

What If?

Thinking Differently About Tomorrow Can Save A Company's Future

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More and more organisations in Switzerland are turning to a technique called scenario planning to help them visualise how their future business landscape may develop. By using this process to envisage alternative future terrains, they can better spot opportunities and flexibly prepare for challenges they may encounter. Woody Wade, a Lausanne-based consultant and author of a new guidebook on the technique, helps companies navigate this fascinating and creative process.

"Quick! Name a high-profile company that went out of business in the last ten years!" Woody Wade, leading a workshop of twenty senior executives from the hotel industry, prods the group to come up with an impromptu list of memorable business failures. "Kodak!" one of the workshop participants shouts out. "Nortel," ventures another. "Swissair!"

says a third, engendering a sympathetic murmur that ripples through the room.

Within a minute, the group has come up with a dozen formerly successful companies that, alas, have not survived to the present day. "How many of these firms do you think went out of business because they did a bad job of forecasting interest rates?" Wade asks his audience. "Or because they didn't project the exchange rate correctly, or the price of a litre of gasoline?" The workshop participants begin to see Wade's point; although projections may be useful, they are rarely focused on the truly make-or-break factors that determine whether a company becomes a success or a failure. Much bigger trends and events are far more relevant: new technologies, political changes, the appearance of a smart new competitor. To be ready for the future, a company need not expend time

and energy trying to make an accurate guess as to what the dollar will be worth in five years' time, but how to think more holistically about what kinds of things—big things—can happen in its business environment.

You can't predict the future; but you can explore it.

Wade hammers home his message: if a company prepares for the future by relying on forecasts of a few key variables that will affect its performance, it's making a fallacious assumption—namely, that these variables are the most critical determinants of its future success. In other words, get the numbers mostly right and all will be well. But Wade argues that making even excellent mathematical forecasts of factors such as market growth rates or the cost of key commodities can lull a firm

Scenario planning has not always been the focus of Woody Wade's career, but once involved in this exciting sphere of business planning, there was no turning back. He first became interested in scenario planning in the early 1990s as a member of the Executive Board of the World Economic Forum, eventually turning to this technique as an area of specialisation for his consulting company. "At Davos, it always impressed me how intensively CEOs and political leaders were focused on trying to figure out what was coming next in the world. They struck me as being hungry for ideas about how the future would develop."

Before striking off on his own, Wade put in seven years as Marketing Director at the École Hôtelière de Lausanne, where his challenge was to reposition this very traditional institution as a modern business school for the hospitality industry, an effort that met with a satisfying success. In 2003, Wade left the school to work independently and now helps organisations of all kinds develop a scenario approach to the future.

In 2011, this Harvard Business School graduate wrote *Scenario Planning: A Field Guide to the Future*, published by John Wiley & Sons, the largest business book publisher in the USA.

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into a dangerously false sense of security. That's because the only thing that projections can do, even very accurate ones, is paint a picture of the future as if it will be merely a variation of the way things are today. "This mentality says, 'take the current numbers, tweak them a bit and—hey presto!—you've created a picture of what your business terrain will be like five or ten years from now,'" says Wade. "You may get lucky, and the future does end up looking like your projections. But just forecasting a few variables ignores the bigger, less obvious forces that can have an impact on future success. Forecasts don't capture the big picture, the true lay of the land. They're often focused on measurable factors like prices and other important numbers, but they don't reveal anything about the shifting forces that have the potential of bringing about fundamental and disruptive changes such as political or social upheaval, new competitors, or innovations in your business environment."

"With a few rare exceptions," Wade tells the group, "when a company fails, it's not because its senior managers got the numbers wrong". More often, it goes out of business because they weren't able to foresee how their entire landscape would change when an unanticipated new player or event appeared in their market space, turning the business on its head and changing the competitive dynamic. "This sort of thing happens all the time in the business world," says Wade. "Another company comes on the scene with an innovative new technology, and suddenly your product is obsolete and you're struggling to survive. Or a new regulation has a detrimental effect on your costs. Or changing economic conditions bring about an unexpected swing in consumer attitudes and new buyer behaviours. Disruptive changes can have a dramatic impact on an entire industry, and you have to be ready to respond—or better yet, you've already thought about the kinds of changes

that are possible and have a plan ready to put into place."

Seismic shifts like these don't show up in the purely arithmetical forecasts of conventional factors such as market growth rates or raw material prices, but that doesn't mean they're impossible to anticipate. What Wade's work does is demonstrate that if a company can envisage the changes that may come about because of shifting trends and developments, and visualise the potential impact these changes could have on its business, then it can take proactive steps to prepare for the changes if they should occur.

"Companies that don't apply some imagination to this task run the risk of getting caught off guard if big changes actually do materialise," says Wade. "The key is to focus on the most critical uncertainties, the ones that can have a deep impact on your long-term ability to succeed. By imagining how those driving forces may change, you can get some idea how different tomorrow may »»»



be from today and decide how to get ready for the changes.”

But how can the managers of a company identify these uncertainties? Is it really possible to predict the big changes that can occur in the future? That’s not easy to do. Wade is adamant that the approach he proposes, scenario planning, is not about *predicting* the future but rather *exploring* it.

“Scenario planning offers strategists a logical, structured way to think about how things may change in the future,” says Wade. “Unfortunately, it can’t tell you what *will* happen, but you can use the technique to generate plausible ideas about what *may* happen. So it won’t reveal any deep mysteries, but it will certainly open your eyes to different ways your future business environment may realistically develop. With these insights, you’re more likely to recognise opportunities and threats, and you can make more flexible, more thoughtful, and *better* strategic decisions today.”

How does it work?

Scenario planning challenges the very idea that there is one future that will emerge. Instead, it recognises that, at any point in time, there is not a *single* future that is certain like the next point on a predetermined line, but rather an *array* of futures that can potentially unfold. Which future actually does emerge depends on how trends that are happening all around us play out now,

as well as on other potentially significant events and changes that may occur along the way.

The outcome of the scenario planning process is a portfolio of alternative scenarios, each one representing a different business landscape in which a particular company or industry may find itself within a few years. And not just the landscapes, but also the players that inhabit it: your competitors, customers, suppliers, employees, and other stakeholders. In a few years’ time, in one scenario, you may be selling to a certain type of customer, with certain needs and buying behaviours, while in another, equally plausible scenario, your market is a different one entirely. Likewise, societal changes can make a difference, too, as attitudes toward work, demographic changes, labour, and retirement laws may all develop in different directions, so employees may need to be managed and motivated differently. And of course, a company may be up against completely different competitors in one scenario compared to another.

Even though the scenarios generated by this technique will naturally differ from each other in key aspects, each one will be regarded by the company’s senior strategists as realistic. “That is an important thing to remember,” Wade insists. “You’re not trying to develop pie-in-the-sky ideas about how weird or wonderful the future might be. Instead, given your reading of today’s uncertain-

ties, scenario planning provides a way to describe different outcomes that everyone involved believes can actually come into existence.”

Based on these different scenarios, a CEO and his planning team can then sit down and formulate strategies to ensure they will have the flexibility to adapt to whichever future does in fact emerge.

As Wade conducts the process, workshop participants go through a step-by-step exploration of the many uncertainties their company or industry can face as the future unfolds, and the impact those unknowns can have if they transpire one way as opposed to another. By combining the potential outcomes for the most critical uncertainties, the parameters of different future scenarios are generated.

“Then it’s a question of identifying which issues would have to be addressed in each scenario if the company wants to stay competitive,” says Wade. “For example, what capabilities would you need to master in order to be ready for each scenario? Are there some specific strengths you would need to beef up, or weaknesses you would need to overcome, for example through changes in hiring and training policies? What are the financial, marketing, operational, or human resources policies that would be best in each scenario? How much will they cost to implement? Where will you put your priorities?”

A leadership issue

“At the end of the day,” says Wade, “scenario planning is a leadership tool. If you want to make ambitious plans for your organisation, and convince colleagues (not to mention the Board) to support your vision, you need to be able to anticipate the changes that can emerge in your landscape.”

The essence of leadership, Wade believes, is to be constantly grasping the possibilities the future has in store, communicating a vision of the role you want your organisation to play in this new future landscape, and inspiring your team to help you make that vision a reality. “This is why scenario planning is very useful for anyone leading a company into a future that, by definition, is uncertain. It uses that uncertainty as a lever to uncover eye-opening possibilities.” «««