



MATT RANEN

SCENARIO PLANNING & STRATEGY

SCENARIO PLANNING 101

ROI:

How scenario planning
future-proofs your strategy

Executive Summary

- Scenario planning goes beyond tracking trends and brainstorming about the future, helping companies define strategy for a broader range of possible market conditions and prepare to act strategically whatever the future holds
- Depending on the industry and organization, scenario planning can impact strategy in a variety of ways, from helping identify a few small strategic hedges to driving a complete rethink of core strategy
- Because it drives real-world, bottom-line results, scenario planning can help any organization navigate change more nimbly, strategically, and successfully
- If your company is struggling to respond to change—in denial about or paralyzed by change, or both—you'll likely find scenario planning especially useful

Scenario planning drives strategic action—and real business results

To succeed in business today, you need the ability to navigate rapidly shifting currents, from evolving technologies and new competitors to changing regulations and emerging geopolitical trends. In this environment, scenario planning—a process for identifying, and rehearsing strategic options for, various possible futures—is not a luxury.

While it draws on trend analysis and forecasting, scenario planning goes beyond thinking about what the future might look like. When done well, it drives more adaptable, responsive strategy, empowering companies to take action decisively and with confidence—as in the following real-world examples:

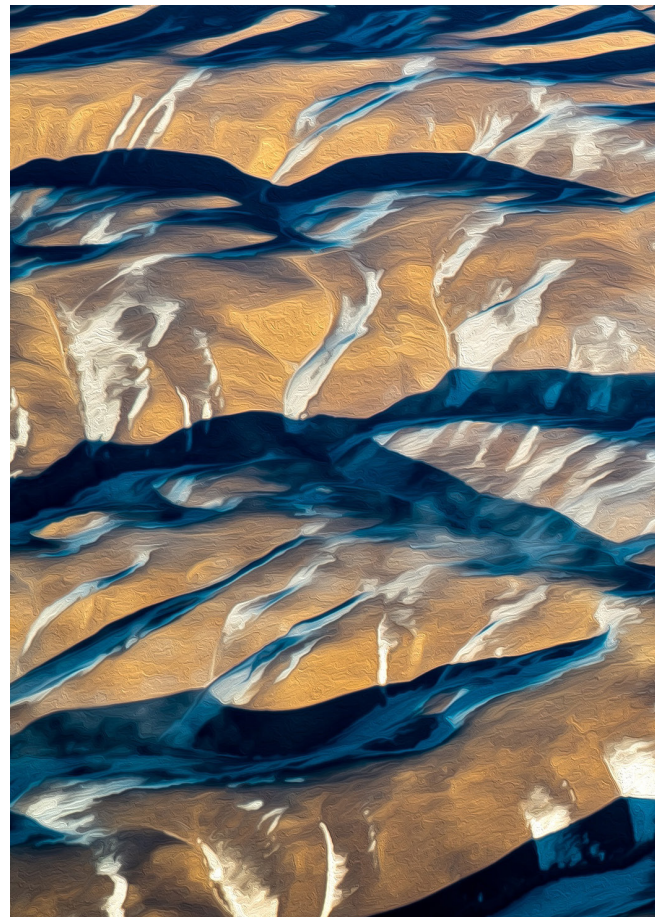
- *Anticipating a shift toward outcomes-based healthcare, a **large healthcare insurer** increased investment in its own provider services and added new organizational capability in consumer engagement—and dramatically gained market share*
- *Realizing that its market was bifurcating into distinct, winner-take-all, high- and low-end segments, a **media company** doubled down on its strategy of improving profitably in high-end production*
- *Anticipating a market downturn, a **real estate company** invested in market intelligence with the intent to make multiple acquisitions when the downturn arrived*

Scenario planning helped these organizations better identify and understand the range of possibilities for their future. They then made intelligent strategic side bets, such as a shift to emphasizing marketing or planning corporate acquisitions, using what they learned from the exercise of looking ahead. The result, in every case: a smarter, more future-proof strategy.

How scenario planning works to future-proof strategy

Scenario planning can't predict the future. There's no data about the future, so even the best industry forecast is just a story based on one particular extrapolation of the past. In reality, the future is uncertain, and there are many plausible stories or forecasts about what it may look like.

What scenario planning can do is help your organization prepare for a range of possible futures. First, by helping leadership understand what those futures may look like and grapple with hard questions about disruption and change. Next, by providing a framework for making small, initial strategic "side



bets"—and as conditions change and urgency dictates, for making bigger bets down the road.

By enabling decisionmakers to explicitly acknowledge, and then rehearse responses to, a range of possible futures, scenario planning lays the groundwork for responding to change. Instead of creating painstakingly detailed roadmaps to a future that may never arrive, leadership can spend more time scouting shifting terrain and steering the organization in the direction it figures to be the most promising way forward.

Strategic outcomes of scenario planning will vary

Depending on the company and industry, the immediate outcome of scenario planning on strategy might be:

1. Enhancement to a current or emerging strategy, including funding of new side bets, or contingencies.

This is a common outcome among my clients—typically, organizations that try to update strategy regularly, and take time to understand what the future may hold for their industry. They're not in complete denial about change, but tend to be more traditional in how they gain knowledge and analyze the market—and as a result, incremental in their thinking.

Scenario planning expands their perspective on the speed and scale of change, illuminating the benefits

of investing in strategic side bets—i.e., options, outside their core strategy, that can be exercised in the appropriate business conditions as a hedge against change they'd otherwise be unprepared for.

2. A fundamental rethinking of strategy.

This outcome is prevalent among clients that discuss strategy less frequently and lack processes to surface emerging issues, or have leadership biases that prevent acknowledgment of trends that might impact their business. Larger, longstanding incumbents in industries at the start of a disruption cycle tend to fall into this category.

For them, one potential outcome of scenario planning is a more radical departure from the current strategy or approach to doing business than they might have been able to get to otherwise. Often, this is accompanied by a more general recognition that strategy today requires asking different questions and looking at the business landscape through new lenses—and that scenario-planning processes and frameworks can help fundamentally transform everything from how organizations gather information to how they develop strategy.

3. Increased confidence in a bold, market-shaping strategy.


Some of my clients expect—and, indeed, embrace—change. They’re innovative. They aim to disrupt their market. Their industry has a highly uncertain future. And they’re confident in their ability to influence the industry’s broader ecosystem.

In these cases, scenario planning makes clear the assumptions underpinning the organization’s strategy, and the complexities and challenges that may prevent that strategy from driving business success. In addition, rehearsing the strategy under plausible alternative scenarios helps leadership get a fuller picture of its potential risks. Scenario planning helps leadership understand exactly what it’s committing to, and drives explicit buy-in on the strategy given its potential risks. The result: faster execution against strategy.



Typical strategy outcomes

1. Hedge current strategy with side bets
2. Rethink full strategy
3. Pursue bold market-shaping strategy



Scenario planning changes how organizations see the world

Scenario planning isn't just a one-time piece of analysis. Scenarios create a language and roadmap for tracking external market change and shifting planning assumptions over time. In many cases, clients benefit from more-informed conversations months and even years after the scenario-planning process, thanks to the focus the scenario-planning framework puts on future-relevant events, trends, and competitive activity that they might otherwise have missed or ignored.

Even more powerfully, scenario planning can shift mindsets, helping leadership become:

- More comfortable with/less fearful of change
- More comfortable with and likely to seek out information that may challenge the organization's worldview, but ultimately can inform smarter strategy
- Ready to embrace a paradigm shift in how the organization thinks about strategy, from "a single path to the future" to "a portfolio of bets mapping to multiple possible futures"
- Aligned on how to balance bets across the strategy portfolio

- Prepared to make decisions quickly when conditions or priorities change

The bottom line? Scenario planning can help drive action that is decisive and strategic, in the C-suite and across your organization.

Not just trends, but scenarios. And not just scenarios, but plans

Today, strategists are looking for ways to incorporate a broader, longer-term view into planning. They're buying foresight reports looking at macro trends, and hiring futurists to speak to leadership. These are positive developments—but insufficient for getting to real change or action.

Macro trends are important inputs into thinking about how an industry might change—but too often, companies treat the issues raised by macro trends as discreet in nature, leading to responses that are too narrowly focused. In reality, macro trends tend to interact like waves in a pool, amplifying, canceling, or warping each other to generate more systemic, structural change. By capturing these more holistic shifts, scenarios empower leadership to develop a more comprehensive and strategic response to disruptive change.

For example, scenario planning would have empowered taxi companies about to be disrupted by Lyft and Uber to more fully grasp the threat posed by circa-2009 mobile-technology trends. It was not just the existence of cool apps they needed to contend with, but

also a new business model leveraging the post-recession confluence of mobile trends with surging unemployment (providing a large supply of drivers) and low interest rates (making it easier for drivers to acquire vehicles).

To improve strategy and drive action, it's not enough to tell stories about the future, no matter how well-thought-out or imaginative. If they don't spur urgency for change, stories are just infotainment. Good scenario planning requires the ability to identify how external scenarios will impact your industry and create risks and opportunities for your organization. It's straightforward and specific, not abstract or pontificating. And it requires engaging management in an ongoing conversation to overcome skepticism and ensure alignment around strategy and commitment to execution.

[Learn more at mattranen.com.](http://www.mattranen.com)



Understanding scenario planning

Scenario planning identifies scenarios, which are:

- A set of hypotheses to help organizations understand multiple possible future business environments
- Holistic, examining how the entire eco system the organization is part of might change based on various trends
- Imaginative, but plausible—based on trends organizations can recognize but may not fully grasp the potential implications of or be giving enough attention to
- Based not on existing institutional assumptions, but rather on broader social, technological, economic, environmental, and political trends

Scenario planning future-proofs strategy and drives action, by:

- Rehearsing leadership in how it will respond strategically to various scenarios, broadening strategic preparedness
- Driving investment in a portfolio of strategic side bets, as hedges against different possible futures
- Enabling more radical departures from existing strategy than organizations might get to otherwise
- Facilitating strategic clarity across the organization, driving confidence in and execution against strategy
- Changing organizations' mindsets to allow them to make decisions quickly when conditions or priorities change



MATT RANEN

SCENARIO PLANNING & STRATEGY

www.mattranen.com