

think:act CONTENT

Fresh thinking for decision makers

Trend shifts and radical changes have become the norm | The past tells us less and less about the future | Traditional strategic planning has reached its limits | Scenario planning can help | But it has to be effective and fast | And has to deliver clear messages to top managers



SCENARIO TECHNIQUE ...

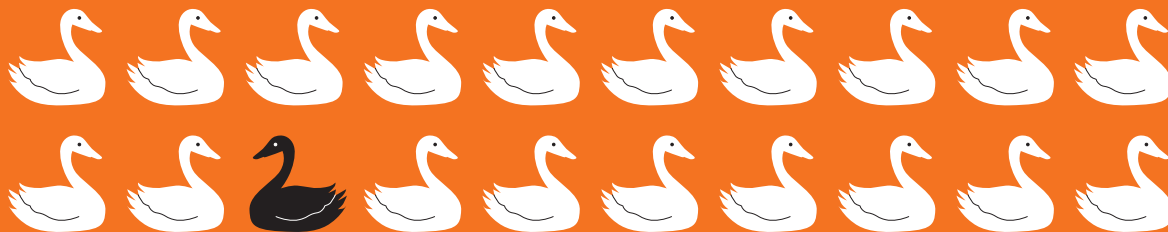
- ... develops several plausible visions of the future
- ... outlines specific options for action
- ... makes it possible to flexibly adapt to changes

THE SCENARIO DEVELOPMENT PROCESS

- 1 SETTING PROJECT FOCUS, TARGETS AND TIMELINES
- 2 IDENTIFYING THE KEY FACTORS AND MENTAL BARRIERS
- 3 ANALYZING UNCERTAINTIES
- 4 MAPPING OUT VARIOUS SCENARIO PATHS
- 5 PROVIDING INSTRUCTIONS FOR IMPLEMENTATION
- 6 MONITORING THE SCENARIOS AS THEY DEVELOP

SCENARIO PLANNING – MAKING PLANS IN TIMES OF COMPLEXITY, VOLATILITY AND TREND SHIFTS

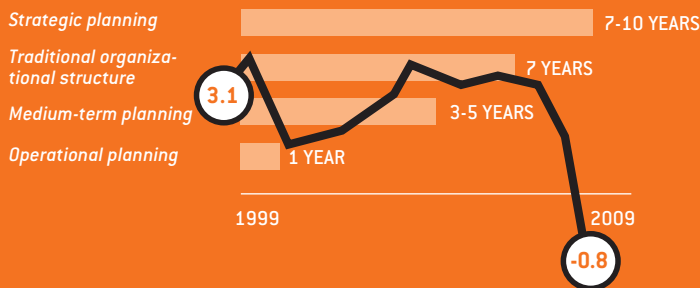
Black swans are a symbol of highly improbable events that have a huge impact – positive or negative



Source: Nassim Taleb, *The Black Swan. The Impact of the Highly Improbable* (2007)

TRADITIONAL PLANNING CYCLES DON'T WORK ANY MORE

Timeframes of traditional corporate planning and global GDP growth, 1999-2009 (%)



Scenario planning – Making plans in times of complexity, volatility and trend shifts

Though we appear to have weathered the worst financial and economic crisis in the post-war era, recent months have taught us a valuable lesson: We can no longer trust forecasts. Take the IMF, for example. Having still predicted 3% growth for 2009 as late as October 2008, the IMF corrected this view down to -0.5% in January 2009, just three months later. It then took only another three months to end up at -1.3%. Today, the IMF is leading the charge of the optimists once again. Variance of more than four percentage points notwithstanding, the IMF's predictions were actually among the less volatile ones in circulation. The example nevertheless suffices to show that complex economic models are increasingly ill-suited as a basis for strategic corporate planning.

We have to accept that we can no longer trust numbers in general and forecasts in particular. Nor are there any reliable trends that might give us clearer orientation and relieve us of the responsibility to take our own decisions. What we need, therefore, are new tools and methods to support the task of strategic corporate management. One example is a new approach to using scenarios. Looking back, however, the crisis really only magnified a problem that has already concerned chief corporate strategists and their advisers for some time.

Conventional wisdom used to have it that a good strategy should have a ten-year horizon. A medium-term (five-year) plan would then be derived from this strategy, followed by annual planning and a budget that measured every calculated effect down to the last cent. Anyone using these rules to plan a company's strategy in, say, 2000 would thus have had to foresee the dotcom euphoria and the burst of the subsequent bubble; the explosive rate of improvement in IT performance; the emergence of biotechnology and nanotechnology; the rapid rise of new business models such as eBay, Dell and Amazon; and, of course, the most dramatic global economic slump since the Great Depression.

These days, economists have to be prepared for rapid trend shifts and sudden, volatile developments. They can no longer draw up and reliably quantify detailed multi-year plans for strategic projects. It follows that company leaders must rediscover the courage to trust to their own entrepreneurial intuition. Having said that, strategic planning also cries out for new strategic tools that can genuinely help chief executives deal better with uncertainty and complexity. After all, managers, employees and investors alike still need some form of guidance and orientation – all the more so when faced with a future of such utter uncertainty.

Planning for alternative scenarios is one way of responding to this challenge. Though by no means new, this approach has in the past been regarded as complicated, expensive and unreliable. And rightly so. Which is precisely why we teamed up with scientific experts to make scenario planning faster, more effective and more reliable. In the process, we also developed a lean, well-organized method for developing future scenarios and defining milestones that mark the transition from one scenario to another.

ECONOMIC OUTLOOK IN FREEFALL

Forecasts for the development of global GDP

+3.0%
OCTOBER 08

+2.2%
NOVEMBER 08

-0.5%
JANUARY 09

-1.3%
APRIL 09

Source: IMF World Economic Outlook

COMPLEXITY...



VOLATILITY...



UNCERTAINTY...



... demand for new tools to use in strategic corporate planning

HISTORY OF SCENARIO PLANNING

1940s

Scenario planning developed and used for military applications in the USA and the UK

1970s

Thanks to scenario planning, Royal Dutch Shell is prepared for the 1973 oil crisis

2010s

Virtually unlimited computing power makes scenario planning faster and places it on a sounder footing

Source: Roland Berger Research

SCENARIO PLANNING IN THE PAST: A COSTLY AND – ABOVE ALL – PURELY ACADEMIC EXERCISE

Scenario planning was first popularized in the 1970s. Originally conceived by the military, it was co-opted by the economic and political communities to simulate potential future developments. Its applications remained restricted, however. Producing complex models was a laborious task, and collating the necessary data was expensive. Another constraint was that computers simply didn't have the power needed to handle complex simulation processes. When US President Jimmy Carter commissioned the "Global 2000" report in 1977, for example, he had to wait until 1980 for the results. A few weeks later, Ronald Reagan moved into the Oval Office, bringing with him a completely different political outlook that had no interest in his predecessor's long-term scenario.

The example of the two US presidents may be a special case. Even so, it accurately highlights the time and expense factors that have always been associated with preparing complex visions of the future. It used to take between six and seven months on average to draw up a set of scenarios – which is why most of them targeted a forecast horizon of 10 to 15 years. The fact that corporate departments were responsible for producing them then further eroded the esteem in which they were held by many managers. Such intellectual mind games appeared to them to have little to do with the reality of day-to-day business.

SCENARIO PLANNING RELOADED: STRATEGIES FOR DECISION-MAKERS

We have therefore developed our own more modern approach to scenario planning and put it through its paces in a series of successful projects for major companies. The model is tailored to the needs of top management. It delivers outcomes that are rooted in solid business sense (and data) and takes account of the individual perspective and experience of each company. It also permits unambiguous statements to be made about which scenarios are probable and whether a particular trend is changing direction.

The Roland Berger approach to scenario planning differs in six main areas from traditional standard practice:

1 Scenario library

In the past, the production of scenarios was preceded by lengthy and intensive searches for suitable data and the right models. To shorten this phase, we and the planning specialists at the Leipzig Graduate School of Management (HHL) have compiled a scenario library. This library is a unique collection of those future visions that we see as important. As such, it provides a valuable reference compendium of existing scenarios. These scenarios are complemented by our industry and company databases, which comprise the most important data sources and models about technologies and megatrends, industries and companies that are available today.

2 Scenario network

Filling gaps in data, validating plausibility and visualizing complex processes are important aspects of scenario planning. To help streamline these tasks, we draw on a rich network that includes universities and think tanks around the world, all of which themselves work with scenarios. It also embraces an extensive range of specially selected experts who together provide methodological and thematic knowledge covering a broad array of areas: specific technologies, special political interests, environmental considerations and so on. The universities on board are hand-picked, as are the professors in our Academic Network. The World Economic Forum also develops its own scenarios and is plugged into our network. Other networked players include organizations such as Atlantik-Brücke, which brings together managers, government representatives and scientists from Germany and the USA. Acting in concert with our in-house industry and country experts, this network is the ideal sounding board to test hypotheses.

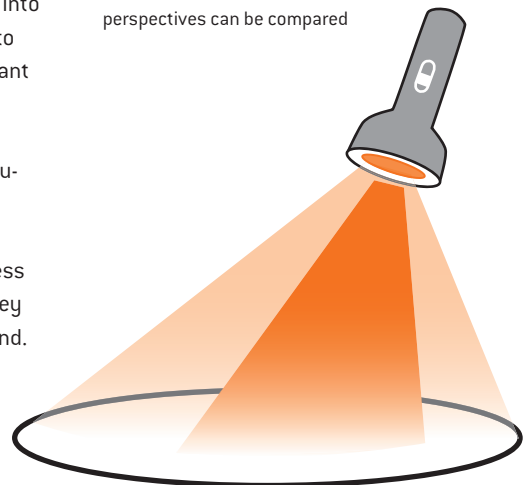
3 Three-level approach

To be useful, pictures of what the future holds must cover three levels. Global scenarios (the macro-level) show decision makers the big picture. Industry-specific and regional scenarios (the meso-level) reveal potential developments within a company's immediate sphere of activity. Finally, scenarios focused on individual organizations (the micro-level) identify specific impacts and possible courses of action. They also highlight what decisions must be taken at what times. None of this is new. In the past, however, all three levels required their own exhaustive calculations. Thanks to our scenario planning approach, we can now concentrate on each level individually, drawing on proven scenarios in our library to move to the next level up. In addition, our scenario network enables us to quickly validate all assumptions and projected scenarios.

4 360-degree stakeholder feedback

Specially developed IT tools such as an online survey – the 360-degree stakeholder feedback tool – give us fast, comprehensive access to all the knowledge that the client company and its stakeholders have available. This knowledge can then be channeled into scenario preparation on all three levels, from assessments of long-term megatrends to short-term expectations in key business areas. In this context, we talk to all the relevant employees in a company and to important contacts in the company's environment. We work together with our customers to identify these individuals (and groups). We enhance the insights thus gained by adding our own specially developed IT-based solutions. Examples include special online workshops or morphological operations. Taken together, all these tools paint clearer pictures of the future and factor in unexpected events. The fact is that even apparently revolutionary technologies, surprising business models and disruptive political events still gain momentum over time. Accordingly, they too can be anticipated before they unleash their full force and change a prevailing trend.

Using an online survey that collects **360-degree stakeholder feedback**, internal and external perspectives can be compared



**THE "SCENARIO COCKPIT"
IMMEDIATELY ALERTS YOU
WHEN IT DETECTS DEVIATIONS
IN INDICATORS**



5 Milestones

Think in terms of future scenarios and you need milestones – clear indicators of whether a scenario is still valid, and of when early warning signs begin to point in the direction of an alternative scenario. Only then can a company alter its strategy in good time and, in each case, set in motion the appropriate set of defined actions. Our approach to scenario planning identifies these milestones, which thus constitute unambiguous "border crossings" from one scenario to another. These indicators are tracked by a dedicated monitoring tool – the scenario cockpit – and regularly discussed with management.

6 Process organization

Our scenario planning strategy combines a structured approach that guarantees efficiency, sufficient freedom in defining the problems at hand, the necessary flexibility, and rapid access to data alongside the involvement of internal industry expertise. The process is interactive. Future scenarios emerge in close cooperation with the client. This commitment ensures that the resultant scenarios are not conjured up in some ivory tower. Instead, internal and external knowledge is translated into scenarios that are deeply rooted in real business practice.


The benefits of our new approach to scenario planning can be summed up very succinctly. The approach is effective because we have the right access to relevant input. It is efficient because we deploy modern tools and are able to manage the process strictly. It is creative because we paint coherent pictures of the future. And it lays the basis for well-founded decisions because it draws on the client company's full wealth of industry and functional knowledge.

The climate of greater uncertainty that confronts today's businesses and managers will gradually cause us to understand "strategies" as more of a process than an outcome. Our form of scenario planning provides valuable input to this process by supplying visions of the future on which strategies can draw for guidance. Initially, these scenarios are therefore nothing more than input for the strategy process. However, they also fulfill the important function of enabling strategies to be posited in concrete terms. This is because each scenario demands a decision: How – i.e. with what strategy – should the company respond? Taken together, these decisions create roadmaps for each scenario. And each roadmap contains "handover points" at which a scenario and its assumptions prove themselves to be sufficiently valid to be grafted onto a company's normal calculations.

Our approach to scenario planning thus also makes it easier for managers to make a convincing case for their actions both inside and outside the company. Stakeholders and shareholders expect the management to be able to explain the dynamics of the market they serve. Managers are also expected to give a credible demonstration that the company is responding confidently and appropriately. Future scenarios reveal the complexity of the challenges ahead – and are more readily believable than vague references to planning figures that sometimes have to be corrected by the month.

THE FUTURE OF SCENARIO PLANNING

We are working hard to make scenario planning easier to apply and more relevant to the needs of top management. In this context, scientific backing is indispensable. That is precisely why we and the Leipzig Graduate School of Management (HHL) launched the HHL Center for Scenario Planning in March 2009. This center is committed to research and teaching and also maintains our scenario library. For details, please visit the center's website: www.scenariomanagement.de.



Scenario planning in consulting

Our clients are increasingly asking us to work on scenario projects. These may involve fine-tuning existing scenarios or developing completely new scenarios from scratch. Since our scenario approach quickly produces tangible results, our clients can reap the benefits of a scenario project in the short term.

An example of an industry in which we are working on more and more scenario projects is the automotive sector. And no wonder: the framework conditions critical to the industry's development are extremely dynamic and volatile. These conditions include how the price of oil develops, progress in alternative power-train technologies, changes in consumer needs, environmental regulation and more. Any and all of these key factors can develop in widely different ways in the future – for example, a moderate increase in e-mobility versus a rapid one. Or accelerated demand for more compact cars versus an end to this trend.

Developing scenarios takes place in close cooperation with corporate management and the various departments. In other words, both the strategic and operating levels are involved. The experience of external experts is also brought into play. Quantitative key data extracted or derived from the scenarios is incorporated into planning and simulating capacity – this is a key issue, and not just in the automotive industry. In examining this issue, typical industry simulation tools are used. The end result is specific recommendations for action for each scenario, plus indicators that show management what scenario path the industry is currently on.

IF YOU HAVE ANY FURTHER QUESTIONS,
WE ARE AT YOUR SERVICE ANYTIME:

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