Where are you heading?
an article on scenario planning by Peter Piven and Clive Landa
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"If you don't know where you're going, any road will get you there" – a quote often attributed to *Alice in Wonderland* by Lewis Carroll

About thirty years ago Starbucks didn't own a single café. According to Business Week it currently has more than 10,000 cafes in the US, nearly 1000 in Japan and over 700 in the UK. That represents a radical change in business model, in marketplaces, in scale, and just about everything else. It came about as a result of a major rethink in strategy and made a little known coffee roaster into a worldwide household name.

This example shows the power of rethinking ones strategy[1]. So too does another example also noted in Business Week earlier this year. Daimler introduced its first high-end small car in the late 1990's. More than a decade later the Smart car is still struggling to find its wheels. Meanwhile BMW has updated the classic British Mini and now outsells the Smart car by nearly three to one. This contest is probably not yet over, but shows that not every radical shift in strategy is sure to succeed.

So how does one strike the happy balance of reviewing ones strategy in a way that is sufficiently open to new ideas that change is a possibility, without going chasing after any and every 'pipedream' in the CEO's head? We suggest a purposeful look at a range of scenarios and describe how in this article.

6 Words and how we use them

Planning: thinking about future events and their outcomes, towards the end of decision-making

Assumption: belief that one individual thinks is held by all present

Vision / direction: clear and concise statement of the desired future state of the firm

Scenarios: alternative sequences to achieve the vision/direction

Strategy: decision of which scenario to pursue

Action plan: specific steps to implement the strategy

Before starting however, let's be clear as to what this piece is not. It is not another model for strategic planning. There are reams of paper and websites devoted to the many different flavours. You don't need another version. Instead looking at a number of different scenarios in the course of any strategic review will increase the chances of a successful outcome. So whether you're a fan of SWOT or PEST analyses, or favour balanced scorecards or business process reengineering, or none of them, don't worry. Also to save time for the many readers who equate the term strategy review with doing what you're currently doing, but just a little

[1] For our usage please see the box '6 Words and how we use them'

bit better, be aware that that isn't a strategy review. That is a strategy *REAR*view!

When a proper strategy review is complete you will know where you're going and where you're trying to end up. As a result just any old road will not do; a preferred route will have been identified. However, such clarity rarely arrives fully formed and upon the click of ones fingers. It results from a fair amount of work from a fair number of people, working systematically through an agreed process.

A generic strategy process

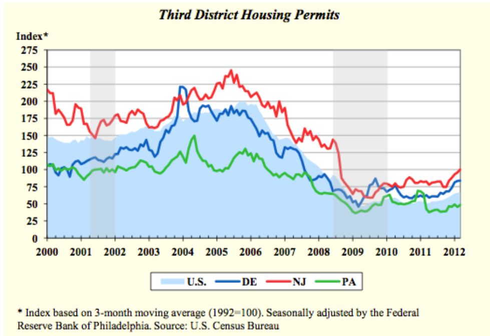
At the broadest level there are four steps and the quality of the output depends on them all being completed. However, although shown as a linear process the practical experience normally involves several iterative attempts to refine and complete a section. For example having gathered the information, most teams discover while developing their options that they will need more or better information to continue. This is not wrong; it is a sign that the process is working. It is because strategy is not a clean wholly rational production line; it is more like sculpting potter's clay into an attractive vase or bowl.

Gathering Information

Because everyone has some experience of collecting information, no one thinks they need to make any special preparation to do it. However, collecting lists for a shopping trip, or weather forecasts and maps for a road trip aren't the same thing. Nor are strategy reviews that frequent. If you're honest you've probably spent less than a week doing so during the last two years. The first thing to be emphasised is that history is a small part of the information required.

And since the purpose of a strategy is to help bring about a specific 'future', the only purpose for looking backwards is to learn from past successes and difficulties in the context of their impact on the future. So last year's performance and accounts, the blow-by-blow analysis of a 20-year client (no longer in business), or that 2005 market survey or consultant's report are of some but only limited value. The bulk of valuable information will be current and forward looking, and often from outside the organization.

Some examples: current trends in the various markets you serve or are considering serving, recent interviews with both existing and past clients, competitive intelligence whether published or based on expert opinion (e.g. from your clients), and probably most important (and difficult to obtain) attempts at futurology in areas adjacent to where you wish to be.



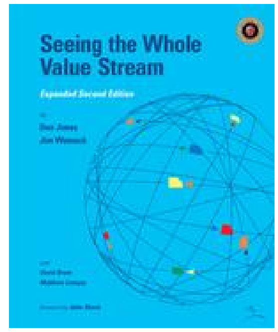
Pending Sales Of Existing Homes In U.S. Rebounded In July

Americans signed more contracts to purchase previously owned homes in July, a sign housing will keep strengthening in the second half.

The index of pending home resales climbed 2.4 percent, exceeding the 1 percent gain median forecast of 39 economists surveyed by Bloomberg, figures from the National Association of Realtors showed today in Washington. The gauge rose to 101.7, the highest since April 2010.

Home buying is coming within reach for more Americans as less expensive properties and record-low borrowing costs combine to stabilize the industry that helped trigger the recession. Faster hiring and easier access to credit are needed to reduce foreclosures, a hurdle to a more sustained recovery.

"All the elements are in place for continued growth in the housing industry," said Omair Sharif, a U.S. economist at RBS Securities Inc. in Stamford, Connecticut. "Housing is one of the bright spots in the economy."



One problem with prescribing the information required is that one never knows what that is. Howard Schultz (then the Marketing Director of Starbucks) was reportedly sipping an espresso in Milan, when he first focused on the experience of coffee drinkers.

Consider the Options

Just as everyone has experience of collecting information, so you have all had occasion to consider the options. However, you might be surprised by how infrequently that occurs in strategy reviews. Most often those involved take a cursory look at the previous year's performance, conclude that it was good, and consider a few improvements before going to the 'real' task of debating the targets and budgets for next year.

Instead we urge a completely different way of thinking. Whatever the success or otherwise of previous performance, start by studying what clues your information collection has given you with respect to the future. Any strategy is about the future. Are your services or products going to be in greater or lesser demand from a) your existing clients or markets and b) from any potential clients or markets? One simple example of such analysis, involved a small professional practice supplying services to a particular state's education department, both in respect to new buildings and existing site maintenance services. A discussion with a senior official had revealed that the state's demographics were changing such that the previous growth, in both school and further education aged youngsters, was being succeeded by a prospective outflow of families with children, and a corresponding growth in retirees and higher age groups. At least one option therefore was to shift the practice to where the demand was moving, while another option was clearly to offer different services in the existing geography. At this stage neither is right or wrong, just different. And in all probability additional information will be needed to discuss and debate these options.

How about your quality – fit for purpose is nowadays simply a down payment to participate in the competition. So what does the information tell you about quality? What were the real drivers of both losses and gains in recent times? Here it will always pay to have talked openly and in a little detail with those past prospects. It is the sort of listening that should be attempted at the time of the gain or the loss of business and with as high a level of the client as is accessible. Whatever else, do not be taken in by the oft-repeated explanation that you lost business on price. Our experience is that this is rarely the case, but that clients and non-clients alike prefer to not discomfort you with the real reasons (didn't answer the brief, looked financially or expertise stretched, delayed a previous project without credible explanation etc.).

As the short list of options is developed (probably a single number close to four or five is sufficient) another step that is necessary in open discussion is the area of 'no go'. These can relate to deeply held values (we will not work for the tobacco industry, or casinos; we want to contribute to this particular community or sector), or to more practical issues (my children are in high school and we aren't moving out of this location for at least the next 5/10 years). Values, assumptions and prejudices are often the silent enemies of many strategy options. They need to be voiced.

Decide on strategy

Despite (or maybe because of) the open discussion of the options, deciding on a strategy is not normally easy. Because the future is uncertain, the choice is a matter of personal judgement and intelligent people can differ in their judgements. So, above all, be polite and respect others' good intentions. There is no easy prescription for coming to a decision. Even after running different strategies through a decision making model e.g. discounted cash flow, Kepner Tregoe, decision trees, the choice may not be straightforward.

In major part this is because different people approach risk in different ways. So a partnership can agree that one strategic choice involves entering a new market segment from their existing location, while another choice involves remaining in the existing segment but adding an additional location. They may even agree on the respective costs of the two options and the potential returns. However, agreeing on the likelihood of the preferred outcomes versus potential downside costs is initially unlikely. Attitudes to risk vary widely and over time. A senior partner with an empty-nest and looming retirement may view things differently from the way he/she did when an up and coming junior partner.

Reaching an accommodation is crucial. Whatever the finally chosen strategy most if not all of the decision makers must buy into it, or commitment to the execution of the strategy will be limited. In the discussions try to separate out three common components behind differences of view:

- Those relating to differing speeds of achievement (e.g. the new office will take two years to reach break even, … no four years)
- Those relating to 'deal breaking' events (e.g. we will need experienced structural engineers in Montana and we may not be able to hire them at any price)

- Those relating to differing personal or life cycle needs

Finally, it may be helpful to use a neutral moderator of some of these discussions. At the end of the day this is often the most difficult stage in the process.

Develop an Action Plan

Choosing a strategy is not enough. It is equally important to develop an action plan to ensure that the strategy is implemented. The process comprises four essential steps:

1. Identify the specific tasks necessary to achieve the strategy
2. Establish the relative importance or priority of executing each task
3. Select those who will have the responsibility for each task
4. Determine the timetable for completing them <u>and</u> the initial milestone

Let us return to the earlier example, where demographic projections gathered during Information Gathering revealed population stabilization that would likely result in a decision to refrain from building new elementary schools for the foreseeable future. Let us assume that the options included a) marketing different services within the same community and b) establishing an office in another place that had better demographic projections. Finally suppose the firm's leaders decided to pursue strategy b), establishing a satellite office in another community, then the firm needs to establish an action plan to do so. How might they do it?

1. Using a future visioning process, the leadership (and others if they so desired) would first identify the tasks that they believed would be necessary. These might include deciding on criteria to apply to developing a satellite office, identifying cities/towns that met the criteria, researching population projections and other important conditions in those cities/towns, deciding on organic growth vs. acquisition, identifying potential office sites or target firms, meeting with real estate brokers, target firm leaders, negotiating leases or agreements etc. Preparing a list of two to three dozen different tasks would not be unusual.

2. Since no firm has sufficient resources to do everything it might like to do and, even if it had, it would not likely be able to pursue all at once, it is important for the firm to establish a sense of relative importance so that those tasks deemed most important to success can be executed before other, less important tasks. Maybe in this instance the acquisition route is chosen to be exhausted before pursuing organic growth options.

3. The firm's leaders would then select an individual or a small group (a committee or task force) to execute each of the tasks.

4. Finally, the firm's leaders and the selected individual or group would develop a timetable for the task and an initial milestone to deliver the first identifiable piece, e.g., a list, plan, program or proposal to accomplish the task, and the date by which it would be presented for review.

The Action Plan comprising many different tasks and schedules, some of which may overlap, must be done <u>in addition to</u> the firm's normal, day-to-day marketing, management and project activities. If it becomes necessary to reschedule individual action plan activities, pushing them further into the future, it is useful to remember that the Action Plan has been established in furtherance of a Strategic Plan that probably looks three to five years into the future, so modest changes in schedule can be accommodated.