

Steady Time



Real Time



Zero Time

SCENARIOS FOR THE FUTURE

THE ARIZONA REPUBLIC

Scenarios for the Future

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About this book

For the past three years, The Arizona Republic has published an Annual Operating Plan (AOP) as a blueprint for the upcoming year. We distribute it throughout the organization to keep our employees informed about our business goals, changes in competition and our marketplace.

This year, along with our Annual Operating Plan, we are publishing three scenarios for the future. The scenarios have been written in story form to represent three possible, but different, worlds for The Republic and our primary market, the greater Phoenix metropolitan area.

Developed by about 100 Republic employees over eight months, the scenarios show what factors could affect our business over the next five years. This is a much different, much longer-range kind of planning than we have done before.

So if you want to know where we're going in the next year, and possibly, over the next three to five years, you should read both sections of this book:

- The Arizona Republic's Year 2000 Annual Operating Plan
- Scenarios for the Future

Scenario Planning at The Arizona Republic

In March of 1999, *The Arizona Republic* began a process called scenario planning. We had five objectives:

- Look out five to seven years and anticipate the changes that might take place as technology and the Internet continue to evolve (How will reader and advertiser needs and behaviors change? How will people get their news? How will they buy things? How will our customers' businesses change? How will Phoenix change? Who will be the competition? How fast will it all happen?).
- Use scenario planning to enhance our strategic conversation. Create a broader understanding of the marketplace and any key factors that may impact our future.
- Involve the organization at all levels. Include a diverse group of people to participate in the scenario discussions.
- Craft a Point of View about our future. Articulate the most significant challenges facing us over the next five years, and what we will do to maintain our position as Arizona's leading news and information provider.
- Develop a more agile Year 2000 operating plan, and budget and craft a three-year strategic plan.

About 100 people from *The Republic* were involved in the scenario planning process. Spanning eight months and multiple sessions, groups of employees participated in meetings facilitated by Global Business Network, an internationally renowned consulting firm specializing in developing scenarios. Industry or subject matter experts, to expand the groups' thinking about how the world is changing, also attended many of the sessions.

The process was designed so a large number of people would come together for learning and discussion and then a smaller group would take the outcomes and distill them down for future use. There were milestones when we shared our progress with our managers and with our parent company, CNI.

The scenario participants looked at five major factors critical to our future:

- Future of Phoenix
- Future of media
- Future of retail
- Future of classified
- Privacy issues

By September, eight possible scenarios had been drafted. A writing group was formed to take the eight scenarios and collapse them into three or four to share with the organization and use as a tool to begin a longer-term strategic conversation.

This core group merged the common scenario elements, conducted more in-depth research around the key factors and wrote three final scenarios—ensuring they were plausible and distinct from each other. These scenarios can be found on pages 6-23.

The scenarios are not meant to be absolute or finished. They are stories about possible futures—a work in progress that will be amended as market influences shift. We will continue our work on the scenarios, involving more and more of the organization in conversations about the future.

“David doesn’t always beat Goliath. The key to success is not so much size as it is speed and flexibility. Survival in this Darwinian world is about the ‘fast beating the slow’ – not the small beating the big – says the CFO of Cisco Systems, a company that sells about 80 percent of the networking gear that powers the Internet.”

Fast Company,
September 1999

Critical uncertainties

Of all the issues we discussed in the scenario process, there are two critical uncertainties we must continue to address:

1. How fast will the Internet change business models for media and retail?
2. How long will there be a sufficient demand for mass-media products, from both advertisers and readers?

Givens

There are several factors that became absolutes across all three scenarios. The degree of impact may vary depending on other influences, but the factors are more constant, not significantly different, throughout all the scenarios.

The scenarios assume Phoenix will grow and society will become more fragmented. They also assume the customer is more in control — the degree of control may vary, but ultimately the customer calls the shots. The new economy is here to stay and with it comes an increase in new competition.

- Phoenix will grow.
- Technology is changing everything. Broadband is coming.
- The way information is distributed and received is changing daily. If we don’t change, our business is seriously at risk.
- Competition is increasing exponentially and fast.
- We have to create new business models now.



A special note to readers:

As you read through each scenario, you will notice sidebars designated with the corresponding scenario icon. Below the icon, in blue italics, you’ll find real-life situations relating to the specific scenario. It is our intention that by adding these practical applications, we will help you to better understand and apply Steady Time, Real Time and Zero Time.

THREE SCENARIOS FOR THE FUTURE

The following three scenarios are stories that describe our world in 2005.

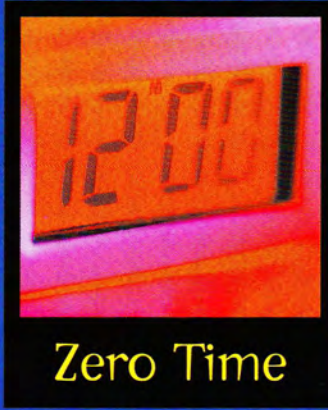
They are Steady Time, Real Time and Zero Time.

Steady Time refers to a world where there is a lag between a customer's need and a market solution.

Real Time refers to a world in which the market creates solutions at the same time customers have a need.

The third and most radical scenario, Zero Time, refers to a world in which the market creates solutions before the customer has expressed a need.

Zero Time asks us to throw out the notion of a continuous, predictable future. It represents our most challenging scenario. How rapid and radical is change in this future? In just the five years between 2000 and 2005, the U.S. economy has morphed from a mass industrial economy to the new economy, an Internet and information economy. Computing is ubiquitous and touches every aspect of almost every person's life—much like a telephone or television did in 2000. Communication is seamless and superfast broadband connections to the Internet have become standard. Customers get the information they need, exactly when they need it—and can do most transactions without the aid of intermediaries such as auto dealers, real estate agents and travel agents or newspapers. Audiences are increasingly fragmented, and mass is no longer the dominant model in any advertising medium. Fewer traditional newspapers exist. The newspapers that survived filled the need as a local information and service company—but only because they've changed their business model to better suit the market. They rely less on a core print product and have learned to accept much lower margins.



Zero Time

Looking back at the five years of changes (since the last day of 1999 and the start of Y2K) is like studying the 100 years of history between 1800 and 1899. That much change has occurred, as the country completed the transition from the Industrial Age to the Information Age and sustained one of the longest economic booms in the nation's history. The pace was so rapid, it was as if the transcontinental railroad had been built in 25 days rather than 25 years.

However, there was no "golden spike" ceremony to mark this new world. Looking back, there were only seemingly small events that dotted a revolution time line. One such blip occurred in the summer of 1999, when General Motors, the country's largest manufacturing company, announced the formation of an Internet business unit, eGM.

continued



*Your clients are in Europe,
and your office is at home
or wherever you feel like taking
your Palm Pilot, iTimex or any
of the other wireless devices that
litter your desk and keep you
constantly connected.*

In only a few years' time, cars were bought and sold very differently in the United States, with an ever increasing amount of buying taking place on the Internet.

Today, most traditional auto dealers have become "automotive experience and service centers." These centers—with ties to various manufacturers—allow customers to "window shop" for various cars before completing their transactions electronically.

If a new car buyer knows the vehicle she wants, she can buy it directly from the manufacturer. If she cares more about price than type of vehicle, she deploys a variety of electronic agents to complete the transaction. These agents, launched via the "Home Central" unit (once called a PC), and equipped with her preferred price range and features, work a variety of networks in search of a seller who wants the business.

In some cases, a buyer might let the agent contact various manufacturers and hold a private auction for the consumer's business. All of these transactions go on behind the scenes and without the direct involvement of the customer. Most customers appreciate the convenience that this technology provides.

Once she owns the car, and it needs repair, she can do business with a service broker who has won her loyalty. For a small fee, her broker researches the best place to do repairs, picks up her car, provides her with a loaner and returns her car once it's serviced. And with her consent, the broker provides information back to the auto manufacturers.

This automobile industry transformation was but one of the most visible components of the overall shift in the U.S. economy that took hold between 2000 and 2005. The entire way goods and services were marketed, sold and delivered in nearly every retail sector changed in the "always on, always connected" world that technology had made possible.

One of the key shifts was separating the tactile experience of shopping from the delivery of goods. But different parts of the retail economy changed in different ways. In some industries, such as car buying, it remained important to view the product in person before buying it online. In other types of retail, consumers welcomed not having to go to the store for routine purchases that could just as well be made online, often at cheaper prices.

Grocery pioneer WebVan became the model for this second type of electronic commerce, done completely online. With the completion of WebVan's distribution centers in the top 25 markets in 2002, the distribution of goods fundamentally shifted away from the inefficient supermarket to the more effective doorstep system.

The company's success proved an unexpected boon to newspapers, which partnered with WebVan as it expanded beyond groceries. The newspapers' existing delivery systems proved a huge asset in the booming home delivery business. The new alliances included the instant printing of publications in WebVan's warehouses so they could be packaged with the consumer's goods to be delivered.

The new technology spawned other kinds of innovation and experimentation

as well. Retailers that created online shopping channels saw huge benefits if they could keep inventory separate from the shopping experience, which was done more for entertainment and unknowingly began serving as a community-building function. With merchandise shipped only when it was sold, retailers could keep inventory costs lower and no longer ran out of popular sizes or colors.

The consumer, especially during the holiday season, became liberated from lugging packages, a fact that only increased the experience of shopping. Sometimes, depending on the merchant and the delivery system used, items purchased in the morning were at the customer's home before he or she left the shopping mall that afternoon.

There was still the challenge of getting the consumer to purchase a certain brand or visit a certain store, so advertising did not disappear. However, price as a motivator for a shopping trip was left far down on the list of shopping criteria. And that meant merchants needed to find new ways of reaching consumers.

While there was some "spray and pray" mass-media advertising, most of the effective campaigns were tightly focused, using a technique developed many years before called permission marketing. As the consumer looked for information, he traded permission for a marketing message with merchants, advertisers and "info intermediaries." In return, the consumer got special offers, try-and-buy deals (popular with MP3 music downloads and DVDs) and a higher level of customer support and service. Some merchants even paid consumers to market for them. Consumers could earn discounts on products in return for sending e-mail messages with merchant advertising to friends.

Not every retailer, however, adapted adequately. The changes forced massive consolidation, particularly among some of the major department stores, which found they could neither compete with online pricing nor create a service or shopping experience that satisfied demanding customers.

All these changes in the traditional retail economy paled beside the innovation that took place online, where entirely new ways of conducting commerce were invented. Today, more than 20 different types of auctions are possible, making the simple eBay model of the late 20th century seem amazingly crude. Few pay for classifieds anymore. The online world is but one vast marketplace for connecting buyers and sellers, with buyers empowered in wholly new ways.

Just look at the phenomenal success of services such as epinions.com and accompany.com—to name just two of the companies started late in the last century that have since grown to huge. Epinions.com connected users with other users, offering each other advice about a vast array of products and services. Accompany.com links communities of buyers with communities of sellers, allowing people who want to buy things to band together and do so at discounts only offered in volume.

Now that the economy has changed in these ways, it's all too easy to forget all the technological and regulatory shifts that made the transformation possible. More than 90 percent of the nation's households are connected in a now

Zero Time's key characteristics:

Audience:

Consumers—we no longer refer to them as readers—have control over what they receive and how. They are willing to pay for information (valued and valuable) and are willing to develop lasting relationships with media outlets that can be trusted and serve as a useful guide through all the clutter.

Retail advertisers:

Many traditional brick-and-mortar businesses are wiped out, victims of national retailers that can offer lower prices. An enjoyable shopping "experience" can still bring customers to a retailer's physical storefront, but otherwise most prefer to save time and money by shopping online. Marketing is increasingly reliant on customized messages and interactive relationships, and sellers put greater emphasis on customer retention and loyalty development. Customers talk to other customers routinely.

Classified:

All are free and delivered almost exclusively online. Buyers and sellers have many ways to find each other without intermediaries, especially in print. New services and businesses grow around these free classified marketplaces, especially in the all-important employment category.

Competition:

The whole economy is based on communication and relationships. The difference between media and other kinds of businesses blurs. Everyone is a competitor—or a partner.



Your Home Central unit keeps track of routine purchases and reminds you when it's time to buy basics like laundry detergent, milk, deodorant and shampoo. It could deliver news and information from every conceivable media outlet worldwide, but you opted to have only a ticker of national and world headlines scrolling across the bottom. You find it uncomfortable to try to read more text than that off the HC unit, and you only want stuff that is important to your life.

seamless communications system that relies increasingly on wireless systems and voice commands. How did that happen so fast?

The first shift was already becoming visible by the turn of the century, when it became clear that connecting to the Internet would not require an expensive personal computer. Rather, other kinds of communications devices could provide the means of linking the world together with news, information and commerce.

These communications devices range from phones (although they do much more than voice through a network), to “smart” credit cards managing your household spending, to interactive entertainment units combining the “old” technologies of television and radio, recording/playing purchased content.

The devices wouldn't have worked so well, however, without the development of something called a “unified messaging standard” early in the new century. At that point, it became possible for different types of devices to be connected to each other and to the world. Secure and “always on” is the hallmark of communications today, with each device knowing its place on the network (wired and wireless) and able to act as its owner's agent.

It's little wonder that these new devices soon became known as the smart-com™ tools we take for granted today. Even Dick Tracy, first user of a wrist communications device, would have been amazed.

A smart-com™ agent not only handles transactions, but also looks for relevant news and information. And the more advanced smart-com™ devices can decide which medium to use—print, audio or video. For breaking news or information that had value in timeliness, the agent would send the content to an audio receiver—either a phone or some other urgent-delivery device, and people on the receiving end were willing to pay for the service.

Not everyone has stopped reading, of course. Older people, especially, continue to pay a greater and greater price for the privilege of having content delivered the old-fashioned way. For younger people, the whole approach is changing. No longer do companies that serve them print and then distribute. Now they distribute and the customer prints.

Regulatory shifts complemented these technological changes, ultimately transforming the media landscape as well as the ways people used technology.

The first event was the Supreme Court's ruling that the nation's technology infrastructure—cable wiring, telephone wiring, wireless network, electrical power grids—was public technology, and hence all content or service providers could use these networks for distribution of their information. The court decided that since public dollars built the network and it used public access (the streets and roads), use should be open to all.

This made for easy access by hundreds, and in some cases thousands, of media wannabes using these networks for distribution without having to spend money for technology infrastructure. Amateurs also became significant players in this newly competitive media landscape. Neighborhood Web publishing took off, especially in areas where parents were motivated to connect their children and

create babysitting pools. Increasingly, music and film talent hunters find the next big hits online, where anyone can post their stuff and try to find an audience.

The second event involved the elimination of cross-ownership rules dating back to the 1960s. While the immediate impact was positive for media companies wanting to own a newspaper and television station in the same market, this change in rules allowed for some unusual alliances and mergers.

Companies such as Knight Ridder and McClatchy, which owned only newspapers, were taken over by companies such as Yahoo! and the Fox Network. These newspapers, trying to adjust to a new business model that depended much less on revenue from traditional mass advertising and paid classifieds, were purchased more for their brand than their content and revenue assets. Brand, after all, is the key differentiator in the ever-more-crowded marketplace.

SacBee TV was just one of several brand extensions off the *Sacramento Bee* newspaper, for example, and the trend was followed in most major cities as everyone got ready for the full integration of media the growing broadband networks would make possible.

Those newspaper companies that invested heavily in electronic media in the late 1990s reaped dividends as consumers turned to local information companies for solutions to the overcrowded, confusing web of sites. Those newspapers that did little to invest in the future found themselves in a more difficult situation.

Newspapers were not the only mass marketers buffeted by winds of change. Network television also underwent major shifts, especially with the final parts of the HDTV broadcast pieces put into place this year. The Federal Communications Commission in 1999 legislated that all television broadcast outlets use the high-definition signal standard. Television, as a result, wound up vastly different in 2005 than the rulemakers had imagined.

With so many channels available, the traditional brands—NBC, CBS, ABC—were splintered into hundreds of subbrands. First it was CNBC, then MSNBC. By 2002, it was SNBC for sports, NBC/AE for arts and entertainment, and NBC/Info for community news and information.

While all these channels had a financial relationship to the mother ship, it was the consumer who mixed and matched what kind of programming he or she watched.

By 2003, the technology pioneered by TiVo and Replay—allowing viewers to watch shows at whatever time they wanted—was integrated into the entertainment and communications centers of the Home Central unit. This meant a large hard drive in every television/personal computer/telephone unit, along with an intelligent network control panel that kept track of the entire household's other communications devices. Armed with their smart-com™ device that connected them to the public Net, and in control of their lives thanks to electronic commerce agents, the consumer in 2005 is now much more in control.

That doesn't mean, however, that people want to go it alone—which is where many of the “old” online brands come in. America Online, now part of the WOL (World Online alliance), became less an online company than a consumer and media conglomerate in the business of facilitating daily life. Sure, the consumer could still get connected through its network, but that was a loss leader in AOL's business line. For consumers, it was more important that AOL helped them take care of daily business, such as getting news, entertainment, family calendars and shopping, including helping make big purchase decisions such as automobiles.

Sure, there were difficulties adapting to an always on world, where the workday seemed never ending and everyone was always in touch.

Surprisingly, privacy wasn't one of the barriers to change. The new tools were so popular and saved so much time people just swept aside their misgivings about living in a fishbowl (much as they had when credit cards became ubiquitous). Besides, whole new business models were being invented in which businesses quickly realized there was a profit in *not* contacting a consumer, and instead in charging for ways to shield their customers from the bombardment of marketing messages.

In short, today is increasingly a world of “what I want, when I want it and how I want it.”

Why scenarios?

Strategic planning in its traditional form is no longer a good enough method for looking at the future.

A scenario is simply a tool for ordering one's perceptions about alternative future environments in which today's decisions might be played out. The point is not to predict the future, but to make better choices today.

Scenario thinking has long been used by the military. But only in the last 30 years, in the face of increasing uncertainty and complexity, have corporations and other large global organizations begun to develop sophisticated scenario planning processes to help them prepare for the future. Scenarios are now a standard part of the toolkit of any organization serious about creating and maintaining a sustainable competitive advantage.

The scenario process attempts to plot a course between prediction (denial of the uncertainty) and paralysis (too much uncertainty). We need to emphasize that our purpose is not to predict the most probable 2005. Instead, we wanted to prepare *The Arizona Republic* to be responsive both to the undertow of a worst case and to the explosive demands of a best case, even as we must be resilient against competitors (or regulations or economic conditions or technology) materializing out of left field.

Really good scenario processes do not end. Instead, the learning that occurs sparks an ongoing strategic conversation in the organization. To that end, scenarios simply are a tool to do the following things:

1. *Scenarios help us think more flexibly about the future, so we can react more quickly to a changing world.* Rehearsing different futures in advance forces us to challenge our assumptions about the future, thus allowing us to react more quickly when evidence suggests the world is heading in an unexpected direction.
2. *Scenarios are a risk management tool encouraging us to imagine what might happen if our expectations for the future do not come true.* It is human nature to hope for the best, but we must also prepare for the worst. Scenarios force us to reckon in advance with how we would react if the world throws us a curveball.
3. *Scenarios encourage innovation and creativity by requiring that we think further out into the future than we normally take the time to do.* In a knowledge-driven

economy where continuous innovation is key, thinking a few steps further out than the competition can be critical to success.

4. *Scenarios provide a framework to make learning "stick" as it occurs.* On a regular basis, we have observations and insights about the way the world may be evolving. Without a disciplined framework for collecting them, such ideas often disappear into the ether. As Peter Drucker has pointed out, the really important stuff is said at cocktail parties and at the water cooler, but never acted on. By using the scenarios as scaffolding, we have a place to hang our observations and ideas as they occur to us.
5. *Scenarios help divergent voices of opinion come to alignment rather than conflict.* When it comes to the future — which is unknowable — intelligent people inevitably have honest differences of opinion. By providing a shared language and framework for discussing different possible futures, scenarios allow these different voices to be put to useful work, rather than creating a management problem. In this way, individual learning can quickly become team learning.
6. *Scenarios help us to wade through the sea of uncertainties surrounding us to identify those few differences that truly make a difference.* That is, they help us to agree on the few truly critical uncertainties we should focus on at a given point in time. Scenarios offer a set of hypotheses about which forces are most likely to drive the world in one direction or another. As we learn more about these forces, our understanding of the critical certainties and driving forces should continuously evolve to a higher level of clarity.
7. *Once we have an initial set of scenarios, we can more easily adjust our strategy on an ongoing basis as the future unfolds.* By monitoring and scanning the landscape closely, it's possible to adapt and refine our business model to closely match our understanding of the direction the world appears to be heading at any point in time. When the destination is moving, it's better to be a plane than a train.

Criteria for good scenarios

As you read these scenarios, you will quickly realize they represent only one way of mapping the complex issues facing *The Republic*. Further research and testing may show some of the assumptions made in these scenarios are faulty. If so, we will go back to the scenarios and adjust them accordingly.

What's important to remember is that scenarios don't need to be flawless to be useful. Scenarios are extremely useful if they meet the following five criteria:

1. *The scenarios should be plausible—not science fiction.* Any elements that can readily be proved false need to be replaced.
2. *The scenarios should be challenging.* The scenarios should include some non-obvious, yet realistic, possibilities challenging our assumptions about what might happen as the media system evolves.
3. *The scenarios should address all of the truly critical issues in the strategic decisions confronting The Arizona Republic.* These stories are meant to promote conversation and learning that propels us to action. Although there may not be room to address every issue in great detail, no truly major issue significantly affecting *The Republic's* future should be missing from the set of scenarios.
4. *Each scenario should be internally consistent.* There should be no obvious contradictions in the logic, given what we know about the world. For example, you shouldn't have the unemployment rate rising to record high levels during a prolonged bull market.
5. *The scenarios should be sufficiently distinct from each other.* As you read the scenarios, you should not become confused about which world you are in. Each scenario should have a strong internal logic clearly distinct from the other two.

Any set of scenarios meeting these criteria should provoke a very meaningful strategic conversation. As you read the scenarios, please keep these criteria in mind, and be on the lookout for ways they can be improved.