

# scenario

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# PLANNING

*See Tomorrow Today*



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# Scenario Planning

*See Tomorrow Today*

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# CONTENTS



<b>Part I: Introduction.....</b>	<b>1</b>
<i>What is Scenario Planning?.....</i>	<i>2</i>
<b>Part II: The Structure &amp; Conduct of Scenario Planning.....</b>	<b>4</b>
The Aim of Scenario Planning .....	4
<i>What's really required?.....</i>	<i>5</i>
The Structured Process.....	6
<b>STEP 1: Establish your Driving Forces.....</b>	<b>7</b>
The STEEP Approach.....	8
<b>STEP 2: Create your Scenarios.....</b>	<b>9</b>
<b>STEP 3: Build your Strategies.....</b>	<b>13</b>
<b>STEP 4: Watch and Wait.....</b>	<b>14</b>
<b>Part III: Example: <i>The Australian Wine Industry</i>.....</b>	<b>15</b>
<b>Part IV: Conclusion.....</b>	<b>25</b>
<b>References.....</b>	<b>26</b>



**The Commissioner for the US Patent Office**, Charles Duell, signalled the closure of the US Patent Office after purportedly declaring that;

**“ Everything that can be invented has been invented!**

Without doubt, it's a big call for someone whose job lies in the future. A job overseeing patent applications for things that could change the world.

What's known of the future can be broken down three ways;

When planning for the future there's generally only one vision of the future. A vision that extrapolates the current situation and is favourable to those plans.

### It's as simple as 1-2-3...

1. "We are here" (A BAD PLACE).
2. "We have to be there" (A GOOD PLACE).
3. "Here's the plan to get there" (...HOLDING EVERYTHING ELSE CONSTANT).

Experience shows it's not possible to extend current trends out over long time frames. There are too many variables that drive the future - known and unknown.



### 1 There are things you know

- places on the map you know.

### 2

### There are things you know you don't know

- places on the map you don't know.

### 3

### There are things you don't know you don't know

- those places that simply aren't on the map.

# What is Scenario Planning?



## A quick question...

“ *Hands up those who nailed their early 2020 forecasts as set in December 2019?* ”

Organisations invest time and effort in planning future activities. They make implicit assumptions supporting those plans. What could possibly go wrong?

- ✓ Clever organisations take the extra step.
- ✓ Clever organisations consider those assumptions.
- ✓ They look ahead to prepare for a variety of events that might occur.
- ✓ **Clever organisations draw up possible future scenarios.**

An easier way to understand Scenario Planning is to rule out what it's not.

**X** *Traditional Forecasting*

It's not about running numbers through a model and extrapolating the past.

**X** *Contingency Planning*

It's not about looking at one uncertainty. E.g., *"What if we don't win the tender?"*

**X** *Sensitivity Analysis*

It's not looking at the effect when one variable changes with all others constant. E.g., *"What if the exchange rate moved down 10%?"*



Note that these three approaches are all measurable. **They're objective.** Move one variable by an amount and measure what happens to others.

Scenario Planning makes use of all the variables of these approaches at the same time. This makes objective measurement impossible.

**Scenario Planning is therefore subjective.**

**Wait!** Before you say, "*There's no way I'm going to propose to management that we all sit around as a team and make up ...stories!*"

These brief 'stories' explain the different paths the future might take. The paths are the different realities that might impact the future of your business. The brief stories shine a light on the drivers of change. The changes with the potential to shape your organisation's future.

Scenario Planning is a strategic planning tool.  
A structured process to create  
*...stories.*



## Part II: The Structure & Conduct of Scenario Planning



### The Aim of Scenario Planning

Scenario Planning and the creation of brief '*stories*' isn't about channelling '*Harry Potter*'. Scenarios become the jumping off points into decision making.

#### *So how do Scenarios help in decision-making..?*

...by creating strategies that support those scenarios.

Scenario Planning aims to best position your business for the future by seeing the early signals of change.

This gives you a better chance at controlling the situations that await.

The alternative is to leave your organisation on the back foot, off balance and exposed. Your competition will pass you by. Those that put the time and effort for when the unknown comes knocking - which it always does.

Through the insights your scenarios contain, your organisation can build strategies that;

- ✓ ...become the qualitative inputs to your forecasting process,
- ✓ ...guide you to track signals of change; the early warning signs of change,
- ✓ ...guide investment decision making.



## What's *really* required?

There's no complex Scenario Planning model to drop numbers into. To ask, “**What's required?**” is natural, but not the right question.

The key question is “Who's required?” and the answer calls for **caution**.

The process requires a team to come together whose focus is on creating scenarios.

## *Cue the caution!*

The team must leave their emotional baggage behind. Role titles and hierarchical structure aren't important. Team members must be free to talk. They must be free to challenge on the '*what ifs*' that could impact their organisation's future.

This is critical. An overbearing individual or group will drive overly pessimistic or optimistic scenarios or stories.



# The Scenario Planning Process



## The Scenario Planning Process...

- 1 ...brings an objective balance to the subjectivity of this creative endeavour.
- 2 ...requires you to make assumptions about the future, and how your business or industry might be impacted.
- 3 ...provides suitable guard rails that keep you from running off the road - the problem of under predicting at one extreme to over predicting at the other.

The 'information output' of the process are the scenarios. The team has the potential to produce dozens of scenarios.

However, the more scenarios you create, the harder it is to develop strategies to deal with them.

“ *The scenario planning process needs to target the creation of **four distinct scenarios**. Scenarios deemed most likely to happen in the years ahead.*

**...how do you do this?**



## **STEP 1. Determine your Driving Forces**

These are whatever;

- has happened,
- is happening, or
- can happen

to shape the world you operate in.

The Driving Forces are events - **controllable & uncontrollable** - with the real potential to impact your regular business plans.

- **CONTROLLABLE** trends (e.g., choosing to move from print advertising towards on-line content marketing)

- **UNCONTROLLABLE** trends (e.g., the weather).

How far out you look will depend on your industry.

Those with a short product life cycle and high rate of innovation may have a 5-year time horizon.

At the other end of the spectrum, this may stretch out to 15 years.



*So how do you and your team draw up a list of potential driving forces?*



*...using the **STEEP Approach.***



## The STEEP Approach

The discussion to determine the **Driving Forces** is guided by the STEEP Approach.

<b>STEEP</b>	<i>Societal</i>	<i>Technological</i>	<i>Economic</i>	<i>Environmental</i>	<i>Political</i>
<b>Past</b>	...what has happened under these headings that have driven change for your organisation?				
<b>Present</b>	...what's happening now that's driving change for your organisation?				
<b>Future</b>	...knowing the above, what likely to drive change for your organisation?				

The **STEEP Approach** methodically uncovers the organisation's driving forces. It guides the team's discussion to ensure they consider the future from every angle.

In listing the potential driving forces, two distinct groups will emerge. CERTAIN and UNCERTAIN drivers.

- ✓ **CERTAINTIES** will form part of current planning.
- ✓ ✓ **UNCERTAINTIES** won't.  
*This is where the real value lies.*

The Steep Approach delivers the two most critical uncertainties for their organisation. Those that will have the greatest potential impact on the future.



## **STEP 2. Create your Scenarios**

Armed with the two most critical uncertainties, the team is ready to create scenarios.

Using a matrix, the uncertainties identify the four different but possible futures. These are the futures that may exist in 5, 10- or 15-years time.

As the team launches into this task, there are elements that the scenarios must meet to achieve their aim.

1

### **Realism**

Developing scenarios as brief stories requires essential story characteristics. Beyond the need for the stories to be compelling and memorable, they need to be realistic. These are not the farfetched stories that you would find in an airport thriller novel.



*How does the team keep their scenarios realistic?*





*By maintaining fundamentals, respecting the constraints of time, and being logically consistent ...*




Firstly, you cannot flip. Any large organisations in your scenarios cannot reverse their fundamental positions.

For example, it is unrealistic to create a scenario where;


 the **United Nations** covertly raises a mercenary army and successfully elevate themselves overnight to become a ruthless totalitarian World Government.

 the **World Wide Fund for Nature (WWF)** is not going to invest in drilling for oil or the manufacture and marketing of a range of baby panda bear fur coats.

Secondly, your scenarios must fit within their natural time scale.

 You cannot plan to create a productive macadamia nut plantation over 12 months. A macadamia tree takes 5 years to produce its first crop. To model it taking 12 months is out of step with nature's time scale.

Finally, you don't want to model inconsistent factors in a scenario.

 For example, you are not going to see strong wages growth during a deep economic recession. You won't readily see export-led economic growth while your national currency is appreciating.



2

### Relevant

The team's scenarios must align with their anxieties about the future.

The team does not need distraction. The CEO's pre-occupation with the next quarterly results are not the team's concern here.

Perennial anxieties are not going to drive scenario creation. They don't drive the list of uncertainties the team identifies through this process.

3

### Durable

The scenarios cannot model fleeting situations. They must reflect a situation that will last beyond the length of the time scale chosen.

The team does not want to model a scenario around a temporary setback. For example, a drought driving a key agricultural raw material supply down and price up.

A more durable scenario would be one that identifies the possibility of a new use for that key raw material. One that would drive a sustained increase in demand and price.





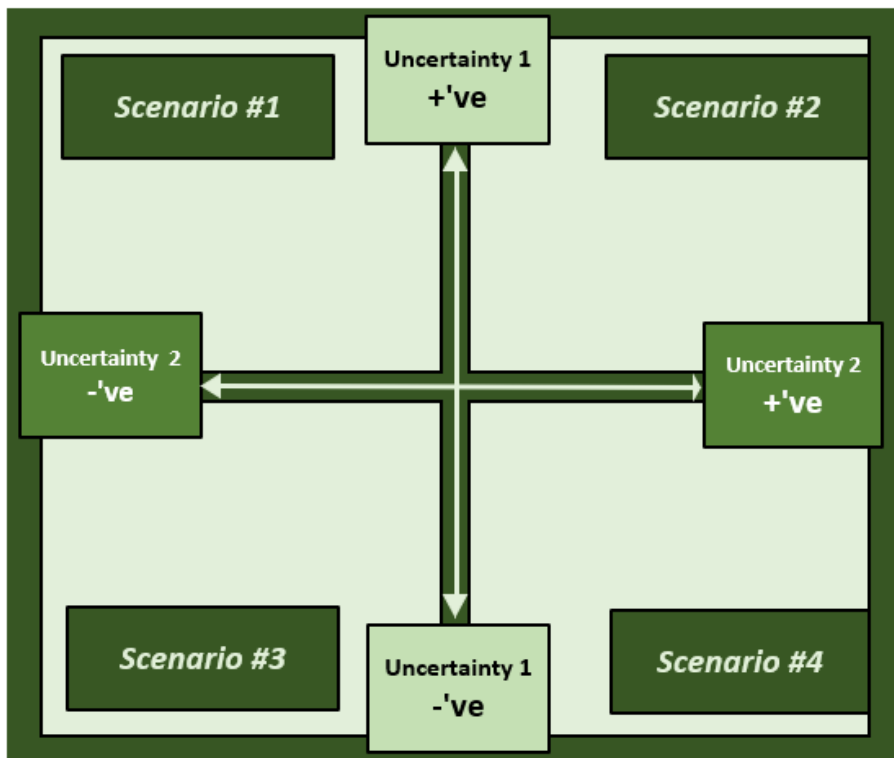
## 4 Contrast

The scenarios need to explain opposite states of the uncertainties determined earlier. They need to explain the good and the bad of those uncertainties.

The uncertainty identified will have a positive or negative

outcome. It will either increase or decrease, happen or not happen.

Applying contrast to the two key uncertainties will give the four ends of the spectrum. These four ends become the four quadrants in which to draw up the four scenarios.





### **STEP 3. Build your Strategies**

At this point, you now have four realistic, relevant, durable and contrasting scenarios. These scenarios explained as four simple stories.

The task is to now work out strategies to cope should one of those four futures come to pass.



What are the things that you could;

- Start/stop doing?
- look to invest in?
- look to divest to avoid stranded assets?
- develop policies to mitigate at best/ weather at worst?

The creation of strategic options to address each scenario the task is not the end point. Your team must begin testing them.

- How are they improved?
- What elements become redundant over time and need revision?
- What insights can new starters to your organisation offer to those strategies?

Strategies to deal with the scenarios must be kept fresh.

Their testing doesn't end.



#### **STEP 4. *Watch and Wait***

The last step is to track for the early, weak signs that begin to emerge.

These are the signs heralding the arrival of one of those scenarios before it takes hold.

When those signals start to register, you're ready to put in place your well thought out plans. In the face of the emerging reality, you will have a high degree of confidence on two things. The course the future will take and how you respond to it.

#### ***And your competitor?***

...now there's a pair of shoes you wouldn't want to be caught flat-footed in when tomorrow comes.

## Part III: Example: *The Australian Wine Industry*



The Scenario Planning process can be run for any organisation large or small.

**Q** *How can I run the process and apply it myself?*

**A** *A simple example can illustrate the process and the steps involved.*

In 2019 Australia was the 6<sup>th</sup> largest wine producer in the world and the nation's 5<sup>th</sup> largest export industry. Comprised of 6,200 growers and 2,500 wineries, the Wine Industry contributed AUD\$45.5 billion to the national economy (AgEconPlus & Gillespie Economics, 2019) .

Put yourself in the shoes of one of those 2,500 Australian wineries for a moment.

Whether you operate a small winery or a collection of large wineries, you will face shared uncertainties for the future.

How well your organisation copes will depend on how prepared you were when those uncertainties come knocking.

Your organisation has too much invested in the business to simply leave its future and yours to chance.

What can you do now to prepare for what will come?



## **STEP 1. Determine your Driving Forces**

What are going to be the big shifts in society, economics, technology and politics? The **STEEP Approach** will uncover what these uncertainties will be.

The **STEEP Approach** identified the following driving forces for the Australian Wine industry

<b>STEEP</b>	<b>Societal</b>
<b>Past</b>	<ol style="list-style-type: none"><li>1. Narrowly focused wine cultures/demand leading to regional production feeding regional consumption.</li><li>2. Post-war migration and demographic shifts leading to increased affluence and the introduction by migrants of wine from their wine cultures that drove the domestic wine market.</li></ol>
<b>Present</b>	<ol style="list-style-type: none"><li>1. Increased market for wine consumption via increased demand from growing middle class/affluent <b>Asian</b> consumers.</li><li>2. Decreasing consumption by younger generation in old wine countries and vice versa in new wine countries.</li><li>3. Increased consumption of higher quality wine by new wine world consumers</li></ol>
<b>Future</b>	<ol style="list-style-type: none"><li>1. Further increase in market for wine consumption via increased demand from growing middle class/affluent <b>African</b> consumers</li></ol>



<b>STEEP</b>	<b><i>Technological</i></b>
<b><i>Past</i></b>	<ol style="list-style-type: none"> <li>1. High degree of manual processes in the production of wine.</li> <li>2. Move away from cork to screw-tops</li> </ol>
<b><i>Present</i></b>	<ol style="list-style-type: none"> <li>1. Increase in automation in the harvesting, sorting, settling and filtration processes during the winemaking.</li> <li>2. Improved pest and disease management.</li> <li>3. Improved irrigation</li> <li>4. Drone-mounted multi-spectral and thermal infra-red cameras to monitor the water status of vines</li> </ol>
<b><i>Future</i></b>	<ol style="list-style-type: none"> <li>1. Potential for development of GM/test-tube wines or even non-grape based wine in the same way as acceptance of non-dairy milk alternatives are growing.</li> <li>2. Discontinuation of glass bottling.</li> <li>3. Wine Vending machines utilising biometric scanners to confirm buyer's age</li> </ol>

<b>STEEP</b>	<b><i>Economic</i></b>
<b><i>Past</i></b>	<ol style="list-style-type: none"> <li>1. Fixed Australian exchange rates up to 1983 keeping the price of Australian wine relatively higher for export markets than since the adoption of a freely floating Australian dollar exchange rate</li> </ol>
<b><i>Present</i></b>	<ol style="list-style-type: none"> <li>1. Unfavourable global economic outlook driven by Covid-19 in 2020 leading to a reduction in disposable incomes and the reduction in demand for more expensive/higher margin quality wines</li> </ol>
<b><i>Future</i></b>	<ol style="list-style-type: none"> <li>1. Economies of scale rewarding expanded production with lower cost of production with lower cost product putting wine in the reach of more consumers.</li> <li>2. Concentration of retail outlets in the Australian domestic Market and potential for monopoly distribution domestically and internationally of packaged wine by the likes of Amazon</li> </ol>



<b>STEEP</b>	<b><i>Environmental</i></b>
<b><i>Past</i></b>	1. Predictable growing climates leading to stable, and therefore predictable outputs
<b><i>Present</i></b>	1. Increasing frequency and intensity of drought events driven by El-Nino weather events.
<b><i>Future</i></b>	1. Impact of a warming climate negatively impacting on grape production and quality by changing the alcohol, acid, sugar, tanins and colour in the wine. 2. More extreme weather events will become more frequent including heatwaves that interrupt photosynthesis, and hail storms that destroy the vine. 3. Changing climate will disadvantage current growing regions, and offer opportunity to new regions.

<b>STEEP</b>	<b><i>Political</i></b>
<b><i>Past</i></b>	1. International trade liberalisation (relaxing of protection of local production) has led to the growth in demand in new export markets
<b><i>Present</i></b>	1. Innocent Australian Wine producer's access to its largest and still growing Chinese export market is being drawn into political disputes at the national level between the Australian and Chinese Governments.
<b><i>Future</i></b>	1. Potential for the reversal of liberal international trade policies and the re-emergence of trade protectionism that leads to the restriction in access or closure to export markets



## ***STEP 2. Create the four scenarios***

### **a) Identify your critical uncertainties:**

Having identified the Wine Industry's driving forces, we now choose the two most likely to impact in the future.

The team chose;

- 1 ***Environment,***
- 2 ***Economics/Politics.***

Note that the second uncertainty is a combination of the two STEEP Approaches. In this example they were deemed to be closely related.

### **b) Develop four scenarios:**

These two uncertainties are set against an x-y axis to create four quadrants. Those quadrants then reflect the four future scenarios.

Remembering that these scenarios must be;

- ***Realistic;***
- ***Relevant;***
- ***Durable;*** and,
- ***Contrasting***

...so they can be understood in the form of four brief stories.

They are then named to make them memorable. Not too long or too short that they're easily forgotten.





## The 4 Scenarios as brief *STORIES*

### *Red Sails at Dawn (-/+)*

In the days when ships sailed the seven seas, knowing what the weather was going to be was as critical then as it is today. Generations of sailors still know the age-old adage that foretold the weather.

“ *Red sky at night, sailor's delight. Red sky in morning, sailor's warning.*

It derives from prevailing east to west mid-latitude weather pattern. The rising sun of the east preceding a low-pressure weather system creates a red sky in the morning. (Scientific American 2003).

It describes this scenario well. While current progress is favourable (the ship is making good progress) the indications are that the (sailing) environment is going to turn against us. We need to prepare (for stormy weather).

### *Red Sails in the Sunset (+/+)*

The alternative adage foretells of favourable weather tomorrow.

The departing clouds of a retreating low-pressure weather system reflect the light of the setting sun in the sky and sails (Scientific American 2003).



The *Red Sails in the Sunset* scenario describes where the current situation is favourable (the ship is making good progress) and the indications are that the (sailing) conditions are going to improve further. We need to take steps to maximise the benefit of the economic and environmental factors working in our favour.

#### ***Perfect Storm (-/-)***

...the situation where everything that can go wrong, does go wrong, and at the same time.

The ship is taking on water and the nearest land is weeks away. Progress is slow. To make things worse, there's a storm approaching.

A big storm while we're already taking in water spells disaster.

#### ***False Dawn (+/-)***

...a situation where you think something good will happen or finally improve, but it doesn't.

In this scenario, the sailing conditions are improving. We're taking in less water, and the weather is relenting. It looks like conditions are going to favour us. The feeling is that things are going to get better.

However, this feeling is short-lived. There's a new leak, and not a breath of wind. We're in the doldrums. There will be hard days ahead.



## Uncertainty #1: Environmental situation

### Red Sails at Dawn

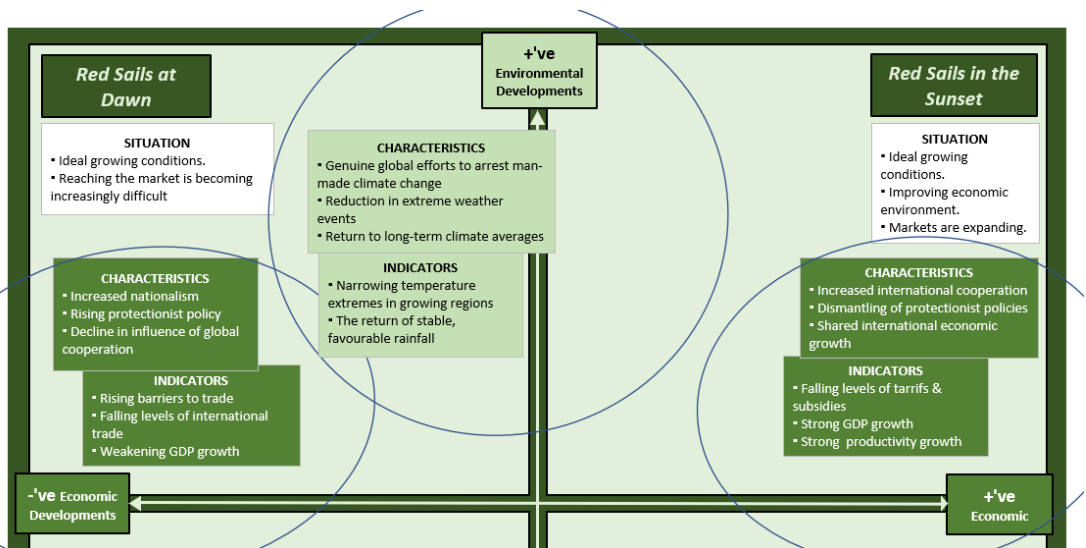
In this scenario, environmental signals are looking positive. Yet, the same can't be said for the economic and political developments. The early signs are that they are becoming unfavourable.

“ This morning's fine weather is about to turn against you.

### Red Sails in the Sunset

The ideal scenario to see develop. This is where both environmental and economic/political developments move in your favour. This creates the ideal trading environment.

“ The bad weather is behind you. Tomorrow's weather will be fine.





## Uncertainty #2: Economic/Political situation

### Perfect Storm

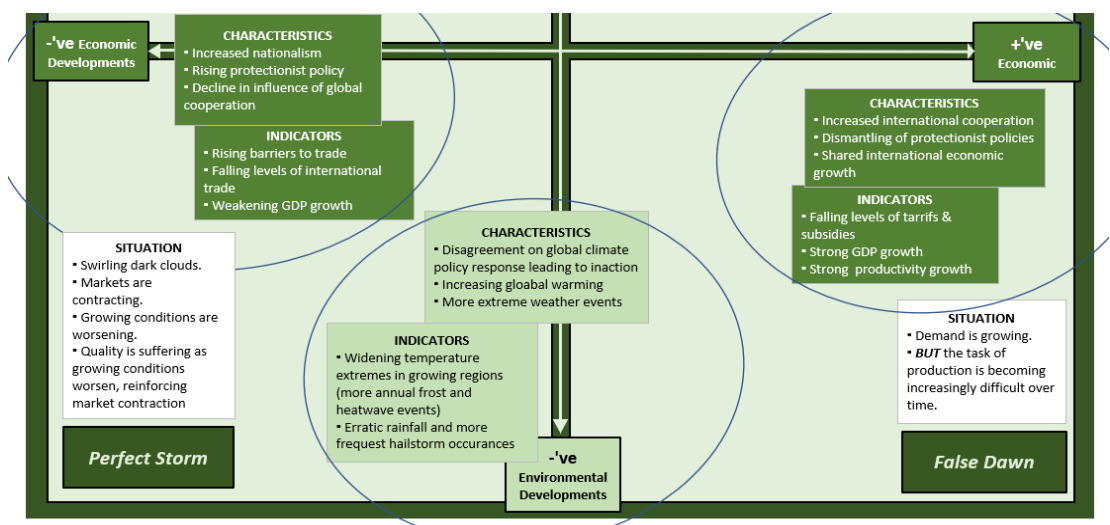
The worst of both uncertainties come to pass. The signals of an unfavourable economic and political situation meet deteriorating environmental developments.

“ *A perfect storm where you're hit from all sides at once.* ”

### False Dawn

The scenario where the situation looks favourable. Economic and political winds are blowing your way. Yet a deteriorating environmental situation looks to take the wind from your sails.

“ *The promising early winds disappear leaving you in the doldrums* ”





### **STEP 3. Build your Strategies**

At this point, you now have four realistic, relevant, durable and contrasting scenarios. These are set in the form of four simple stories.

“ The task is to now work out strategies to cope should one of those four futures come to pass.

Test key strategies of the plan against each of the 4 scenarios

## **SCENARIO PLANNING**

		Scenarios	
		<i>"Red Sails in the Sunset"</i>	<i>"Red Sails at Dawn"</i>
Strategies	<i>Seek new geographical markets</i>	<ul style="list-style-type: none"> <li>◦ Chase new export opportunities</li> <li>◦ Develop in new export markets in geographical locations that have traditionally been non-wine cultures.</li> </ul>	<ul style="list-style-type: none"> <li>◦ Focus on certain opportunities only</li> </ul>
	<i>Expand existing markets</i>	<ul style="list-style-type: none"> <li>◦ Establish a deeper presence in existing markets.</li> <li>◦ Develop/Expand into new ways of reaching existing customers (eg. greater online presence/distribution)</li> </ul>	<ul style="list-style-type: none"> <li>◦ Establish a deeper presence in existing markets.</li> <li>◦ Develop new ways of reaching existing customers (eg. greater online presence, new approaches to drive customer loyalty)</li> </ul>
	<i>Develop a premium brand and price point</i>	<ul style="list-style-type: none"> <li>◦ Expedite move to establish a presence in the premium market through the targetted acquisition of small producers or labels with premium potential</li> </ul>	<ul style="list-style-type: none"> <li>◦ Expedite move into the premium market to broaden the company's customer base to include a higher spending consumers less prone to a deteriorating economic enviroment.</li> </ul>
	<i>Move into new wine growing regions</i>	<ul style="list-style-type: none"> <li>◦ Invest in both new land on which to establish new grape varieties as well as acquiring existing vineyards</li> </ul>	<ul style="list-style-type: none"> <li>◦ Seek out both new land on which to establish new grape varieties as well as acquiring existing vineyards</li> </ul>



What are the things that you could;

- Start/stop doing?
- look to invest in?
- look to divest to avoid stranded assets?
- develop policies to mitigate at best/ weather at worst?
- What to improve?
- What elements become redundant over time and need revision?
- Involve the team's new starters to understand the strategies and offer new insights

With each scenario's strategic options set, the team must begin testing them.

**Strategies to deal with the scenarios must be kept fresh. Their testing doesn't end.**

		"False Dawn"	"Perfect Storm"
Strategies	Seek new geographical markets	◦ Focus on certain opportunities only	◦ Keep you eyes on what's in front of you! Focus on maintaining existing markets
	Expand existing markets	◦ Seek improvements in production methods by investing in new technology to address climate-induced quality issues	◦ Keep you eyes on what's in front of you! ◦ Focus on maintaining current markets. ◦ Develop new ways to reward customer loyalty
	Develop a premium brand and price point	◦ Concentrate on the quality and cost-efficiency of existing brands unless ideal opportunity arises	◦ Concentrate on quality and cost-efficiency of existing brands
	Move into new wine growing regions	◦ Seek out new land with desirable soil characteristics that will compliment the changing climate and aid in expanding existing markets	◦ WHAT TO PLANT, WHERE TO PLANT, & HOW TO MANAGE EXISTING VINEYARDS. Seek out new land with desirable soil characteristics to compliment the changing climate and support existing markets



We need to position our organisation today for tomorrow. We must set plans and strategies today for tomorrow. This will best position the organisation for success if the worst is to come.

Tomorrow, with all its uncertainties, isn't some far off destination for someone else to deal with. That future begins now - on your watch.

History tells us the Covid-19 pandemic event of 2020 was not unexpected. It was always going to occur, but on *'someone else's watch'*.

While much of the future is unknown, many events are foreseeable.

It's our responsibility to consider those events. It is our responsibility to take steps today to prepare for that tomorrow.

Scenario Planning is the best way to prepare the organisation for tomorrow.

...oh, and one final point about discounting the future.

Remember the Commissioner of the US Patent Officer, Charles Duell? He signalled the closure of the US Patent Office after purportedly declaring that;

“ *...everything that can be invented, had been invented.* ”

held that role from 1898 to 1901.



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Scientific American (2003) SUSTAINABILITY: Is there scientific validity to the saying '*Red sky at night, sailors' delight; red sky in the morning sailors take warning*'?

<https://www.scientificamerican.com/article/is-there-scientific-valid>