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Business Foresight as a Tool to Clarify Corporate Strategic Futures in the Forest Industry

FORS-seminar

"The Finnish Forest Sector Now and in the Future"

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Abstract

Rapidly changing global business environment is setting new challenges to the Forest Industry, changing consumers' habits and a louder consumer's voice as important drivers. Demand growth has moved from traditional markets Europe and North-America to new markets such as China and India. A need to explore the future in a systematic way in co-operation with a broad group of internal and external value chain partners has emerged. Well-integrated foresight-function can be a good tool to clarify corporate strategic futures. Through anticipating and making sense of future opportunities and risks, and acting upon them at present it aims to improve the strategic consciousness of the company.

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Forest Industry today and its long term challenges

- **Global business environment has fundamentally changed:**

Paper Industry in particular has been a steadily growing business where the demand growth has been proportional to the GDP growth. However, the revolution of information and communication technology as well as consumer patterns have decoupled the paper demand from GDP growth.

- **Structural overcapacity in Europe**

Due to capacity closures the situation is gradually easing up. Prominent differences between different paper grades exist.

- **Traditional markets have become mature**

Attractive demand growth in emerging markets such as in China where the business dynamics differs from traditional markets.

- **Downward trend in real paper prices**

A need to move from defensive actions, that is cost savings, to more value added products.

Forest Industry today and its long term challenges (cont.)

- **Rapidly increasing cost of production inputs**

Oil-based raw materials and energy in particular.

- **New competition from fast growing fibre regions**

It takes from 6 to 8 years in case of eucalyptus and acasia to grow to the full harvesting lenght in the southern hemisphere vs. 30 to 40 years in case of birch in northern hemisphere for the same end-use.

- **An emerging trend towards differentiation**

From consolidation and bigger corporate size to smaller, more focused operations.

Business Foresight (BF) – what is it in general?

- **Foresight** is a supportive process to strategy creation **from outside in**.
- **Key characteristics of BF:** it is *systematic* and it requires *co-operation* with other stakeholders
- **Foresight** tries to project linkages between optional futures and participants actions & goals *where as forecasting* tries to give objective estimates on the future.
- **BF is an emerging trend in strategic planning** due to globalization and rapid changes of the business environment. Consumer behaviour has changed and is due to changes. Increasing academic and corporate interest exist.

Business Foresight (BF) – what is it in general? (cont.)

- **Three views of time: past, present and the future.**
 - Present is the result of the choices made and forces impacted in the past. Past is often called hindsight.
 - Present has a dimension of insight, deep understanding of the present situation and interrelationships between different forces.
 - *Foresight* is about identifying structural changes in the business environment and bringing findings to the strategy creation.
- **Different foresight applications:**
 - corporate --> corporate foresight/corporate strategic futures
 - business --> business foresight
 - technology --> technology foresight

Business Foresight (BF)– what is it in Finland ?

- **Increasing interest** of corporations, also in slow moving businesses. **Potential and value** of professional foresight for decision making and structural renewal of a company are **not yet fully understood and exploited**.
- Finnsight by Tekes in 2005/2006.
- KCL Future Watch (tool); Pöyry (customer tailored system as a service)
- Metsäteollisuuden tulevaisuusfoorumi
- TKK – StraX from Oct. 2006, Dr Mika Aaltonen
- Resourcing and methods vary a lot by company.
- Business Foresight function has been established for UPM in fall 2005; first as a part Group Business Development, recently as a part of Group Strategic Planning.

Business Foresight – what is it in UPM-Kymmene?

Definition: Business Foresight is the ability to anticipate and make sense of future threats/risks and opportunities and act upon them in the present.

Business Foresight is continuous and systematic work used among other things as the first step of the strategy process. It is integrated into the company's decision making process.

Time horizon: from 5 to 15, even to 20 years.

Purpose:

- to understand the changing global strategic landscape and its consequences for the company's businesses
- to integrate the latest foresight methods, tools and thinking into the company's planning processes
- to shift the focus from strategic planning to strategic consciousness to improve strategic IQ.

Main internal customers:

Corporate: CEO, ExTeam, Strategy Team

Divisions: divisional management teams

Functions: among other R&D, Technology, Corporate Venturing, Risk Management, Investment Management, Sourcing...

Products and services:

- action proposals to ExTeam in order to renew and develop the company and its businesses
- world views, scenarios, projections and road maps –
- analyses and special reports on specific issues
- projects
- consolidation of foresight work done in divisions and functions

Modus operandi:

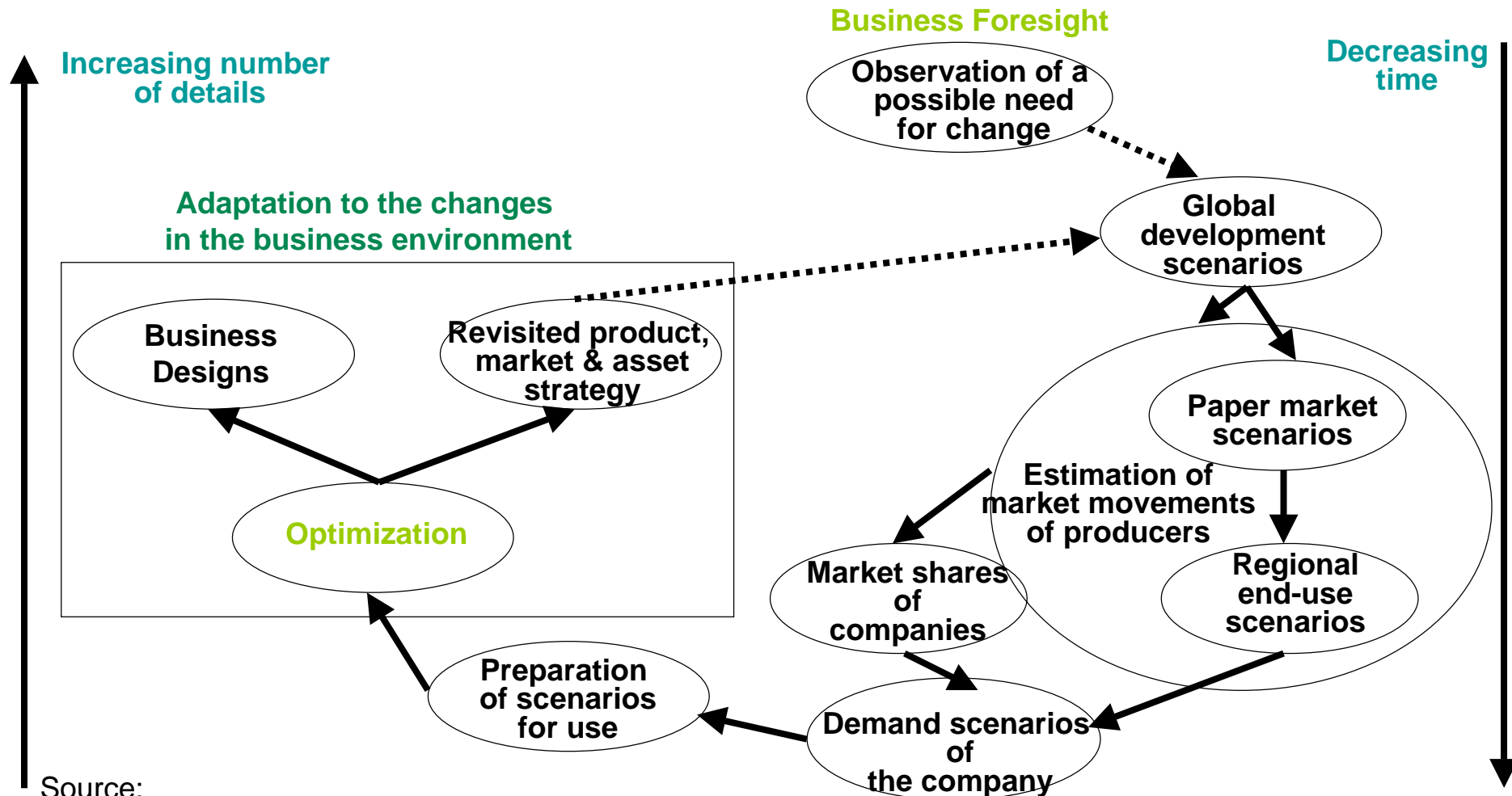
- use of internal & external networks
 - Business Intelligence of the company as an important internal source of information
- BF Group – varies by issue, life time approx. 6m
- Future Sparring Forum

Examples on Foresight methods

- **Statistical models**
- **Delphi**
- **Scenarios**
- **Workshops**
- **Screening of patent databases and publications**
- **Diffusion models**
- **Idea solicitation and innovation stores**
- **System Dynamics**

Source: TKK, Systems Analysis Laboratory,
a seminar work for UPM in spring 2006

Utilization of foresight information in UPM: phases of the production strategy planning process

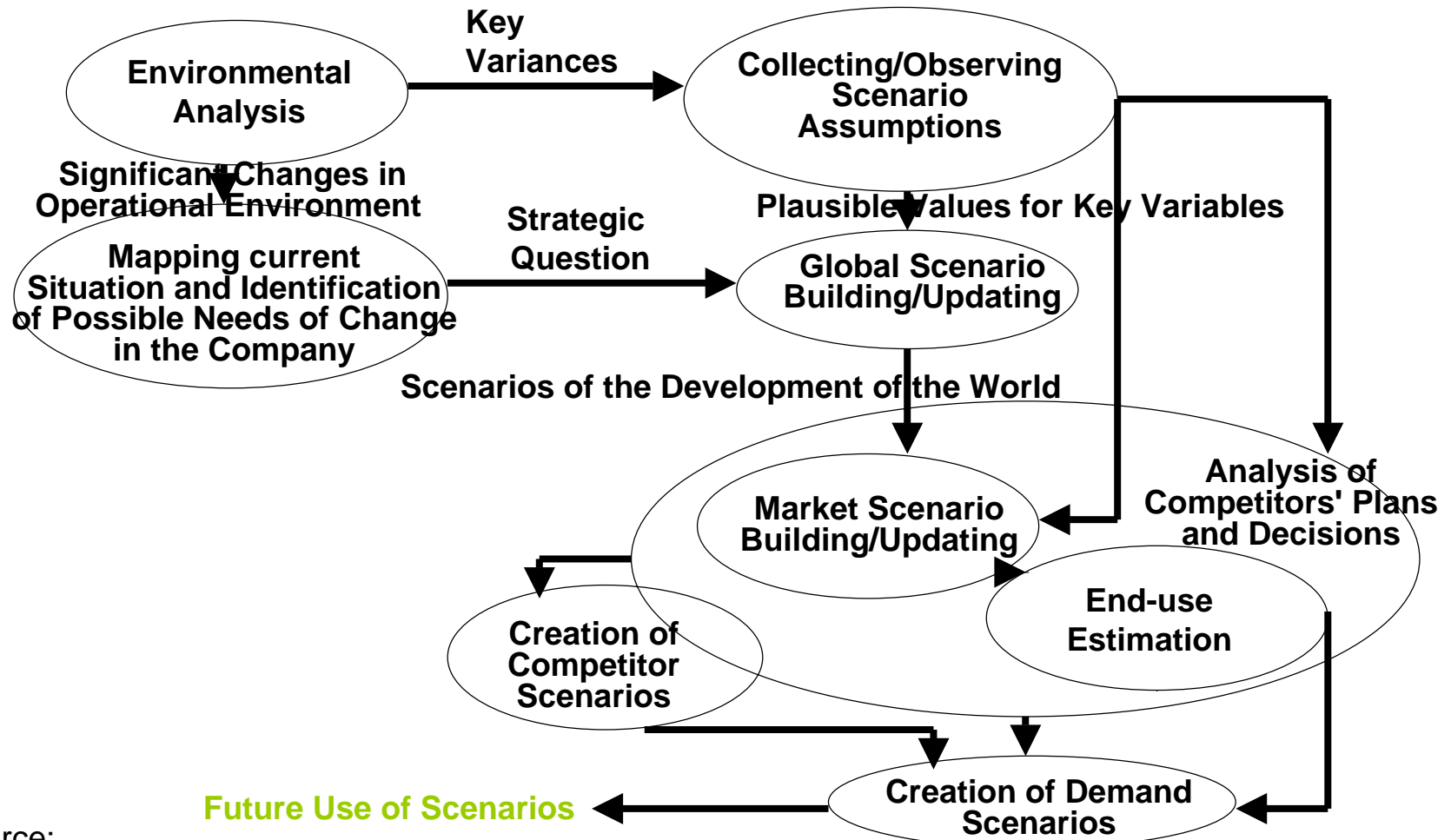


Source:

Construction of demand scenarios in paper industry, M.Sc.Thesis work for TKK in 2006 by Hannele Lehtinen

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Utilization of foresight information in UPM: preparation of scenarios in the process



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Concluding remarks

- Through globalization the world is getting smaller. Consumer behaviour is changing due to multiple choices and increasing purchasing power leading to not foreseeable changes.
- Foresight tries to identify structural changes and deliver these findings to the decision making today. It attempts to maintain strategic consciousness in the corporation.
- Foresight-related activities are still in the infancy phase in the Finnish Forest Industry. Benchmark practices can be found among other things in ICT/Nokia, electronics/Royal Philips and consumer goods/L'Oreal.

**Michael Wexonius' doctoral thesis
De Prudentia, 1642,
Academia Aboensis**

"Wisdom has a threefold eye:

Memory with which it reviews the past.

Understanding with which it watches the present

Care with which it contemplates the future."