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SCENARIO PLANNING & STRATEGY

SCENARIO PLANNING 101

The big picture:

Redefining strategy in disruptive times

Executive Summary

- In an era of constant change and massive disruption, strategy remains essential—but it must acknowledge growing uncertainty and enable new levels of organizational responsiveness
- Traditional approaches to strategy development, which assume stability and predictability in the business landscape, are insufficient to drive ongoing success in today's fast-moving environment
- To navigate uncertainty, you need an approach that is speculative (considering various possible futures), adaptive (enabling quick pivots as conditions change), and portfolio-based (providing options that can accelerate new strategic directions)
- Today's ideal strategy combines a set of bets placed against the future with a process for continually updating the portfolio as new information is obtained or new opportunities emerge

In a world of uncertainty and change, strategy remains key to business success

Business is changing faster than ever—often due to forces outside organizations' control:

- The transportation sector has been upended by **disruptive technology and data platforms**, shifting power from traditional vehicle manufacturers to management platforms such as Uber
- **Protectionist trade policy** has increased the cost of goods from China for many U.S. consumer goods and electronics manufacturers, causing a rethinking of supply chains and production locations
- An **increasing wealth gap** has led to the surprisingly fast growth of low-end discount retailers such as Dollar General and Dollar Store
- **Heightened climate change risks** are disproportionately downgrading real estate values in vulnerable areas such as in Miami, Hong Kong, and Singapore, and increasing financing and insurance costs in carbon-intensive industries

“No choice made today can make future uncertainty go away.”

— Roger Martin

It’s increasingly difficult to anticipate the trajectory of change—much less have confidence that you’re doing what you need to do to compete. But strategists can’t just throw up their hands in defeat, or propose an ad-hoc “peanut butter” approach—where every perceived “silver bullet” across the business gets a little bit of investment.

CEOs and boards of directors want to know: ***How should we respond to emerging threats and new types of competitors? Where do we grow next?*** In a rapidly changing business environment, these questions have no “correct” answer—and it’s no longer possible to answer them using traditional tools like straightforward market analysis.

Strategy remains as important as ever to ensuring that you’re leveraging core competitive advantages, your entire organization is aligned, and operational focus isn’t spread too thin. But it has to be a strategy that reflects the uncertainty of the times.

The problem with traditional approaches to strategy

Today, we're seeing the convergence of traditionally unrelated industries. Businesses are increasingly faced with fundamentally new types of competitors. New regulatory regimes are undermining old advantages. In this environment, those able to react quickly to new threats and opportunities will win—and those who don't will lose.

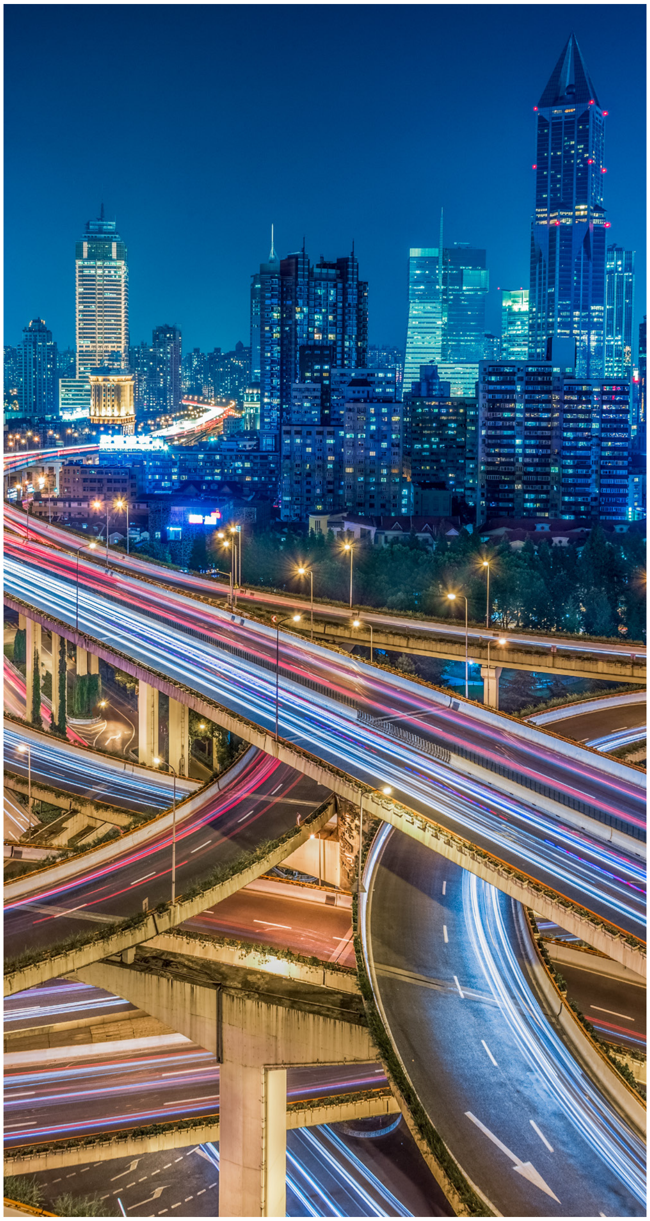
Consider the taxi industry. For years, it viewed Lyft and Uber as traditional competitors—as just another couple of cab companies, albeit with cool mobile apps. The conventional wisdom was that competing necessitated owning and maintaining fleets of cars and having good relationships with regulators.

Meanwhile, what was actually happening was complete industry disruption. By embracing innovative business models, as well as aggressively leveraging scalable technology and building strong consumer brands—neither of which is a strength of traditional cab companies—Uber and Lyft have changed what success in the industry looks like.

Today, your strategy needs to be ready to respond to that kind of disruption. But traditional approaches like SWOT analysis or Porter's Five Forces assume that business conditions will remain relatively stable over time. They make recommendations based on historical industry definitions, market conditions, and "mental models" of the business. This focuses management attention on widely known trends, existing competitors, and foreseeable impacts to current business models, and aims at strengthening existing advantages.

By contrast, effective strategy today requires constantly challenging core assumptions, not just one-off projects designed to drive understanding of and responsiveness to customers and leverage technology to change how business works. Strategy must look deeper and more broadly into the future, and be prepared to change direction based on changing circumstances—sometimes in sudden, dramatic ways.

Developing strategy in disruptive times



In an era of big, rapid changes, taking a wait-and-see approach to the future is simply not an option. You need an approach to developing strategy that enables new levels of responsiveness and flexibility—one that is:

- ***Speculative.*** Strategy used to be about predicting the future, then planning for that future. Now it requires considering a range of possible future industry conditions.
- ***Adaptive.*** Strategy can no longer be etched in stone. It must be ready to evolve quickly as conditions change, and enable your organization to be vigilant and dynamic.
- ***Portfolio-based.*** Rather than being about picking a single strategic direction, now a good strategy involves a core strategic emphasis surrounded by a number of side bets designed to give you strategic options in the event of business surprises.

Such an approach helps stakeholders from employees to the C-suite understand how and where the business might create value in the future, and how to prioritize investments in new capabilities versus optimizing business as usual—so your organization will be able to respond strategically, whatever the future brings.

Navigating uncertainty with a portfolio approach to strategy

Asset management is a good analog for this approach to thinking about strategy: as a portfolio of bets placed against the future, combined with a process for continually updating the portfolio as new information is obtained or new opportunities emerge.

While investment may be weighted heavily towards a particular part of the portfolio—the strategy built for the current most probable future for your business—smaller hedges in other directions (e.g., entering joint ventures or strategic alliances, acquiring new capabilities, experimenting in new markets or with new models, etc.) provide a strategic footprint for evolving the business over time or, if need be, pivoting more dramatically on a shorter timeline.

A new approach to strategy requires new capabilities

The future may be harder than ever to predict, but that doesn't mean you shouldn't bother planning for it. You just need to get better insight into what it may hold, identify a portfolio of strategic options to enable you to respond to different possible scenarios, and then build relevant contingencies and points of adaptiveness into your strategic roadmap to help rebalance your portfolio as the future unfolds.

To evolve your approach to strategy in this way, you'll need new tools, processes and perspectives. *Methodologies might include: scenario planning, foresight research, and ongoing customer ethnography.* Organizations can also benefit from new forms of collaboration across their business ecosystem. And whatever tools you use, to develop and execute more dynamic strategy for a disruptive environment, a more flexible leadership mindset and a greater tolerance for change across your organization are imperative.

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