Six Easy Steps to Scenario Planning

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DON'T BOTHER second-guessing the pundits and the trend-meisters. You don't need to be a seer or a genius.

Forget what you "believe" about the future. It's not important that you have any opinions at all.

Scenario planning is *not* an exercise in figuring out what's most likely to happen five years from now, or ten, or twenty. Scenario planning is a strategic planning method expressly developed to test the viability of alternative strategies.

Through scenario planning, you can examine what results a strategy will yield under a variety of improbable circumstances.

I know: That sounds nuts. But trust me. If you invest the necessary time and forethought, this stuff works.

Using scenario planning, Royal Dutch-Shell, for decades one of the world's two biggest oil companies, outclassed its competition, including hundreds of smaller and presumably much nimbler corporations:

- The petroleum market is notoriously difficult to predict. Yet Shell foresaw the precedent-shattering 1975 OPEC oil embargo in advance. It was the only major oil company that had a clue—and Shell made a bundle on that prediction.

- Something similar occurred at Shell in the 1980s. Because some of the biggest oil reserves in the world lay within the borders of the Soviet Union, what happened there mattered a lot to the petroleum industry. Royal Dutch-Shell defied all the Soviet experts—including the CIA and just about every other national intelligence service—in anticipating the breakup of the Soviet Union several years in advance. Once again, the company gained a substantial advantage over its competitors.

I'll admit it: Scenario planning isn't simple. It requires an analytical mind, a broad range of knowledge, a disciplined group of people who work well together, and,

frequently, a lot of time. But for those who persist and succeed, the rewards can be rich indeed.

With scenario planning, you, too, can prepare to meet the uncertainties of the future—in your nonprofit organization, your business, or in your personal life.

Not only that—it can be a lot of fun, too.

The process involves six simple steps.

Step 1. What is the question?

For starters, decide what is the biggest question your organization will have to face in the future. As scenario planning guru Peter Schwartz put it, what is it that keeps you awake nights?

Let's consider the prospects for three hypothetical organizations:

- a prestigious regional symphony orchestra called the *Weedunotes County Philharmonic*;
- the *Safety Net Center*, a hard-pressed urban human services organization; and
- a visionary nationwide environmental organization called *Save the Universe*.

Let's assume all three nonprofits are looking three to five years ahead—a typical span for nonprofit strategic planning. They're all concerned about what shape they'll be in when the year 2005 rolls around (or whether they'll even survive that long!).

Here are some of the troubling and consequential questions the leadership of these three organizations might face:

- The board and top staff of the Weedunotes Philharmonic might determine that the biggest potential threat to the orchestra's stability is the aging of its audience and donor base. For the orchestra, the strategic question may be, "Should we invest in a costly, long-range marketing program designed to attract younger audiences—and possibly even broaden our programming?"

- The Safety Net Center may face an uncertain future primarily because of impending cuts in Federal funding. For them, the question could be, "Should we lay off staff and cut back sharply—or should we triple our investment in donor development?"

- The executive director of Save the Universe might wonder, "What will happen to *our organization* if our predictions of catastrophic climate change turn out to be true sooner than expected?"

Now, having narrowed down the question, we know what this particular scenario planning exercise is all about. This will permit us to conduct a series of discussions that bear less resemblance to sophomoric dormitory bull sessions—and focus instead on what's really most important to each organization.

2. Figure out what you don't know

Once you've got a handle on the Big Question, sit down and figure out the things you need to learn in order to take a crack at answering the question.

These further questions—the things you don't know at least until you check them out—are called "*strategic uncertainties.*" (At least, the ones that are really important can be called that.)

You may have to do some research. You certainly *will* need to do a lot of thinking.

First, list the factors that your leadership must take into account in answering the strategic question you've posed. What are the *strategic uncertainties*? For example:

- For the Weedunotes County Philharmonic, the strategic uncertainties would include local population trends, the state of the region's economy, and the behavior of other performing arts organizations in the area. Will the population continue to become healthier as it ages? Will the people of the region have more disposable income as the years go by? Will competition for funding and audience support from other nonprofit organizations increase in the next five years?

- Board members of the Safety Net Center need to know how changes in statewide health and welfare policies will affect their clients. They need to explore the prospects and plans of the local business community over the coming half-decade. And they probably ought to consider whether other local nonprofits facing a similar crisis would be willing to join hands in a cooperative response.

- If global warming suddenly brings on the catastrophic changes predicted by their own scientists, Save the Universe must weigh how public attitudes in general and donors' feelings in particular will be affected. The leadership must take into account what climatic changes may be in store for the cities where their offices are located. They have to wonder, too, what shape the U.S. economy will be in after a decade of environmental catastrophe.

If you're doing a good job, you'll come up with lots of questions. The next task is to figure out which of these strategic uncertainties are the most important ones *in the light of the decision you have to make*. Pick just three or four, to avoid getting muddled. That calls for judgment—but, hey, that's what they pay you for, isn't it?

3. Gather the necessary information

If you're an active, aware citizen, you're constantly gathering information. You read newspapers, magazines, and books. You catch the news on TV or on the Web, too. You talk to people in many walks of life—at work, on the street, and in your social life. All the general knowledge you accumulate in the normal course of your life is essential as you embark on scenario planning—but it's not enough.

To ponder the dynamics of its audience in 2005, the Weedunotes Philharmonic will need to obtain demographic information from a local business library, the Chamber of Commerce, and perhaps the Census Bureau.

The Safety Net Center may need to sit down with astute observers of state and Federal politics, perhaps including their representatives in Congress and the state legislature.

Chances are, Save the Universe's own studies on global climate change highlight the environmental consequences and are sketchy about other aspects of the trend, such as the impact on the economy, the nonprofit sector, and U.S. society as a whole. The organization's scenario planners will have to consult a qualified economist, at the very least.

Be careful, though. Don't overdo it. Decision-makers in every field constantly warn that they *never* have "enough information." Don't let the research process drag on so long that the question becomes moot before you complete your analysis!

4. Determine how broad trends in society might influence your decision

Analyze what scenario-planners call the "*driving forces*"—the factors that can make a life-or-death difference in the way things turn out. They're the Big-Picture events and activities that have the potential to upend our lives overnight—to make the world a different place. These driving forces include the following four categories (at a minimum):

- Social dynamics
- Economic forces
- Political issues
- Technological developments

These are factors that could affect any or all of our three hypothetical nonprofits. In practice, scenario planners look into each of these categories in depth, one at a time. In the limited space and time available to us here, we can only hint at the complexity of the issues involved—and of the need to sort through the complications:

- The Weedunotes Philharmonic could find itself out of business if the economy turns sour . . . if Congress and the city council completely eliminate financial support for the arts . . . if new technologies in home entertainment undermine ticket sales . . . or if sharply increasing crime and violence keep people alone in their homes. If, instead, any or all those trends suddenly veer off in the opposite direction, what might that mean for the orchestra?

- The Safety Net Center may live or die with changes in the federal tax code, demographic shifts in its client population, or dramatic improvements in teaching technologies.

- Prospects for Save the Universe will brighten considerably—regardless of global climate change—if the U.S. economy thrives . . . if the spirit of voluntarism, encouraged by changes in the tax code, gains greater strength among the American people . . . or if scientists discover ways to blunt the impact of climate change.

Now comes the fun part. This is where you actually get to tell stories.

5. Write several sharply contrasting stories to illustrate what the world will look like if the worst happens . . . or the best

These stories, or scenarios, will portray *possible—but unlikely*—futures. For example, one story may represent the state of things to come if some current major trend continues unchecked . . . another if some unanticipated change, perhaps political or technological, reshuffles the deck of reality . . . a third if "things just keep getting worse" . . . and a fourth if "things pretty much stay the same as they are."

If you work at this task as a group, you'll come up with a bunch of scenarios. But a bunch is too many. You'll need to settle on two or three, or at most four, scenarios if you're to have any hope of understanding (much less explaining) the consequences of the strategic choices you face.

So, next, merge or modify the scenarios you've constructed. Select two or three significantly different portrayals of the future.

For instance, the scenario planners at each of our three hypothetical nonprofits might narrow down their alternative pictures of North America in 2005 to positive versus negative . . . prosperous versus poor . . . peaceful versus violent. They might call the optimistic scenario "The New Gilded Age." Their label for the more pessimistic view: "Hard Times."

Having envisioned these possible (if improbable) futures, the scenario planning team at each organization will carefully review the consequences they anticipate from each scenario in the event that it proves valid.

6. Test strategic choices in light of these contrasting scenarios

Once you've written your stories and pondered their potential impact on your organization, it's time to try answering that big strategic question you started with. Use "What if . . ." reasoning to think through the consequences of the alternative choices you face. Consider how each strategic choice will play out in each of the scenarios you've constructed.

The objective here is to test how well a given strategic choice will hold up in two or more alternative futures. Don't worry if these "futures" seem unbelievable, or even a little silly. If you've done a good job writing scenarios, you'll have two or three stories that represent the extreme possibilities the future holds. If a particular strategic choice looks as though it ought to hold up better than other choices—no matter which scenario proves closest to the truth—then you may have saved the day—not today, but the day after tomorrow.

Here, for example, is how the planners at one of our three hypothetical organizations—the Safety Net Center—might conduct that analysis:

- An era of unparalleled generosity—the New Gilded Age— will bring generous dividends to the Safety Net Center because of its board's difficult and costly decision during the previous decade to invest big in donor development. From this future vantage point, this looks like anything but luck. After all, the leadership of the Safety Net Center might have decided to embark instead on a course of austerity, cutting back on program staff and eliminating what then seemed like marginal fundraising efforts. If the board had pursued that course, it's highly unlikely the Center would now be positioned to tap the reawakened spirit of voluntarism that characterizes this new era.

- Similarly, in Hard Times, the Safety Net Center might well no longer be in existence if its board had chosen to cut back on individual fundraising. With government funding limited in this hardscrabble scenario, human service organizations are dependent largely upon private support. The Center's earlier decision to invest in donor development has positioned it well to compete for available funds, even in Hard Times.

So, what choice would you make as board chair of the Safety Net Center? Isn't it obvious? Under the two scenarios now facing us, the best we can hope for from a cut-it-to-the-bone strategy is sheer survival. *Only* by investing in a major donor development effort can the Center flourish.

So it goes.

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