

# How Scenario Planning Helps You See the Many Roads Ahead



## KEY TAKEAWAYS

- Scenario analysis is about considering possible alternative futures so you can develop various strategic options to implement if needed.
- Scenario planning can be relatively simple or deeply complex.
- Scenario planning should always be followed by strategic planning.

One likely major driver of your company's success is your ability and that of your team to anticipate likely future events and develop plans for dealing with them.

Of course, as recent history has demonstrated all too well, the future can be highly uncertain. There is rarely, if ever, perfect clarity as to how different factors and events will play out—or how they'll impact your company's future.

That doesn't mean you should be frozen. To the contrary, you need to develop a strategic vision and then plan with guaranteed uncertainty in mind.

Recognizing the obstacles and limitations of predicting the future, many successful business owners we work with turn to scenario planning to help them make better choices in both the short and long terms.

# SCENARIO PLANNING DEFINED

Scenarios are simply alternative futures. Scenario planning is a process in which you make different sets of assumptions about the future and how those different sets of assumptions are most likely to affect your company and industry. This type of planning can help you develop strategies to take advantage of opportunities that may possibly arise, as well as avoid significant possible future risks.

The process of developing scenarios is in itself very useful for many business owners. Developing scenarios can accomplish the following:

- **Identify leading indicators of industry change.**
- **Avoid major surprises that could hurt the company.**
- **Provide a way to compare different courses of action.**

You and your team can determine highly likely scenarios and devise strategic moves and initiatives to excel in those environments. The aim is to conceptualize multiple ways a current situation might evolve. Then, by monitoring the key factors in different scenarios, you can potentially have an early warning as to how the future will progress—and thus, what actions you need to take.

**Important:** Scenario analysis is not about predicting the future as much as it is about considering possible alternatives. Based on these alternatives, you can prepare yourself well by developing various strategic options to implement if needed.

We think the concept and logic of scenario planning is fairly straightforward. However, the difficult aspect is developing powerful scenarios. Basically, good scenarios are narratives—stories that begin, advance and end. Generally, more complicated and extended scenario planning will incorporate twists and turns and adjustments that detail how a business environment changes in erratic ways over a period of time.

Because the economic, political and social environments are becoming increasingly complex, we see scenario analysis getting more attention among companies (including a growing number of smaller businesses).

## SIMPLE AND ADVANCED SCENARIO PLANNING STEPS

There are various different approaches to scenario planning, but they all tend to involve many of the same steps. Some approaches are modest and provide basic insights and certain directions; others are incredibly complex.

**Simple scenario planning** is easy to implement and is useful for gaining perspective. The following steps are often used to develop simple scenarios:



- Define the goals of the analytic process.
- Construct a list of factors and forces likely to impact the future.
- Put the factors and forces into categories (e.g., political, social, demographic).
- Write a description of each category.
- Use the categories to produce three scenarios:
  - Best case
  - Mainline
  - Worst case
- Produce a one- or two-page description of each of the three scenarios, and specifically how the company would be affected.
- Develop a list of indicators for each scenario that would help you determine whether the events predicted by that scenario are starting to play out.
- Monitor the indicators on a regular basis.

These steps reflect the basic approach to scenario analysis. However, they can be upgraded. More **advanced scenario planning** usually involves multiple people from the company and often uses outside experts (such as a facilitator). There is also a greater focus on details, from the construction of timelines to extensively fleshed-out narratives. Additionally, more than just three scenarios are usually developed and evaluated.

A more sophisticated scenario planning process often involves these steps:

1. Define the goals of the analytic process.
2. Brainstorm to identify the critical factors and forces likely to influence the future, including how each will be impactful over different time horizons.
  - a. Each critical factor or force is based on a set of assumptions, which need to be clearly connected to the factors or forces.
  - b. The confidence people have in the different assumptions and the people's rationales should be specified.
3. Group the various forces and factors into critical drivers and then a viable framework.
  - a. Create a matrix of all the critical drivers, and specify how they interact. This will often result in mini-scenarios.
  - b. Examine the mini-scenarios and see which ones logically connect—thereby forming more complete scenarios.

4. Determine how many viable scenarios are produced by the interplay of the critical drivers. Keep in mind that for most businesses, the number of workable scenarios ranges from about three to six.
5. Produce a narrative story of how each hypothetical scenario might come about
  - a. Provide as vivid a description as possible of each future scenario.
  - b. Include a chronology with key dates.
  - c. Explain which factors and forces had the most impact.
6. Evaluate how each scenario will affect the company.
  - a. Tools such as an impact grid can be useful (see Exhibit 2).
  - b. Start to devise strategic initiatives to benefit from opportunities or to avoid possible disasters.
7. Develop a list of indicators for each scenario that would help you determine whether the events predicted by that scenario are starting to play out.
  - a. Make sure senior management is familiar with these indicators.
8. Monitor the indicators on a regular basis.
  - a. Be prepared to take action based on the indicators being recognized.
9. Periodically revisit scenario planning.
  - a. Update scenarios.
  - b. Update indicators.

		IMPACT	
		Low	High
PROBABILITY	High	Refine strategic plans and initiatives tied to the different scenarios	Develop new strategic plans and initiatives tied to the different scenarios
	Low	No change in strategic plans or initiatives	Refine strategic plans and initiatives tied to the different scenarios

## SCENARIO PLANNING PITFALLS

Scenario planning is a very subjective process. It fosters dialogue within a company and focuses attention on strategic considerations. However, it does not necessarily produce definitive results.

As such, there are potential problems to keep in mind when conducting scenario analyses, such as:

- Becoming paralyzed by too many possibilities and therefore taking no action at all. The aim is to come up with the most meaningful alternatives, not every conceivable alternative. Therefore, it's important to winnow possibilities and focus on key assumptions—not all assumptions.
- Being too wedded to a current strategy when brainstorming alternatives. Playing devil's advocate is often very useful in breaking out if you're stuck on one way of thinking about the future.
- Confusing a likely scenario with the only possible or "right" scenario. There might be a scenario you feel is most likely to occur, but you probably still should take into account other scenarios and monitor for them as well.

Ultimately, scenario planning is a way for you to better deal with possible changes in the business environment. Your scenario analysis efforts can potentially make you better able to see changes coming so you can start figuring out how to address them as effectively as possible for your business.

## FROM SCENARIOS TO STRATEGY

Keep in mind that scenarios in and of themselves do not make your company more successful. That can occur only if you use the insights gathered from your scenario planning to develop strategic initiatives. You can use scenario planning to think through an event and "test" those strategic initiatives.

So start with this crucial first step—then be sure you follow it through in order to best prepare your business for whatever might be headed its way.



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VFO Inner Circle Special Report By John J. Bowen Jr.  
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