EARTHCHECK INSIGHTS UPDATE

Scenario Planning and COVID-19 dreaming: How you can learn to think about the unknown

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#WalkTheTalk

Scenario planning forces you to look into the future and helps you deal with uncertainty

Those who take it seriously can make quick and effective adjustments

A mini course
Every good chess player thinks a number of steps ahead in scenarios. They cannot predict what their opponent will do, but they can imagine what options lie ahead and develop a strategy. Scenario planning works exactly like this. It offers you flexibility of thinking to allow for a quick and accurate intervention when the status quo changes.

To make it work, the rule is to look into the future. Those who allow themselves to be taken by surprise usually are not able to make the best decisions.

Great Impact

Any change can have a major impact on your organization, which is why it’s important to follow developments closely. Only through understanding potential impacts can you avoid being robbed.

Scenario planning helps identify plausible scenarios and see what potential consequences these scenarios might have. It is not a prediction, but an exploration of what may evolve in the future.

While scenario planning is useful, and often much needed - especially in times of crisis - it is not widely used. Lack of time is a commonly argued excuse. Another is lack of information and knowledge. While there is enough information about the past (compiled in daily, weekly, monthly and annual reporting) information about the future is not always available. That’s why many companies attempt scenario planning by extrapolating past information, forgetting that the future is rarely a linear extrapolation of the past.

Fear of the unknown is also a barrier. Scenario planning requires creativity and a willingness to think about the unknown.

“Managers think in safety, which is often a strength but is now a weakness”
"YOU DON'T KNOW WHAT YOU DON'T KNOW, AND THAT CREATES UNCERTAINTY."

PATRICK VAN DER PIJL, CEO OF BUSINESS MODELS INC (BMI)
Thinking in safety

According to Van der Pijl, most companies are used to thinking in safety. That is normally a strength, but is a weakness in times of crisis. In an existing organisation you are busy implementing your business model, but if you want to change or innovate, that requires completely different behavior. Innovation is fundamentally different. Execution is on the security side, innovation is on the uncertain side."

Shell was one of the first companies to start scenario planning. In 1967, Jimmy Davidson - their Head of Economics and Planning at the time - started a futures operation within the company by publishing a report speculating on the year 2000. It was the first of many.

In the scenarios themselves, employees tried to provide well-founded answers to “what if” questions. This process encouraged the leadership team to broaden their thinking; in turn making more informed decisions. As Shell notes “Scenarios stretch our thinking and help us make crucial choices in times of uncertainty and change.”

You can see more outside

“If you look outside more often, you see more.” Van der Pijl explains. “Try not to focus on tomorrow, but on the day after tomorrow. Try to map out possible futures and use situations as drivers.”

“An example of what I mean is to look at COVID-19 as a new trend that arises, therefore there is uncertainty. COVID-19 is a driver for scenario planning, but it is not a scenario. For us, COVID-19 is an accelerator for a digital environment. We moved from having daily workshops in the office to now having built an accelerated digital environment where we can do our workshops completely digitally and remotely. This would have taken years without the current context.”

With its Scenario Model Canvas, Business Models Inc offers a short and simple method for looking at change and innovation. As Van der Pijl elaborates, “We don’t want to be focusing on just one future vision. We need to take a step back and look at what would be possible for a company in a variety of scenarios; which business model is part of that, and how you can achieve continued organisational strength.”

Putting this into action, BMI worked with American furniture company Herman Miller. Together, they explored scenarios around the futures of work to develop stories that extrapolate emerging customer segment sales targets. “The scenario was that we are more often working at home. Leading us to need different, or less, furniture at home, and that the needs of an office have also changed.”

Image: store.hermanmiller.com
Scenario Model Canvas

The Scenario Model Canvas has four quadrants, which draw from two scenarios. For example, imagine you are in the events industry as COVID-19 emerges. Start by making an inventory of the most important uncertain variables.

"Think through it carefully," advises Van der Pijl. "I often hear that turnover is an uncertainty, but this is often behind customer behaviour. Apparently they spend less. So, customer behaviour is an uncertainty, not turnover."

Potential scenarios could be:

1. From now on we prefer to stay at home behind the laptop.
2. We are going to live events again.
3. The lockdown remains "high", the country remains locked.
4. The lockdown is quickly weakened.

"If you put those two scenarios on axes, you get four worlds that you can describe and fill in," says Van der Pijl. "For each variant, describe which companies have disappeared and which have grown. Explore customer needs, colouring them in completely. Then ask yourself what does our business model look like in that world? Can we remain or will we have to adjust?"
"WE WILL NEVER AS AN INDUSTRY HAVE THIS CHANCE AGAIN TO QUESTION WHERE WE HAVE COME FROM, WHAT WE COULD DO BETTER, AND WHERE WE ASPIRE TO BE IN THE FUTURE."

STEWART MOORE
CEO AND FOUNDER OF EARTHCHECK
PEST analysis

To determine which scenarios to explore, a PEST analysis is a tool to detail external factors and 'see what you don’t see'. It asks you to consider the Political (political stability, laws and regulations and government subsidy and tax policy), Economic (economic growth, purchasing power development, inflation, currency stability, interest development), Social (demographic aspects, education level, welfare and health aspects, cultural aspects, the increasing importance of social media) and Technological (artificial intelligence, internet, social media) influences impacting your company and context.

Once you have made an inventory using this analysis, you can pinpoint a number of trends quite easily. Next, rank these trends according to two criteria: uncertainty and impact. The two trends with the highest impact and highest uncertainty deserve a scenario.

Planning team

Assembling the right team is an essential step to set you up for success. Scenario planning should be done with a range of people, preferably from multiple layers of your organisation. Additionally, support from management is crucial so make sure at least one higher manager or board member is present. Look for people with an open mind who can work well in a team.

According to Van der Pijl, BMW is another company that does just that: having a carefully selected team in their Radhub program develop scenarios for the future of the brand. "Not concept cars, but future mobiles. The safety trend has been translated into a motorcycle that cannot tip over and for which you no longer need a helmet. I think that is a striking example of how you can work with your teams to think about the future."

As Van der Pijl concludes, what people struggle with is what ultimately delivers the most interesting answers. "Ask them: yes and? Because when we use tools to look to the future, we see more; we can talk better about it; we see things we didn’t see before; and we are all better prepared."

"Through scenario planning we can anticipate rather than just react. And that has always proven to be a better strategy."

The Business Model Inc. Scenario Model Canvas can be downloaded here
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