

Scenario Planning the Future

BY DANIEL W. RASMUS

It's important to keep a watchful, forward-thinking eye on business possibilities. Late reactions mean lost opportunities to generate new business, capitalize on customer interest and improve employee performance.

Scenario planning explores the implications of how uncertain forces critical to a business' country, region or constituency will play out under a wide range of social, technological, environmental, economic and political (STEEP) circumstances. It has been used for decades as a tool to make better strategic choices, but in this time of turbulence, it also has proven to be a powerful learning tool.

Scenario planning starts with uncertainties and develops a set of narratives to convey stories about plausible futures. Unlike speculation or science fiction, scenario planning pursues rigorous dialogue to ensure the stories don't break the laws of physics, jump to irrational conclusions or otherwise suggest circumstances not in play within the event horizon. But scenarios do posit the unthinkable or the unimaginable. Something unimaginable may be so for cultural or psychological reasons, but being unimaginable is not the same as being implausible.

Scenario planning offers three primary learning opportunities. First, naming uncertainty provides a way to confront issues that are unconscious or uncomfortable. Second, scenarios provide new context to understand internal and external business dynamics. And finally, scenarios offer a unique way to inform action and a framework for feedback once action has been taken.

Learning From Uncertainty

The starting point for learning begins with naming uncertainty. Many organizations focus their strategies exclusively on things they can control. They then execute plans to manipulate those factors into more favorable futures. Organizations often miss their objectives not because efforts to control the forces acting on them fail, but because they didn't recognize forces over which they had little or no control and discounted strong influences that could make or break their plans.

Consider a classic example from the oil industry where a tool manufacturer thought its future was tied to the price of oil. As long as that stayed stable or went up, the future would be assured. Company plans reflected a plus-or-minus percentage based on fluctuations in oil prices. When President Regan was elected, one of his first acts was tax simplification. One item in the 1986 Tax Reform Act came to be known in some circles as the Dentists Tax Incentive. Essentially, people with disposable income could shelter some of that money by financing oil exploration. Tax simplification eliminated that deduction, and along with it a sub-industry of oil exploration. Rather than a future tied to oil price, the industry discovered its future was tied to the tax code. It had ignored a force acting on the industry and thus failed to understand the impact of tax reform.



As organizations engage in strategic dialogue in an open and honest way, they start to build a repository of influences, uncertainties and factors that companies should plan for, but may not be paying much attention to. Lawrence Wilkinson, chairman of Heminge & Condell and founder of the Global Business Network, said the exploration of uncertainty, regardless of its use in scenarios, can lead to “collaborative alignment and mutual understanding of the business context.” Wilkinson said that North American companies that remain provincial in their strategy despite the overwhelming evidence of globalization prove indignant in naming what they don’t know about markets and end up with “incomplete and unbalanced assumptions.”

Rebecca Wayland, managing director of Competitive Paradigms, said that clients new to scenario planning often “yes’ their advisers to death, saying, ‘Yes, we have already considered that’ to every item discovered.” Thus, the biggest impediment to serious strategic planning is the willingness to admit there are things one may not know.

Learning From Context

Once uncertainties have a name, they need to be considered — not in isolation, but in how they play out against each other as well as against more stable

forces, such as demographics. The narratives that evolve from the intermingling of uncertainties become scenarios.

To expand on his examination of North American businesses, Wilkinson said that scenarios help organizations “appreciate the global markets in different ways — seeing their different competing complexions, recognizing what is inconsistent with their models. Uncertainty only helps organizations recognize new sets of muscles. Scenarios help them learn how to flex them.”

Organizations that incorporate STEEP forces reduce the risk of missing something, such as the impact of a local culture or tax code, that may profoundly challenge their assumptions. They create a more expansive context for considering the world and for incorporating factors that deepen their understanding of markets and customers.

For instance, multiple industries have faced uncertainty thanks to digital technology, which creates a new context and has created a more intimate relationship with customers. This happened in photography when digital media challenged assumptions at Polaroid and Kodak. It also happened at every music publisher and in every movie studio. Apple used this shift to create a new model and has taken the abstraction of consumption charts and made them personal.

EIGHT RULES OF ENGAGEMENT

To successfully use scenarios to inform organization learning, consider the following rules of thumb.

1. **Don't incorporate scenario planning** into other activities to start with. Go offsite so the day-to-day doesn't intrude on the process of cultivating the possible.
2. **Hire consultants** who can help challenge assumptions about process and domain knowledge.
3. **Include outsiders in the process:** customers, industry analysis, industry naysayers, politicians or others who connect deeply and broadly with the topic under consideration.
4. **Include internal influencers.** Scenario planning can be effective in the middle of an organization, but it is often most effective when considering strategic positioning. It's not that the best learning or strategy comes from the top, but if the highest levels of the organization aren't open to learning, the chances of lower-level learning being adopted diminish.
5. **Select a question to solve** that is extremely focused and specific, such as: How will sovereign wealth affect financial markets? Or, what will women buy in 2020?
6. **Put a learning model in place early.** As soon as uncertainties are identified, start locating information about those uncertainties that demonstrates multiple vectors. Real events create a learning dialogue around why one item has so many outcomes and which outcomes are best for the firm to align with, compete against or absorb.
7. **Don't just adopt scenario planning, adopt storytelling.** Storytelling is crucial to ensure people perceive the credibility of future narratives. Narratives need to be plausible, consumable and credible. People need to be able to see themselves in the alternative futures and to believe they are possible. Only then will they permit themselves to learn from the ideas they play with in the stories.
8. **Finally, don't let learning go.** The learning from one set of meetings may be eye-opening, but as soon as that meeting is over, subtle shifts start to erode the value of any conclusions made. As the world evolves, organizations need to be open to continuous learning and re-evaluation to ensure they don't just periodically leap reactively from one place to another, but instead adapt constantly to the forces around them and to the needs of their customers and markets. [CLO](#)

— Daniel W. Rasmus

The company knows not just what the world is buying, but what each consumer is buying, and therefore it can target those consumers for additional sales.

Wilkinson said that after the digital revolution many firms found they could “no longer sell what they thought they sold. The process or the relationship becomes the product. The game changes completely.”

Wayland said contextual learning is a way of framing current struggles. “A scenario session brought in executives from all over the world. They found that each region existed in a different scenario. That quickly highlighted the reasons for the dissonance between corporate direction and regional acceptance of the direction. The divisions were literally living in different worlds, but until they had the scenarios to ground them, they had no way of talking about the issue.” This learning can transform the fundamental ways an organization can approach strategy and internal communications and can help divisions bring “credibility to their observations and forge deeper relationships.”

Essentially, new context creates new opportunities to frame issues, which leads to learning about the business, the market, the leadership and the culture in ways that may have been either too difficult or too vague without illustrative scenarios.

Action Learning

Once an organization identifies the uncertainties and forces that act on it, it needs to consider how to monitor the unfolding of events. Microsoft used a cork board to track current events against scenario stories. The mass of evidence there demonstrated uncertainty as events unfolded along multiple vectors.

But again, just because something is uncertain does not mean it cannot be influenced. In fact, identification of uncertainty implies a watchful, often active engagement. In banking, regulation would be an uncertainty crucial to strategy. Banks do not sit around waiting to see what regulators will do. Naming an uncertainty means it should be monitored and engaged. Newly published regulations call for internal navigation, while regulatory debate in state and federal forums calls for lobbying. Scenarios help organizations imagine how various proposals will play out while keeping an eye on circumstances that converge on the best future and can determine which position to take. Further, scenarios deepen with time; feedback from engagement helps refine and even challenge assumptions as scenarios are employed.

Scenarios also help identify synergies between certain efforts. In the automobile industry, energy prices, consumer desires and government intervention are leading toward a confluence of more efficient vehicles, but some scenarios show a disconnect between the reality of energy, government direction and consumer

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desires. Thus, an automobile manufacturer may want to create a marketing program to present new designs that appeal to all constituencies with an emphasis on educating the consumer, for instance, on how cool and sporty an energy-efficient vehicle can be.

But a confluence of events isn't the only way to learn from the future. The highest value for scenarios is a combination of action learning and anticipation. Scenarios help organizations practice and better prepare for the future, or parts of it, in case they become reality. Some companies place bets, complete with sealed envelopes in locked safes, in anticipation of an industry shift. Early warning signals prompt a dusting off of the plan — the offer to be put on the street — much to the scratching heads of less imaginative competitors. Months later, the sale of a business unit or a foray into a new market looks like genius. The genius lies in inquisitiveness; a desire to learn from forces that play against each other; the perseverance to monitor those forces once the strategic planning effort is over; and the courage to act on incomplete information, intuition and foresight rather than wait for the uncertain to become certain and the opportunity to be lost.

Learning From the Future

In 2004, Microsoft developed a program called the Information Worker Board of the Future. These young people, ambassadors from every part of the globe, were brought together to help the company understand how the future might unfold for the new, young, global workforce.

Learning from representatives of the future is quite different from reading reports and analyzing study data. Dialogue revealed that key principles from scenario planning hold true: The future hasn't happened, so one can still influence it, or at least a company's reaction to it, regardless of the current trajectory of events. That is the heart of scenario planning: learning enough from the future so that today's plans are better, more robust and more resilient than they would be otherwise.

Many forecast 17 to 20 jobs for millennials over their lifetimes. Little work has been done to understand the underpinnings of these proclivities, but outsourcing, offshoring, layoffs and downsizing likely are key factors. Creating attractive environments for millennials will be a competitive advantage to those facing knowledge continuity issues as they look toward the departure of their baby boomers.

Further, millennials may be more interested in learning because they have not experienced many slow marches, only quick shifts, during their lives. Two concepts — just-in-time learning and reciprocal mentoring — rise as potential discussion points. The first is as a way to talk about the value of social media to enterprise learning. The other is a way to partner young people with older employees, recognizing that both bring unique skills and knowledge to the relationship, providing an opportunity for both to learn.

In this time of economic upheaval, of markets that refuse to behave according to old rules, of emerging cultures and ever-evolving technology, scenarios offer a way to learn from the future by actively engaging in its dynamics. If learning leaders don't confront the future, it will confront them, and isn't it always better to learn ahead of a need and leverage a crisis rather than to learn in the middle of one? **CLO**

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