



## Scenario Planning: A Primer

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As 2006 begins most of us are "on edge," knowing intuitively we're facing a future that feels more uncertain than anything we've ever experienced before.

Will the economy get better? Or worse? How will it affect you personally? What's happening to public policy issues like health insurance, Medicare, Social Security? Will there be any protection or guarantees surrounding pension obligations in the future? Will corporate profits keep on mushrooming while average wage income continues to drop in real terms? Will more and more people "drop out" of corporate life and hang up their own shingles? Will the flight from major cities continue? Will more and more of us work out of home offices, even if we continue to work for mega-corporations? How many of us will become "post-geographic" workers living the "anywhere, anytime" life?

How can we predict an uncertain future? Well, we really can't. As Allan Kay once put it, "The only way to predict the future is to create it." However, as much as we'd like to create our own future, that isn't a very realistic option.

So we recommend relying on scenario planning as a tool for thinking about a future that is essentially "a riddle wrapped in a mystery inside an enigma."

We certainly don't claim to be the experts, or the inventors, of scenario planning. Arie de Geus, Peter Schwarz, and their colleagues at Shell Oil in the 1970's are generally credited with being the "gurus" of scenario planning. Schwarz was also the co-founder (and is currently the CEO) of [Global Business Network](#), today's undisputed home of scenario planning.

Scenarios are stories about the future that, when taken together, describe a range of plausible future states of an industry, its markets, and an individual business. Scenarios are a tool for dealing with rapid change, uncertainty, and inherent unpredictability in business conditions. Scenarios are *not* predictions of the future; rather, they are images of *possible* futures, taken from the perspective of the present.

Because scenarios are developed explicitly to describe a range of possibilities, they enable managers to open their minds to the inherent uncertainties in the future, and to consider a number of "what-if" possibilities without needing to choose and commit exclusively to one most-likely outcome. Scenario analysis enables managers, business planners, and executive teams to develop multiple options for action that can be compared and assessed in advance of the need to implement them.

An effective scenario will have critical implications for a business and personal meaning to the people who build it. Scenarios are useful tools primarily because they facilitate a strategic dialogue about the unpredictable outcome of today's rapidly changing business environment. In fact, the scenario-building process enables you to uncover and consider near-term developments in your markets that are indicators of the larger trends that will have a dramatic impact on the long-term shape of your industry and your business. Scenarios also help managers envision future states that might seem highly implausible to a naïve viewer. And even if the scenario is implausible on the surface, it can serve to

highlight possibilities for action that may become absolutely essential to the future of your business.

Traditional planning focuses on trends, and on developing explicit predictions of the single “most likely” future environment. Yet today there are so many uncertainties, and so many new technologies, that no one can predict with any degree of confidence what business models and market conditions will eventually dominate the economic landscape. Attempting to prepare a definitive strategic plan when the future economic structure of your industry is so highly uncertain is foolhardy and potentially dangerous.

Depending on a “map” of what amounts to an unexplored territory can be highly misleading. When European mapmakers in the 17th century listened to the ship captains who returned from exploring the western coast of North America, they depicted California as a large island, separated from the western United States by a large unnamed body of water.

Although wrong, their logic was understandable. Sailing past Baja California, the ship captains had reported seeing nothing but water to the north. Then they traveled north in the Pacific Ocean to Seattle, where they entered Puget Sound, and once again saw nothing but water. Based on their limited experience, it was easy to conclude that California was indeed a large island. The incorrect maps they produced led to incorrect – and sometimes disastrous – decisions by the early settlers of the American West.<sup>1</sup>

Old assumptions and expectations must be discarded and even contradicted, although changing mental models is much more difficult than learning new applied skills. Scenario analysis creates a context in which it is not only acceptable but also mandatory for managers to develop “fictional” accounts of multiple, plausible futures.

Scenario planning encourages a creative tolerance for ambiguity, but it also enables a company to consider what skills and resources it would need to compete effectively in each of these alternative futures, and how it would have to change current practices to survive in that world. Finally, scenario planning provides executives with a sense of what events or patterns to look for as early warning signs that one or more of the projected scenarios might actually be starting to occur. This early sense of how the future is beginning to unfold amounts to a form of “anticipatory insurance.”

Once a series of scenarios have been developed, a strategic dialogue can begin in earnest. Which future scenario is closest to where we are today? Which one will we be in if the key scenario drivers – business trends, regulatory policies, technological innovation – continue their present course? Which one would we prefer to be in? From which scenario might new classes of competitors come?

Most importantly, in which direction are the prevailing winds blowing? The real value in using scenarios involves identifying potentially useful strategies for moving your business into a more desirable future. Scenario building enables a type of “war gaming” well in advance of actual market competition.

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<sup>1</sup> This example comes from Eric Clemons, a colleague who teaches IT and Business Strategy at The Wharton School.

## Strengths and Limitations of Scenario Planning

Scenarios are not perfect by any means. As a planning tool, they have both strengths and limitations. Their primary advantages are:

**Plausibility.** No one is trying to *predict* the future. The focus is on the logic of the scenario, not on what will or should happen, but what *could* happen and why.

**Creativity.** The brainstorming approach actively encourages out-of-box thinking.

**Tolerance for uncertainty.** By their very nature, scenarios teach managers that it is all right not to know “the” answer about the future. Perhaps the most important value of scenarios is that they shift the dialogue from “what will be” to “what if.”

**Seeing the big picture.** In laying out a range of possible futures, we become more adept at considering multiple variables, asking fundamental questions, and thinking open-mindedly about plausible alternative conditions.

On the other hand, scenario planning introduces new kinds of risk into the way people think about the future. There are several important limitations that you can ignore only at your peril:

**Oversimplification.** You can't cover all the key uncertainties in complete detail.

**Team composition interacting with content.** The team members and their interaction during scenario building inevitably affects the visions the team produces. While individual involvement and group cohesion can create an enthusiasm and understanding that is then difficult to replicate across the organization, groups that fall into interpersonal or special-interest bickering may actually interfere with productive planning.

**Insight versus action.** The scenario technique works best in generating new ideas and leaps in understanding. But this doesn't necessarily lead directly to action and concrete change. It is too easy to become enamored of the scenarios themselves, and to gain false security from their documentation. But their only value lies in the way the company acts on the information and ideas the scenarios generate.

## Summary

This is the value of scenarios: the ability to plan effectively for improbable and uncertain futures. Rather than selecting a most probable scenario and devoting all of your resources to a single, hard-to-change strategy, you can instead spend a small but significant amount of effort keeping your knowledge current in each of several areas of concern - several possible futures.

The scenario planning process takes managers out of their daily routines, forces them to consider the underlying drivers that are causing change and uncertainty, and enables them to work constructively together to consider what might happen in the business environment. With this deeper understanding and broader anticipation of the future, they are then equipped to “play out” a range of potential strategies and sort out the implications of each strategy for the current business and its customers. Scenarios can lead to a more unified vision of the business and vocabulary for change. They are meant to extend your planning competence beyond the known – not into the far unknown and unknowable future, but to the tomorrow, where next steps will take you from today's world.

With a portfolio of strategic options in hand, a management team can determine the costs and risks inherent in adopting any one of them, or in trying several of them simultaneously. More importantly, the organization now has a much clearer sense of what factors in the marketplace matter, and can focus attention on the few uncertainties that will have the greatest impact on the future. With this knowledge of what to look for, the company is well positioned to move quickly to adopt a specific strategy, or make an aggressive move, as soon as it determines that the strategic indicators have moved in a given direction.<sup>2</sup>

Next, stay tuned for more commentary on how to exploit the scenarios you've created. One of the most powerful techniques to come out of scenario planning is the development and use of a "Playbook." Just as an athletic coach builds a set of plays to use in different situations, managers need to develop specific action plans, rehearse them, and "hold" them in readiness for each major situation that a scenario suggests could happen.

### **About the *Future of Work* and The Work Design Collaborative**

*Future of Work* is a global network of resources – practitioners, thought leaders, researchers, and senior consultants – who are committed to building and implementing physical, social, and technology-based work environments that are cost-effective, socially and environmentally responsible, and personally satisfying.

We are focused on defining the future of work and helping our members and clients achieve new levels of workforce and workplace productivity. *Future of Work* produces and distributes management tools, surveys, benchmark databases, white papers and technical reports, conferences and workshops, newsletters, books and articles, and public presentations on the changing nature of work.

The Work Design Collaborative, LLC, provides leadership and infrastructure services for the *Future of Work* community.

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<sup>2</sup> Many of the perspective about scenarios and scenario planning in this paper come from a research project I led in the mid-1990s when I was a Vice President and Research Director at the Concours Group. The report from that project was an important source for many of the thoughts documented here.