Analysis

By Jay Ogilvy

Strategic foresight can be gained through more than one lens. Beyond the microscope of simple budgeting and the macroscope of geopolitics lie still other tools for probing the future.

As I settle into the role of contributor to this space, I want to explore multiple futures and multiple perspectives. Since my approach to looking ahead differs from what some Stratfor readers may be familiar with, I want to start by explaining one of my favorite methodologies, which is distinct from — but interestingly related to — geopolitical forecasting.

My specialty is multiple scenarios, or scenario planning, as it is best known. Scenarios are alternate futures in which today’s decisions may play out. They are stories with beginnings, middles and ends. Good scenarios have twists and turns that show how the environment might change over time.

Good Scenarios
A good set of scenarios will contain two to five different narratives. More than five scenarios tend to get confused with one another. Three scenarios run the danger that people will try to pick the most moderate or most apparently plausible and forget about the other two. Four is a good number — neither too many nor too few.

Each scenario should contain enough detail to assess the likelihood of success or failure of different strategic options. Will there be sufficient demand for a new product? Are supply chains likely to remain intact? How much competition can we anticipate? Have new technologies rendered a product obsolete? Will political instability put those oil fields beyond our reach?

A good set of scenarios should always be customized to a particular context. The scenarios that Royal Dutch/Shell used to anticipate the drop in oil prices in 1986 were far different from the scenarios a major computer manufacturer used to navigate its transition from products to services. The scenarios Xerox used to anticipate the convergence of the copier and printer were far different from the scenarios American Express used to deal with the replacement of traveler's checks by credit cards. Each organization needs its own scenarios to face its own challenges.

Purpose is also important. Sometimes the point of a scenario is to pry attention away from the ordinary. The very process of thinking about a range of possible futures can be a useful opportunity for addressing issues that might otherwise be neglected. Think about the rising power of China and India or the creeping onset of climate change.

Each industry will have its own examples: for education, the spread of massive online open courses; for energy, new technologies for decarbonization or extraction; for entertainment, oscillating paradigms between big screen blockbusters and fare that fits on mobile screens.

Alternate scenarios can serve as relatively low-cost insurance policies. You are less likely to be blindsided if you've taken the trouble to imagine some unwelcomed surprises. And on the upside, scenarios can identify white-space opportunities that remain unfilled until a first mover occupies the space that less imaginative competitors never knew existed.

**The Process**

The scenario planning process usually unfolds according to an orderly, methodical eight-step process. The process has two major parts: first, choosing which scenario logics to flesh out, a task that comprises the first five steps, and second, telling the actual story, its implications and early indicators, which comprise the remaining steps. A full-blown scenario planning project usually takes three or four months, starting with interviews and an initial workshop, then at least a month of research and writing, then a second workshop to draw implications from the ramified and refined
scenarios, and then some time to summarize the results of the second workshop into a presentation.

The process begins with identifying what a person or organization will focus on. Scenarios for the future of the galaxy will not be useful to a company trying to decide whether it should build a new factory outside Sao Paulo. Sometimes the focal issue is a very specific question: Should we invest in technology X? Should we buy company Y? Sometimes the focal issue is more open-ended: Are there potential surprises that could disrupt our current strategy? And other times the focal issue is geopolitical: What will the future of country Z look like as a market for our several different product lines?

**Step 1: Focal Issue**

The process begins with identifying what a person or organization will focus on. Scenarios for the future of the galaxy will not be useful to a company trying to decide whether it should build a new factory outside Sao Paulo. Sometimes the focal issue is a very specific question: Should we invest in technology X? Should we buy company Y? Sometimes the focal issue is more open-ended: Are there potential surprises that could disrupt our current strategy? And other times the focal issue is geopolitical: What will the future of country Z look like as a market for our several different product lines?

**Step 2: Key Factors**

Once the focal issue has been determined, a scenario team will brainstorm a long list of factors that could affect the focal issue. Many of the key factors will be fairly obvious. They are the sorts of things
that would be addressed in a typical business plan: customer demand, suppliers, competitors, production technologies, human resources, etc. Once the team has listed 30 or 40 different key factors, though, the process will reach out to less obvious possibilities: What if there is a new entrant on the competitive landscape? What if there is a new disruptive technology?

Step 3: External Forces

After identifying key factors, it's time to consider the more remote forces operating in the larger world, e.g., geopolitical, economic, social and technological forces that are often left out of the usual business plan.

Strategic plans that disregard such forces — war is an obvious example — often fail. The kind of geopolitical analysis that Stratfor offers can play a major role here. But a good set of scenarios will also offer insight into less obvious dynamics such as migration patterns, cultural differences, new technologies, currency fluctuations, environmental issues, and/or epidemics.

In addition to potential risks, it's essential to look on the upside. Opportunities, breakthroughs and new technologies are difficult to anticipate. But it's important to exercise imagination in disciplined ways that do more than gaze at the world through rose-tinted glasses. Human ingenuity should not be discounted, however difficult it may be to anticipate.

As with key factors, there is no proof for having thought of all possible external forces. This work calls for imagination and creativity. Once a scenario team has generated a list of 70 to 80 key factors and external forces, the effort to come up with still more will get harder. All of the obvious factors and forces will have been mentioned. It is necessary to push imaginative thinking to the limit, but not too far beyond the limit. Some outlandish ideas are welcomed, but when people start talking about green men from Mars, you know it's time to move on.

Step 4: Critical Uncertainties

By following a methodical, step-by-step process, the scenario team can achieve a balance between the kind of wild creativity and free-form imagination called for during the brainstorming in steps two and three and good judgment based on knowledge and experience. Where steps two and three featured a divergent process in which the team tries to think of everything that could affect the focal issue, step four calls for a convergent process of prioritization.

The criteria to be used in allocating priority votes are importance to the focal issue and degree of uncertainty. When all the votes are counted and closely related items clustered together, there will be a short list of critical uncertainties. For example, will energy prices rise or fall? Will consumer
values tip toward the more traditional or the more self-expressive? Will a technology advance rapidly or slowly? Will the government lean toward deregulation or reregulation?

**Step 5: Scenario Logics**

But how do we decide which futures are worth developing as detailed scenarios? This is the challenge of step five, how to narrow down from the virtually infinite number of possible futures to settle on just two to five that will lead to strategic insight.

After all the priority votes on critical uncertainties have been counted, the group fixes on just two critical uncertainties to serve as the axes of a 2-by-2 matrix. Four scenario logics are then generated from the labels on the ends of the two axes.

**SCENARIO MATRIX FOR ONE OF THE DETROIT THREE AUTOMAKERS**

<table>
<thead>
<tr>
<th>High-priced</th>
<th>Low-priced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineer's challenge:</td>
<td>Green highways:</td>
</tr>
<tr>
<td>- Efficiency</td>
<td>- Smaller cars</td>
</tr>
<tr>
<td>- Protectionism</td>
<td></td>
</tr>
<tr>
<td>Neo-traditional consumer values</td>
<td>Inner-directed values</td>
</tr>
<tr>
<td>Long live Detroit:</td>
<td>Foreign competition:</td>
</tr>
<tr>
<td>- Muscle cars</td>
<td>- Sportier cars</td>
</tr>
<tr>
<td>- Brand</td>
<td>- Light trucks and vans</td>
</tr>
</tbody>
</table>

This set of scenarios, developed for one of the Detroit Three automakers way back in 1984, contained "the official future" in the lower left quadrant: low-priced fuel with neo-traditional consumer values. This was the kind of future Detroit had been planning on for many decades. But higher fuel prices and changing consumer values required them to think of new kinds of vehicles that would be appropriate for different environments. As a result, the client started thinking harder about smaller cars, as well as the minivans and SUVs that would appeal to consumers with non-traditional values.
I like this case study just because it offers such a good example of an "official future." Geopolitical forecasts can help to formulate the official future. Scenario planning can then supplement the base case forecast with other scenarios that will further illuminate the base case. Their logics have been chosen based on the scenario team's collective judgment regarding what is most important to the focal issue. It pays to question the most important assumptions. What if we’re wrong? Scenario planning guards against the dangers of placing all of the organization's eggs into the basket of just one forecast, however well founded that forecast may be.

**Step 6: Scenarios**

The second major task of scenario planning — actually telling the story of each chosen scenario — calls for very different talents and skills. A good scenario is very much a story, but most stories are written by a single author, not by a committee. How can a scenario team combine the creativity of many individuals into just one clear narrative line?

As a matter of tradecraft, a good method for eliciting specific plot elements is to encourage workshop participants to write newspaper headlines on post-it notes. A harvest of such post-it notes will supply plenty of content for the scenario narrative.

This process can be started in a workshop setting, but once the members of the scenario team have generated dozens of plot elements and newspaper headlines, it can take several weeks, even months, for a small core team to draft narrative scenarios from the outlines generated in the workshop.

**Step 7: Implications and Options**

Usually a month to two after the first workshop, a second workshop will be held to figure out the implications of each scenario and the strategic options appropriate to those implications. Take one scenario and use it as the playing field on which our plays must be planned. Play out each scenario to its conclusion. Then stand back and look at the lists of strategic options appropriate to each scenario. Pull out those that show up on all or most lists. These are the "no brainers," the strategic options that look good in any and all scenarios. Start work on them immediately.

The options that look good in every scenario are often associated with what are called pre-determined elements — aspects of the future that can be reliably predicted. And here is the realm where Stratfor's geopolitical analysis aligns most closely with scenario planning. Whatever can be predicted should be predicted. For the unpredictable remainder, the critical uncertainties, scenarios will capture the alternatives in coherent bundles.
Demography is one of the most reliable sources of pre-determined elements. And note how significantly demographics play in Stratfor's forecasts for, say, Russia, where the population is declining, or Japan, the world's front-runner in aging population.

**Step 8: Early Indicators**

Early indicators are the first signs of the big changes that differentiate one scenario from another. Sometimes early indicators are found in the behavior of the most innovative consumers, sometimes in the small stories deep within a newspaper. Sometimes early indicators take the form of new journals or publications indicating the rising popularity of some new technology. Other times a few words in the speech of an important politician will signal some new legislation.

Early indicators are particularly important in moving from a set of scenarios to a single strategy when you cannot identify a single "strategy for all seasons." If you cannot find such a robust strategy, but you have rehearsed what you would do in each of the scenarios, then you keep a very close ear to the ground for early indicators that suggest movement in the direction of one scenario or another. When you have accrued enough indicators to give you confidence that you know which scenario is unfolding, then you start to implement the strategy most appropriate to that scenario.

**Moving from Scenarios to Strategy**

Scenarios by themselves do not determine strategy any more than a forecast does. A strategy needs to be developed in light of a set of scenarios. Think of scenarios as different hands of cards you might be dealt; think of strategies as the way you would play those cards.

Sometimes scenarios are developed after a strategy has been determined. In that case the scenarios serve as a kind of wind tunnel for stress-testing a strategy. Think of the strategy as a model airplane. Under which conditions will it fly? Under which conditions will it crash?

Using scenarios to test a strategy can function like an insurance policy: You have a mechanism for surviving certain unfortunate contingencies. What if certain accidents happen? Do you have a contingency plan?

Given a set of scenarios, there are several routes you can travel from scenarios to strategy. Rather than picking one scenario and betting the company, it is far better to find a strategy that is robust across the range of scenarios. "No brainers" create such a strategy, but not all scenarios have no brainers. Sometimes the relevant scenarios are sufficiently diverse that no single strategy will prevail across all of them. In that case it's a good idea to have a strategy appropriate to each, then attend very closely to early indicators that would tip you to the likelihood of one scenario over the others.

**Not Rocket Science**
Scenario planning is not rocket science. There is a good deal of common sense involved in the practice of scenario planning. But there are many ways to go wrong, many mistakes that can be made. As with many practices, experience is a good teacher. Skilled facilitation by an experienced practitioner is a must.

Fortunately, the number of skilled practitioners is increasing every day. As early as the turn of the century, in 2000, the Corporate Strategy Board polled its members to find out what tools they used most for looking into the future. Responses from 183 corporations showed scenario planning to be the most popular of eight different tools including SWOT analysis, Delphi polling, Michael Porter's five forces of competitive position, and other such well-known planning methods.

As scenario planning gains in popularity, its most experienced practitioners keep exploring new depths in its theory and its practice. Combining Stratfor's geopolitical analysis with scenario planning may be the next frontier.