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Scenario Planning

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After the global financial crisis, drought, floods and a nasty cyclone business for many in Australia is proving challenging in 2011. Now is a good time to consider scenario planning which was developed by Royal Dutch Shell in the 1970's.

Michael Porter defined scenario planning as "an internally consistent view of what the future might turn out to be – not a forecast, but one possible outcome." Have a think about all the possible issues which could hit you or your business. What would you do if one or more happened? What if two came simultaneously or one after the other as in Queensland's exceptional asset and people destroying weather?

The process starts with identifying the issue and key factors and is usually best done by mind mapping with a group of key people. Identify the issue and key factors. For example, the issue could be the sudden departure, death or incapacity of the CEO. Key factors would include appointing an acting CEO, searching internally and externally for a permanent replacement, making the succession process smooth, reassuring staff, customers and suppliers such as bankers.

Another scenario might be losing a large or key customer. This is a risk faced by many businesses; just earlier this year Frigrite collapsed after losing a key supermarket account. The key factors might include redundancy costs, selling equipment worth less than the finance payout, closing premises, breaching banking covenants and key staff resigning.

A third scenario might be a serious accident or even death at your premises or involving your equipment or people. Mind map the activities which led to the incident. Document where your OH&S procedures were inadequate failed or were non-existent.

Repeat the process with another scenario; four is sufficient to digest. The benefit is not so much having four possible scenarios developed as being able to use the process when facing a big issue.

The next step is to build the four scenarios and name them something catchy. Again mind mapping is an excellent tool to use. If you don't know how to mind map learn or get someone external to facilitate for you. Get on flip chart paper or, better still, an electronic whiteboard all the factors. Use different coloured pens if possible. Next Pareto (the 80/20 rule) to identify which 20% of the factors will impact 80%. Then, review the implications. What may happen with the 20% which could impact 80%?

With the implications develop key performance indicators. Some will be straightforward; if the CEO dies you know you need an acting then permanent replacement. Losing a large customer, or possibly losing it might be foreshadowed by a decline in work referred or going to tender with or without you being invited to tender. The loss could also be foreshadowed by a rise in customer complaints or a trend of being slower to resolve them. Develop an early (leading) indicator; a handful is all that is needed. You then have enough to complete and document your four scenarios. They could be on One Page Scenario Plans with supporting mind maps accessible if required.

You will have four possible outcomes; what may happen in the future. It is unlikely any will eventuate but you will have practiced the tools and developed the skills to be able to better deal with some other tough scenarios which actually happen. You can either pull out and refine a scenario if it is similar to what happened or use the process to plan how to deal with the big new issue confronting your business.

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