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Scenario planning aims to prepare you for your next crisis, whatever it may be.

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ALL THE OPTIONS

By Constance Gustke

Remember the avian-flu scare? Three years ago, the world anxiously noted each indication of an outbreak, discussing vaccines and antidotes — and tallying the dead in the event that the disease spread.

At UPS, executives got busy strategizing. They pulled together twenty employees, conducted workshops for a few days, and worked to understand the flu and how rapidly it might spread. Their tool: scenario planning.

Five different scenarios, or possible outcomes, were the fruit of these brainstorming sessions. Each scenario explored the key events that might unfold, affecting UPS and the general population. How might an avian-flu outbreak affect global business? What changes would need to be made to safeguard operations?

The result was in-depth contingency planning that could ride out a raging pandemic, says UPS strategic-planning manager Ed Rogers. Participants predicted that, for instance, medical authorities desperate to move supplies would turn to UPS. And the company made key internal moves: Critical operations to keep serving major metropolitan areas were identified; hand-washing sanitizer stations were installed. The policies resulting from that planning are still in place.

Facing a crisis situation is every CEO's nightmare — particularly at a time when so many institutions and situations are wobbling. But few plot out the potential scenarios that can trip them up. Even in volatile times, companies continue to base forecasts primarily on past data, a by-product of America's notorious short-term orientation. "Americans have never really adopted this tool," says Paul Schoemaker, founder of Decision Strategies International. "It's very intellectually rich. You need time for rich dialogue." Europeans rely on scenario planning more frequently.

After all, scenario planning — now several decades old — was a European invention used just for this purpose: to foresee rapid shifts by flagging warning signs along the way. Indeed, its purpose is to ride "the rapids" — to use scenario-planning inventor Pierre Wack's term — of change.

TOWARD CONSENSUS

Capital-intensive companies, such as oil-producing firms, first adopted scenario planning to navigate rapidly shifting market dynamics. The tool's reach was strictly long-range, used for big-picture strategizing and planning large initiatives, with time horizons up to ten years.

Today, as the world speeds up, that time horizon is shrinking to three to five years. Large, established companies are slicing and dicing scenarios to make strategy decisions for divisions, products, or technology options — not whole company agendas. Workshops that used to stretch over several days are sometimes boiled down to one-day versions. Yet the goal remains the same: helping overly analytical, top-down, big companies become more nimble.

"Companies are ships sailing oceans. If the weather gets more complex, then you need better navigation planning," Schoemaker explains. "Scenario planning offers that strategic radar."

Ultimately, the goal is to move from a reactive to a proactive mindset. Crisis planning still isn't proactive, since you're invariably reacting to an unanticipated event. "Most managers are slow to react," Schoemaker says. CEOs advocate for their own views. (Scenario planners call it, fittingly, the "official future.") And most companies plot future courses by gazing at the past.

Scenario planning's strength is that it looks ahead — in every direction. The process appears simpler than it is: Define a question, create scenarios that address possible futures, and then act on the ones that appear most plausible. Team members add input at every step, creating scenarios based on two criteria: what's known and what isn't. The greatest uncertainty becomes the pivot.

Not that it's an easy process. Morgan Stanley's director of the environment, Jim Butcher, has used scenario planning as a client-strategy simulation tool for investors — for instance, to ferret out whether wind, solar, or biomass will emerge more strongly as an alternative energy source. "But it's not a very linear plug-and-play approach," he notes. "You have to do some good prep; you have to have good facilitation."

There are potholes to avoid at every step, too. The biggest one is "coming up with scenarios that are interesting but not irrelevant," says Peter Schwartz, co-founder of scenario consultancy Global Business Network. But other potential missteps arise, such as generating too many scenarios, framing the wrong question, or meshing together too much information. Some companies — especially those tightly controlled by charismatic CEOs — aren't able to integrate scenario planning into their cultures. The best adapters, such as UPS, tend to be consensus-oriented.

IMAGINING A FUTURE THAT HASN'T HAPPENED

Scenario planning's inventor, the eccentric French economist Pierre Wack, famously led a Royal Dutch/Shell Group of Companies team in London to predict the 1973 oil crisis before it happened. He borrowed the core elements of scenario planning from battlefield strategies he learned as a soldier during World War II — thinking from the outside in, learning in collaboration with others.

Wack displayed brilliant yet unconventional thought by combining this training with New Age thinking. He was a student of yoga, meditation, and Eastern mystics such as G.I. Gurdjieff. And he vacationed in faraway places such as among native peoples in New Guinea. "Pockets of knowledge can be found in unlikely places," says Global Business Network co-president Andrew Blau. "In the last few years, the American news media has discovered the value of the street. Pierre understood that forty years ago."

So Wack pulled in corporate outsiders such as artists, anthropologists, and historians when putting together scenarios. One group included a barber in Beirut whom he deemed a genius. Another included an Iranian physician. They were part of Wack's collection of remarkable people that he consulted. "He didn't fit the [Shell] culture," says Schoemaker, who worked with Wack. "That's why he was so effective."

At Shell, scenarios became a way of gently pushing people out of their comfort zones, of busting through preconceptions. Yet despite its success, some company insiders remained suspicious of the process. "Some people thought it was too highfaluting," Schoemaker says. "Too many outsiders were mucking about in Shell."

And today, that same problem lingers. Some companies still use only insiders to create scenarios, hobbling their results. Others have difficulty integrating the process into their cultures. "It's important to get the right people in the room," Butcher says.

The beauty of scenarios is that they offer first-strike awareness, meant to outmaneuver competitors. They offer four to five plausible futures, and the most promising ones are revealed over many years via indicators that are monitored. Over time, they start pointing to new directions, much like a compass. But even at Shell — and later elsewhere — the biggest challenge has always been convincing management that these scenarios signal real threats. Why? Because few people can imagine a future that hasn't happened.

But because scenario planning isn't a conventional forecasting tool, it also doesn't offer the safety of known decisions. Instead, mindsets change — drip by drip, as one consultant says — over time. There is no quick payoff — and sometimes, no tangible long-term payoff.

CHALLENGING THE OFFICIAL FUTURE

Success leaves footprints, some say. And the same is true with scenario planning. Consultants say that companies can undertake the process independently — though, naturally, they wouldn't mind being hired as guides. "There are plenty of descriptions in books," says Bill Ralston, a planning practice leader at SRI Consulting Intelligence. "You can get a good sense of what it is. You only need to use consultants for major decisions."

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Strong CEO support is essential, though the degree of involvement varies. Some take the time to participate in the workshops; others listen carefully to the results — the outcomes and plot strategies. At some companies such as UPS and Lilly, strategists handle the entire process, reporting on results at executive-committee meetings.

Getting the key questions right can be tricky. What do you need to know? What's the focal question? If it's environmental, what is the future of carbon constraints on utilities? Will there be a carbon tax or a cap? The goal is challenging the official future. "Most people assume that the carbon cap is inevitable," Schwartz says. "Under what circumstances will that not be true?"

In some senses, scenario planning is an excellent twenty-first-century tool, mainly because it thrives on complexity and volatility. Any company unit can use it to make long-term decisions. Short-term decisions, or those related to operations, are best hammered out elsewhere. UPS, the poster child for exceptional management, has used scenario planning a dozen times or so since 1995 — for instance, in determining whether to switch to the Linux operating system. The question was: Would customers migrate toward Linux rather than toward Windows?

Once planners nail down the question, they begin doing homework on it. Two criteria are used: things that are inevitable and things that aren't. For example, inevitability is the aging of baby boomers; uncertainty is interest-rate changes in, say, five years. Planners look at issues through a lens of five drivers — typically, politics, economics, demographics, technology, and the environment. Research on each category can take weeks or months.

Schwartz recalls an exercise he performed for the government of Singapore on regional climate change. With the help of fifteen researchers, he spent ten months on library, Internet, demographic, and market research. "It usually takes four or five," he notes. "But this was an enormous amount of research."

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AN INTEGRATED APPROACH

Scenario planning is often misunderstood, though. Many people confuse it with traditional forecasting, a premise that riles consultants. “We don’t try to predict,” Schwartz says emphatically. “The easiest part is getting the future right, because we have several scenarios.” But as every psychologist knows, people are uncomfortable with uncertainty. So some executives are disappointed if there’s no crystal ball.

As with so many corporate initiatives, companies must have the right culture in place — starting at the top — to make scenario planning work. Schoemaker notes that the process ran into trouble at Monsanto, for which he blames the analytical culture and powerful CEO. Cisco is another example. “CEO John Chambers was blindsided by the recession,” Schoemaker says. “Later [Chambers] said this was the perfect storm. But it wasn’t. The culture was one of total control seen through a rearview mirror.”

Scenario planning requires more freedom to function, with diverse groups of people offering thoughts about technology, politics, economics, and the like. Typically, they meet in a series of workshops over a few days. Everyone is on an equal footing. At Lilly, twenty to twenty-five people — employees, academics, and consultants — participate in these workshops. At UPS, about twenty employees gather together. UPS covets employees with broad backgrounds and no bias toward the process. “Groupthink is dangerous,” one UPS strategist says.

After wrestling with data, these groups plot out brief but detailed scenarios. Schwartz calls this the “most creative task.” These scenarios frame a specific, central question — say, What are the politics around coal? Groups may generate twelve or even twenty different scenarios. Most experts say that three to four is the right number. (“You’re confident that you’ve covered most uncertainties,” says SRI consultant Bill Ralston.) Anything fewer makes the process shallow and too simplistic.

INDICATORS OVER ADVOCACY

Perhaps surprisingly, scenarios are not guided by blinding flashes of insight but by indicators such as number of laptops sold, increasing rates of cardiovascular disease, or retail sales. Indeed, most planners are skeptical of highly paid prognosticators. “Futurists are selling their own predictions,” says Peter Johnson, Lilly’s executive director of corporate strategic planning. He sees scenario planning’s strength as unleashing employees to be “explorers, not advocates.”

In its most recent exercise, Lilly dished out its scenarios to four groups, each tackling a key question: How do we improve health care for patients over the next twenty years? If this were the future, what would you do? What business do you want to be in? How integrated would you be? “We weren’t asking for the right answer,” says Johnson, who says that reading science fiction spurs thinking. “We were looking for alternative strategies that might work.” Groups then identify ten or eleven indicators that increase belief in a scenario.

Indicators act as triggers. Will buyers of health care fragment or consolidate? They are a low-tech way of sorting through mounds of data. Explains Johnson: “If the indicators don’t happen, maybe we are wrong. Maybe another scenario is more likely.” The payoff, he adds, is that it helps you be more thoughtful about today’s ongoing chaos.

Lilly tracks leading indicators for years, reviewing scenarios every six months. Johnson supervises a small group of people who coordinate the work. There’s also an Orwellian-sounding “watchers network” of about twenty people — spread out among forty thousand employees — who feed him information. “Scenarios are directionally important,” he adds. “I think of them as a compass.”

Many consultants lament, though, that some companies leave their findings on the table to collect dust after completing the research. “This is the critical phase,” Schwartz says. “Strategic conversations need to happen to understand implications.”

Even at Shell, scenario planning suffered a mismatch with strategizing for a while. That became Paul Schoemaker's job there. "I was brought into Shell to help codify and streamline the scenario-planning process," he recalls. "Knowledge about scenario planning was in Pierre Wack's head. But what is the methodology?"

Today, the same problem exists, usually when scenario planning becomes uncoupled from budgeting and planning. Says Schoemaker: "Scenario planning can be politically muffled."

Peter Schwartz offers an example. In 1988, he did a huge project for AT&T on information movement and management after its breakup. About eighteen AT&T people worked on in-depth scenarios, looking at markets and competition, he recalls. But the result was water on stone. "AT&T did not make good decisions based on the analysis," he says. "It was a highly political organization."

Even Johnson says that execution-oriented managers at Lilly often find scenario planning an awkward exercise. "You're telling stories that don't feel professional," he says. "And we haven't done this since we were kids. It feels like you're wasting time." But, he adds, scenario planning makes Lilly "a better player in the ecosystem."

FORESEEING MELTDOWNS

Scenario planning never ends. The minute a session concludes, the results are outdated. And to function optimally, scenarios must be regularly monitored. Many companies update their scenarios every two years, Schoemaker says. Typically, the scenarios change as new innovations emerge, such as new automotive models.

Lilly updates its strategies every year. Adjustments are discussed, strategies are reviewed, and watchers collect data every quarter. They make a case for one of the scenarios, adding more detail to the story. Every six months, Johnson hands top executives a report. "We can't make them too frequent, because we're looking for tectonic shifts," he adds.

To make sure the scenarios are on target, companies should test them rigorously. Schwartz recommends asking a few key questions of various people with unique insight: Are the scenarios plausible? Are others more important? When working on climate-change scenarios, for example, he showed them to a top climate modeler in Berkeley, Calif. Schwartz also holds learning labs. For example, when testing a study on the future of cities, he hired off-duty Los Angeles cops to take corporate insiders on a four-hour drive of the city. "They understood the reality," he recalls, "in a way they never had before."

An easy and fairly safe prediction: Companies will increasingly use scenario planning this decade. Still, Morgan Stanley's Butcher is perplexed that most companies fall back on traditional forecasting, a very linear process and one that too rarely looks beyond the next fiscal quarter. "So many companies have blinders," he laments. "They only think three months ahead." ■

ONE STEP AHEAD

There are many ways to use scenario planning, and Herman Miller Inc. has a unique one for creating office environments. In 2004, the furniture maker reframed the question, "How will work change?" via two-day workshops and presentations. The objective: to understand how societal changes will impact work environments—and Herman Miller's product portfolio. Some twenty-five participants included social-networking guru Howard Rheingold, who shed light on ways in which people are connecting with newly emerging technology tools, as well as academics and members of the architectural and design communities.

The group crafted and distilled three scenarios, and they were given catchy names. "Race for Talent" imagined a scenario of scarcity, with increased global demand for innovation and creative talent. "Grounded" imagined how three scary possibilities—terrorism, high oil prices, and the global spread of disease—could directly impact how people work. (For example, people may work from home more, as gas prices spike higher. Will telecommuters require different types of seating?) The third scenario, called "Collective Intelligence," imagined creating partnerships with businesses via emerging social-network tools such as LinkedIn. The scenarios were then handed to the company's product-design team.

Circumstances constantly change, of course, but Herman Miller manages to build on those scenarios and keep updating them. In 2005, it updated its two-and-a-half hour client workshop, dubbed the Kaleidoscope Experience, in which the company discusses the three scenarios and the eight propositions that emerged from them. Clients vote on which propositions are most relevant, and a brainstorming session follows on how to use the scenarios to change business planning.

"It's a great way to help customers think in a broad way," says Herman Miller design facilitation manager Marilyn Walton. "Their input feeds back to product development."

Walton also uses scenario planning as a thought-provoking tool for employees, spurring them to spot major world shifts in politics, the economy, social mores, and the like. These in turn inform Herman Miller how furniture needs to change in the future, such as fewer corner desks as offices shrink. "The more people are thinking about how things are going to change, the better," she says. —C.G.