

Scenario Planning

A Primer

Overview

Scenario Planning serves a proven technique for guiding an organization toward the future it wants to create. Scenario Planning (SP) serves as a key element in an organization's strategic planning process. At the conclusion of an SP workshop you will have in hand one primary deliverable: a narrative of the 'current state of affairs' in the future you have created for yourselves.

Note that you may have encountered the phrase 'scenario planning' in another context where it meant 'playing out various sets of circumstances.' In that context, also known as 'what-if planning', you may find yourself using a spreadsheet to look at profitability using best case, worst case, and most likely case numbers for forecasting. Or you may attempt to forecast what competitors might do and the impact of their actions on your organization. Those activities do *not* describe what we have in mind with this variety of SP.

Whom to Involve

A full SP workshop will take something between eight and twenty hours of elapsed time for all or a subset of the participants. You will need the ongoing availability of a venue with substantial wall space. It works well if you can schedule four hours for the first three or four steps followed by some 'think-time' away from the workshop. Then you'll need another four hours to get through the preparation of key ideas for the fifth scenario. The smaller group of people drafting that scenario will need several hours. Reviewing that with the full group might take another couple hours. And a small group pulling out the strategy and reviewing it with the full group might take yet another few hours.

Do not limit the people invited to a particular stratum in the organizational hierarchy. Ideally, the assembly should represent several levels of hierarchy since each will bring different sensibilities to the gathering. While only a rare group can fully abandon all sense of hierarchy within the group, you will achieve a richer result if you strive to create an environment where each person has a chance to feel fully heard. Not everyone will make the same degree of contribution, but if you've chosen to invite good people then you owe it to them to give them the opportunity to make their voices heard. If you can get some key outsiders (e.g., customers / clients, suppliers, representatives from other related departments) to attend, you will gain an even richer set of perspectives.

You need to consider an appropriate planning horizon in your efforts. For a department within a larger organization, you will choose a shorter time frame – perhaps nine-to-twelve months. For a larger organization, you will choose a longer time frame. A \$6 million dollar non-profit might choose to work at the 36 month time-frame and involve staff members from the chief executive through to the lower management ranks.

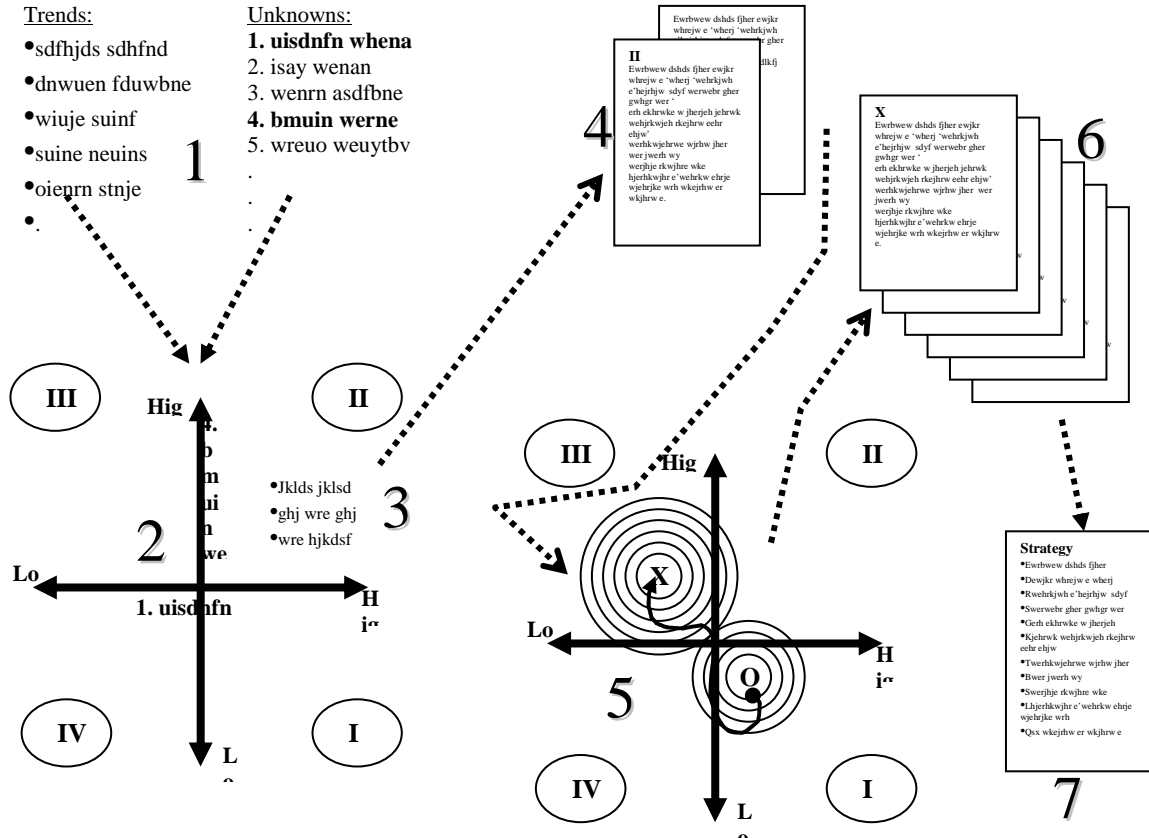
The Steps in the SP Process

Trends:

- sdfhjds sdhfd
- dnuwen fdubwne
- wiuje suinf
- suine neuins
- oieprn stnje

Unknowns:

1. uisdnfn whena
2. isay wenan
3. wenrn asdfbne
4. bmuin werne
5. wreuo weuytbv



The SP process consists of seven steps. The first five produce intermediate products. They have use in and of themselves, but they take on greater value in the context of an SP workshop. The sixth step produces ‘the fifth scenario’ and the seventh step produces a viable strategic plan.

Actually, the SP process works best if you can include step zero – a homework / research assignment. In that step you ask the participants in the upcoming SP workshop to monitor their environments with more than usual vigilance. You ask them to construct four lists during the several days leading up to the workshop.

The first list identifies *Trends* that they see around them in their environment and that they think everyone else will *also* see. We define a ‘trend’ in this context as something relevant and which we fully expect to continue to operate for the duration of the planning horizon – whether one year or two years or five years. The second list identifies trends that the individual sees but thinks others will *not* see – trends that the individual notices due to a unique set of interests or scanning practices.

The third and fourth lists identify *Unknowns* that the participants find important. We define an ‘unknown’ in this context as some situation where we cannot forecast the outcome with certainty (or even high probability) and that outcome

will have a significant impact on the future of the organization. Further, we have reason to expect that the unknown will fall one way or the other sometime within the planning horizon. The third list parallels the first: it should contain items which *everyone* will recognize as unknowns. The fourth list parallels the second: it should contain items which the individual sees but thinks others will *not* see.

These four lists provide a critical foundation and constitute the basis of the remainder of the SP workshop.

Examples of Trends

- Use of the Internet become increasingly commonplace
- Increasing diversity in the workforce

Examples of Unknowns

The unknowns should not include random happenstances such as 'St. Louis sees a major earthquake' but might on the other hand include 'San Francisco sees a major earthquake' if that San Francisco earthquake would have major significance for the organization.

- The resolution of a pending lawsuit involving the breakup of a major supplier / competitor / customer
- The fate of our department in the current re-structuring of the organization
- A bill in the legislature whose passage may favor our organization

Step One – Generate Lists

(At the launch of the workshop, the facilitator should provide a broad overview with some sense of timing and a current agenda.)

If you used step zero (the homework approach), then the first step in an SP workshop collects the various Trends and Unknowns identified by the participants. If not, then the first step is to generate those Trends and Unknowns now. The facilitator solicits suggestions for trends that everyone sees and documents them (e.g., on flipchart paper). Then the facilitator does the same for the trends where a participant thinks that no one else would have spotted this important trend. The facilitator does the same for both categories of unknowns. The result of this step will likely include a list of 25-40 trends and 15-25 unknowns. The facilitator should take care not to shortchange the dialog during this segment of the workshop. Disagreement (e.g., about whether we should categorize a particular item as a trend or an unknown) can enrich the exploration of the organization's environment and the discovery of factors which will affect its future. Keeping these lists in plain view provides an central element of the atmosphere for the remainder of the workshop steps. This step might take one to two hours.

Step Two – Identify the Critical Two Unknowns

In this step, the group will come to consensus on which two of the unknowns they characterize as (a) the most unknown and (b) most likely to have a major impact on the organization through their resolution within the planning horizon.

Typically, a half dozen or more of the listed unknowns will receive consideration. Occasionally, the group will consolidate two into a single item. In the end the two chosen unknowns will serve as x- and y-axes, creating a two-by-two matrix. Thus, each of the chosen unknowns must lend itself to mapping along a continuum. Additionally, you should choose two *orthogonal* unknowns— a change toward either end of one should not necessitate a change toward either end of the other – they should vary genuinely independently. At the end of this step, you should have a graphic image showing the two x- and y-axes intersecting at their midpoints. Each axis should contain a labeled showing the unknown and the related endpoints. And you should see clearly the four resulting ‘plausible futures’ labeled as quadrants one through four. This step might take one to two hours.

Examples of Continua

- Lawsuit results in the supplier remaining one organization contrasted with the result of the creation of three separate organizations
- Our department shrinks to a skeleton staff as contrasted with our department absorbing two other smaller departments
- The legislature passes a bill into law favoring our organization as contrasted with passing a bill actually hostile toward the existence of our organization

Step Three – Critical Bullets

Now you have identified four plausible futures for your organization. We do *not* concern ourselves here with forecasting or predicting the correctness or likelihood of the four. We concern ourselves only with the four describing genuinely different and genuinely plausible futures. Now the challenge becomes identifying some handful of key elements about each one of them. If the group has enough people, break it into smaller groups of three-to-six people. Have each group list six to ten ‘bullets’ – key elements characteristic of *this* particular future and not of the *others*. We want to concentrate on those things which distinguish *this* future from the three *others*. Note that each future will have both positive *and* negative aspects. After each group has developed its list of bullets, pull the group back together. Have each group list its bullets and record them again in plain view of the group. Invite the other members of the larger group to critique the bullets, perhaps adding more of their own. The group does not have as its goal the creation of huge lists, but rather the identification of eight-to-ten bullets which most contribute to the differentiation of this future from the others. This step might take an hour.

Step Four – Four One-Page Scenarios

The bullets identified in the third step become the food for the fourth step. Here we want to construct one-and-a-half page scenarios for *each* of the four futures we just outlined. In some cases, you can have each scenario built by a different small team. In other cases, you may have one team build two scenarios. If you choose the latter course, you still have two choices to make. In some instances,

one group will work on two *adjacent* scenarios, giving them a chance to draw the distinctions more carefully. In other instances, one group will want to work on *opposite* futures because it gives them greater play to take those toward the extremes. In this process, we want to prefer the more extreme to the less extreme. That is, we want to highlight the differences – we want to examine the farther corners of our graphical image not four points all clustered near the center. Again, after the smaller groups have create the scenarios, have the larger group review and critique them. This step might take one to three hours.

Some groups might choose to stop here. If the goal were simply to help the organization become more nimble or more agile – more effective in *reacting* – then at this point the SP workshop proper stops. The questions now revolve around resource allocation: given the resources we have on hand to invest, how can we invest them in such a way as to maximize our likely return? Given these four plausible futures, which do we find more likely? Can we invest in such a way that no matter which future comes about our investment will yield positive results?

Step Five – Plot the Current and Desired Points

A more aggressive organization will want to proceed with this and the next two steps. Have the group talk about the chosen continua and plot their organization: where does the organization sit now in terms of ability to capitalize on these axes? Consider the intersection of the axes as (0,0) with the endpoints of each axis as -4 and +4. If the organization sits now in the lower right quadrant, you might indicate that by placing a letter 'O' at (+2,-1) – that would indicate that the organization sits farther to the *right* of the center point (on the x-axis) than *below* the center point (on the y-axis). Next have the group come to consensus on where it wants to place itself in order to thrive depending on the resolution of these two unknowns. It might choose, for instance to show with a letter 'X' that its preferred future state lies at (-2,+1); that would fall in the upper left quadrant. Consider the placement of the 'O' and 'X' carefully. Use candor in terms of where the organization sits now, and what seems reasonable in terms of the planning horizon under consideration. This step should take less than an hour.

Step Six – Craft the Fifth Scenario

The placement of the 'X' identifies the preferred future. Now it's time to craft a six-page scenario that paints a verbal picture of what it's like in that future. Write this scenario as through you were writing *about* a current state but a current state at the *end* of the planning horizon (e.g., 12 months or 24 months from now). How would you describe this future in terms of staffing issues, market share / penetration, customer satisfaction, reputation, community presence, product / service quality, chosen 'market discipline' (a.k.a. 'go to market strategy') ... Consider political, social, economic, historic perspectives. You might describe some false steps on the way from 'O' to 'X'. You could include information about how some of the unknowns came to resolution, helping propel you to this state. Note how some of the trends have become more or less important as the

organization evolved to this state. Talk about who championed and who resisted the steps necessary to get here. Draw from the short scenario which highlighted this quadrant, and complement it with things *not* in this future but shown in one of the other three plausible futures. This step might require two-to-three hours for a first version, and might depend on the skills of a subset of the full group of participants. The participants should review this version, preferably collectively. The review should provide a critique which leads to a second version. Occasionally, you may need to create a third version. It's important that all the participants continue to feel involved with this step even though it may fall to the shoulders of a smaller group. Each person needs to feel fully heard, even if all of the comments do not make it into the final version.

Step Seven – Cull the Strategy from the Fifth Scenario

Having determined with some detail how the future shapes up and some notion of how we got there, the group now faces the task of de-constructing the strategy. You will need to work backward from the 'X' *and* forward from the 'O'. You cannot realistically get to 'X' from more than one step away from 'X'. Similarly, you cannot get within *one* step from more than *two* steps away. What's the last thing you need to do to get to 'X'? What's the last thing before that? On the other hand, starting from 'O' you can take only one step regardless of the direction you move. And from there you can take only one more step. Working forward from 'O' and backward from 'X' you need to construct a viable 'bridge' between the two. That bridge constitutes your strategy. This step might require several hours, again by a subset of the original group. And again, it's important for all the members of the group to feel fully engaged.

Distribution of the Results to the Participants and Future Re-visitation of the Scenarios

The final step involves pulling the documents together into a package. This should include

- a table of contents,
- a list of identified trends,
- a list of identified unknowns,
- a list of axes considered for selection,
- the graphic showing the selected axes,
- the lists of bullets or key elements for each quadrant,
- the four short scenarios,
- the fifth scenario for the desired future, and
- the strategy devised to move the organization from 'O' to 'X'.

The document will likely contain 15-25 pages, but since the group constructs it piecemeal the assembly should not pose a burden. Each participant should receive a copy, perhaps at some sort of celebration event. And each person should re-visit the document periodically – have the trends held true, have we seen the resolution of some unknowns, have we made progress with the strategy, have we moved deliberately away from 'O' and toward 'X'? To achieve the greatest return on its investment, about two-thirds or three-quarters of the

way through the intended planning horizon (i.e., 12-14 months into an 18-month strategy), the organization needs to repeat the entire exercise.

References

For more information or background consider these references:

De Geus, A. (1997). *The Living Company*. Cambridge MA, Harvard Business School Press.

An excellent book by someone associated with the origins of the concept of learning organization and the practices of scenario planning. He worked at Royal Dutch/Shell for 38 years, part of that time in its vaunted Planning Group.

Schwartz, P. (1991). *The Art of the Long View*. New York, Doubleday.

The author serves as one of the Principal partners in the Global Business Network, a long-range planning group with ties to several major world-wide corporations and governments. This book describes their use of 'scenario planning' as a strategic exploration technique. It challenges the reader to think about, not the future, but a set of plausible possible futures, and the steps one might make to today to favor the emergence of the most desirable, while still allowing appropriate preparation for the arrival of any of them.

Van der Heijden, K. (1996). *Scenarios -- The Art of Strategic Conversation*. New York, John Wiley & Sons.

Another graduate of the Shell Planning Group, van der Heijden explicitly couples scenario planning (SP) with systems thinking. Indeed, he posits that *every* scenario actually just plays out a systems model / causal-loop diagram. He offers lots of pointers to other writers, and has pulled together the relevant ideas of several other disciplines (e.g., economics, management, psychology). In his scheme, an SP *project* involves the creation of an *agenda* (of relevant issues, etc.); the creation of an SP *team* (of experienced SP people and business people and perhaps others); the clarification of the *Business Idea*; the actual SP *workshops* themselves; and the *promulgation* of the resulting scenarios throughout the organization to drive efforts right down the line.

Websites:

The Mont Fleur Scenarios -- A premier example of scenarios from South Africa in the early 90's: <http://www.gbn.org/scenarios/fleur/fleur.html>

Web Resources for Scenario Planning -- a gateway to lots of scenario planning information: <http://viktorija.informatik.gu.se/~martin/scenarios.htm>