

Scenario Planning asks questions about the future. It is a means of assessing strategy against a number of structurally quite different, but equally plausible, future models of the world.

In the past, strategic plans have often considered only the "official future", which was usually a straight-line graph of current trends carried into the future. Often the trend lines were generated by the accounting department, and lacked discussions of demographics, or qualitative differences in social conditions.

These simplistic guesses are surprisingly good most of the time, but fail to consider qualitative social changes that can affect a business or government. Scenarios focus on the joint effect of many factors. Scenario planning helps us understand how the various strands of a complex tapestry move if one or more threads are pulled. When you just list possible causes, as for instance in fault tree analysis, you may tend to discount any one factor in isolation. But when you explore the factors together, you realise that certain combinations could magnify each other's impact or likelihood. For instance, an increased trade deficit may trigger an economic recession, which in turn creates unemployment and reduces domestic production.

When to use it.

Decision-makers use scenarios to think about the uncertain aspects of the future that worry them most, or to discover the aspect about which they should be concerned.

Tip!

The effectiveness of scenario planning is in the ability of the scenario team to convince management what seems best.



How to use it.

Scenarios planning starts by dividing our knowledge into two broad domains:

- (1) things we believe we know something about and
- (2) elements we consider uncertain or unknowable.

The first component – trends – casts the past forward, recognising that our world possesses considerable momentum and continuity. For example, we can safely make assumptions about demographic shifts and, perhaps, substitution effects for certain new technologies.

The second component – true uncertainties – involve indeterminable factors such as future interest rates, outcomes of political elections, rates of innovation, fads and fashions in markets, and so on.

The art of scenario planning lies in blending the ‘known’ and the ‘unknown’ into a limited number of internally consistent views of the future that span a very wide range of possibilities.

