

CREATING YOUR OWN CRYSTAL BALL: An Overview of Scenario Planning

ASFE
October 26, 2012

1. Set the Stage

Why Do It?

- To improve the quality of our planning
- To avoid "inevitable surprises."

What Is It?

- A method of asking, "What could be...?"
- Includes being imaginative & systematic

When Use It?

- To explore a critical question
- To work through uncertain situations
- To test how strategies might play out

What Driving Forces do you think will significantly influence your business in the next 5 years?

2. Explore Trends & Driving Forces

Driving Forces

Predetermined Elements

Trends whose outcomes are fairly **certain** and don't rely on any chain of events.

Critical Uncertainties

Trends whose outcomes are highly **uncertain** and could alter fundamental assumptions.

3. Identify Focal Question(s)

Good Focal Questions Are...

- Questions, issues, concerns or decisions that are critical to your future.
- Issues around which there is much uncertainty.
- Often an "elephant in the room".
- Form of a yes/no question.

Our Focal Question For Today:

Should my firm embark on expanding our business reach in these uncertain times?

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4. Explore & Develop Scenarios

Scenario
A plausible story of how the future could possibly turn out – a description of how trends could interact and play themselves out

		Our Scenarios	
		Democratic	Republican
US Economy	Boom	Boom economy with Democratic gov't	Boom economy with Republican gov't
	Bust	Bust economy with Democratic gov't	Bust economy with Republican gov't
		Election Outcome	

Explore & Develop Scenarios

- **Plausibility** – How did we get from where we are today to this scenario?
- **What's Happening** – What's going on? Who is doing what?
- **Focal Questions** – How would you answer the focal question in this scenario?
- **Strategies** – What actions or responses make sense to respond to and address what is going on in this scenario?

Evaluating Strategies Across Scenarios

No Brainers: Strategies that make sense in all scenarios

No Regrets: Strategies that are more valuable in one scenario, but doesn't hurt you in others

Contingent Possibilities: Strategies that are valuable in one scenario and harmful in others

No Ways: Strategies that are bad in all scenarios or so damaging in one as to be unacceptable

Early Warning Signs: Signposts that could signal a particular scenario is coming true:

- What indicators should we pay attention to?
- Which direction might the indicators be going that tell you we're heading that way?



5. Identify Strategies & Early Warning Signs

6. Wrap Up

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Scenario Planning

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When Use It?

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Scenario Planning Steps

Purpose

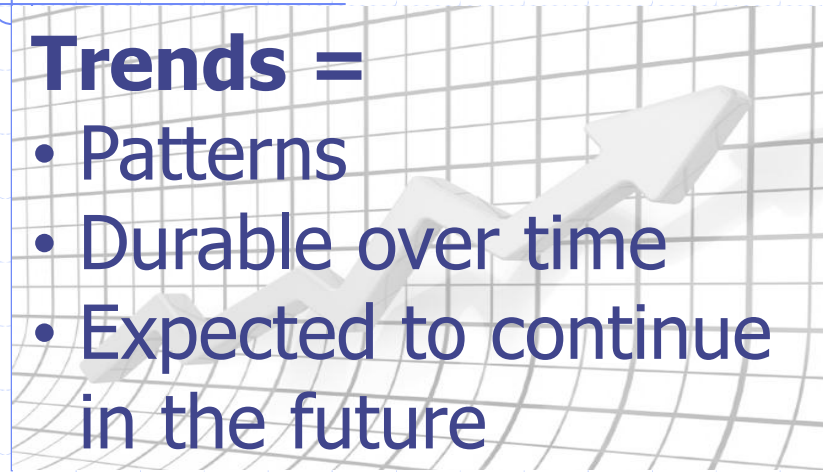
Give you a
taste of the
scenario
planning
process



Identifying Trends

Trends =

- Patterns
- Durable over time
- Expected to continue in the future



Driving Forces =
Trends that are
relevant & critical
to your firm's long-
term future

STEP

- Societal
- Technological
- Economic
- Environmental
- Political

What Driving Forces do
you think will
significantly influence
your business in the
next 5 years?

There Are 2 Kinds Of Driving Forces

Driving Forces

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graph TD; A[Driving Forces] --> B[Predetermined Elements]; A --> C[Critical Uncertainties];
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Predetermined Elements

What we know for sure. Trends whose outcomes are fairly **certain** and don't rely on any chain of events, e.g. the aging of the baby boomers.

Critical Uncertainties

Trends whose outcomes are highly **uncertain** and could alter fundamental assumptions about your business, e.g. the economy.

SOCIETAL Trends

- 1. Clients Feel Increased Demand for Customer Service & Performance without Price Increases. (62)** Relationships saved many clients in the recession (connections = work), must keep existing clients happy, public clients have more scrutiny on performance so not to be a target for budget cuts, private clients not able to recover increased costs.
- 2. Clients Have Demographic Challenges for Staff Development. (52)** Aging staff & population, Gen Y has “failure to launch”, technology challenges between generations, cultivate next-gen, build future leaders, recruitment & retention methods are changing, staff immobility for different reasons across generations.

SOCIETAL Trends

- 3. Challenges in Keeping & Managing Staff in Tough Times. (49)** job security and benefits are down, with older staff retiring and work/life balance issues retention is tough, don't have the right mix of people/skills.
- 4. Local & Community Focus for Clients. (34)** Increase the quality of life locally, "live here = work here", priority with Gen X/Y, e.g. give back, focus on new urbanism, be good corporate citizen, do local job creation.
- 5. Client Owner/Leader Succession. (31)** Retirements on the horizon (next 5 years), prompts organizational change & leader shifts, next gens not interested, how to transfer relationships?

TECHNOLOGY Trends

- 1. Clients Hopeful Technology Will Cut Costs. (31)** Public and private clients hope technology will save them time, increase efficiency, drive down costs, and get more value from what they already have, especially long-term owners of facilities. Leads to less buildings & more virtual work. But they are skeptical that the cost will pay off and are concerned about incurring higher costs today for payoffs tomorrow.
- 2. Knowledge/Collaboration is Next Wave. (27)** Social media (e.g. LinkedIn, Twitter) is driving collaboration/being “connected” (e-mail considered passe), is changing the pace/speed of work, and drives desire for immediate action/responses. Is important to Gen X & Y.

TECHNOLOGY Trends

3. Clients Are Leveraging Technology For Innovation.

(19) Banking on new technology-driven approaches to old problems, e.g. new energy sources (e.g. natural gas turbines replace coal power generation), and new approaches to drilling, traffic, planning, & power grid load management.

4. Technology Not A Differentiator. (4) Clients expect technical competency and staying on the technology forefront as part of regular fees & services. ROI for new technology offered to clients is questioned.

ECONOMIC Trends

- 1. Clients Hopeful For Future Growth, Even In The Face Of Economic Uncertainty. (134)** Even with negative pressures such as inflation risks, rising energy costs, government deficits, some early counter movers (e.g. Disney, CBRE) are positioning NOW for a recovery in anticipation of pent-up demand. They have plans for growth, diversification, and geographic moves to take advantage of low construction costs, low real estate prices, and low interest rates.
- 2. Increased Competition & Public Pressure Drives Pricing. (81)** Harder to do business – are increased competition, lower fees, smaller jobs, and increased costs to win. Consulting is on sale... permanently.

ECONOMIC Trends

- 3. Clients Are Focused On Staying Healthy In the Short-Term. (77)** Are doing what they can for short term cash flow, e.g. focusing on preserving profits, squeezing out costs, keeping good customers, and figuring out what to do with excess capacity. Causes tight budgets and start/stop work. Some shying away from long-term investments. Some short term decisions may have negative long-term impacts, e.g. deferred maintenance.
- 4. Traditional Funding Sources are Uncertain. (60)** Private and public clients are looking for sustainable revenue in non-traditional places. For public clients, there is a shift of burden from federal -> state -> to local. For private clients, access to capital is still tight.

ECONOMIC Trends

- 5. User-based Fee Clients are Healthy. (37)** Clients able to raise fees on services are financially strong, e.g. toll-based, water & wastewater utilities, power, energy, ports, rail.
- 6. Market Consolidation – On Many Levels. (32)** See increased private firm M&A. But larger consolidated firms are seen as inefficient, slow to respond, lumbering. Can be a source of recruitment. Public clients are also consolidating, and doing more inter-agency partnering and teaming.
- 7. Low Natural Gas Price Impacts. (7)** Impacting power generation – nuclear, hydro, coal, the public buys the branding that it is “green”.

ENVIRONMENTAL Trends

- 1. Beyond The Sustainability Buzz. (61)** Has become a preference for how we should work, how people want to live. Linked to contribution to the community. But not just to benefit the environment - must also save money, e.g. net zero energy buildings that reduce energy \$ and total cost of ownership. Has become a political agenda item - a requirement for funding & financing in residential & low income housing. No longer seen as a differentiator.
- 2. "Re" Emergence. (29)** Driven by efficiency to better use what already have, the "re" markets are healthy, e.g. retrofit, renovate, remodel, re-develop, repurpose, re-use, re-tool, and re-evaluate energy use projects. "RE" is cheap "green."

ENVIRONMENTAL Trends

- 3. Organizations Redefining Themselves to “Look & Feel” More Green. (18)** Bowing to public pressure to be environmentally responsible. Are advertising such activities as solar on landfills, and alternative fuel vehicles. Even power plants call themselves “stewards of natural resources.”
- 4. Water Concerns. (11)** Public/environmental push back on activities that threaten water supplies and habitats (especially in the west), e.g. fracking, power production, new development. If becomes water vs business, water will win.
- 5. Permitting Process is CRITICAL Path for New Facilities. (7)** Highly valued part of the process. Requires political insights and knowledge of local regulations.

POLITICAL Trends

1. Increased Regulation & Oversight in Recession Times. (112)

Agencies see as source of revenue, regulators feel the need to justify their jobs. Can no longer to just be compliant, need to get ahead of rules. Slows job creation and new development, and increases the cost of doing business. Includes air, water, thermal, waste, carbon, storm water, and drives the water industry.

2. Political Unwillingness to Pay for Needs. (34)

Many needs but no political gain in funding the future, e.g. services, infrastructure, education, regulations. All are politically neutral but funding them offers no advantage to get elected. NO to ANY Taxes. Put mandates in place with no funding. For current funding, rebates and grants are unreliable, and turnover of boards & leadership puts good programs at risk.

POLITICAL Trends

- 3. Political Gridlock, Bickering & Dysfunction. (33)** In-fighting hurts business, dampens recovery, and increases inefficiency which sets stage for privatization. Government seen as inefficient & a roadblock to progress. Federal rule-making is at a stand-still. Nothing is getting done politically, with no end in sight. Lots of jobs talk, but no jobs action.
- 4. Election Cycle Driving Uncertainty. (12)** Funding frozen, budgets decreased, fed/state gridlock, unknown impact of administration changes.
- 5. Global Instability Impacts to the US. (12)** We are not immune to political instabilities around the world, such as the Euro crisis/Greece/Italy and the Middle East.

How Do You Define Scenarios?

1. Identify 2 trends that are highly relevant and highly uncertain.
2. Put each trend on an axis. Label with the extremes that could happen.
3. Creates a 2 by 2 matrix. The matrix creates 4 alternative future situations to be explored.

EXAMPLE

US Economy	Boom	Bust
	Democratic	Republican
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What Makes A Good Focal Question?



- Questions, issues, concerns or decisions that are critical to the organization's future.
- Issues around which there is much uncertainty.
- Often an "elephant in the room" that everyone knows exists but doesn't want to talk about.
- Usually in the form of a yes/no question.

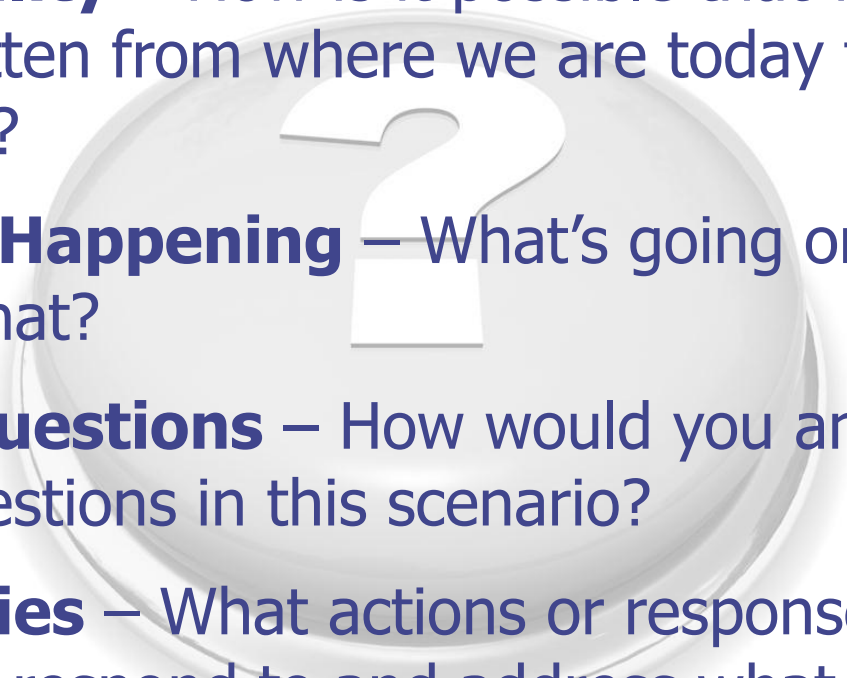
Developing Scenarios



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- **Plausibility** – How is it possible that we might have gotten from where we are today to this scenario?
 - **What's Happening** – What's going on? Who is doing what?
 - **Focal Questions** – How would you answer the focal questions in this scenario?
 - **Strategies** – What actions or responses make sense to respond to and address what is going on in this scenario? Pick ONE strategy to share.

Evaluating Strategies Across Scenarios

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Strategies that make sense in all scenarios

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Strategies that are more valuable in one scenario, but doesn't hurt you in others

Contingent Possibilities

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What Are Early Warning Signs?



Signposts that could signal a particular scenario is coming true:

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Thanks & May
You Have A
Great Journey
Ahead!



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