

Using Scenario Planning To Drive Your Long-Term Strategic Thinking

Making predictions about the future is a tricky business.

In 1995, Robert Metcalfe, the co-inventor of Ethernet and founder of 3Com, wrote an article that stated, “Almost all of the many predictions now being made about 1996 hinge on the Internet’s continuing exponential growth. But I predict the Internet, which only just recently got this section here in InfoWorld, will soon go spectacularly supernova and in 1996 catastrophically collapse.”

Two years later, Metcalfe used a blender to puree a printed copy of his article and ate his words in front of an audience at the International World Wide Web Conference.

The future is a realm of uncertainty—predicted by many and known by none. For short time horizons, there is higher certainty of predicting the future. However, for long time horizons, the future becomes very uncertain.

Beyond Extrapolation

Many organizations tend to extrapolate historical quantitative data to gain foresight into what the future may bring. Their projections will likely show a graph of rapid and sustained growth or in the case of a recent downturn, a short two-year recovery followed by hockey stick growth.

Clearly, there are many issues with using the past to predict the future. A common disclaimer found in the risks section of an investment product states that “past performance is no guarantee of future results” and is indicative of the dangers of using historical data to extrapolate results in the future. Furthermore, the reliance on quantitative data does not consider qualitative trends that may occur.

To generate clarity in strategic foresight that goes beyond considering a single future extrapolated from the past, an organization must understand how to develop an ability to think about the future.

There are several types of futures that range from the potential, possible, probable, preferable and ‘wild card’ (see *Exhibit 1*).

Type of Future	Description
Potential	All possible futures
Possible	Futures that <i>might</i> happen
Probable	Futures that are <i>likely</i> to happen
Preferable	Futures that are <i>desired</i>
Wild card	Futures that are <i>unlikely</i> to happen, but will have a high impact

Exhibit 1: The types of futures.

Developing strategic foresight is inherently difficult because all knowledge is gained from the past, but decisions have to be made in the present that will affect the future. The difficulty is compounded by adding in the limitations of individual knowledge – what we think we know, what we actually know, what we know that we don’t know and what we don’t know that we don’t know.

For organizations making strategic decisions regarding the next three, five, ten years or any long-term period, they need a method to develop strategic foresight into potential future operating environments by managing uncertainty over a long time horizon.

Scenario Planning

Scenarios are narratives that describe a potential future world. They are a set of several alternative worlds that are formed by drivers of change that provide insight into what could happen.

To guide organizational strategic thinking about the future, scenario planning is used to develop a shared view of multiple potential futures. While it does not try to predict the future with certainty, scenario planning enables an organization to manage uncertainty by developing proactive and adaptive strategies in preparation for the range of potential futures.

The scenario planning process has three main steps: defining the scope; exploring trends and forces; and creating the scenarios (see *Exhibit 2*).

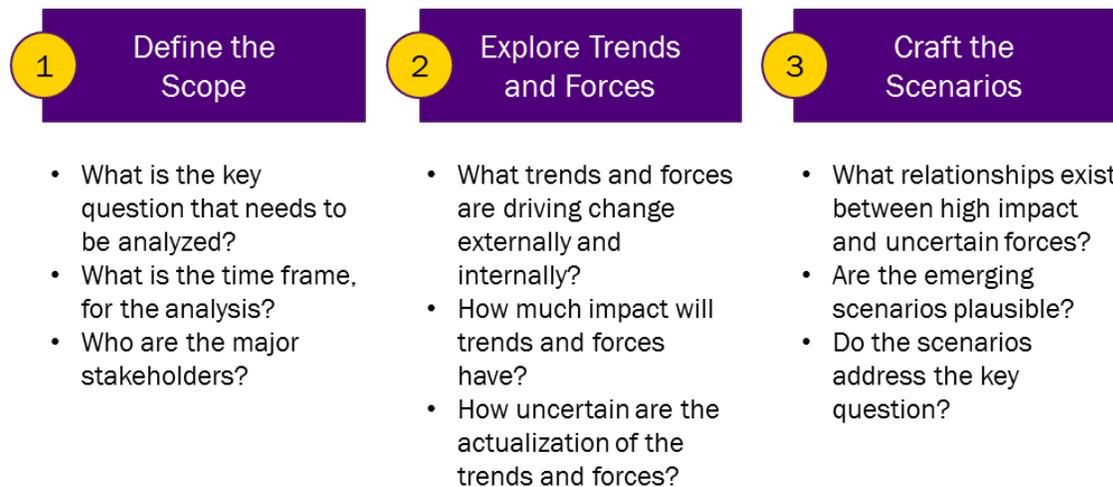


Exhibit 2: The three steps of the scenario planning process.

Defining the Scope

At the start of the scenario planning process, the key question for the exercise should be defined to structure the development of scenarios. The key question will define the goal for the analysis.

The key question will also specify a time frame to determine which trends and forces will be relevant to the creation of scenarios. The time frame will depend on the key question as well as other pertinent factors including product lifecycle, pace of technological change, demographical shifts and others.

The level of analysis also has to be determined to provide additional focus for the analysis. The levels can include business unit, corporate, industry and geography levels.

The major stakeholders of the scenario planning process are the internal and external experts with an interest or insight in the key question. The selection of participants in the scenario planning process is very important because they need to provide a range of diverse perspectives that challenge assumptions. A balance of external and internal viewpoints need to be collected to determine if the organization has any blind spots.

Exploring Trends and Forces

There are many trends and forces that will shape the future and contribute to the scenario worlds. Trends and forces can be identified by looking externally at political, economic, societal, technological, regulatory and industry issues relevant to the defined scope. An examination of internal trends and

forces such as organizational, financial and operational issues can also reveal further insights that may be applicable to the scenarios.

Each of these trends and forces can then be assessed to determine their potential impact and level of uncertainty. The most important trends and forces are those with a high impact on the key question. These can be further grouped by level of uncertainty. Those with low uncertainty are generally predictable and should be planned for in all scenarios. Conversely, those with high uncertainty are unpredictable and should be selectively used to create the scenario narratives.

Craft the Scenarios

Construction of the scenario narratives can be approached in two different ways.

The first approach is to analyze the positive and negative aspects of the trends and forces to generate scenarios for the best case, worst case and probable case (see *Exhibit 3*). By creating worlds that are either extremely positive or negative, the scenario planning team can challenge the organization's conventional thinking and start to question assumptions, perceptions and think critically about the future.

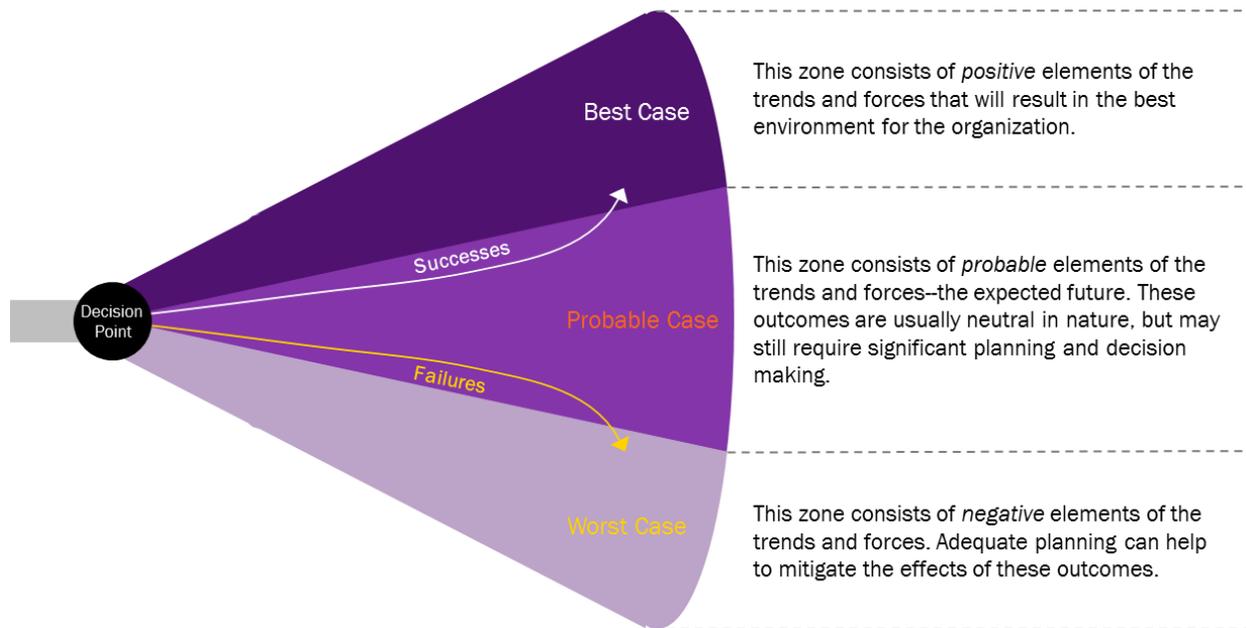


Exhibit 3: One approach to crafting scenario narratives.¹

The second approach is to pick two critical uncertainties (i.e., group the high impact and high uncertainty trends and forces into two main categories, if possible) and create a two-by-two scenario matrix with the positive and negative interpretations of the outcomes arising from the uncertainties plotted on each axis to create a range of scenarios (see *Exhibit 4*). This approach is typically used when some uncertainties have a much higher impact on the key question than other uncertainties.

¹ Adapted from the Institute for Alternative Futures

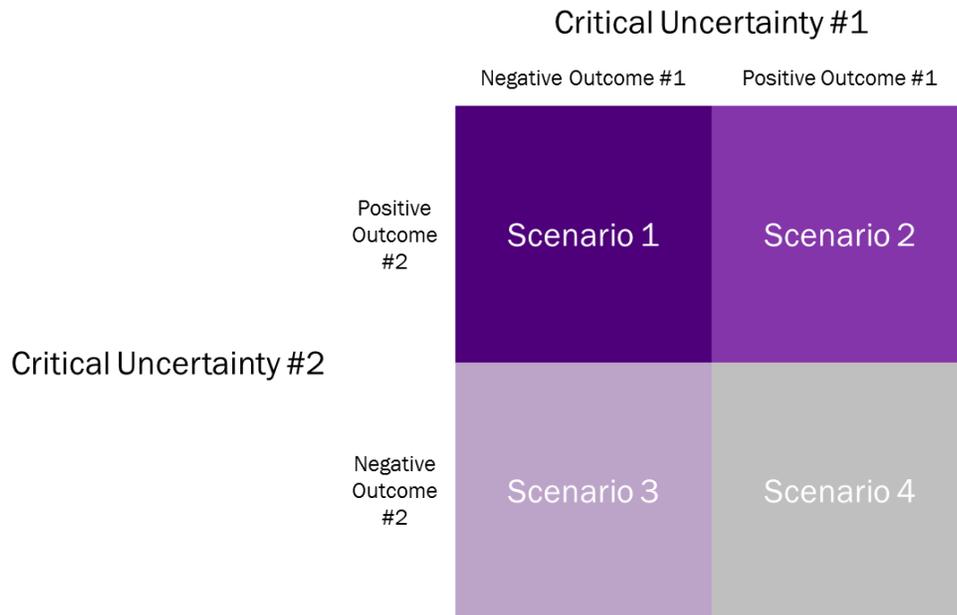


Exhibit 4: A scenario matrix is created by plotting the interactions between the critical uncertainties.

Regardless of the approach, the construction of scenarios is typically limited to between two to four scenarios because it becomes difficult for decision makers to track and manage additional scenarios. Each of the generated scenarios are given a name and a complete narrative is written to describe what a future world might look like based on the impacts of the trends and forces on each of the scenarios. These stories must provoke strategic thinking and be plausible, coherent and relevant to answering the key question.

Strategic Thinking

The scenarios have many implications on the organization’s strategic thinking related to its customers, competitors, macro-environment and industry. By assessing the implications of each scenario, there will be some insights that are common within all or the majority of the scenarios, which drives the strategic thinking and forms the basis of the core strategy. The remaining strategic implications form strategy options that support the core strategy.

Scenario planning is a structured process for exploring the future and broadening organizational strategic thinking. It amplifies the traditional strategic planning process by managing uncertainty, improving adaptability and driving creative strategic thinking.

For further information please contact us at www.theblackboxinstitute.com.