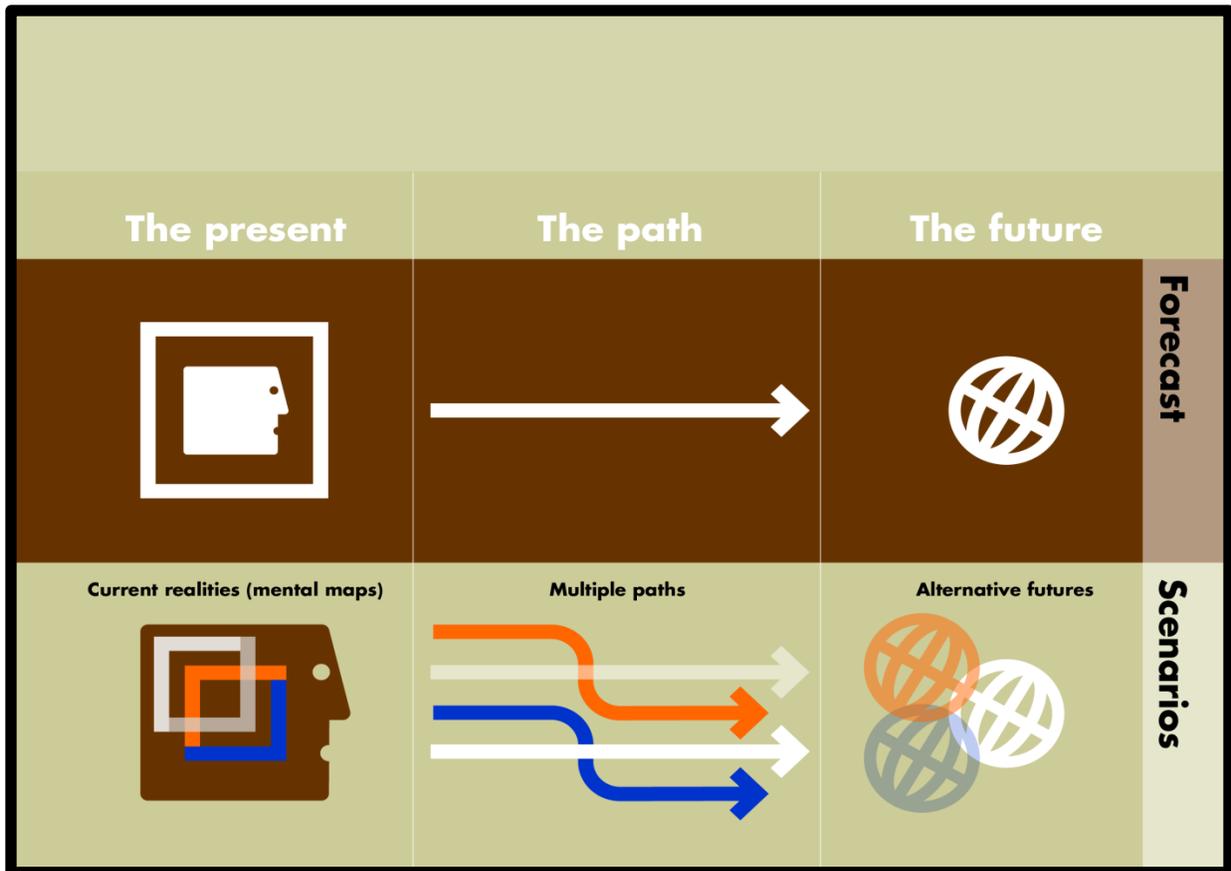


## Scenario Planning Perspectives: Surviving in a Volatile & Uncertain World!



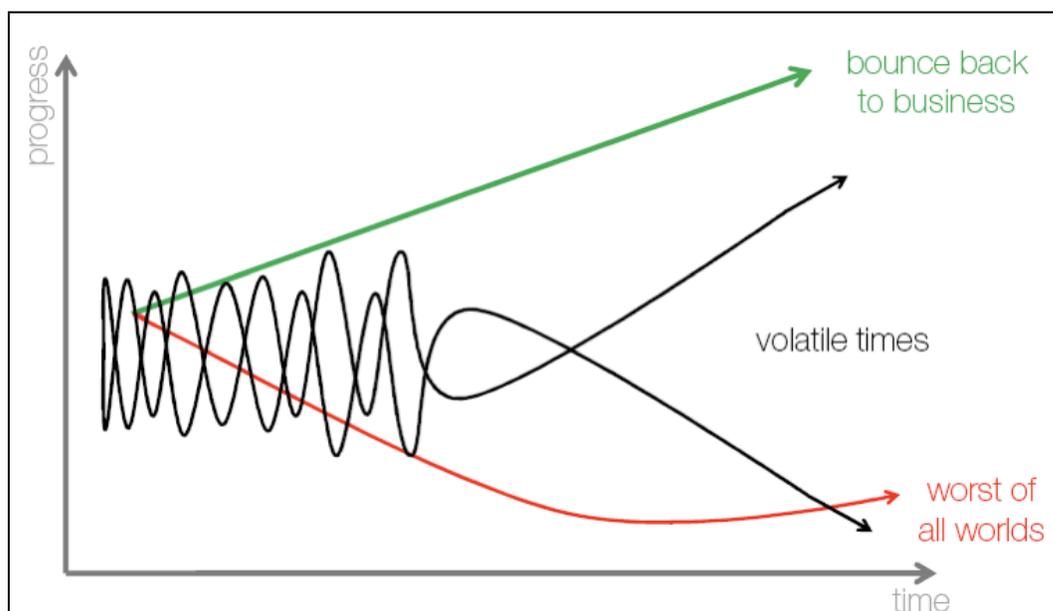
## Anticipating Change by Scenario Planning

### Executive Summary

Scenario planning helps organizations develop the strategic agility required to gain advantage from changes in the business environment. The benefits include:

- early warning of business risks and opportunities
- objective decision support which balances the risks and returns of business options
- innovative business ideas
- challenge to any assumptions of business-as-usual
- common language for strategic debate which helps to capture divergent views across the business
- create better understanding of the implications of alternative scenarios
- equip the organization with the capability to respond to changes in the trends, patterns or assumptions that are part of its strategic planning process

A visual summary of the future might look something like the graphic illustrated below reflecting a period of **Volatile Times**.



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## Introduction

Many organizations plan for the future - or, at least, for a future that they believe or hope will happen. Often, this future is based on "best" or "worst" case projections of current trends and bears an uncanny resemblance to the present. Consumers make



similar choices to the ones they make now, competitors offer similar products and services, and the organization itself does more or less the same things, with some minor changes of emphasis that reflect the trend analysis from the environmental scanning process.

This approach works best for organizations that operate in stable, predictable environments - but most of today's businesses, educational institutions and public sector organizations are facing greater uncertainty and experiencing more change than ever before. They need an approach that helps them make sense of what is going on, spot new trends and events that are likely to affect them in future, and, perhaps, make significant changes to what they do and how they work.

Scenario planning is a tool that organizations can use to help them imagine and manage the future more effectively. The scenario process highlights the principal drivers of change and associated uncertainties facing organizations today and explores how they might play out in the future. The result is a set of stories that offer alternative views of what the future might look like.

Through discussion, organizations can explore what they would do differently in each scenario. They can identify success criteria, suggest new ways of working and define new relationships. Generally, these differ in each scenario - and the discussion can help participants build a shared understanding of how the increasingly complex changes taking place in the world are likely to affect their strategy and business plans.

The great strength of scenario planning is that it can be used to look at today's challenge from a different perspective. The process of identifying and examining how current factors and trends might play out in the future helps participants focus on the likely impact of those trends on their own organization. Quite often, participants find that the impacts are going to be bigger - or happen sooner - than they had previously realized.

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Ultimately, organizations use scenario planning to help them anticipate, prepare for or manage change. A quote from the president of a U.S.-based regional bank communicated the importance of scenario planning this way:

"We can either stumble into the future and hope it turns out alright or we can try and shape it. To shape it, the first step is to work out what it might look like based on our collective knowledge of business and social trends and patterns."

## Definition of Scenarios

Scenarios are stories about how the future might unfold for our organizations, our issues, our nations, and even our world. Importantly, scenarios are not predictions. Rather, they are provocative and plausible stories about diverse ways in which relevant issues outside our organizations might evolve, such as the future political environment, social attitudes, regulation, and the strength of the economy. Because scenarios are hypotheses, not predictions, they are created and used in sets of multiple stories, usually three or four, that capture a range of future possibilities, good and bad, expected and surprising. And, finally, scenarios are designed to stretch our thinking about the opportunities and threats that the future might hold, and to weigh those opportunities and threats carefully when making both short-term and long-term strategic decisions.

## Who uses scenarios?

Scenarios are used by governments, businesses and voluntary organizations to inform strategy and policy development. They can be done on a large or small scale; as part of a wider body of work or as a discrete exercise; as a way of gathering expert opinion from external bodies and individuals or as a method to develop internal thinking.

## The National Intelligence Council's 2020 project

The National Intelligence Council (NIC) is a center of strategic thinking within the U.S. Government which provides the President and senior policymakers with analyses of foreign policy issues that have been reviewed and coordinated throughout the Intelligence Community.

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[Mapping the Global Future](#), published in 2005, looks at how key global trends might develop over the next decade and a half to influence world events. The report contains large amounts of data and uses four scenarios - Davos World, Pax Americana, A New Caliphate, and Cycle of Fear - to try to capture how key trends might play out. The project process lasted about a year and NIC organized conferences on five continents to solicit the views of foreign experts on the prospects for their regions over the next 15 years. More than a thousand people participated.

The project's primary goal is "to provide US policymakers with a view of how the world developments could evolve, identifying opportunities and potentially negative developments that might warrant policy action."

## Shell

Shell - the company who famously brought scenario planning into the business environment - has been producing *Global Scenarios* for more than 30 years to inform investment decisions about complex projects which are normally developed and operated over several decades.

The [Shell Global Scenarios to 2025](#), published in 2005, describe three scenarios - Low Trust Globalisation, Open Doors and Flags - that examine the interplay between three essential forces - market incentives, the force of community, and coercion and regulation - and provide "a simple, unified context...to better understand the various conditions under which we may have to operate in different regions or in different circumstances."

In his introduction to *Shell Global Scenarios to 2025*, Chief Executive Jeroen van der Veer points out the imperative for Shell to use the scenarios to "gain deeper insights into our global business environment and to achieve the cultural change that is at the heart of our Group strategy. We face real challenges in the future, we will all need to be able to respond to changing circumstances and make informed and rigorous judgements about our decisions: these scenarios and methodology will help us to do that better."

## Overview of the scenario process

Scenario planning is a flexible process that can be tailored to different circumstances and different needs. While there is no "definitive" scenario process, most exercises fit within a four stage structure:

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- **Stage 1:** identification and analysis of change drivers resulting from a thorough environmental scan of business, governmental, social, technological, etc. patterns and trends
- **Stage 2:** identification of predetermined elements and critical uncertainties
- **Stage 3:** construction of the scenario matrix
- **Stage 4:** construction of the scenario narratives.

## Stage 1: Identification and analysis of change drivers

Change drivers are factors which are shaping the future contextual environment. Some change drivers are highly visible now, but others are less so; and while it may be possible to determine the effects of change drivers on the present and the near future, it can be less easy to determine their effects in the medium to long term.

It is therefore important during this stage of the scenario process to identify a broad range of drivers and to consider which will be most important in the future - rather than to focus solely on which are most important now.

## Stage 2: identification of predetermined elements and critical uncertainties

Once drivers have been prioritized, the next step is to consider how the important ones might play out in the future. In some case, drivers will be predetermined elements - that is, their outcome will be quite clear - and in other cases drivers will have uncertain outcomes. It is important during this stage of the scenario process to identify and characterize both types of outcome. For uncertain drivers, it is essential at this stage to identify the nature of the uncertainty and the range of possible outcomes. It is also important to explore the dynamic interplay between drivers over time.

The critical output from this stage is a number of "axes of uncertainty" which describe the range of uncertainties for the future, together with the range of possible outcomes. The uncertainties are used to define the scenario space and to shape narrative production; predetermined elements define strategic issues that need to be addressed across all the scenarios.

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## Stage 3: Construction of the scenario matrix

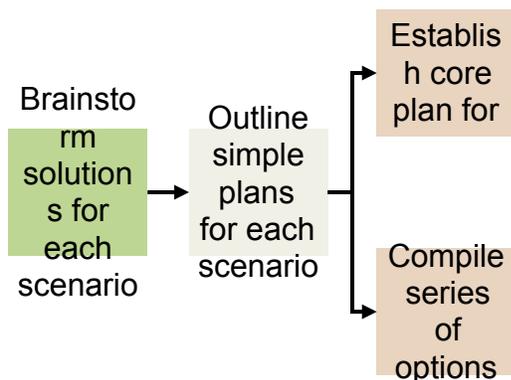
The scenario matrix is a 2x2 schematic that defines the main parameters of the scenarios. It is constructed by juxtaposing the two axes of uncertainty that reflect the most important uncertainties, offer the most insight or provide the most intriguing glimpse of the future.

Matrix construction is an art rather than a science and the final 2x2 is often decided through negotiation, intuition and testing.

## Stage 4: Construction of the scenario narratives and discussion of their implications on the organization's strategy and business plans

The scenario narratives are constructed within the logical framework provided by the scenario matrix. The narratives draw on all the material in stages 1 and 2 and also on wider research. The narratives can either describe "end states" - what the world looks like in the future, without any sense of how that future evolved - or "timelines" - a description of how the future has evolved from the present day. The narratives should present the perspectives of different stakeholders in order to provide a sense of the different priorities and issues that exist in each future.

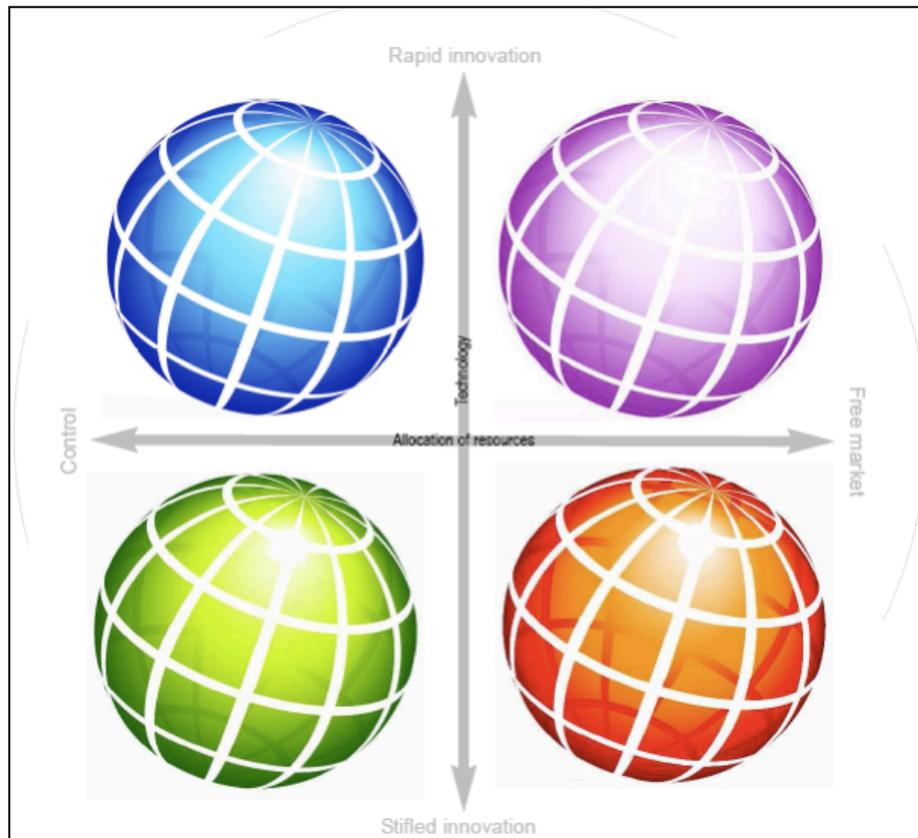
Wherever possible, stakeholders should be involved in testing and exploring the emerging scenario narratives.



| Evaluating The Scenarios |   |               |
|--------------------------|---|---------------|
|                          | How well do our current strategies stand up to your scenario? |               |
|                          | <i>Stay the Same</i>  | <i>Change</i> |
| Target Markets           |   |               |
| Core Offerings           |   |               |
| People                   |   |               |
| Processes                |   |               |
| Team Structures          |   |               |
| Infrastructure           |   |               |
| Project Financing        |   |               |
| Knowledge Management     |   |               |
| Innovation               |   |               |

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## Illustration of Four Global Scenarios



### Scenario 1: Six turbulent months - followed by stagnation in the West

The series of financial bubbles that have developed over the previous decade are identified and punctured. Stocks find a new, lower market rate, which is more in line with fundamentals that are based upon several years of expected lower profit margins. At the same time, real estate prices continue their decline, falling 20-30% over the next five years. Capital markets remain tight and interest rates remain high. Many banks disappear, and bankruptcies continue to plague the construction and real estate industries. It takes some time before the imbalances - such as the United States' large deficits and Western consumers over-consumption - reach a new equilibrium. The United States loses its global leadership position, as its manufacturing base has moved abroad. Western brands lose their luster for many consumers in the East. Emerging markets are more internally focused.

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## Scenario 2: Several turbulent years - followed by global stagnation

Turbulent financial markets are driven down in a negative spiral, as confidence in banks and stock markets disappear. Interest rates continue to rise despite national bank interventions. The national government interventions do not work as planned, and the banks' loss of capital leads to a renewed tightening of financial capital. The general willingness to take risks has declined markedly. Businesses close, and unemployment rises significantly. This leads to increasing protectionism, which only exacerbates the problem. Housing prices continue their decline, and governments are forced to intervene. They begin to buy housing and rent it out. Governments continue large-scale capital injections into the banking system, which becomes predominately nationalized.

## Scenario 3: Several turbulent years - followed by new growth in 2012

People are in shock. Consumers are hit harder by this crisis than they ever have dreamed or experienced before. They are at a loss and want explanations. What was the primary cause for the crisis? Was it set in motion by a supply, demand, or a system crisis? The cause must be found, and that takes time. Fundamental changes will be needed in the financial system, and these changes will not just be based on market needs. The limits of growth are a real challenge, and there is a need for more political interventions globally. At the same time, many public-private partnerships are being put into place in such investments as global climate change and infrastructure. These investments and ensuing technological developments create new optimism and renewed investments.

## Scenario 4: Six turbulent months - and new growth in 2010

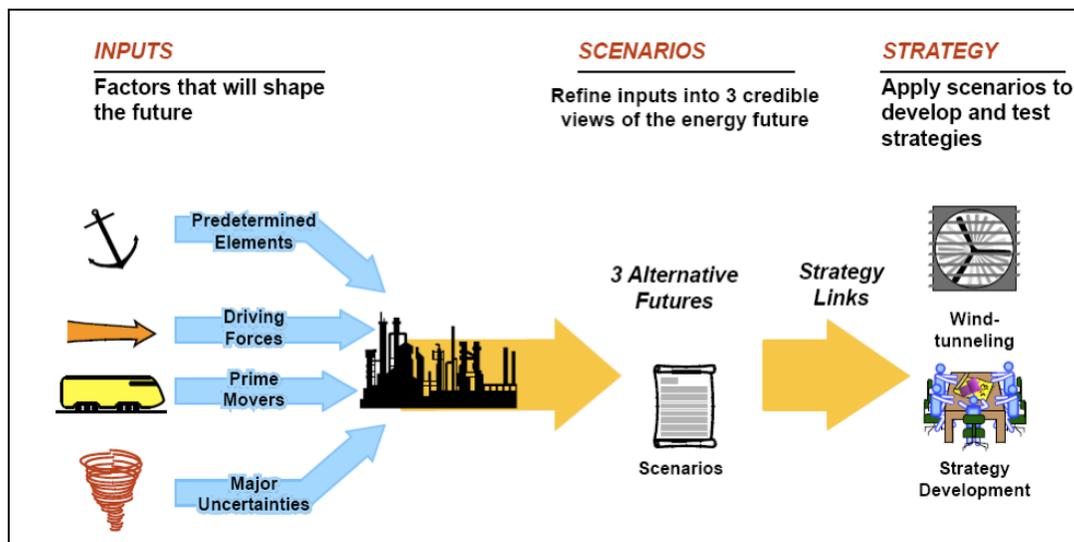
Supply and capacity could not keep up with the historically high growth, and the market economy responded with adjustments in every part of the system. The finance markets served as a warning light for the global economy. This led to a quick fall in oil and raw material prices, which were driven up by a great deal of speculation. The supply of labor increased, and inflationary risks were quickly buried again. Despite fears, the financial crisis had a limited effect on the broader economy. In the United States, a new president creates a renewed faith in the future and institutes a number of changes in the US financial system. As a result, the United States becomes more dynamic as early as 2009. This growth is based on low oil prices, a strengthening dollar, and the

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ability write off losses more rapidly than in Europe. European recovery is delayed to 2010.

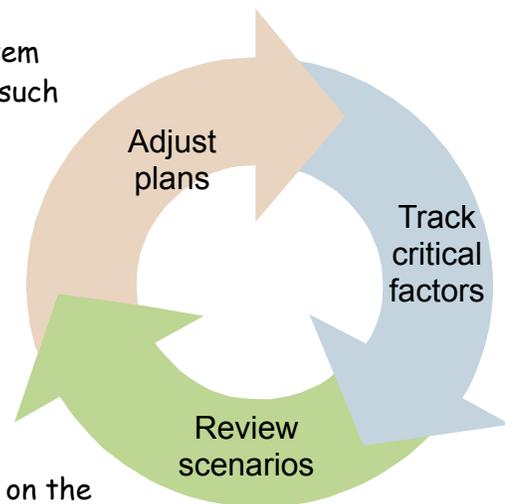
## Summary

The graphic below illustrates the scenario-planning process used by a company in the oil production industry.



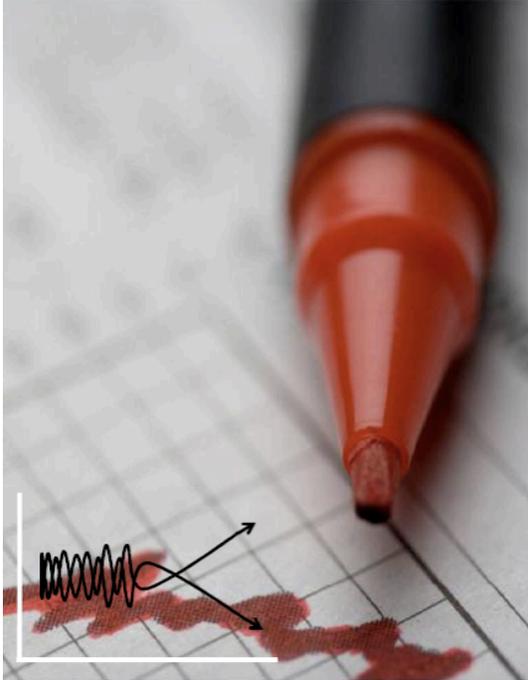
In the short term, an effective early-warning system (scenario planning) can be created by establishing such processes as:

- Short-listing of critical drivers
- Summarizing significant scenario alternatives
- Defining how and who will track critical drivers (e.g., business trends, patterns and assumptions)
- Maintaining a disciplined schedule of reviewing the impact of the critical drivers on the strategy to see if an alternative scenario is a more likely future for the organization
- Establishing processes for rapidly assessing consequences and implications of shifts in the critical drivers
- Keeping key stakeholders updated with informed communications



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- Adjusting the strategy and business plan elements to keep pace with change in the business environment



Right now we live in **Volatile Times**. There is uncertainty over: future growth rates; exchange rates; interest rates; the level of government intervention and regulation; and, in the shorter term whether there will be deflation and in the longer term whether there will be inflation not experienced in recent history. This uncertainty contrasts with the "Long Boom" which has occurred against a backdrop of relative stability. When making strategic decisions, people developed consistent expectations - an anticipated future of steady growth and low inflation. As uncertainty has increased, the confidence to make decisions has

evaporated. Volatile Times is either a period of agility that allows recovery and innovation where organizations emerge with confidence (tending towards the **Bounce Back to Business scenario**) or a period of wasted opportunity followed by further decline (tending toward the **Worst of all Worlds scenario**).

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## Addendum

- "Drill for oil? You mean drill into the ground to try and find oil? You're crazy." (Drillers who Edwin L. Drake tried to enlist to his project to drill for oil in 1859)
- "Louis Pasteur's theory of germs is ridiculous fiction." (Pierre Pacht, Professor of Physiology at Toulouse, 1872)
- "The abdomen, the chest, and the brain will forever be shut from the intrusion of the wise and humane surgeon." (Sir John Eric Ericksen, British surgeon, appointed Surgeon-Extraordinary to Queen Victoria 1873)
- "This 'telephone' has too many shortcomings to be seriously considered as a means of communication. The device is inherently of no value to us." (Western Union internal memo, 1876)
- "Heavier-than-air flying machines are impossible." (Lord Kelvin, president, Royal Society, 1895)
- "Everything that can be invented has been invented." (Charles H. Duell, Commissioner, U.S. Office of Patents, 1899)
- "Airplanes are interesting toys but of no military value." (Marshall Ferdinand Foch, Professor of Strategy, Ecole Supérieure de Guerre, 1911)
- "Professor Goddard does not know the relation between action and reaction and the need to have something better than a vacuum against which to react. He seems to lack the basic knowledge ladled out daily in high schools." (1921 New York Times editorial about Robert Goddard's revolutionary rocket work)
- "The wireless music box has no imaginable commercial value. Who would pay for a message sent to nobody in particular?" (David Sarnoff's associates in response to his urgings for investment in the radio in the 1920s)
- "Who the hell wants to hear actors talk?" (Harry M. Warner, Warner Brothers, 1927)

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- "Stocks have reached what looks like a permanently high plateau." (Irving Fisher, Professor of Economics, Yale University, 1929)
- "I think there is a world market for maybe five computers." (Thomas Watson, chairman of IBM, 1943)
- "I'm just glad it'll be Clark Gable who's falling on his face and not Gary Cooper." (Gary Cooper on his decision not to take the leading role in *Gone With The Wind*, 1938)
- "Computers in the future may weigh no more than 1.5 tons." (Popular Mechanics, forecasting the relentless march of science, 1949)
- "I have traveled the length and breadth of this country and talked with the best people, and I can assure you that data processing is a fad that won't last out the year." (The editor in charge of business books for Prentice Hall, 1957)
- "We don't like their sound, and guitar music is on the way out." (Decca Recording Co. rejecting the Beatles, 1962)
- "But what ... is it good for?" (Engineer at the Advanced Computing Systems Division of IBM, 1968, commenting on the microchip)
- "The concept is interesting and well-formed, but in order to earn better than a 'C,' the idea must be feasible." (A Yale University professor in response to Federal Express Corp. founder Fred Smith's paper proposing reliable overnight delivery service)
- "A cookie store is a bad idea. Besides, the market research reports say America likes crispy cookies, not soft and chewy cookies like you make." (Response to Debbi Fields' idea of starting Mrs. Fields' Cookies)
- "If I had thought about it, I wouldn't have done the experiment. The literature was full of examples that said you can't do this." (Spencer Silver on the work that led to the unique adhesives for 3-M "Post-It" Notepads)
- "You want to have consistent and uniform muscle development across all of your muscles? It can't be done. It's just a fact of life. You just have to accept inconsistent muscle development as an unalterable condition of

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weight training." (Response to Arthur Jones, who solved the "unsolvable" problem by inventing Nautilus)

- "There is no reason anyone would want a computer in their home." (Ken Olson, president, chairman, and founder of Digital Equipment Corp., 1977)
- "640K ought to be enough for anybody." (Bill Gates, 1981)
- "\$100 million dollars is way too much to pay for Microsoft." (IBM, 1982)
- "So we went to Atari and said, 'Hey, we've got this amazing thing, even built with some of your parts, and what do you think about funding us? Or, we'll give it to you. We just want to do it. Pay our salary, we'll come work for you.' And they said, 'No.' So, then, we went to Hewlett-Packard, and they said, 'Hey, we don't need you. You haven't got through college yet.'" (Apple Computer Inc. founder Steve Jobs on attempts to get Atari and H-P interested in his and Steve Wozniak's personal computer)