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Scenario Planning

It was towards dusk on August 22nd, in the year 2028 when President Clinton received the news. Her father, William Jefferson Clinton was dead, three days after celebrating his 82nd birthday. The death was not unexpected: the doctors had not been confident that the xeno-transplant had succeeded following the ex-president's heart attack a week before. Chelsea thought back over her life and her father, and the events from when she first entered the White House as a child to when she returned as the second woman President....

But is this a forecast for the future? Scott Adams, in "The Dilbert Future" said that there are only two ways for predicting the future:

- "nutty methods" such as reading horoscopes, tea leaves, tarot cards or crystal balls,
- methods that "put well-researched facts into a sophisticated computer... commonly referred to as 'a complete waste of time'".

Unfortunately, if you are in business, and want to stay in business, anticipating the future is one of the things you have to do. You need to know quantities to order, amounts to budget, the likelihood of some event or other occurring and so on. For the short-term – say one or two years, an extrapolation of current trends will often suffice, especially if you include an estimate of likely errors. However if you are looking 10 years, 20 years or even further ahead, or where there are no obvious trends then a simple extrapolation is now no longer an option: the risk of getting it wrong is too great. Instead, you need to help decision makers think about the future and what it holds. Scenario planning is one tool that aims to do this, through the creation of stories about possible futures that can be used to guide strategies today.

Scenario planning is not a tea-leaf type technique. It does not generate forecasts of the future, but instead, paints pictures of possible futures. The aim is not to sit back and wait for the future to happen, but to prepare for what might actually occur. Scenario planning allows decision makers to anticipate potential futures and prepare action plans today that will safeguard their organisations, tomorrow, whatever actually does take place.

The technique differs from most other forecasting tools in that it does not assume that the world tomorrow will be a straight extrapolation on what is happening today. Instead it looks at the total environment and how the different parts interact. It will combine near certainties of the future such as demographic trends, with uncertainties such as social, technological and political developments. A number of stories are created with each story mixing the certainties with some aspects of the uncertainties to give various outlooks on the future. The planner now looks at the organisation's strategies and matches them against each story to see how the organisation would fare should a particular scenario, or part of a scenario came true. Plans are then modified so that they can withstand whatever slings and arrows fortune should throw.

Scenario plans are NOT predictions! Although each scenario relates to a possible future, these futures are not certain. Instead the aim is to challenge thinking so enabling businesses to make more informed decisions. By adapting strategies to match each scenario, businesses prepare themselves for environmental changes that are already in progress, even if the end-results are hidden today. The technique has had notable successes. Shell Petroleum, an early adopter of the technique, showed the way by anticipating the 1973 oil crisis. The resulting strategies helped the company leapfrog their competitors to become and

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remain one of the major oil companies. In South Africa, the “Mont Fleur” scenarios helped move the country from apartheid to today’s inclusive democracy.

(See: [http://www.gbn.org/public/gbnstory/downloads/gbn\\_mont\\_fleur.pdf](http://www.gbn.org/public/gbnstory/downloads/gbn_mont_fleur.pdf)).

The Global Business Network web-site (<http://www.gbn.org>) is one of the best resources for learning about scenarios – and includes writings from some of today’s pre-eminent scenario planners, and several examples and anecdotes. GBN members have also contributed items on other sites. For example, Lawrence Wilkinson, a co-founder of GBN, contributed to a Wired Magazine issue dedicated to the topic with an overview on how to build scenarios at <http://www.wired.com/wired/scenarios/build.html>. Another excellent primer on scenario planning was produced by the South Wind Design Company in 2001, and includes scenarios on the future of hand-held computers (<http://www.swdi.com/ScenPlan.pdf>). The links between scenario planning and business strategy are outlined in an article by Tony Hodgson of Metabridge (<http://www.metabridge.com/assoc/stratscen1a.html>). The Metabridge site also contains an article by Gary Chicoine looking at how we think about the future, and the dangers of not adopting the alternative-futures scenario planning approach, because of a natural tendency to focus on only a single future. (<http://www.metabridge.com/assoc/stratscen3.html>). A more detailed exposition on scenarios and the strategy process can be found at

<http://www.library.nijenrode.nl/library/publications/nijrep/1997-01/1997-01.html>. This is an article by the GBN member, Kees van der Heijden and looks at how scenarios fit into the strategy process.

In the history of scenario planning, the Shell petroleum company features strongly. Shell have made a number of their scenarios accessible from the Shell web-site. (See: <http://www.shell.com/strategy>) These include a longer term view of energy requirements up to 2050. A history of scenario planning at Shell was reported in the International Journal of Futures Studies from 1996

(<http://www.systems.org/HTML/fsj-v01/rd-f/rd-f-toc.htm>). This also includes other relevant material, including another overview of the aforementioned Mont-Fleur scenarios.

There are a number of scenarios available on the web. Some interesting scenarios have been produced looking at Europe up to 2010. [http://europa.eu.int/comm/cdp/scenario/index\\_en.htm](http://europa.eu.int/comm/cdp/scenario/index_en.htm). Now old (they were completed in 1999), they present five alternative views on how the authors thought that Europe would change over ten years. Global trends up to 2015, including four scenarios, as seen by the US National Intelligence Council can be read at <http://www.cia.gov/cia/publications/globaltrends2015/>. Revisiting such scenarios is always interesting in hindsight. Thus both the European and the US papers include mention of the threat of terrorism, including Islamic terrorism – but neither mention a “war against terrorism”. This is understandable as both were written before 9/11. Scenarios are NOT forecasts, but guides to the future: many of the elements mentioned in both reports are now apparent. Decision makers who had used these and similar reports would be better prepared for the world today which has combined elements from several of the scenarios, than those who just extrapolated forward from their current situation. More recent scenarios, looking at business post-9/11 have been prepared by Accenture, entitled “Business in a Fragile World” ([http://www.accenture.com/xd/xd.asp?it=enweb&xd=ideas\wef\wef\\_fragile.xml](http://www.accenture.com/xd/xd.asp?it=enweb&xd=ideas\wef\wef_fragile.xml)). These take into account the current economic slowdown, the war on terrorism, and anti-globalisation movements, producing four scenarios aimed at helping business leaders think about how their businesses could prosper over the next ten years. In 2000, Accenture also produced a series of scenarios looking at the communication industry up to 2007

([http://www.accenture.com/xd/xd.asp?it=enweb&xd=industries\communications\communications\comm\\_thought7.xml](http://www.accenture.com/xd/xd.asp?it=enweb&xd=industries\communications\communications\comm_thought7.xml)).

### Creating Scenarios

So, how do you create scenarios. The first stage is to decide the focus and timeframe. Some scenarios focus on a national or global level, many just look at an industry and some will focus on specific aspects of an industry, market segment or on a geographical region. The timeframe can also vary: if looking at a rapidly changing technology, the timeframe could be as short as five years although generally, scenarios cover longer periods.

The next stage involves a full analysis of the business environment impacting the selected focus, looking at industry competition; technology, social attitudes; the economic situation; new legislation as well as the geopolitical situation and even issues such as climate change. Some factors will be almost certain – thus for example a scenario looking at UK Secondary education would need to take into account that there will be 400,000 fewer children aged 10-14 in the UK in 2013 than there are today

([http://www.statistics.gov.uk/census2001/pop2001/United\\_Kingdom.asp](http://www.statistics.gov.uk/census2001/pop2001/United_Kingdom.asp)).

Following the environmental analysis, a number of driving forces will be identifiable and the next step is to look at the potential impact of these driving forces, selecting those appearing to have the most relevance to the area being considered. These are then used as the basis for scenario construction. Scenario building is creative and not a quantitative exercise. The best scenarios read well and challenge the imagination. They are stories and not management reports. However, to be actionable, and usable for strategic planning, they also need to be believable and realistic -not science fiction or impossible dreams. They should take account of certainties such as demographics, and the uncertainties that will only become clear as time passes. It does not matter if something appears improbable, so long as it is possible.

Having created the scenarios, the hard work really starts. Apart from setting up a process that looks for signals indicating change, the organisation needs to integrate the scenarios into their strategy planning, ensuring that plans are robust enough to withstand any adverse future events, and take advantage of opportunities that may arise. So, for example, if the US elects a woman as president, what would be the impact of an all male board on the share-price?

#### **Further Reading:**

There are several books on scenario planning and related topics. Perhaps the best introduction to the topic is by Peter Schwartz of GBN – “The Art of the Long View : Planning for the Future in an Uncertain World” (<http://www.amazon.co.uk/exec/obidos/ASIN/0385267320/awarecompetitivi/>)

Also worth looking at are “Scenarios: The Art of Strategic Conversation” by Kees Van Der Heiden (<http://www.amazon.co.uk/exec/obidos/ASIN/0471966398/awarecompetitivi/>)

“Learning from the Future : Competitive Foresight Scenarios” by Liam Fahey (<http://www.amazon.co.uk/exec/obidos/ASIN/0471303526/awarecompetitivi/>).

Two seminal papers on scenario planning, by Pierre Wack, from the Harvard Business Review October and November 1985 issues (“Scenarios: Uncharted Waters Ahead”, HBR, Sept/Oct 1985 and “Scenarios: Shooting the Rapids” HBR Nov/Dec 1985) can currently be downloaded at <http://wwwfl.ebs.de/Lehrstuehle/Wirtschaftsinformatik/NEW/Courses/Semester8/Strategy/#Schedule>, along with a couple of other relevant articles.

#### **About the author:**

Arthur Weiss is the managing partner of AWARE, a competitive intelligence consultancy. He has a particular interest in linking information to strategy and helping organisations prepare for the future. Arthur has published papers, lectured and led seminars worldwide on competitive intelligence, marketing strategy, scenario planning and related topics. He is a member of the Society of Competitive Intelligence (SCIP) and a Chartered Marketer with the UK's Chartered Institute of Marketing. Arthur can be contacted through AWARE's web-site at <http://www.marketing-intelligence.co.uk>.