Scenario Planning

Scenario planning was first used in the military. It was later used in business in the early 1970s by Royal Dutch Shell. This helped them overcome the 1973 oil crisis as a result of OPEC integration, which controlled oil prices in the world market

The fundamental difference between scenario planning and traditional forecasting is that forecasting is used to predict future events based on current and past data. On the other hand, scenario planning focuses on the future. It takes into account the likelihood that the future will develop regardless of the limitations of past or present events. Therefore, both techniques can be useful in different situations. General forecasting is especially useful in relatively stable environments when future events are quite predictable and are not subject to unexpected shocks. This allows planning for potential disruptive events in the future. This technique analyzes many potential situations based on the uncertainty that might exist in the future. The benefit of these techniques lies in preparing organizations to adapt to different future outcomes. Companies often apply both techniques; forecasting for short- and medium-term planning and scenario planning for long-term planning

One example here is the Ford Motor Company. Suppose they defined their narrow corporate vision as an internal combustion engine car company. In that case, there might be situations in the future where such engines cannot be sold, such as fossil oil depletion or costly gasoline. As a result, Ford planned to support other vehicle lines, such as electric and autonomous vehicles, as well as other types of vehicles, such as electric scooters. With this in mind, Ford acquired Spin, an electric scooter company, in 2018. In 2017, Ford also acquired Argo AI, which is developing autonomous vehicles. These investments reflected the organization's broader mindset to provide alternatives that enable the development of potentials beyond the company's current core competencies. When organizations are self-conceptual to allow them to adapt to different future situations while maintaining the essence of the business, they can begin to create scenarios to accommodate megatrends.

Scenario planning process

A scenario planning process consists of 8 steps.

Step 1: Decide on related megatrends. If there are more megatrends considered, the situation will become exponentially more complex. Most companies will limit the number of megatrends to be taken into account when defining the scenario. Each organization tends to have some megatrends more relevant to the organization than others.

Step 2: Use the PESTEL framework described earlier in the environmental analysis section. Choose the dimensions or factors that are most relevant to the future state. Focus on factors that significantly impact the company's future strategy if the expected megatrends occur.

Step 3: The combination of factors under different states leads to an independent scenario. The strategist's job is to draw a picture or story of what the future looks like under each combination of factors. For example, what happens if the government declares cryptocurrencies legal while domestic adoption is still low? Or if it is likely that the use of plastic labels will be banned in the future to reduce waste. Should we launch labelless products? It might not look as attractive as what they were and might increase costs. But we would be among the first wave to adapt to potential new policies and have more time than competitors to reformulate the packaging.

Step 4: Analyze the situation from the perspective of the organization's various stakeholders (customers, suppliers, employees, etc.) to determine how their interactions might change. Based on the previous example about the labelless product. It will potentially impact consumer choice, shelf position in retail stores, and product identification in advertising media.

Step 5: Look at the organization's current state to determine whether the current strategy is viable or flexible depending on the scenario. This allows organizations to identify weaknesses concerning the potential impact of megatrend combinations.

Step 6: Develop a strategy for building resources and abilities to overcome these weaknesses. These are often relatively small investments that allow companies to start developing their capabilities. Ford's acquisition of Spin, an electric scooter sharing company, is one example of such an investment. These investments have proven their potential when the megatrend occurs. Also, consider whether the situation that you think is likely to happen or not.

Step 7: Monitor the environment to see what trends are likely to occur and which situations are likely to be far from the possibility of occurrence. Also, create indicators to track the progress of the factors that led to the scenarios listed in the preceding steps.

Step 8: Periodically review scenario planning to track progress on key indicators to exclude some situations inconsistent with how the megatrends are developing. And develop new scenarios according to the actual trends.

The importance of scenario planning is to make the organization's current strategy resilient to future situations. Some current strategies may be compatible and thrive in future scenarios. But some strategies might not be suitable for the new post-megatrend status and could lead to extinction. Therefore, companies need to use scenario planning to populate ideas of what the organization might look like to fit the different situations, the changes that will lead to its strategy, and the abilities and resources that must be developed to make that strategy happen.

Case studies

Let's take a look at an example case of Alphabet. Previously mentioned, Google established Alphabet as its parent company, designated itself as a subsidiary, and separated other entities from Google's mainstream to make the work process more autonomous. The founders aimed to develop technology and capabilities beyond the core business, Google, and to prepare it for disruptive technologies that will arrive in the future.

X, formerly known as Google X, is something that Alphabet created with the idea of the big world problems that will arise in the future. The idea to produce a groundbreaking technology that changes the world is called a "Moonshot," named after Apollo 11.

X is a relatively small investment but has the potential to become a big business or even become a new core of Alphabet

X has developed systematic innovations. While other organizations try to use the scenario planning to place their own Moonshot bets on developing the ability to make their strategies better suited to future situations, X clearly emphasizes the development of innovations that will lead to future revenues and profits.

Such a disciplined and systematic creative process requires focusing on solving problems that affect a large number of people, millions or even billions.

The chances of success must be within 5-10 years.

One of the key success factors is to find the balance between a high-risk, ideological approach and a safer, practical approach.

Similar to other innovative firms, mistakes are not considered serious issues. Employees are encouraged to learn from their mistakes by bringing failures to investigations to correct flaws.

However, the way they learn must be the cheapest approach possible, and they must quickly identify what doesn't work.

People at X love the problem, not the technology.

They hire intellectually resilient people along with those with deep expertise in a particular field.

They build a small core project team reinforced by shared experts who move across teams and share resources. X calls its workspace a "design kitchen" where teams can participate in the rapid design and prototyping ideas. And the key is to perform failure analysis.

They have a clear budget and criteria for ongoing projects. There is a quick 3-step assessment to eliminate ideas that are not possible early on. The first step takes place within a few weeks, whereas project teams are paid a few thousand dollars to understand the biggest risks in the project. The second phase is a more extended trial. Still, they use the hardest and most risky elements of a project or technology, developing a prototype, and trying to prove the idea will work in the real world. Finally, small teams have about a year to learn whether an idea can be transformed into a profitable product in a reasonable amount of time.

Projects must be evaluated on an ongoing basis, and organizations must be willing to close the project if it clearly doesn't turn into a revenue-generating business within the targeted timeframe.

Successful projects will be scaled to real businesses, separated from X to free up resources and let X focus on developing new projects.

Although Alphabet's process may not suit every business, it provides a model for how scenario planning can be accessed as a practical strategy to deal with disruptive changes in the corporate environment driven by these emerging megatrends. Even the largest companies will need a process to deal with future disruption to maintain a long-term competitive advantage.

Summary

Strategic management often focuses on improving organizational efficiency. The main task of strategic management is to increase the value of the organization. It does not just understand the external factors that affect the performance of an organization. It is important not only to understand the nature and impact of megatrends. But also to understand how to create organizational systems and processes that will continually provide a competitive advantage to support future megatrends. Even big corporations could one day be replaced by disruptive megatrends that executives currently don't anticipate and beyond the current capabilities of the organization. For the strategist, the challenge is to create flexibility and build dynamic capabilities across the organization. It is necessary to provide alternatives for the future that no one knows while doing what is necessary to create value. At the same time, a company needs to generate satisfaction for customers and offer a good return on investment in today's concrete and tangible competitive power.

Strategic planners should keep in mind that there are no universal formulas or guidelines that can be used to create a competitive advantage in every firm. If it's really that simple, isn't everyone using the same formula and method? And if everyone uses the same formula and method, they should get the same results that are impossible in reality. Strategic managers should understand the complexity of the challenges as well as the difficulty of solving them. A strategy that works for one company may not work for another. And an effective initiative in one environment may not be completely effective in another. No two interruptions are the same. Therefore, the key is to formulate flexible scenarios by combining possible factors from multiple perspectives. This must be carried out within an organization that emphasizes customer and market-focused culture and strategies to continue creating value.

Reference

Amason, A. (2011). *Strategic management: From theory to practice*. Routledge.