverse areas. But the different trends usually have some connection, some may be driving forces to other trends some may be consequences to others. The analysing step is therefore to try

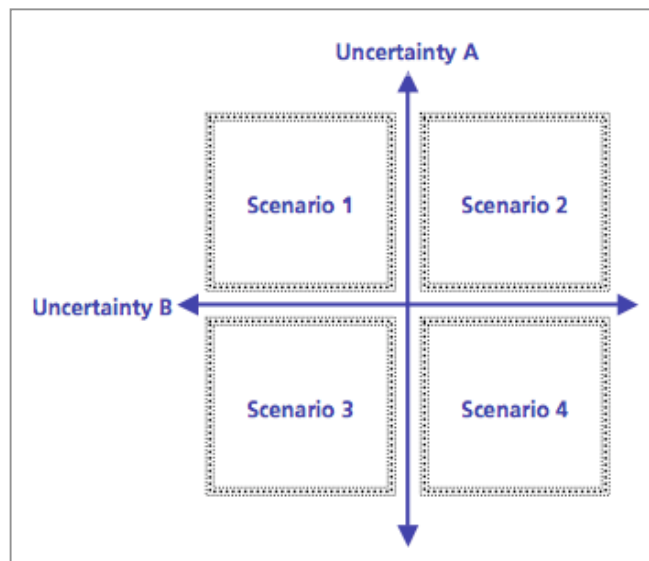


Figure 5. Scenario cross: four different scenarios based on two uncertainties. Source: Bandhold and Lindgren (2003), p. 67.



to find the forces and drivers to straighten out the interaction of the trends.

The next step is to start creating the scenarios. An approach that the authors Bandhold and Lindgren (2003) find useful is that by identifying and choosing two different driving uncertainties the company can create a scenario cross. The authors further claim that this method could be criticised since it reduces the various uncertainties to two and assumes that these uncertainties are interrelated. In spite of this, this approach visualizes in uncomplicated terms the requirements and advantages of scenario development, since it improves the capability to see uncertainties and inconsistencies in the future environment.

### **Imagine: Identify potentials; create visions of what is desired**

The purpose of imagining is to approach the changes that are seen in the analysing step and to create both an emotional and intellectual understanding. The company should look at the desired end states, and through this create visions of how to reach them. The visions should be built on two parts, the ability to create meaning and to give guidance, identity and inspiration. The stage of Imaging is to – with the developed scenarios as a base – create visualisations of the future and helpful visions.

### **Decide: Identify the options and strategies**

Based on all the gathered information the company should choose which direction that should be taken. In this phase the strategies are developed to meet the threats in the environment.

Bandhold and Lindgren (2003) present several managerial approaches for handling the identified future scenarios. The organisation should develop strategies based on important inputs such as scenarios, trends, visions and core competencies. These strategies should then be collected into different clusters and this in turn should generate new embryonic strategies.

### **Act: Set up short-term goals, implement and follow up**

The last step is about acting and following up the chosen actions. In this phase the company needs to integrate the new information drawn from the scenarios into old knowledge, whereas the purpose is clear.

### 3.3.4. Reflection upon the reviewed theories

Most literature on scenario planning are based on earlier implemented cases in large international companies or corporations, such as the oil company Shell that uses scenarios to predict their future businesses decisions (2007-12-22: <http://www.shell.com>). For such firms, the use of consulting services for developing and implementing strategies is not unusual before making strategic moves. But smaller or entrepreneurial firms might not be as willing to let external consultants into the organizations management work or business development processes. And as mentioned earlier, entrepreneurs often see strategy work, analyses and planning as “buzz words”. Whether you are a CEO of a larger company, a division manager or an entrepreneur, there is a need to create a concept on how to achieve your goals – a strategy for achieving objectives in the future (Hambrick and Fredrickson, 2005). Hence, preparing the firm for a future scenario is important. This can also prepare the organization, increase learning and in the longer run reduce costs for unexpected surprises that could affect e.g. an international expansion negatively.

Nevertheless there is a difference between scenario analyses in theory and in practice, which is also mentioned in Grant (2008). Being able to prepare an organization for change or for a flexible and insecure environment is difficult. In the current literature on the subject, we found that methods for creating scenarios and conducting such analyses often are vaguely described and as mentioned earlier, the authors saw the need for bringing order among the existing scenario planning methods. That is the reason why we have chosen to dig deeper into the theories on the subject and evaluate them.

The result is shown in Table 1, which shows the result of our analysis of the main theories on scenario planning according to Schwartz, van der Heijden and TAIDA™. Several similarities were found between the various processes, but also differences and uncertainties. To create a complete and clear structure in our evaluation of the chosen scenario planning methods, we chose to link the found least common denominators to the management schools in the last column, which shows what strategic management theories are reflected in the compared scenario planning work sequences. This result is to be seen as a complementary framework for our continuous work on formulating strategies through scenario planning.

## The theoretical field

Peter Schwartz PS	Kees van der Heijden vdH	TAIDA™	Least common denominator	Differences	→ Theories
Identify focal issue or decision Inside out perspective	Model starts by looking both internally and externally	Assumed focal question already exists	Having a mission	PS: Focuses internally first, formulate main purpose vdH: Focuses externally, no clear business idea TAIDA: no clear, external focus first	PEST analysis; SWOT (after A. S. Humphrey, Stanford Research Institute)
Key forces in the local environment by collecting facts of competitors, customers, suppliers	Carefully identify customer and societal needs Outside in perspective	Tracking of trends that might have high predictability and high impact on the scenarios	Customer focus	PS: Scan local environment, vdH: External focus, societal needs, macro	Industry Analysis (Porter, 1979)
Find driving forces in macro environment Find trend or trend-brake	Choose a strategy for differentiation and cost advantage Exploit the nature of the competitive advantage		Resources and capabilities are searched	vdH: less abstract process, chooses a strategy early TAIDA: macro environment	SWOT
Identify uncertain and important forces and key factors	The sharing of knowledge and competencies		Learning, reflection	TAIDA: vaguely described	Resource based view/VRIO (Barney, 1991)
Loop back to steps 2 and 3		Integration of resources and configuration of Business idea	Reflecting back to form business idea	vdH: focus on knowledge sharing TAIDA: vague description of what is done	Organizational Learning (Argyris and Schön, 1978; Senge, 1996)
Determine the axes and create scenarios out of forces and trends	Create scenarios	Analysis, find forces and drivers and their interaction	Find profit potential and distinctive competencies	PS: Key success factors and focal question as a base vdH: Resources as driver	Resource based view the TOWS-matrix (Johnson, Scholes and Whittington, 2005)
Apply focal issue to scenarios to find weaknesses and create a strategy	Find the fit between business idea and future risks/scenarios	Imagine – create a vision on how to reach the goals	Linking business idea with scenario logics Find weaknesses/risks	PS: find strategy, create a “story” vdH: find the “fit”, change business or competencies	Porter’s Strategic Fit (Porter, 1996)
Find out most likely scenario	Test the strength of the business idea	Decide – choose a strategy	Test/evaluation of scenarios Logic, cause and effect	PS: Choose one scenario vdH: Readiness for all scenarios?	Strategic cost management

Table 1. A comparison and evaluation of the presented models for scenario planning. The steps in each of the three models are not sequential and therefore not parallel in this picture, but the colouring help the reader to indicate the similar processes.

### 3.4. STRATEGY FORMULATION

Strategic management is a set of two main processes consisting of the initial formulation and the implementation of the strategy (Grant, 2008). Strategy formulation is defined as the environmental diagnosis and determination of appropriate courses of action to reach organizational objectives and hence accomplishing the purpose of the organization. To be able to perform this, the formulated strategy should reflect and analyze the internal and external environment. The identification of discrepancies between those has also been defined as performing a gap-analysis (Grant, 2008), which can be done by answering the following questions:

1. *Where are we now?* Perform a situation analysis (Strengths Weaknesses Opportunities Threats), a self-evaluation (Resource Based Model) and competitor analysis (Porter's model for Industry Analysis): both internal and external; both micro-environmental and macro-environmental.
2. *Where do we want to go?* In relation to the assessment of answering the first question, the overall objectives are now to be set. This involves creating images of a possible future and its objectives. (Grant, 2008)

These two steps consist of a set of tools where one, or a combination of these, should be chosen after relevance to the organization and its environment. These mentioned "tools" are similar to our findings found in the evaluation of the three scenario planning theories above: Porter's Five Forces, PEST and SWOT analysis, Resource based view (Barney's VRIO framework), Organizational Learning, Porter's Strategic Fit and Strategic cost management. This set of models and theories for analyzing a company are collected from different schools and also sometimes overlap one another.

### 3.5. OUR MODIFIED MODEL FOR SCENARIO PLANNING

Having evaluated the theories on scenario planning in Table 1, we will now connect the presented management schools into the steps in our scenario planning model that will help us to formulate a strategy, visualized in Figure 9. Our developed process is based upon the theoretical steps in Schwartz's and van der Heijden's models in general, but also influenced by the more recently developed and in practice frequently used TAIDA™ model. Our developed model consisting of six levels has similarities to Schwartz's division between the processes. We adapt the perspective of van der Heijden when constructing two parallel work sequences of partly the external and partly the internal environment. The aim is to work through the six levels to construct a way of reasoning by using scenarios in the creation of strategies for the future. By using this model, the company could also develop into a learning organization (Argyris and Schön, 1978) in their strategy work, which would increase their capabilities for creating profit even in chaotic times and at unforeseen change increases.

#### Levels 1 and 2

Initially we ask ourselves what it is we want to achieve with the creation of scenarios and hence the formulation of strategies for the future. A macro environmental analysis is conducted, where key themes in industry specific trends are identified. This could be done either through Porter's Five Forces Analysis or a SWOT-analysis. The argument for choosing a SWOT analysis, instead of Porter's industry analysis, is that we already know that the chosen industry is highly competitive and mature. This is recognized e.g. through industry maturity when industry growth is low and more or less only is about stealing other companies' customers. The differentiation is also low and there is no largely dominant firm. The fashion retail industry is no longer "attractive" in terms of industry analysis, mainly through internationalization as a driver for competition (Grant, 2008), hence the development and deployment of resources and capabilities is the primary choice for our analysis. Though, according to Grant the distinction between profit arisen from market power and profit arisen from superior resources is not so clear in practice. He exemplifies with taking a closer look at the Porter framework, where ownership of resources is the source for industry attractiveness, since barriers for entry are the results from ownership of e.g. brands, distribution channels or learning. At the same time, lack of rivalry such as oligopoly, can be the result of a more concentrated ownership of resources like distribution channels or technology. (Grant, 2008)

Strengths and weaknesses are the firm's internal capabilities while opportunities and threats are discovered in the external environment. The SWOT analysis has been criticized for being a "one shot view" of a company's situation and therefore needs to be reviewed continuously (Grant, 2008). The external environment according to critics also needs to be taken into further consideration, than what is done in the SWOT analysis. Finally, the strengths have to be critically viewed since they are not necessarily an advantage in all contexts. Because of this we choose to do a TOWS analysis, which is a version of the SWOT, but with a stronger focus on the strengths and weaknesses in relation to the context where the company is acting (Johnson et al, 2005). How the TOWS-matrix is used here, will be further described in the section Level 5 below. In our model the following steps are split up in two parallel analyses of partly the external and partly internal environment.

### **Level 3**

In this level, the effects (risks, power and influence) of the trends in the external environment are evaluated. In opposition to Schwartz, we have chosen to leave out the ranking of key trends, to facilitate thinking "out of the box". The reason is because we do not want to get trapped in a prejudiced and possibly subjective ranking of forces. What van der Heijden does here is to "exploit the nature of the competitive advantage", while Schwartz continues his environmental analysis with the identification of its important forces and key factors. Also TAIDA™ focuses on the trends' impact on the scenarios. Our conclusion with reference to Strategic Management theory would be a focus on the resource-based view (Grant, 2008) we estimate the effects of the trends in the macro environment in relation the company's business idea.

### **Level 4**

Based on the estimated impact of the external environment, the scenario logics are selected and put into two axes, which creates the scenario-cross. The logic of the axes will help us in defining the characteristics of two or more scenarios, depending on the probability and the impact of the chosen variables.

### **Levels 5 and 6**

As the scenarios are taking shape, it is time to loop back to level 1 again, as in the Business Network approach. We now start "fleshing out" the scenarios and determine their key indicators that have to be taken into account for the comparison and analysis. Implications can occur when seeing the different future scenarios through our focal question. This is according to TAIDA™ the phase of

External factors	Internal factors	
	Strengths (S)	Weaknesses (W)
Opportunities (O)	<b>SO Strategic options</b> Generate options here that use strengths to take advantage of opportunities	<b>WO Strategic options</b> Generate options here that take advantage of opportunities by overcoming weaknesses
Threats (T)	<b>ST Strategic options</b> Generate options here that use strengths to avoid threats	<b>WT Strategic options</b> Generate options here that minimize weaknesses and avoid threats

Figure 6. TOWS-matrix. Source: Johnson et al (2005) *Exploring Corporate Strategy*, p. 347

Imaging, which has a purpose of creating an understanding of the scenarios through the main business idea and the culture.

In the microenvironment, the Strengths and Weaknesses are identified in relation the macro environment and combined into strategic options through the use of a TOWS-analysis.

The last steps together further develop the company's business idea and what van der Heijden calls the aimed creation of a "reinforcing feedback loop", to improve organizational learning and increase long term profitability. In TAIDA™, the strategy is not developed until this last phase. TAIDA™ also melts together the theories from The Business Network, van der Heijden and Porter when basing decisions on "inputs such as scenarios, trends, visions and core competencies".

Our model sums up by formulating strategies in relation to the developed scenarios. By linking the effects in the industry context and the logic in the chosen scenario to the company's key strengths and the business idea, we should now have a set of formulated strategic options. Our objective here has similarities to what Michael Porter (1996) calls the strategic fit, which means forging fit among activities within the company as well as with its external environment, to create a unique position for the future.

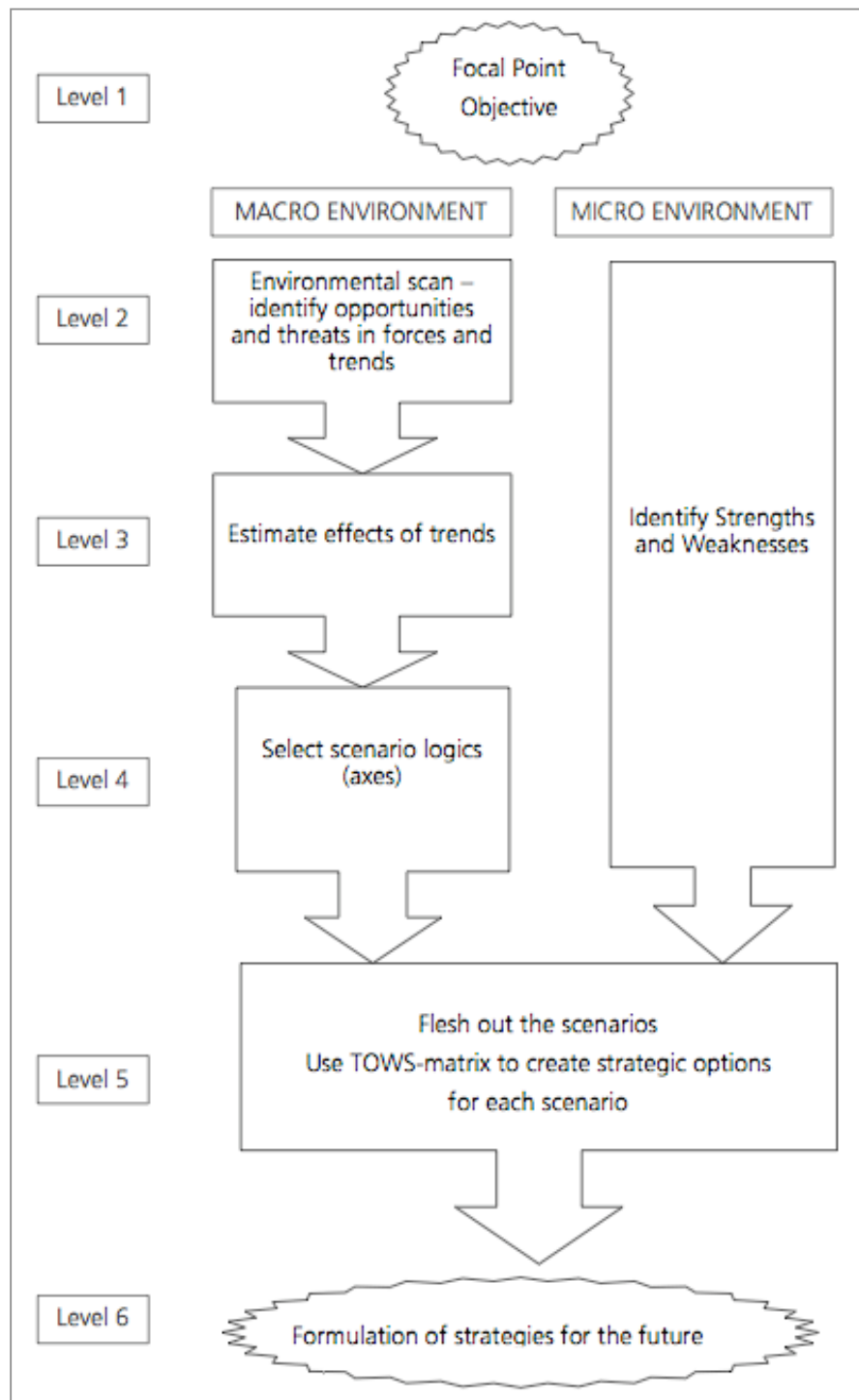


Figure 7. Our developed model for scenario planning



## 3.6. ENTREPRENEURSHIP

There is no general definition of what entrepreneurship is, but what entrepreneurs do is to seize opportunities for creating new economic value when imperfections in the product or factor markets appear (Barney, 1986; Shane and Venkatamaran, 2007). The role of the entrepreneur is either to discover and exploit market imperfections, or to create new imperfections by their acting on the market. The sources of these competitive imperfections could be technology development, changes in demand or actions by e.g. entrepreneurs (Kirzner 1973; Shane, 2003 in Alvarez and Barney 2007).

### 3.6.1. Entrepreneurial organizations

Kirby summarizes the findings from several authors (Miller, von Hippel, Kohli and Jaworski in Kirby, 2003) and acknowledges entrepreneurial businesses as innovative, prepared to take risks, proactive, close to the market and responsive to customer needs. This generalization is described further in Miller (1983, in Kirby) who says that the level of entrepreneurial orientation is determined by the ability to continuously innovate to gain competitive advantage over competitors, to be prone to take risks and to be proactive in seizing market opportunities. To minimize risks when entering a new market or launching a new product the venture has to be close to the market and proactively seek for new opportunities as a reaction to customer feedback. Von Hippel (1986, in Kirby) states that successful and innovative entrepreneurial firms are market oriented and should actively generate information about customers and competitors. This often has to be made with limited resources, especially in the start-up phase according to Kirby (2005).

In contrast to traditional, vertically structured organizations, the entrepreneurial organization needs a different structure to be fast at innovation according to Kirby. He refers to Hitt (1998) who believe that a flatter organizational structure is more time-efficient and productive. In general, the flatter structure demands a lot from its employees, as they are working autonomously and with a high level of responsibility. To be able to add value, it is of high importance for a firm not just to employ highly trained and flexible staff, but also to continue to train them (Amit et al, 2000). Flat or not, the organizational structure has importance for the flexibility of the organization. Mintzberg (1983; in Kirby) has defined the entrepreneurial venture as adhocratic and with a simple structure. The conclusion seems as if these organizations often work on a high level of chaos, or as in Eisenhardt's (2000) suggestion, that the entrepreneurial firm more or less "balances on the edge of chaos". This because managers "find themselves going

in many directions, trying to seize multiple opportunities, overcome staffing and financial problems, establish a presence in the marketplace, and keep afloat or manage greater-than-expected growth” (Eisenhardt, 2000; in Kirby, 2005).

When it comes to the time aspect, it also has to be balanced accordingly. Since entrepreneurial ventures often lack of interest in learning from lessons in the past, their focus on the future is dominant (Kirby, 2003). This makes the firm flexible and responsive to change, but in the same time vulnerable to mistakes that could have been avoided by analyzing the past, and according to Kirby (2003) the better position is on “the edge of chaos and time”.

### **3.6.2. Networks and information-channels**

One attribute that has fundamental effects on the entrepreneurial business is the entrepreneur’s “gut feel” which can be seen as the reasoning and collection of information for decision making. Research by Johannisson (1995, in Honig, B. & Karlsson, T., 2004) has shown that in the very beginning or before the start-up process has begun, having a thorough business plan is often not as essential for an entrepreneurial family business as is the support from family and the founders’ surrounding close friends – the informal network. Networks are also used to gain access to, investigate and exploit new opportunities (Aldrich, H. & Zimmer, C., 1986). These personal networks remain essential for the entrepreneur’s venture also in later stages, when expanding to become a large organization.

Johannisson’s (2000) research shows that the strong ties that are built on trust in these network structures, can help throughout the whole career of the entrepreneur since it gives substance to the network and makes it valuable.

Another aspect is personal interaction and face-to-face contact that gives more reliability for the participants in an informal network. A useful network cluster arises when each member keeps sharing their contacts to other members, which thereby helps several networks interact and overlap each other (Aldrich et al, 1986).

## 4. EMPIRICAL DATA

*This chapter is divided into two parts. We have collected data from various trend reports and articles and divided this into the following main areas of change: consumer behaviour, sustainable consumption, multi-channel retailing and the development of new technology. These macro environmental trends will likely affect the retailing industry in the future.*

*The case company, on which our model will be tested, is also presented. The data origins from personal interviews with the founder and CEO of Gina Tricot, and also the company's Store Development Manager.*

### 4.1. THE CASE COMPANY: GINA TRICOT

The empirical data in this chapter is mainly based on an interview with the founder and CEO of Gina Tricot, Jörgen Appelqvist, and Jessica Syrén, Store Development Manager (please see Appendix for the interview guide).

#### 4.1.1. Background

Jörgen and Annette Appelqvist founded Gina Tricot in 1997 and the company has since then developed into Sweden's fastest growing clothing company (Veckans Affärer, 2007-10-25). The turnover in 2006 was 701 MSEK and the expected turnover 2007 is 1200 MSEK.

The Appelqvist family currently (2007) owns 58% and an external investor named Sätilla Holding owns 42%. The CEO and founder Jörgen Appelqvist has many years experience from the retail industry, where he among other things was Vice President for the Swedish retail chain Jeans & Clothes in the 1990's. His wife Annette has a background as Buyer and Designer. For many years she run her own import agency for a textile company in Portugal, today she is product manager at Gina Tricot. The couple have two children working within the company: Anna Appelqvist who is head of the buying department and Victor Appelqvist, head of marketing. The Swedish marketing magazine Resumé, appointed Victor Marketing Director of the Year 2007. There are several people in important positions outside the family, such as the Store Development Manager Manager, Jessica Syrén.

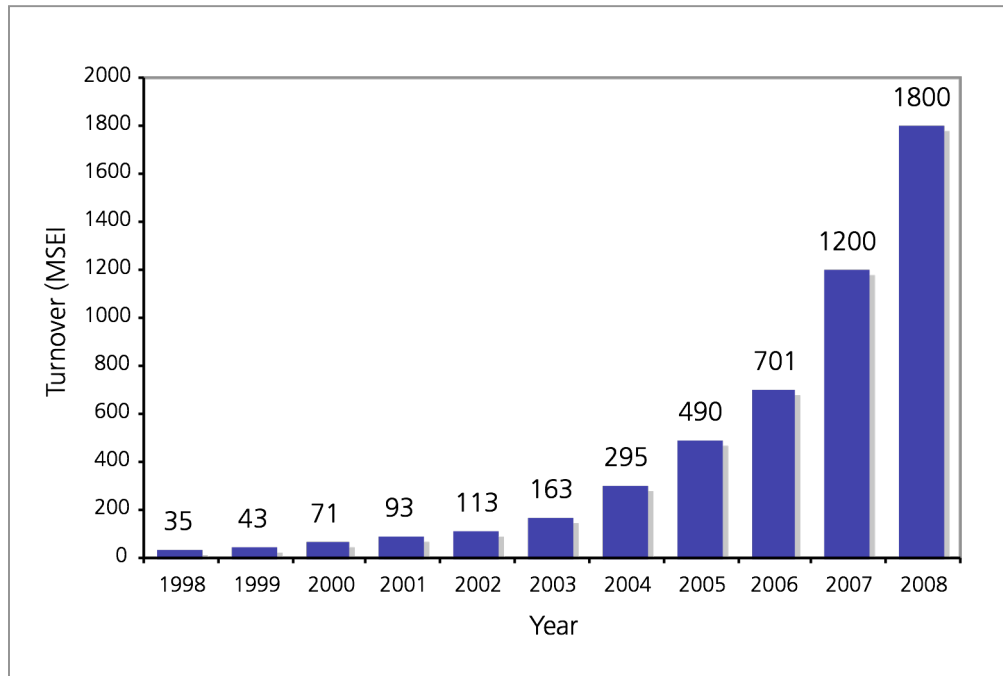


Table 2. Company figures 1998-2008 (expected)

The company logotype and the stores are recognized by their simplicity, with the use of only black and white. This is a consequence from the initial start-up years when they simply could not afford more expensive marketing material; it is also a good way of setting focus on the products, according to Jessica Syrén.

The head office is based in Borås, a town in southern Sweden recognized for its textile industry. In 2007 Gina Tricot has 80 stores: 67 in Sweden, 13 in Norway and 3 in Finland. The company is in November 2007 in the middle of signing contracts with real estate owners in Copenhagen for the upcoming expansion into the Danish market.

#### 4.1.2. Business idea

The Gina Tricot idea was born in the late 1980's, when Jörgen Appelqvist worked as vice president for Jeans & Clothes, a Swedish fashion chain. A market research presented by GfK in 1987 caught his attention as it showed that women bought a lot of tops, in comparison with other pieces of clothing. At the same time, Annette Appelqvist discovered the great potential in the tricot fabric, as these garments could be produced in a faster pace than other fabrics.

Gina Tricot's business idea is "a high level of fashion to a low price", with a new set of clothes in store every week. Since Gina Tricot has its own design

department a lot of focus is being put on catching the right trends and creating clothes with a high fashion sense. According to Jörgen Appelqvist, this makes the work of the buying department the most important part of the company. Since the supply and variety of clothes as well as the price, is quite similar to other low-cost brands, such as H&M, the question can be asked what Gina Tricot does to make them better than their competitors. When the question was posed to Jörgen Appelqvist – in what terms Gina Tricot differentiate itself from its competitors – he emphasised the great importance of product and price. When Gina Tricot decides what the price of a garment should be in store, the price calculation is based on the customers' willingness to pay for that garment rather than the production price. This combined with a skilled and trend sensitive department of buyers, who set the right quantity and purchase the right styles, contribute to the high turnover ratio. The stock turnover ratio at Gina Tricot was around 9 times per year in 2007, this is a key industry term to indicate the time each garment stays on the store shelf, and also said to be a main factor for the company's success. Jörgen Appelqvist further claims that what the company does is not innovative, they just manage to do everything a little bit better than others - "You are not more than the clothes you sell", he says.

The importance of having the right product and being in the forefront became obvious in 2000 due to a large difference between the sales prognosis and the actual result. This resulted in an initiative called the "Million programme", where the objective was to increase sales of 1 million SEK per store. This programme was intended mainly to the designers and buyers – to make them sharper in noticing what the consumers demand in addition to setting the right quantities. Jörgen Appelqvist also commented the proof that this initiative was successful, by pointing at the company's improved turnover by a doubling between the years 2000 and 2003.

#### **4.1.3. Entrepreneurial culture**

Jörgen and Annette Appelqvist met challenges in the start-up phase of Gina Tricot; there was no capital, so instead of opening their own stores they managed to recruit a group of franchisees. They managed to sign up twelve franchisees, but the sales figures were not very good in the beginning. (Holm, 2006)

Since the Appelqvists did not place any large orders with the manufacturers initially, there was also a problem in keeping the low prices. The turnaround came in the beginning of the year 2000 when the investment company Sättila Holding provided 2 MSEK, which resulted in an opening of 20 stores in their own auspices. In line with the opening of their own stores, a rapid increase came in the sales volume and turnover, owing to increased control over the value chain.

(Holm, 2006) When trying to establish new stores, problems arose with the real estate owners, since Gina Tricot wanted the best premises in the best possible locations. This trustworthiness has been improved during time, and today Gina Tricot is one of the anchor tenants in many shopping malls and retail areas, according to Jessica Syrén.

Today fast decision-makings, no manuals and a high degree of common sense, characterizes Gina Tricot's organizational culture. Jörgen Appelqvist emphasizes the importance and the power of micro decisions – those small decisions that individuals take continuously in their daily work but that might not be considered as very significant. He believes these decisions affect the company a lot in the larger context. While interviewing Jörgen Appelqvist, the flexible leadership becomes apparent, he is always available for the employees' questions.

Jörgen Appelqvist further claims that very little time within the company is spent on administration and the attempt is to employ people with an enterprising attitude and entrepreneurial spirit. Despite the quick decision style the company is relatively top-down managed, and both founders tend to interfere in all decisions. In 2004, Ernst and Young elected Jörgen Appelqvist Entrepreneur of the year, with the following declaration: *"The super-entrepreneur who, in a mature business and through innovative thinking, created Gina Tricot. With its own brand and design in fifty stores, Gina Tricot is an exciting challenger of the larger actors in the market. An energetic leadership that brings profit midst a strong growth."*<sup>2</sup>

#### 4.1.4. Networks and information collection

After the decision to start their own retail chain in 1997, the founders needed to find a producer who could manufacture their sketched clothes. They established contact with a Turkish producer with whom Annette Appelqvist had placed orders before. After some negotiations the company placed their first order of 70 pieces in different colours. This was a crucial point, since the order was so small no other manufacturer wanted to accept it, Jörgen Appelqvist said, and stated the importance of maintaining good relations with the actors in the production chain: "Today, ten years later, the same Turkish manufacturer sometimes produces more than a hundred thousand pieces per order".

It was obvious that Gina Tricot had access to information channels within the business, since the consultants at the Swedish Trade Council located in

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<sup>2</sup> Quote from diploma; "Entrepreneur of the year" in Sweden by Ernst & Young, Gothenburg, September 2004

Copenhagen, did not have much to add to the analysis about the Danish market already made by Jessica Syrén. She also told us more about the establishment process abroad in one interview. At the time of their first establishment outside Sweden, Gina Tricot had the advantage to receive several offers of good locations from crossover real estate owners who possess properties in Sweden as well as in Norway and Finland. This could be for example the big Norwegian real estate owner Steen & Ström, or the Danish property developer TK Development. These offers likely came because of the company's financial stability, and they simplified both the findings of locations as well as the relationship in upcoming negotiations for agreements of premises, says Jessica Syrén.

In another interview with Jessica Syrén, becoming the "top of mind" choice for the customer target group is mentioned as an important aim for Gina Tricot. However, apart from the personal networks and the large professional network due to the founders' retail industry experience (the "gut feel"), Gina Tricot does not mention any plans for performing any market research. "The organization is to fast-forward for that type of analysis, it takes time and costs too much", says Jörgen Appelqvist.

#### **4.1.5. Customers**

The customer behaviour at Gina Tricot is "fast fashion – quick, cheap and impulsive" according to a Norwegian journalist (Dagens Nyheter, 2007-04-25). The "mother and daughter" concept illustrates an idea that a mother and a daughter should be able to walk into any of the stores and being able to find trendy clothes that fit and suit their taste. Hence, the typical customer may not within a specific age range. But, the typical customer is disloyal and the idea is to sell fast and frequent and not relying on returning customers. Gina Tricot does not believe in any customer loyalty program. There is a challenge in attracting customers and create repeat buying, and the store location is of great importance here. To get inspired the customer often browses the garments on the company website. Jörgen Appelqvist comments the fact that Gina Tricot does not have an online shop today, but that the website is of growing importance as an attraction tool. It builds the customer's expectations that have to be fulfilled when entering any store.

#### **4.1.6. Products**

The company bases its product assortment on tricot tops, which represents a third of the customers spending. Jörgen says in one interview: "Really, everything is all about simple market trading. Our apples should be a bit sweeter, less expensive and preferably a little bigger, just a little bit – than the average salesman's next door". Gina Tricot manages to keep the costs down by not having a central

warehouse; the garments are shipped directly from the producer to the stores every week. The distribution and the sorting of the garments is managed by a third party logistics company, Jörgen Appelqvist confirms.

#### **4.1.7. Stores**

At the beginning, in 1997, new store openings were located to smaller cities in the north of Sweden. At that time, there were only franchising stores and they all opened on the same day. Today, the work is differently structured and Gina Tricot runs most of the stores themselves. "Franchising takes way too long for reaching profit", Jörgen Appelqvist says.

Locations are also chosen more carefully nowadays, the company's current strong market position makes it possible to acquire better contracts and locations. One example, which also has created some buzz in media, is their most recent 1000-m<sup>2</sup> opening at the trendy "Götgatspuckeln" in Stockholm. The size of the stores has expanded dramatically, the optimal store area is approximately 1000 m<sup>2</sup>, in comparison to some of the company's older stores that have sometimes as little as 150 m<sup>2</sup>. Because store area can be directly related to turnover, and that Gina Tricot directly notices increased sales by each extra square meter, Jessica Syrén is today working on restructuring and reconstructions of the older stores. This is a more complex process than developing new stores, according to Syrén, since the procedure of renegotiating contracts is time consuming and complex.

#### **4.1.8. Expansion**

The establishment of stores is important for the company, originally and up until two years ago, this was managed completely by the founder and CEO Jörgen Appelqvist. Today, Jessica Syrén is manager for the establishment process.

The company says in one interview that they do not follow a particular establishment strategy. Though, the entrance has to be noticed (such as three parallel store openings) and seen as a serious and continuous establishment on the new market and not assumed being a trial. This is what Gina Tricot calls "three sites establishment". In May 2007, Gina Tricot opened their first three stores abroad, in Norway, in 2007 and at the opening day 1000 pieces of clothes per hour were sold. Between March and November 2007, 13 stores were opened in Norway. Gina Tricot has experienced a fast growth and a huge demand in the Norwegian market. The customers act slightly different; they are generally financially strong and tend to buy more pieces per visit than their average Swedish customer.

The actual building of new sites in Norway has not been as frictionless as in



Sweden. The processes were constantly delayed and because of the limited supply of construction workers in Norway, a Swedish labour force had to be brought in to build the new stores in Oslo. Another issue was finding sales personnel, since working in retail is currently not an attractive job for Norwegians. Hence, Swedish staff was recruited initially. This was also a better way of spreading the company culture.

The attention is currently on the Finnish market and a grand opening of two stores will take place in November 2007. There have not been any particular issues in the launching process in Finland. This has to do with the similar business climate as in Sweden, as well as the management style in Finland that is very authoritative and reliable, according to Jessica Syrén.

The next country for expansion is Denmark, where Gina Tricot plans openings in the spring of 2008. "This is a big challenge. The companies that manage to establish on the Danish market can continue to Germany, France and England. The Danish market is a trial market where you get a receipt if the concept is internationally applicable. That is our analysis. The companies that not succeed must remain on the Nordic market. This establishment is crucial since we believe it is going to determine the company's future", says Jörgen Appelqvist in *Veckans Affärer* (2007-10-25). As mentioned earlier, Gina Tricot has been researching the Danish market by looking at other Swedish companies that have succeeded or failed, mainly in Copenhagen. According to Jessica Syrén, many have failed, except from H&M. However, Jörgen Appelqvist reminds us: "...not even H&M had a success like our in their first ten years".

#### **4.1.9. Future**

Although Jörgen Appelqvist claims that there are no outdrawn strategic plans for the company, he mentions two questions that are of great importance for the company's future expansion: How can Gina Tricot act in the future to remain a "small" entrepreneurial company with quick decisions in the internationalisation process? And: Which is the adequate establishing formula for Gina Tricot internationally that would enable success in e.g. Berlin and Barcelona?

The next phase for Gina Tricot, starting in 2008, is the establishment of several stores in Denmark. In a meeting with the Swedish Trade Council and Jessica Syrén in Copenhagen, the eventual problems related to the establishment on the Danish market were discussed. According to Peter Kemlin, the main issue is, when looking back at other companies' more or less failed attempts to establish, that it is of great importance to employ a person who knows the local market and the business culture. This is something that Gina Tricot has taken seriously and in

December 2007 a country manager for the Danish market was employed. This person is meant to have a strong focus on establishments in Denmark and eventually also for the further international expansion to neighbouring countries. The country manager will report directly to the CEO at Gina Tricot. Jörgen Appelqvist states that Gina Tricot will continue functioning as a top-down managed organisation.

## 4.2. TRENDS

*"I would give all the wealth of the world, and all the deeds of all the heroes, for one true vision"* – Henry David Thoreau

### 4.2.1. The future consumer

To give an understanding of the retail climate of tomorrow a necessity is to look at today's youth and see what underlying values and beliefs that will shape the consumer behaviour in the future. According to the book *The MeWe Generation* (2005) individuals develop values during our adolescence that will, to a large extent, follow us through life. Conducting a study on today's youth and their values can act as rough signs of how values of individuals and society in the future could turn out. The exact picture of how the future landscape will be cannot be given, but it can provide us with ideas how the future will be. The authors have studied today's youth, those born in the 1980's, and found some recurring values that can be gathered into trends to come. (Lindgren, Luthi and Furth, 2005)

One important trend that characterizes those born in the 1980's is consumption, which is also an important and natural element of their lives. The youth's relationship to the consumer society is the most important dissimilarity when comparing them to earlier generations. The people born in the 1980's have been brought up under the influence of commercial TV, and in addition with the introduction of the Internet in everyday life, they have been under constant influence of marketing as well as supplied with a wide variety of goods to purchase. This has made them into more demanding consumers as well as disloyal; they tend to consider the right price to be more important than the right brand. (Lindgren et al, 2005)

Craig Smith enhances this consumer behaviour trend, where he states that consumers value low prices, not for reasons of lack of money, rather it is the relative comfortable circumstances as well as the availability of the goods. Every

day consumers are met with advertisements of low prices, fast fashion, bulk discounts, online price comparisons and eBay auctions. This has fed the frenzy to the extent that the consumers today are loyal to the price promotion, but when it comes to the brand behind them, they are very promiscuous. (Smith, <http://www.brandrepublic.com>, 2007-10-31)

However, there is an opposite pool to this chase for low-prices – the demand for premium brands. According to Richard Watson we are slowly moving out of an era of cheap mass production into the age of customization and luxury. This meaning tailor made products, sold in stores with a high service level, limited run products or mass customisation – products that are created for specific niches and groups often with some co-creation help from the customers themselves. The author further claims that by the year 2015 the middle class in the most developed countries will have disappeared, and with them the mid-price retailers will fall. Therefore there is an ongoing polarisation between the premium sector with luxury goods and the economic sector with low prices. Although, it is no problem experiencing the two worlds at the same time: “customers can live happily in both segments, buying \$15 T-shirts one minute and \$500 jeans the next”. (Richard Watson, <http://www.nowandnext.com>, 2008-01-03)

#### **4.2.2. Sustainable consumption**

The eco-movement has lately got a lot of attention in media. Recently released scientific reports as well as Al Gore’s global warming documentary film *An Inconvenient Truth*, have raised the consumers’ awareness about environmental matters that are affecting our planet. Kathy Child, retail analyst at Mintel, claims that “Consumers are steadily becoming more environmentally and ethically aware and retailers know that they have to respond. Retailers know they could risk their reputations and their customer base if they are seen not to behave ethically”. (Daily Mail, 2007-12-10)

The apparel industry feels the pressure to increase their ecological and ethical production. Compared to a decade ago, women’s clothes today are 40 percent cheaper, and we buy twice as much. Tighter squeezed profit margins make campaigners point out that the price of the cheap clothes are paid by those that work at the bottom of the supply chain. As the customer starts to wonder whether the cotton to the bargain dress was picked by a child in e.g. Uzbekistan and then produced by an underpaid worker in a sweatshop in Asia – the low price might not just be worth it. The demand for organic and fair-trade fashion increases in line with that awareness increases. Once the style, fabric and cut of ethical clothing was very untrendy, but today there are brands like People Tree and Edun that have produced fashionable ethical clothes. (Daily Mail, 2007-12-

10)

According to Richard Watson consumers will in the future, before purchase, interrogate brands online to see where the goods are manufactured. Customers will also be able to use their mobile phones to scan products in supermarkets to check the brands' ethical policy – in Japan this is already a possibility. Retail concepts that are ethically based, such as the Body Shop or Fair Trade products, will experience strong growth in the future. Although, there will be limitations to this growth, which is the customers' willingness to pay or the customers' feeling of inconvenience. (Watson, <http://www.nowandnext.com>, 2008-01-03)

### 4.2.3. Multi-channel retailing

The rising use of the Internet opens up a new channel for retailing. Today and in the future a company can only be competitive if it is present on the web. An advantage of using the web as a channel for retailing is the big potential for reaching new markets. The increased use of computers as well as high-speed Internet access, leads to increased knowledge of retail sites as well as the adaptation to shopping on the Internet. Broadband connections has made it feasible for shoppers on the web to quickly download images of products and to complete the purchase within seconds, in contrast to several minutes using old dial-up connections. Customers see greater benefits of shopping on the web than before, such as timesaving, flexibility and convenience, in comparison to shopping in regular brick and mortar stores. (Arnberg, Bergström, Prochazka and Vestin, 2006)

According to the article "Is the future of retail online or can the high street be revived?" in *Marketing* on the 4<sup>th</sup> October 2006, retail online is without a doubt a part of retail's future. The question is whether it will replace bricks and mortar stores or not, if retailers manage to provide a good in-store experience, online retail will not take over totally. Retailers that encounter fading in-store sales must concentrate on providing a shopping experience that is either comforting or exciting. If they simply just continue delivering more of the same service, customers might as well do their purchases online. The new focus must be on the customer's shopping experience in the stores, from displaying to service to the after-sales, to attract customers into the stores.

In America there has recently been a huge growth in online retailing of clothes. Before, many clothing retailers feared that the majority of shoppers would always stick to the habit of trying on clothes, feeling the fit of a given size as well as the fabric, before purchase. Since online retailing was born a decade ago, for the first time, the sales of clothing have risen above those of computer software and

hardware. In 2006, The American consumers bought clothes and shoes for \$ 18.3 billion on the web, exceeding the online purchases of \$17.2 billion for PCs, computer software and printers. Scott Silverman is executive director of Shop.org, the group that released the report. He stated: "If you are looking for a sign that online retailing has really gone mainstream, I don't think you can find a better one than this". (New York Times, 2007-12-22)

#### **4.2.4. New technology**

Improvement in technology will always help companies become more efficient. A new type of technology that will improve the effectiveness in retail companies' value chains is the RFID, radio frequency identification technology. This is a broad term for any kind of technology that uses radio waves to automatically identify objects or people. The most common way is to store a serial number on a microchip that is attached to an antenna, a RFID tag, which identifies the object or the person. The identification information is transmitted via the antenna, to a reader that transforms the radio waves into digital information, which in turn is passed on to a computer that can interpret it. RFID technology can be used in payment systems, access control and tracking of assets. RFID readers could for example scan the customer's bags at the store exit and automatically withdraw money from the customer's mobile phone, which is linked to a credit card or bank account. Retail companies can use RFID to track goods within their supply chain and to monitor work in process. Through the use of RFID, administrative errors can be reduced, the labour costs associated with scanning of bar codes can be cut down and errors in the shipment of goods as well as the overall inventory levels can be improved. The RFID contributes to a company through a streamlining of the supply chain, which probably will lead to improved levels of goods in store, as well as to cost reductions. (RFID Journal, 2002; electronic source 2007-12-27)

RFID tags can also be used as triggers for promotional messages while the customer is in the store. Through an installation of RFID antennas and video monitors in the fitting rooms and in the store and the attachment of RFID tags to every piece of clothes, the customer can get a picture on the video screen of the chosen clothing piece that shows more in-depth information of colour and fabric as well as additional items related. As a customer you can flick through accessories that would go with your chosen clothing piece, on the screen, as well as seeing the item on the runway show. This could become an important tool for the sales associate, which can use the screen to up-sell by showing the customers items that might go well with their potential purchase. (RFID Journal, 2002; electronic source 2007-12-27)

## 5. ANALYSIS

*In this chapter, the reader is presented with an analysis, which is structured after our own developed model for scenario planning. The analysis starts with the focal question and then builds out toward the environment. A set of likely scenarios is created as a result of an evaluation Gina Tricot's capabilities, as well as looking at trends to come in the future that will have probable effects on the retail business. The case company's characteristics are thereafter put into each scenario's context, and based on Williamson's theory, the analysis ends up in the formulation of strategies for Gina Tricot that are designed to match the future scenarios, thereby creating a portfolio of strategic options.*

### 5.1. TESTING OUR MODIFIED MODEL FOR SCENARIO ANALYSIS

As a reminder for the reader, the sequence of the analysis work is as shown in the picture below. The time frame for the scenarios created in this analysis is set to approximately ten years.

#### 5.1.1. Focal question

As stated earlier in the problem discussion, Gina Tricot is going through a phase of fast international expansion. Coming up next are several establishments in Denmark in 2008 and the aim is to further establish in Europe. The company sees succeeding in the Danish market as an acknowledgement for their future expansion. Without any set strategies, we see that the most important question for the future to come would be:

*"What strategies would be appropriate for their successful international expansion in a long-term perspective?"*

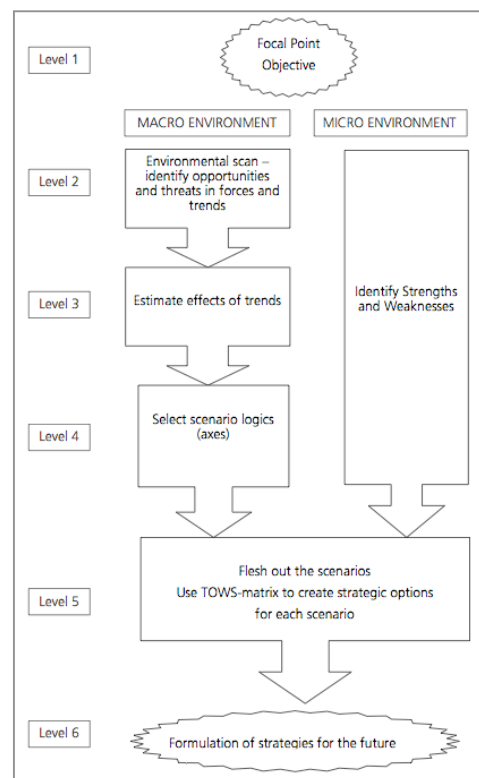


Figure 9. Our model for scenario planning

## 5.2. ANALYSIS OF THE MICRO ENVIRONMENT

### 5.2.1. Strengths and Weaknesses

The founders' broad fashion business experience and the entrepreneurial culture, such as learning by doing and learning by failing, is an important strength in the company's fast expansion process, which is also stated by Kirby. This characteristic has influenced the decision-making in the management team, which is fast and based upon trust and the individuals' micro decisions. Also, according to Johannisson's research (2000), the existence of trust in network structures will have enhanced importance when the company expands internationally. One example of important relations is in the supplier network, which today is located in the European area (Portugal, Turkey) as well as in eastern Asia (China, Bangladesh). The producers in Europe are mainly the result of long-term collaborations, hence of great importance for the company in keeping their flexibility. As the competition increases, information channels such as personal networks will continue being important e.g. in the negotiations with real estate owners.

Further, a flexible organization with a minimized administration, the CEO and the management team present in the daily work, enables the company to seize opportunities as they appear (Kirby 2003). The company's financial stability and ownership structure also helps in new establishments and initiatives where they do not have to meet shareholders requirements on profit. Finally, all the above together with the chosen relatively simple concept has placed Gina Tricot within a niche with a strong focus on high stock turnover and large volumes. We believe this focus is an important success factor, if they also manage to keep up the pace of the "trendiness" of the collections.

This leads us to the weaker parts of Gina Tricot. The effects of the earlier praised entrepreneurial culture could also be damaging in terms of high costs for failures when the company grows (such as risks with having the courage of opening too large stores during peak periods). We therefore believe there are risks related to not being able to communicate a clear business strategy. Especially for the senior management team, which thus far manages to be present and keep a top-down managed structure at nearly all times. As stated by Gibbs, for an entrepreneurial company to be fast at innovation and keep up with changes in the market, there is a need for a flatter organization, which in Gina Tricot's case is the opposite and could therefore represent a weakness for the company in a fast expansion (Kirby 2003). Regarding the maintenance of a successful buying and product design department we believe Gina Tricot's plain design concept, with for example only

relatively few colors each season, can work well also in the case of extensive international establishments.

Hence, geographical growth also demands a heavier workload for the buyers. The buying department has a crucial role for a fashion retail chain's ability to keep up with trends. With a fast expansion the buying department might lose their lead in purchasing carefully selected trendy clothes. Problems may arise in trying to satisfy the growing customer base with new clothes every week that the buyers might not make the cautious purchases that today characterises this department. If Gina Tricot does not start working consciously on routines for internalizing the company culture, there might occur problems such as difficulties with employing competent buyers and designers to the head office's location in Borås. Also, the readiness for online business and marketing has to be taken into consideration: are Gina Tricot using too few, or the wrong, channels for being recognized internationally? Von Hippel (1986; in Kirby, 2005) stresses the importance of actively generating market information, which we thus believe will be increasingly important for Gina Tricot's investment decision for as a new actor internationally. Finally, the ownership structure with an external, and so far "silent", owner of 48% could possibly affect the Appelqvist family's incentives for a future expansion.

## 5.3. ANALYSIS OF THE MACRO ENVIRONMENT

### 5.3.1. Opportunities and Threats

If the "Fast fashion" consumption life style continues in Europe, Gina Tricot seems to have the right niche to meet that demand. The curiosity among consumers and constant craving for new brands and store concepts opens up opportunities for Gina Tricot. We especially believe in their possibilities of anchoring their image in the footprints of precedent Swedish fashion export, which is renown in Europe for good quality and high level of style. Thus far, the establishment work (e.g. negotiations for contracts) seems to have worked out in Copenhagen. The Danish market is associated with more difficulties than the other Nordic countries, according to Gina Tricot and the Swedish Trade Council. Hence, for each successful step they take in Denmark, their opportunities for a continuous success in Europe increases.

For a retail fashion chain with a focus on keeping costs down to maximize profit, the use of technology is an important factor for streamlining and effectiveness, leading to even higher margins. Also the opportunity to discover the up and



coming RFID techniques will further create transparency and opening up new information channels to a growing customer target group. Gina Tricot's business idea has many similarities with competitors like H&M. We therefore see an incentive also for Gina Tricot to deliberately leverage the company image for a good cause by initiating projects and collaborations with e.g. famous designers or role models in society.

The threats in the macro environment are not absent. International competition will without doubt increase; also the entrance of international fashion retailers to the Scandinavian market is likely a threat (e.g. the establishment of the German fashion chain New Yorker in Sweden). The high level of competition in the mature fashion business creates difficult negotiations for getting A-locations and in shopping centers built more for internationally recognized firms (such as GAP and H&M). Moreover, Gina Tricot is an unknown brand outside of Sweden, Norway and Finland, which is a threat if they do not invest in the right marketing campaigns and public relations. The spreading of "eco-awareness" among consumers as well as producers, political restraints leading to higher costs for shipping, pressure from media and consumers; all call for actions on social responsibility. The increased transparency is also a potential threat for the maintenance of the value chain as it looks today. The final threat found in the European macro environment is that there are other political forces to be taken into account. For example in Germany, the unions and workers' rights are strong, which could result in higher costs for personnel and costs for managing the jurisdictional complexity.

### **5.3.2. Estimation of the effects of trends**

The retail business, whether it is high fashion or low-price retail chains, will in the future experience a lot of pressure from trends in technology as well as changes in consumer behaviour. The trends identified earlier in the empirical chapter are all important factors with large impact of the future growth and establishments of retailers. These trends are: the disloyalty to brands (Lindgren et al 2005), the direction towards low prices (Craig Smith, [www.brandrepublic.com](http://www.brandrepublic.com)), increased sustainable consumption (Shoshana Goldberg, Daily Mail), the development into multi-channel retailing (Michael Barbaro, New York times) and the rise of the RFID technology ([www.rfidjournal.com](http://www.rfidjournal.com)). These are a few representatives, but they likely represent the major macro environmental developments according to our research. However an uncertainty will always be present in how these trends will develop as well as within what time frame. We have chosen to look at the development in a ten-year perspective.

When looking at the trends to come in relation to the focal question stated earlier

for Gina Tricot identifications can be made of those trends that will come to represent the greatest effect for the company's expansion. Since Gina Tricot's business idea is "a high level of fashion to a low price", which relies on selling big quantities, the trend of sustainable consumption might have a big impact on where the company choose to produce and as well as the logistics system. The trend of multi-channel retailing could also represent a big threat to Gina Tricot's establishment process since they today only uses single channel retailing to reach their consumers. The introduction of RFID technology is an important improvement in technology that we believe soon will be a possibility for retailers, but related to the focal question it is not a trend that will have an immense influence of Gina Tricots future establishments.

### 5.3.3. Creation of scenario logics

The above selection of those two trends that we believe will have the greatest impact of Gina Tricot's future establishments creates the scenario logics: multi-channel/single-channel and mass consumption/sustainable consumption.

The Multi-channel/single channel scenario logic illustrates the characteristics of the value chain from the producer to the potential consumer. In the definition of single-channel, the retailer uses the traditional brick and mortar stores to reach their end customers. The definition of multi-channel comprises new ways and channels to reach the customers.

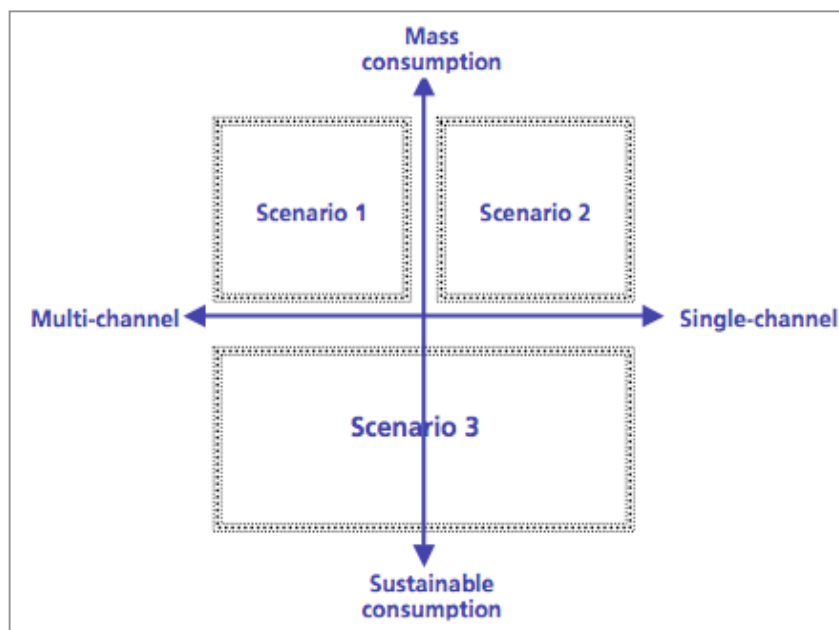


Figure 10. Our scenario cross

The Mass consumption/sustainable consumption scenario logic illustrates the shopping behaviour of consumers. In the direction of mass consumption the buying behaviour is fast, cheap and in large quantities. In the other direction we find sustainable consumption where the consumers are more aware of what they buy in terms of ethical and ecological produced products and have a more selective buying behaviour.

The reflection of Gina Tricot's business in these logics, visualizes a set of scenarios, which are illustrated below. In the case with a focus on sustainable consumption, we do not believe in a clear distinction between the multi- and single channel segments since this scenario would demand a rather radical change of the whole production chain for all retailers in the business. Hence, one scenario is visualized in the direction of sustainable consumption, as seen in the picture of our scenario cross.

#### 5.3.4. Scenario illustration

##### **Scenario 1: Anytime & Everywhere**

**Consumer behavior:** The trend of mass consumption has endured and enhanced, where consumers only seek low prices and discounts. Personal branding has become very important where the customers tend to "buy" a personal image. Consumerism is the new "religion" where people are more loyal to the design and price of the clothing piece rather than the brand behind them; they want maximum value for their money. The demand is also to be able to shop anywhere at anytime since consumers tend to live a more hectic life; this makes the web an attractive channel in addition to a growing demand for stores to have longer opening hours.

**Technical improvement:** The increased use of computers and the more hectic lifestyle of consumers, result in that more and more purchases are made online. The consumers have their own shopping sites on the net where information is stored about their earlier purchases and preferences. The increased e-commerce results in a creation of global distribution companies that build up logistic infrastructure, which improves the cost effectiveness and makes the e-commerce feasible. Because of this the purchased products will be delivered within the next day and the return policies are very generous.

**Marketing:** The consumers' disloyalty to brands as well as the fast fashion behavior makes it important for companies to be seen in the jungle of retailers. This creates a need for retailers for always wanting to be present with their product in every possible channel that the potential customer might come across. The aim is to be the top of the mind company, where customers tend to visit often. The marketing is offensive and all channels are used; outdoor, magazines, television as well as online. The most frequently used marketing tool however is the online channel where customized offerings are addressed to the customers' personalized shopping sites. The customers are also caught in store and guided via messages to their mobile phones to the retailers website.

**Establishment:** In alignment with the customers' hectic lifestyles and that increased purchases are made online, consumers tend to use brick and mortar stores more as showrooms and then make their actual purchase online. The importance for retailers is to have their shops in the best locations where they can catch as many customers as possible, which makes the competition fierce among the best premises as well as drives the rents high. For retailers this means establishing fewer stores in the right locations in addition to an optimized online shop.

## Scenario 2: Attractive to Everyone

**Consumer behavior:** Consumers see shopping as a way to socialize as well as a pleasure and are spending increased time in stores as well as in shopping centers. At the same time they tend to be disloyal to brands, instead it is the price and the in store experience that settles the decision to purchase. The consumer is unpredictable and is easily living in both worlds, buying premium products as well as low price goods.

**Technical improvement:** The high implementation of the RFID technology in stores as well as the payment system has made retailers more efficient and cost effective. The technology has led to improved stock levels and decreased amounts of personnel in store. In each store RFID chips and antennas, together with video screens are installed, where the staff use this to give the customer increased service as well as a tool to up-sell. Customers are then given a bag to put the goods into and while walking out of the store the RFID antennas scan the bag and the money is withdrawn directly from the bank account, via the customer's mobile phone.

**Marketing:** For retailers the stores are the main marketing tools and these are created as showrooms for inspiration where the full assortment is displayed, and used as relationship builders with customers. Through a marketing aspect, the

greatest importance is being in the right locations where most customers pass. Retailers also see the importance of the well trained and service minded staff that can communicate the brand to the customer in a good way and represent the company image. These are ambassadors for the brand as well as the company's "face" to the consumers.

**Establishment:** Because of consumers' increased brand disloyalty and the search for experiences while shopping creates a desire for retailers to be situated in A-locations as well as in modern shopping centres. The importance is to deliver a good in store concept: from display to service and the after-sales. The high competition for attractive locations raises the stakes for establishments, and the rents per square meter are very high.

### Scenario 3: Adaptation to Ethics

**Consumer behavior:** A new global political restraint on the discharge of carbon dioxide has been introduced in the world economy. Companies generally place the higher transportation costs on the consumer, in terms of higher prices of products. This reduces the speed of the consumption while people are becoming more demanding of what they purchase. Increased awareness of consumers on more ethical and ecological production leads to a raised demand for more sustainable products with higher quality.

**Technical improvement:** Due to the improvement of RFID technology customer's can use their mobile phones and scan the products in store to check the brand's ethical policy. Consumers also scan the web on where the goods are produced to see whether these products are ethical and ecologically sustainable.

**Marketing:** For retailers there is a strong focus on keeping the right image of the company. The aim for companies is to team up with organizations that are working for a good cause since this is the only type of marketing that the consumers are open for. The marketing trend for companies is to do something "pro bono", only then can the consumers consider the brand. The consumers are both aware and demanding of what type of marketing they want to adopt; there is a constant search for authenticity in the marketing message.

**Establishment:** Because of the political restraints on the discharge of carbon dioxide many people have had to change their car for public transportation. Retailers need to be located in areas that customers easily can reach by trains or buses, in other words most city centres and in shopping centres. The customer requires customized shops or personalized e-commerce, where a lot of focus is being put on authenticity and sustainability.

## 5.4. THE FUTURE STRATEGIC FIT – GINA TRICOT'S POTENTIALS IN EACH SCENARIO

### **Anytime & Everywhere**

The higher demand for multi-channel retailing and the increased spending of consumers creates both openings as well as risks for Gina Tricot. Since the consumers seek low prices and discounts, Gina Tricot's business idea: "a high level of fashion to a low price", creates a good fit with the prevailing the consumers' behaviour. As stated earlier the strength for Gina Tricot is the entrepreneurial spirit with a flexible organization and minimized administration. This short decision style can help in fast reacting to the customers' rising demand for online retail. The need is here to increase the opening hours as well as develop a well-functioning online shop. Since Gina Tricot already uses a third party logistics firm they could integrate them in the delivery of the online purchases to make this process smooth and well suited to the customers' lifestyle.

Since the consumers have their own shopping sites, where personal information is stored, this represent a great marketing opportunity where Gina Tricot could easily direct customized offerings to all their consumers. The Gina Tricot stores should be situated in the best locations where most consumers tend to pass. This could be done by only opening one big store in the right location, which would have the total assortment and designed as an inspiring showroom. While visiting the store the customers can then be guided via messages to their mobile phones to Gina Tricot's online shop. Due to customer's increased brand disloyalty it will be crucial for the Gina tricot to maintain a "top of mind" thinking of the consumers, this through effective marketing as well as continuing the "new fashion every week" concept.

### **Attractive to Everyone**

As consumers see shopping more and more as a pleasure and a way to socialize, they tend to increase the time spent in stores and modern shopping centres. The consumers seek stores that have either good prices but also those that provide a superior in-store experience. In this case the most important marketing tool for Gina Tricot is the store and the shopping experience that can be created. In the process of establishments, to attract customers, the need for Gina Tricot is to open stores in A-locations and in modern shopping centres. As mentioned earlier, the already created network of crossover real estate owners is a great strength for Gina Tricot in this expansion process. Through this network and the company's existing reputation in Sweden, they can easily get hold of good premises in other

countries in Europe.

Gina Tricot's stores should in this scenario deliver excellent in-store experience, displaying the clothes in a good way as well as having well-trained staff. The personnel should be recruited carefully and a necessity is that they all carry the latest Gina Tricot clothes, since these are the ambassadors for the company. To increase the in-store experience RFID technology can be used as a tool to up-sell as well as delivering an extraordinary store experience. The RFID technology could also reduce the amount of employees in the stores as well as contribute to efficient stock levels, since the high stock turnover ratio, as stated earlier, is one of Gina Tricot's main strengths.

### **Adaptation to Ethics**

As Gina Tricot expands geographically, the produced quantities rise, which will move the major part of the production to eastern Asian countries such as China and Bangladesh. The rising costs for transportation from these countries to Europe, result in higher costs for the consumers. This challenges Gina Tricot's business idea of providing "a high level of fashion to a low price", where consumers seek sustainable products and are very demanding of what they purchase. The alternative for Gina Tricot is to offer mainly tricot clothes that are produced within the European Union. One of the strengths earlier mentioned, is that the company today uses producers that are already located within this area, and this could be further extended.

Since the customers can check Gina Tricot's ethical policy via RFID in their online mobile phones or on their computers, the awareness has increased on whether the clothes are ethical and ecologically produced. The need for Gina Tricot is to start working on their social responsibility and try to produce more clothes using ecological fabric while still maintaining the high fashion sense. This will represent a challenge to the company's business idea and will probably end up in raised clothing prices for the customer.

Since consumers seek authenticity in the marketing message Gina Tricot should try to team up with organizations working for a good cause, e. g. the Hand in Hand organization ([www.hihseed.org](http://www.hihseed.org)). The need for the management at Gina Tricot is to internalize the company culture to the employees in the stores and strive for an overall openness and transparency. By this initiative the personnel in the store can give a conscious and authentic impression. Gina Tricot's shops should be located close to store clusters and city centers, easy to reach with public transportation, where there are also possibilities to buy other things, such as convenient goods. In this scenario Gina Tricot's business idea could also be

optimized through the development of extensive e-commerce, where the products continuously will be shipped directly from the distribution warehouse to the customer's door.

## 5.5. FORMULATION OF A FUTURE STRATEGIC PORTFOLIO

By following our theoretical framework and the modified model for scenario planning, three scenarios have taken shape. The results from the macro and micro environmental analyses of Gina Tricot have thereafter been applied to each scenario.

According to P. J. Williamson's model, Gina Tricot can establish a portfolio of strategic options by creating new capabilities and knowledge of potential markets. Initially we found out that Gina Tricot is neither a Prisoner nor a Trader, but they are lacking strategy ambitions and therefore there is a risk to be caught in either of the boxes as a consequence of not investing in the right capabilities when expanding internationally.

To exemplify, Williamson divides capabilities into six levels: Technology, Quality, Cost control, Service, Variety and Global supply (see also Figure 3). In Gina Tricot's case we found that these criteria were not yet enough fulfilled for the company's capability of maintaining a continuous success for further expansion in Europe. In the perspective of a wider international expansion, we see Gina Tricot both as Prisoner and a Trader. Their strength is the Cost Control and strong focus on a profit driver; their simple yet fashionable design concept which is optimized through keeping costs down in the production chain and focusing on large quantities and a high stock turnover. This concept will likely work out also when expanding on the European market. There are also risks. The buying department today seems to be one the company's most important assets, and this department together with the all other parts of the organization, must not lag behind due to extensive growth (such as education, administration, recruitment of skilled personnel). As well as investing in keeping wide capabilities, investments in marketing and maintaining the information-channels are also important. If they do miss out on investing in these, Gina Tricot will become Traders, which can become expensive due to e.g. sudden investments in technology, RFID, e-commerce.

The three scenarios and their strategic options created through our model for



scenario planning are now evaluated after the risks as well as the estimated probability for each option, in relation to the strengths of Gina Tricot.

### **Anytime & Everywhere**

Despite Gina Tricot's entrepreneurial characteristics in decision-making and structure, the company is clearly top-down managed. For a successful investment in the multi-channel option with increased online marketing and e-commerce, the senior management has to fully support the decision for a fast and cost-effective implementation. The new e-business has to fit with the company structure and values. This option would imply a change in the value chain and high costs for implementation due to the likely need for a larger administrative department as well as the costs for customize the logistics system.

To increase the probability of realizing this option, Gina Tricot has to further develop their strong networks as well as invest in channels for generating market knowledge. Finally, the company has to develop new ways to reach the consumer and discover the appropriate marketing channels for their European customer.

We believe this option is important and very likely to occur, but the relatively high costs for implementation decreases the probability for Gina Tricot to realize it fully.

### **Attractive to Everyone**

The characteristics of this option are similar to the current direction of Gina Tricot, with the focus on large store in attractive locations and the redesign of older stores and franchisees. For this future option the store will be used as the main marketing tool, and even if Gina Tricot keeps a low price/volume focus that matches the mass consumption lifestyle, this option requires the creation of an excellent in store experience. Increased used of technology such as RFID could be a cost-effective way of keeping track of the products, which would enhance the level of customer service. This could also enable lower personnel costs by making the work in store more simple and organized. Hence, the company's capabilities of fulfilling the Global Supply would increase, when opening many new stores internationally.

Attractive stores must also be located in attractive locations. It could constitute a risk for Gina Tricot with fixed costs and commitments in the opening of very large stores when business is going well. Rents per square meter are increasingly high, and it takes a great effort, luck and financial stability to maintain a good position when negotiating with the owners of real estates.

Since this option can be seen as a reinforcement of the business today, it is also more likely to occur. However, there are also risks associated with the investments that have to be made to avoid falling behind in the increased international competition.

### **Adaptation to Ethics**

The option of adjusting the business idea to a more or less dramatic change of the external environment obviously implies many risks. The more cost-effective alternative could be to continue running the business on a smaller scale, in other words staying on existing Nordic market whilst trying to conform to the required adjustments of the value chain, political restraints and customer demand.

There is no clear distinction between multi and single channel retailing, even though there is a bright future for e-commerce in this scenario. The importance lies in the owners' belief in this option's profit opportunities. We believe the fundamental change pictured in this scenario will most likely change the conditions for the retail industry in general. This implies that Gina Tricot might be able to stick to their business idea and keep a low price/high volume focus, relatively their competitors.

Gina Tricot has a flexible organization with a small administration, and also good relations with suppliers located in Europe. We therefore believe they have good opportunities of adapting to the external environments demand for ethical actions such as customer social responsibility, environmental sustainability and organizational transparency.

However, this option might not be as likely as the two already formulated, but this option could add long-term value as a complementary vision to create a readiness for a future fast adjustment to change. What Gina Tricot could initiate already today, are pro bono collaborations and supporting voluntary organizations that are working for a good cause.

### **Balancing planning and opportunism**

To create and maximize the strategic space or strategy ambitions (see P. J. Williamson) for Gina Tricot, we now discuss our findings. The strategic options have to be put into the entrepreneurial context where Gina Tricot is acting. Gina Tricot as an established retail chain may no longer be seen as an "entrepreneur" per se, but their opportunism lies within the entrepreneurial culture and should be preserved within the company culture. Entrepreneurial firms this means their strategic portfolio should be striving to keep opportunism within the boundaries

of the business idea and “balance on the edge of chaos” (Eisenhardt, 2000; in Kirby, 2005), as their level of opportunism is high and planning has a lower priority.

The analysis of our findings indicates Gina Tricot deliberately should work towards the implementation of strategic planning before realizing an extensive international expansion. We believe an appropriate strategic portfolio should consist of a combination of the following strategic options for the future: *Attractive to Everyone* will become the dominant strategic option in the future for Gina Tricot. *Anytime & Everywhere* will with little doubt be an option of high importance for the industry within a near future. Therefore we think the work on implementing this strategy should start as soon as possible, e.g. considering the e-commerce alternative as well as examine the possibilities of implementing RFID technology. Finally, to optimize the portfolio and prepare for the adaptation to macro environmental trends, the *Adaptation to Ethics*-option should be kept in mind and used actively in a long-term perspective.

Our concrete proposals for action to avoid the Trader/Prisoner dilemma in the internationalization process:

- *Recruit a country manager in each new region who can transfer knowledge and maintain important networks in neighbouring foreign countries*
- *Start with e-commerce, a first trialling step, today*
- *Invest in the following important areas: new marketing channels and new collaborations for a good cause, larger investments in the generation of knowledge about consumers and finally education and efforts to become an attractive employer for highly skilled personnel (especially within buying and design)*

## 6. FINAL DISCUSSION AND RESULTS

*This is our final section where a reflection upon the research is made, the testing of our model is discussed and the results are presented.*

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The starting point of our work involved a review of the scenario-planning concept. To us, they appeared vaguely described and complicated, with unclear parallels to strategic management theory. Hence, we saw a need for filling the theoretical gap between the rhetoric of scenario planning literature and the strategic management field. The result of this research was a more structured modified model. We showed that scenario planning is based upon macro and micro environmental analyses, and the tools used were the SWOT/TOWS analysis, the resource based view on capabilities within the firm and their relations to Porter's strategic fit. Finally the model has links to organisational learning since it aims to create a self-reinforcing feedback loop for a company's further success. We are aware that our own presence and values have affected the outcomes of this work. In the evaluation of the different scenario planning theories, we chose to e.g. exclude the industry analysis in benefit of a more extensive SWOT/TOWS analysis. This could affect the level for generalisation of our model in terms of competitive environment; however, there are likely several links to strategic management theories we have sifted out. We believe – and it also shows when looking at the results – that the chosen theories form a basic but adequate foundation for our analysis.

The choice of case company was of importance for our study, since the result that came out when testing the model would indicate whether the model would be applicable on other companies. The choice of company was appropriate due to its current work in establishing, experiencing intensive growth and internationalisation in a mature industry – despite the absence of a formulated strategy. By focusing on a firm of medium size, and where the owners are participating in the daily work and decision making, a lot of valuable information could be collected which gave a comprehensive view over the company. This leads us to the question whether the model can be used on any company. In a case where there is limited access to information, or where the information sources are not able to provide a wide picture of the organization, the model will likely give a less useful result for strategy formulation.

The entrepreneurial character of the case company contextualized our research,

but it did not affect our modified scenario-planning model. However, we believe that scenario planning could be more appealing to similar companies, with entrepreneurial culture or with a management that is not as willing to formulate a strategy. This because the unknowable aspects included in the scenarios implies risks that entrepreneurial managers might be more willing to take.

In addition, it also has to be further researched whether the model works for a company that already has formulated a set of clear strategies, since their presence might restrain the formulation of new strategies as well as “outside the box”-thinking.

### **Result**

Based on the above discussion, we believe that our model can be useful in repeated studies of other companies. It has been clearly formulated and has parallels to strategic management theories, making it understandable and easy to follow. It also aims at creating a way of thinking in the company’s strategy formulation process. The case company constituted a representative subject of study, which supports our conclusion that the model can be used at least on companies in a similar situation or contexts.

## **6.1. FUTURE RESEARCH**

It would be interesting to follow up the work of our model, and particularly to conduct a case study of a company in another context, using and thereby further testing our model.

The risks and costs for the strategic options could be the subject of a future quantitative analysis or another study focusing on strategic cost management. What also could be of interest is to discover why so many retailers seem to fail in their attempts to establish on the Danish market.

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## APPENDIX

### **A. Interview guide: Themes for interview with Jörgen Appelqvist, founder and CEO of Gina Tricot, and Jessica Syrén, manager for establishment of stores**

Please tell us about yourself and the story of the family business Gina Tricot  
How would you describe your business idea? Organisational structure? Products and customers?

Tell us about the idea of expanding internationally. Why has it been a success so far?

How many stores do you have today and how many will you have in five years?

What has affected the financial development of Gina Tricot during the years?

Any specific actions that gave result?

Networks and information channels: how do you keep good relations with suppliers and producers? Do you have any specific policies for these partnerships?

How about networks for real estate?

Consultation: have you used any consultant services or do you plan to do it?

Business intelligence work (e.g. market research and analysis): How would a future expansion affect your way of collection information about the business environment ("business intelligence")?

Competitors?

Vision: Tell us about the idea of establishing a retail chain right from the start?

What is your business strategy?

Competitive advantage: Business specific? Key indicators of success?

What is entrepreneurship for you?

Core values and Culture: How would you describe your company culture and values?

How do you succeed in transferring the family's way of thinking, values etc to the rest of the company?

What risks/possibilities/challenges do you see in a fast expansion?

How do you generate new ideas?

Planning and investment decisions: How does it work at Gina Tricot?

What are your requirements for profit? How do you calculate new establishments (and who does it)?

What financial ratios are most important to you and why?

Do you prefer to make short or long-term plans? Both? No plans?