Using scenarios to plan for tomorrow

IESE's Mike Rosenberg sets out a simple seven-step scenario planning process to help broaden management perspectives.



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In these times of uncertainty, the only thing we can know for sure is that the future will be different from what we expect. How does a business leader deal with this? One valid strategic approach is to develop business models and capabilities that are tremendously flexible, so that a company can change or pivot, depending on how things go. Such efforts can be effective.

Many firms, for example, have drastically lowered their break-even points and moved toward outsourcing aspects of their operations as a result of the recent economic crisis. While this may give them some additional flexibility, there is a limit to how far this approach can go.

Especially in industries in which fixed assets with significant useful life spans factor heavily – such as energy, shipping, manufacturing and mining – new investments must remain viable for a period of at least 10 or 20 years. As such, managers must place relatively big bets on what they believe the future will look like.

Firms in services or retail have to contend with another set of issues. Developing new capabilities takes time, while consumer behavior changes constantly and at an ever faster pace. The media industry, for example, faces unprecedented change as a result of digitization, but it is still far too early to tell what the industry will look like in the not-so-distant future.

Business planners may resort to forecasting, using formal statistical methods to estimate outcomes at some future point in time. But I believe that scenario planning is a much better tool for business leaders to use in order to deal with the uncertainties they face. This article will show you how.

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