

SCENARIO PLANNING IN SIX STEPS

Corporations operate in political, economic, and technological environments that can change rapidly. Competitive advantage can be the reward for those that anticipate, plan, and prepare for change. In the face of so much uncertainty, too many managers overestimate their ability to control events. This tool guides you through the six steps of scenario planning, an exercise that will help leaders prepare for the unexpected.

What is scenario planning?

“Scenario planning” is a powerful instrument that guides and supports the imagination, creativity, and vision necessary for mapping a range of viable strategies for competitive success. It sharpens thinking and improves the quality of decision-making.

Scenario planning is not a vehicle for predicting the future; it is a method of preparing for the future regardless of what happens. This is done by having groups systematically share data and beliefs about their environmental assumptions, analyze their key business challenges, and create “scenes” that describe combinations of critical events and trends.

A good scenario has the following characteristics:

- It seems reasonable to critical decision makers
- It is internally consistent
- It is relevant
- It is recognizable from early and weak signals of change
- It is challenging, since it contains elements where the organization’s vision needs to be stretched

There are six steps to developing scenarios. They are:

- Step 1:** Find the right issue
- Step 2:** Brainstorm critical events
- Step 3:** Build trajectories
- Step 4:** Combine critical events
- Step 5:** Develop scenarios
- Step 6:** Discuss and debrief

More detail on each step is outlined below.

Step 1: Find the right issue

To help concentrate your energies on the most critical strategic issues your organization faces, it is important for your group to formulate a compelling scenario question. We refer to this as the Big Question. As a group, decide on a single overarching strategic issue or question relevant to your organization.

Here are some examples of Big Questions:

- Why should we retain our current value proposition?
- How will our primary rivals overcome our current competitive advantages?
- Should we introduce a completely new product or service?
- Can we integrate our various businesses so they contribute more value to our organization?
- When will our R&D investments pay off?
- Which technological change will have the greatest impact on our business?
- What if the economy stays flat and does not recover for years?

Once your group has determined the Big Question, have your instructor write it in the box below:

Big Question:

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Step 2: Brainstorm critical events

This step involves creative thinking: your group should brainstorm possible (even seemingly “impossible”) critical events that would impact your Big Question over the next five years. Everyone is encouraged to imagine what significant and potentially surprising incidents might occur. Think openly and without restraint about any and all possibilities. At this stage, do not worry about the trajectory the event might take, prejudge any suggested event, or worry how it might affect the company.

In the table below, list as many critical events as there are team members in your group. Keep in mind that the purpose is to prepare, not to predict. Each of the critical events should be explained briefly using only a few descriptive words.

Major critical events that could impact our Big Question:

1:	
2.	
3.	
4.	
5.	
6.	

Step 3: Build trajectories

Your group should now build upon the critical events developed in Step 2. The following is an exercise to build trajectories for each of your critical events:

1. Each member of your group will receive three cards. Each of these three cards indicates a different trajectory that will determine an operating condition: a Beneficial Change, another for the Status Quo/No Change, and one for a Detrimental Change.
2. On the top of each card, write your group's "BIG QUESTION."
3. Each member of your group should select one critical event from Step 2 and write it on each of the three cards.
4. On the back of each card, describe what you imagine the operating condition could be if the critical event actually takes that particular trajectory.

Remember, you are pondering how this critical event will impact the Big Question should it turn out good, bad, or neutral. Feel free to share opinions with your group members. When you are done, give your cards to the instructor.

Step 4: Combine critical events

This step will guide you in thinking coherently and comprehensively about how random events can simultaneously converge, stretching your imagination by considering even highly unlikely combinations that create a possible future.

Your group will create two scenarios based on a random combination of trajectories. Follow these steps to create your scenarios:

1. The instructor will shuffle the deck of all cards received from all groups and will randomly distribute three cards to every participant.
2. One group member will place one of their cards with the critical event facing up.
3. Another group member will follow by showing a card with a different critical event face up, creating a set of unique conditions.
4. Continue forming the set of cards for the basis of Scenario #1 until all group members have had an opportunity to show one card. If a member cannot display a unique event, that student must pass the turn. (Note: There should be at least 3 cards, with the maximum equal to the total number of group members if each can "play" a unique card. In the unlikely event that at end of the round there are still less than 3 cards forming the basis of the scenario, go round again until there are 3 unique cards.)
5. Turn the cards over and use the description on the back. The combination of these descriptions comprises your operating environment and is the basis for Scenario #1. Examine only the beneficial and detrimental changes; do not consider status quo results as they represent random neutral events that will have a negligible effect of the operating environment.
6. Repeat playing cards for Scenario #2. Stop forming the set of cards for the basis of Scenario # 2 when each member has played at least one card and you have at least 3 unique cards.

An advantage of this methodology is that it forces you to think about a dynamic system that changes over time, like visualizing the future through a kaleidoscope of random colors forming unique patterns – precisely what the cards represent. Your group will have developed two “alternative futures” that create outcomes in a surprising way.

Step 5: Develop scenarios

As a group, examine the first set of cards from Step 4 and think about how the unique combination of operating conditions creates an operating environment in which the company must compete. This is your “scenario.” In many ways it is similar to describing a scene for a screenplay – a brief but complete explanation of conditions to be confronted.

Remember, each card will have a critical event and a trajectory. One card might represent a beneficial condition while another might represent one that is detrimental. Synthesize these interactions into a narrative description of the future operating environment. Although you should try to be concise, it is important to explain the scenario clearly and completely; do not simply add sentences or list bullet items for the events.

Give this Scenario #1 a descriptive name and write it in the table below. Repeat this process for the second set of cards to create Scenario #2.

Scenario #1

Name:
Scenario:

Scenario #2

Name:
Scenario:

Step 6: Discuss and Debrief

To complete this exercise, your group must discuss the implications of your scenarios. Examine what could happen if these scenes become reality, and what that can mean to your company. Consider both the immediate and longer-term consequences to your organization for each of your scenarios. Next, list contingencies you should put in place now to deal with these scenarios. Finally, develop a robust strategy that is resilient and viable regardless of which scenario actually does occur.

Consider the following questions:

- Given these possible futures, what is your overall assessment of the organization's strategy? What environmental forces challenge your future? Are there common opportunities and threats, regardless of scenario?
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- Where is it vulnerable? What major modifications do you recommend to the strategy? Will you be flexible to change this strategy in response to shifting scenarios?
- How will you know which scenario is actually unfolding? What are the "flash points" or "sign-posts" (either metrics or events)? Which key indicators must occur for that scene to become reality?
- When should your mission and vision change in response to environmental shifts?

Summarize your strategy recommendations below.

Scenario #1

Name:
Recommendations:

Scenario #2

Name:
Recommendations: