

Scenario Planning

Strategic Innovation in Uncertainty

Today's leaders are faced with more rapid and extreme changes than perhaps at any previous time in history. They have to consider extreme technological advances, disruptive business models and new competition, global crises such as climate change and coronavirus and ever more demanding consumers. The rate of change can be hard to comprehend resulting in considerable business uncertainty.



Scenario planning is a powerful tool you can use to create and test strategy questions in situations with high uncertainty and low predictability. Examples include:

- Should we make this significant investment (e.g. new airframe; new oil field)?
- Is my R&D portfolio robust? What products/technologies should I be working on?
- What might my consumers and customers be like in (e.g.) 10-years' time?
- How should we respond to major disruption (e.g. financial crash, coronavirus)?

The purpose of scenario planning isn't to 'predict the future' per se, but to develop a framework from which to support systematic decision making. The scenarios themselves are 'plausible alternative futures' set at a specific future timepoint from which we can look back, individually or in combination, at today's choices. As a result it can help you make a set of consistent strategic choices which are (hopefully) **robust** whatever happens. You **are less likely to be blindsided** by unwelcome surprises and the process can **identify white-space opportunities** that remain otherwise unfilled. And as events unfold when you do need to change tack, the framework you've created will help you to **act with confidence and agility** as you adapt.

Scenario planning differs to conventional market analysis or trend scouting because:

- **We don't just extrapolate today's trends.**
This allows us to avoid the natural bias we have to value short term impacts more strongly, and mitigate the difficulty we find in understanding exponential changes.
- **We're not blinded by the journey.**
By projecting forward and characterising scenarios we become less distracted by the sequence of events that get us there (e.g. the specifics of an 'exit strategy').
- **We explore factors well beyond your immediate category.**
Not only will this help to spot potential implications for your own ecosystem, it can be a rich source of insight and inspiration.
- **We don't choose between scenarios.**
Rather we're looking to systematically explore the implications of each scenario for consumers, customers, suppliers and for your business.

In the rest of this document we've outlined a general approach that we use when conducting scenario planning. As in all of our programmes it's a starting point and the precise process and approach you follow will need to depend on your specific objective and circumstances (e.g. timescale, organisational role, nature of uncertainties).

A Process for Scenario Planning



There are five parts:

1. Objectives and scope setting
2. Exploring uncertainties
3. Developing scenarios
4. Exploring implications
5. Strategy setting

Typically parts 2 and 4 can be conducted in a stakeholder workshop, and we'd recommend taking a couple of days – sleep is a great restorer of judgement! In contrast the other activities often benefit from stronger involvement of a small number of people. It is possible to conduct these programmes remotely or over a longer timeframe, but don't allow part 2 or 4 to take more than a couple weeks otherwise it'll be hard to stay coherent. It requires the team to form a common language and perspective and this can easily dissipate.

Given the future-oriented, uncertainty-based nature of scenario planning it is valuable to include team members from many functions, and those who are external to your industry to challenge inherent biases, internal assumptions and industry orthodoxies.

TIP: if there are key leadership stakeholders in your organisation that won't be able to join in we recommend interviewing them in advance to ensure their perspectives are fed into the direction of the programme. But be careful not to let senior leaders' short-term concerns or priorities distract from the longer-term focus of the process.

Part 1 - Objectives and scope setting

Scenarios should be customised to a particular context. Before forming your team and starting your process it's important to clearly define the:

Objective

What is the focal issue/question of your scenario planning process? What do you want to have at the end of the process that you aren't sure of today?

Scope

What is the relevant time frame, geographic spaces and markets/categories? It is important to define any markets you're interested in a 'solution-independent' way (e.g. such as the job-to-be-done thinking (JTBD)) and to include alternatives/substitutes so you don't over constrain your exploration.

TIP: if your focal issue is mainly impacted by a single unknown and/or the behaviour of the unknowns are fairly well understood, then scenario planning may not be the best approach for you. We'd be happy to discuss your objective and whether scenario planning is right for your situation.

Part 2: Exploring uncertainties

2.1 Pre-work

We find it is helpful to seed this phase with prework by individuals or a separate team which will ensure your thinking is not limited by historical industry or corporate orthodoxies. For example prework might include data gathering, research into trends, macro forces, case studies from other industries which have faced similar challenges – and by looking back at the types of changes that have happened over the previous time period you are interested in (e.g. the type and extent of disruption).

2.2 Brainstorming

We start by broadly brainstorming internal factors, external forces and stakeholders that potentially impact your focal issue in the future, even if they are not critical to your business today. For example you might consider how technology capability, consumer expectations, consumption environments and business models might each change. We suggest using frameworks such as STEEP (i.e. Social, Technological, Environmental, Economic, Political) to structure and organise the factors that emerge from your brainstorm.

2.3 Prioritisation

Next we categorise the factors we've identified:

- **Combine** or group changes where they are compatible, for example they have a common dependency or you'd expect them to be strongly correlated.
- **Separate** those you are relatively confident in (e.g. demographic changes are relatively stable and predictable over time; even certain aspects of technology progress, such as

Moore's law) – we consider these 'trends'. There should be widespread agreement with what they are and how they are likely to play out. These present the backdrop in which the remaining uncertainties/scenarios are played out.

- **Prioritise** the remaining factors based on the size of the uncertainty and the impact it would have your business and the focal issue. Intuition, judgement or voting (a.k.a. 'wisdom of the masses') might all be appropriate depending on how you're planning to use the scenarios and the type of focal issue you're dealing with. At this stage you're trying to get to no more than a handful of 'key uncertainties'.

2.4 Outcomes

For each of the key uncertainties consider the potential outcomes. These are typically based on the extreme end points that are plausible at any future point in time you're considering for the focal issue.

For example: What are the 'best' and 'worst' social distancing policies we can imagine existing? How high and low could the oil price go?



2.5 Construct draft scenarios

It is possible that the scenarios emerge intuitively from the prioritized uncertainties – if they do, go for it! Most often by way of structure, we combine the uncertainties on orthogonal axes, to define a number of scenarios. The scenarios are each the result of a different combination of the key uncertainties' outcomes. To check understanding and provide a starting point for the scenario development it can be helpful to label each with a distinct name and ask team members to draft newspaper headlines or press releases that they might expect to see in each future scenario.

2.6 Scenario questions

With each scenario there will be further uncertainties and questions the team may have which will be important to consider before strategic actions are taken. At this stage we're just looking to capture the questions the team have with each scenario to guide our research and development in the next phase.

TIP: Before developing the scenarios its helpful to check that the team feels the scenarios are plausible, consistent and compatible with the intended timeframe? For example: Are the scenarios describing fundamentally different futures, or are they really variations on one theme or type of uncertainty? If the situation it describes would disadvantage a major player, could they obviously change the scenario?

Part 3: Developing scenarios

3.1 Research

What don't we understand about today that would help us to better characterise the future scenario, and in particular the questions you captured in 2.6? Often this involves looking outside your company to better understand fundamental science, new areas of technology, adjacent industries or other cultures. Inputs might be qualitative or quantitative, although its generally secondary research rather than primary. It is sometimes said that "the future is already here, it's just not evenly distributed" – this is an opportunity to peek forward and to better understand aspects of your future scenarios.

Tip: Where especially complex or quantitative scenarios are needed it may be helpful to deploy the Delphi method here. A structured, iterative approach for bringing the diverse views of experts together to forecast particular outcomes.

3.2 Story telling

Each scenario is a story and we're looking to build a plausible and coherent description of this future state. Beyond the name you can use prose, statistics, imagery and even videos. You might use newspaper clippings and new product ideas as previously mentioned, but it may also be helpful to bring them to life with personas or 'histories' that tell of the journey that led to this point. Each scenario should contain enough detail for us to subsequently assess the likelihood of success or failure of different strategic options.

Tip: It often requires a very different set of skills to bring scenarios to life, than to identify them. This work is often best done by individuals or small creative teams over a month or more rather than large workshop groups – but don't be fooled, this development phase can add considerable depth of thinking and value to the process!

Part 4: Exploring implications

Typically in a second workshop phase the team gets together and 'walks-through' each scenario in turn considering:

Implications

what the scenario means for the focal issue, our customers, our business, competition etc. It may be helpful to do this separately for different parts of the business; or to have people taking different role/responsibilities to ensure considering implications broadly.

Options

what choices and options might you have available in each case? Once you've identified a full set of options, consider how they relate: are there 'no-brainer' investments that make sense in all scenarios?

Early indicators

how would you know if you were going towards one particular scenario or another? How confident are you you'd be able to spot this?

TIP: It can be helpful to run multiple sessions, and perhaps even multiple workshops for part 4 to make sure you've sufficiently 'role-played' the options before moving onto considering any changes that you need to make to your strategy.

Part 5: Strategy setting

The scenarios and their analysis is just a tool. The scenarios and your analysis of implications and options provides a great framework with which to create strategy for your team and organisation. And if the strategy is already there, scenarios are a great way to test any theory.

Given the scenarios you've investigated, how do we develop a strategy that allows our business to be robust (i.e. able to anticipate, adapt and respond)? How do these choices play out over the near term and the longer term? While the choices you make will be unique, as for any strategy it needs to match the reality of internal capabilities, budgets and motivations.

Although you may have involved a number of other parties in the process, at this stage the focus comes back to your key internal stakeholders (who have hopefully been involved along the way) – as you/they'll need to own the strategic choices you make. Not just definition of the strategy based on the implications and options you identified in part 4, but creating a process to keep an eye out for those 'early indicators' that might help you to spot how to adapt or revisit the strategy as time passes.

TIP: Once you've got your strategy in place we recommend involving external parties in your search for 'early indicators'. Often these externally focussed individuals may be more likely to spot the changes at the fringes of your industry, or in other spaces and are less preoccupied by delivering on your core strategy!

"In these uncertain times, decision making is challenging. We hope this primer to scenario planning has been useful for you as you consider how to respond and adapt the uncertainty around you. If you have further questions or would just like to talk to someone to understand what to do next, we've got your back. Please just get in touch".

Alan Cucknell

Head of Ignite Exponential, Strategic Innovation and Design Partners
alan.cucknell@igniteexponential.com | www.igniteexponential.com