

An Introduction to Scenario Thinking

Success in a VUCA world

We live in a time of increasing volatility, uncertainty, complexity and ambiguity – a so called VUCA world. From the emergence of new markets, disruptive digital technologies, increasingly connected consumers, radically different business models, intense re-regulation, to the challenges of climate change and geopolitical instability, this environment presents executives not only with significant risks to manage, but also offers tremendous opportunities for growth and competitive advantage. However, charting a course, developing a strategy and successfully guiding an organisation through such an environment has never been more challenging.

While no one knows which future path will unfold tomorrow, executives must make decisions and act with confidence today. In the absence of a crystal ball, thinking systemically and strategically about a variety of potential outcomes can provide greater clarity and free organisations from the constraints of their own biases, wishful thinking, and assumptions about the future. Scenario planning is a rigorous methodology that has been used by many of the world's leading corporations to do just that. By exploring a divergent set of challenging, yet plausible scenarios (narratives about the future), companies can develop more robust and flexible strategies, make better decisions, pursue new directions, and adapt and grow in a rapidly changing world.

The origins of scenario thinking

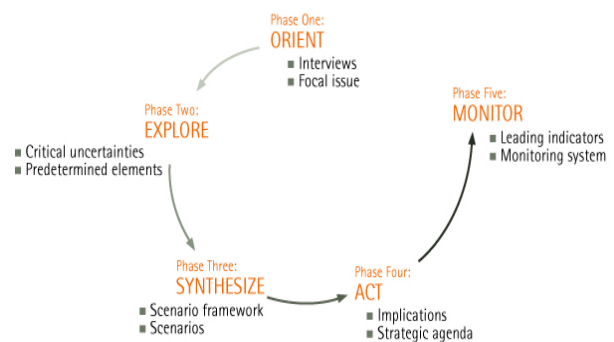
Scenario planning was first used by military organisations after World War II to "think the unthinkable." In the 1960s, it was Herman Kahn of the RAND Corporation (and later Founder of the Hudson Institute), who having played an important role in the military effort, introduced scenarios to a corporate audience, including Pierre Wack at Royal Dutch/Shell. In the 1970s, Wack, a planner for Shell, brought the use of scenarios to a new

level. He realised that he had to get inside the minds of executives in order to affect strategic decisions and scenarios could enable him to do so. Wack and his team used scenarios to paint vivid and diverse pictures of the future so that decision-makers could rehearse the implications for Shell. As a result, Shell was able to anticipate the Arab oil embargo, and later to anticipate and prepare for the dramatic drop in oil prices in the 1980s.

Since then, scenario thinking has become a popular tool for the development of corporate strategy in a variety of industries, from real estate to shipping, from big pharma to technology, from media to financial services.

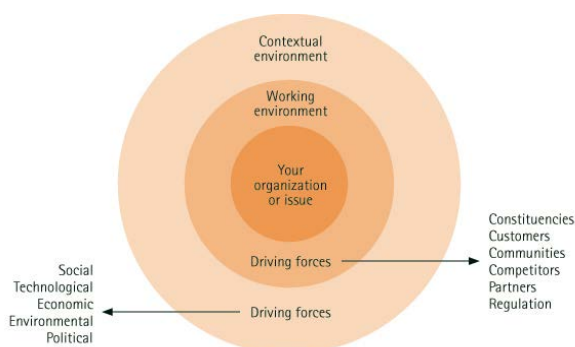
Developing and using scenarios

The scenario thinking process is highly creative and collaborative and rigorously challenges the mental maps that shape our perceptions about the future. Ideally, it involves a diverse internal team (i.e. different functions, ages, genders, backgrounds) and several outside "provocateurs" to tap varied perspectives and experiences. The first step involves isolating the key issue or decision to be made. This might be a big, long-term bet, such as investing in a new technology, acquisition, or manufacturing facility. Or the focus could be more exploratory, such as assessing emerging markets or potential innovations.



Next the team brainstorms the driving forces (social, economic, political, technological, and environmental) that will shape the business environment in the decade ahead, but are outside of the company’s control. Some of these may be locked in, such as the number of teenagers in 2025. Others, however, will be highly uncertain and unpredictable, such as consumer preferences or public opinion. These factors are then prioritised according to both uncertainty and their importance to the decision or issue at hand.

This process yields three or four scenarios—plausible stories of very different futures that are constructed around actual plots rather than a best-case/worst case continuum. The test of a good scenario is not whether it portrays the future accurately but whether it stretches the team’s thinking and helps it anticipate and rehearse the future to make better decisions today.



Once the scenarios have been fleshed out, the next step is to explore the implications and options that are posed by each scenario and across the set as a whole. To identify new growth opportunities, for example, executives might ask:

- What does success look like in this scenario?
- In what markets will we play and which customers will we serve?
- How will we serve those customers?
- What capabilities will we need to have in place?

- Which actions should we prioritise? Which ones are robust across all scenarios and which are contingent depending on how the future unfolds?
- How would we know if this scenario were going to come true (in order to quickly revisit/reprioritise our options if necessary)?

By rehearsing the future in this way, scenarios enable executives to adapt more quickly to what is actually happening, and to anticipate better what could happen. Decisions that have been pre-tested against a range of what fate may offer, are more likely to stand the test of time. And by systematically exploring future scenarios, executives can act with greater confidence today

The Benefits of Scenario Planning

Given the accelerating rate and breadth of change, the world is likely to become even more unpredictable, volatile and complex in the years ahead. Thus, executives will need to become even more adept at making decisions under conditions of uncertainty. Scenario planning can help executives overcome two major obstacles to such decision-making: denial and paralysis.

Denial is often manifested in an unwillingness or inability to see the need to change. This is especially common in successful companies that believe they can apply the business models, approaches or metrics that worked in the past to new opportunities. By articulating challenging, yet plausible, ways in which the future could evolve, scenarios encourage executives to “think the unthinkable,” anticipate surprises, and rehearse new possibilities. Paralysis, in contrast, often emerges when executives are overwhelmed by the number and complexity of choices or when an over-emphasis on competitive threats obscures new growth opportunities. By using scenarios to explicitly structure or frame the key choices the organisation faces, they can see new, desirable possibilities and understand why and how to make realistic strategic choices.

Finally scenario planning is a flexible tool that executives can use to complement other strategic processes across a variety of outcomes. In addition to helping overcome wishful thinking, denial, or paralysis, scenarios can be used to generate novel ideas and innovation agendas. Scenarios can function as a “wind tunnel,” through which new proposals and initiatives can be “flown” to test their resilience. Scenario planning is also valuable in crafting a compelling corporate vision and then building widespread alignment around it. And because stories have always been the most powerful way to communicate ideas, scenarios can engage entire organisations in an ongoing strategic conversation

about the—and their—future. Whatever the outcome, scenario planning is a powerful tool precisely because the future is unpredictable. Scenarios will not necessarily provide an accurate picture of the future, but they will give executives better contextual awareness, clarity, and confidence to make better decisions today.

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About Stratforma

Stratforma is a strategic advisory boutique focused on enhancing decision-making today for an uncertain tomorrow. A network of highly experienced and skilled practitioners in the UK, Europe and North America, we partner with senior executives and their organisations to develop the skills and strategies to be successful in a volatile, uncertain, complex and ambiguous (VUCA) world. We create customised, co-creative, advisory and capability building experiences that deliver the confidence to make strategic decisions and the organisational alignment to execute successfully.