

Scenario “*Lite*”

- - Useful Scenarios in 8 Hours or Less - -

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Purpose of this talk....

Primary: Talk about one very fast method for producing useful scenarios

Secondary:

- Show how scenarios can be used in the broader context of strategy development
- Show the connections between a decision tree analysis and scenario analysis:

What is Scenario Analysis?

- Scenario Analysis is a **process** that creates a **plausible** set of **alternative** “stories” about the **future** for elements of the business environment that are:
 - 1) “strategically” very important
 - 2) beyond your ability to control
 - 3) often beyond your ability to predict what will happen.

I don't like the term Scenario Planning

- Strategy Development is a iterative journey involving many steps (business aspirations, explicit goals, participation and operation strategy / decisions, implementation planning, risk management, etc.)
- Creating scenarios is only one phase, albeit a very important one, of the journey. Therefore I'll use the term Scenario Analysis.

A critical distinction...

Strategy: You get to choose

Scenarios: You don't

Interplay between *Scenario Analysis and Strategic Planning*

----- Scenario Analysis -----

**World and Regional
Economics,
Market Opportunities,
Emerging Technologies,
Emerging Markets,
Your competitive position**



**Business
Aspirations**

- Financial
- Marketplace
- Cultural

**Competitors market
position,
Market Trends,
Customer Needs,
Technology,
Legislation,
etc.**



**Participation
Strategy**

- Markets
- Products / Services
- Strategy for competing

**Technology Forecasting,
Competitor's Operating
Strategies,
Market Growth Timing,
etc.**



**Operating
Strategy**

- R&D
- Mfg.
- Marketing, etc.

----- Strategic Choice -----

Different situations may call for different methods

- Scope (See <http://www.gbn.com>)
- Degree of inherent uncertainty
- Knowledge of the situation
- Time available to build the scenarios

A Common situation at Kodak

- Modest in scope
- Lots of strategic factors that are uncontrollable and uncertain
- Limited time / money to complete the task
- Limited patience to deal with uncertainty
- But....**adequate** knowledge of the total business landscape

Steps in the process

- Define the scope of the planning
- Identify and define the **most critical** predetermineds and uncertainties
- Develop the different plausible outcomes for each uncertainty
- Build the **Scenario Table**
- Develop a most likely or “Base Case” scenario
- Develop several other **plausible** scenarios
- Use the scenarios as **stimuli** for strategic dialogue

Define the scope

- Over what time frame?
- Over what geography?
- What product categories?
- Over what target markets?
- Other?

Identify the major “predetermined” and uncertainties

- **Predetermined:** What is fairly certain to happen that will have major strategic impact, but you can't control?
- **Uncertainties:** 1) You don't control, 2) strategically very important, 3) you can't predict the exact outcome at this time

Need to ask yourself, are you uncertain because of ignorance or unpredictability?

Framing the Uncertainty

Just like D&RA, precisely define the uncertainty with a carefully phrased question

Specify the outcomes for each uncertainty

- **Outcomes should be**
 - **Plausible**
 - **Have direct strategic implications**
 - **Mutually exclusive**
 - **Cover most of the range of what could happen**
 - **Few in number: 2 - 5 outcomes per uncertainty**

Construct the Scenario Table

- A single uncertainty in the form of a question heads each column
- Outcomes go under their respective uncertainty
- Arrange the uncertainties (one per column) in logical groupings
- Here's what it look like.....

Example page from Scenario Table

Build the scenarios

Base case scenario:

- Often have individuals vote on most likely outcome in each column
- Look for areas of convergence (This doesn't mean that they are right!)
- Test coherency of scenario just developed

Build the scenarios

Develop several other plausible scenarios

- Brainstorm interesting and plausible new scenario **themes**
- Converge on a few of the most interesting / useful
- Select outcomes that fit each scenario
- Test for plausibility and coherency

Advantages of this framework

- Produces very focused and productive dialogue
- Ensures comprehensive coverage (areas of inquiry)
- Fast, often 8 hours or less of team time
- Produces a very visual and condensed summary
- Very easy to use in subsequent planning steps
- People just like the clarity of this framework

Consider what you have at this point:

• A very condensed and easily understood statement of the future concerning the most critical strategic elements that are beyond your control.

• This statement is framed using discrete elements that fall into one of 3 classes

• You are quite sure they will happen (predetermined)

• Most likely outcome in a set of possibilities (Base Case outcomes)

• Outcomes that are not the most likely but are definitely plausible (non-base case outcomes)

What is the big deal about discrete elements?

Here's the big deal...

You can literally point to any one of those elements and ask "So what are you going to do about that?"

**There are a lot of discrete elements
- - too many - -**

ï Ask the planning team to priority rank the elements that, in their judgement, present the greatest concern or opportunity

ï For each top priority element, creatively explore what should be done if the counter action is obvious, or what could be done if there are a range of attractive strategic options.

For uncertainties there are 3 basic stratagems

- You can try to change the probability to help ensure that the outcome favorable to you is more likely to happen
- You can try to cause a different outcome, not currently in the table, to happen that is very favorable to you
- If a given outcome happens anyway, what should/could you do to suffer the least damage or reap the greatest benefit?

**Now we have just created another problem
- - - actually a good problem - - -**

- First we had too much information
- Then we had too many discrete elements in the scenario
- Now we have too many strategic decisions and options to deal with effectively

We need some way to achieve the same kind of clarity that a scenario table brought, but this time to the multitude of strategic choices.

**We can use the analog of a Scenario Table now
focused on strategic choices**

- - This is called a Strategy Table - -

- Use the same basic tabular layout
- Pages represent different areas of decision making, e.g. Marketing, Manufacturing, R&D, Alliance / Partnering, etc
- 'Predetermined's' are replaced with 'Strategic Givens', those actions that we know we want to take.
- 'Uncertainties' are replaced with questions that frame a specific strategic decision.
- Outcomes are replaced with viable strategic choices.

Example page from Strategy Table

Similarities and differences between D&RA and Scenario Analysis

Similarities:

- Both intend to engage the group in productive dialogue around critical uncertainties beyond the control of the enterprise.
- Both involve a tree structure (although it is not so obvious in the scenario table)

Similarities and differences between Decision Tree Analysis and Scenario Analysis

Differences:

- **Scenario Analysis** helps stimulate thinking and creativity around decisions and alternatives, **Decision Tree Analysis** helps make the decision after the decisions are framed
- Probabilities are quantified in **Decision Tree Analysis** , generally they are not for **Scenario Analysis**
- **Scenario Analysis** often has many more uncertainties than a decision tree

Wrap Up

- Creating scenarios is a great way to make order out of information chaos concerning strategically critical elements that are beyond your control.
- Creating **useful** scenarios **doesn't** have to be a monumental effort.
- The specific scenario elements embodied in a iScenario Table are wonderful targets to stimulate dialogue and generate strategic action.
- A iStrategy Table is a great way to bring visibility and clarity to the confusing landscape of possible strategic choices.