



## Using Scenario Planning as a Weapon Against Uncertainty

Published : December 05, 2001 in [Knowledge@Wharton](#)

When terrorist attacks destroyed the World Trade Center and parts of the Pentagon on September 11, they also created one of the worst kinds of environments for business - one haunted by a sense of uncertainty. Developments during the past two months - the war in Afghanistan, the continuing economic slowdown, the threat of bioterrorism - have heightened that sense of not knowing what the future holds. The result is that in many companies, especially in the U.S., business decisions are being deferred. That makes for a stressful environment. If there's one thing worse than a deal that falls through, it is a deal that is put on hold - indefinitely.



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One time-tested tool available to companies to deal with the prevailing uncertainty is scenario planning. A powerful risk management technique originally developed by Royal Dutch/Shell to deal with oil production and price shocks, scenario planning involves imagining different versions of the future and mapping out strategic responses should one or more of those versions become reality. The goal of scenario planning is not to predict the future; it is to anticipate more than one possible future and prepare plans to cope with it. Bain & Co., a consulting firm, says scenario planning "allows users to explore the implications of several alternative futures. This avoids the dangers of single-point forecasts. Having examined the full range of possible futures, a company can more rapidly modify its strategic direction as actual events unfold."

So what possible futures lie ahead in the aftermath of the terrorist attacks? In an attempt to answer that question, a group of Wharton professors met on October 9 to map out scenarios for the post September 11 business environment. Among them were experts from disciplines such as finance, insurance, law, marketing and management, among others. During the session, the professors identified more than 60 trends and uncertainties that could shape the future and mapped out possible scenarios that could prevail.

To follow up on that exercise, Wharton plans to hold a three-day symposium starting on December 3 when experts from the school and elsewhere will help develop strategic responses to these scenarios. The symposium, titled [Wharton on the New Business Reality: Scenarios and Strategies for the Future](#), will feature Wharton professors and industry experts.

The scenario-planning exercise on October 9 that laid the foundations for this symposium came up with four possible scenarios for the future covering a three-year period from 2001 to 2004, with particular emphasis on 2001-2002. The professors pointed out that two factors would be crucial drivers of the economic environment during this period. The first is "whether external events that have the potential to affect economics are known and understood or unknown and surprising." And the second is whether "corporations have the culture, history and ability to be opportunistic in the face of rapidly changing conditions." In other words, the two key drivers of future economic growth are: Will companies (and/or countries) know and expect what is about to happen or will they be caught off guard? And will companies (and/or countries) respond actively or passively to these external shocks?

Based on these two drivers of growth, Wharton professors identified four scenarios:

1. **Paralysis/Survival:** This describes a situation where external events will be unknown and surprising, and companies will respond to them in a predominantly passive and reactive manner.

2. **Slow Growth:** This scenario predicts a future where external events will be known and expected, but companies will respond passively to them.
3. **Thriving With Chaos:** Here, external events will be unknown and surprising, but companies will respond mostly in an active and opportunistic fashion.
4. **Global Growth:** In this scenario, external events will be known and expected, and companies will respond actively and aggressively.

It may help to describe each scenario in greater detail to flesh out their differences.

1. **Paralysis/Survival:** This, clearly, is the worst-case scenario. According to Wharton professors, in this scenario, "unexpected and disruptive events will increase over the next three years, and companies (and/or economies) will react by pulling into a protective shell." The external shocks could include economic developments such as the nationalization of major global industries (like oil) and significant disruptions to global material flows. On the political front, terrorist attacks could escalate in different parts of the world, and the U.S. led anti-terrorism coalition could fall apart. Isolationism and protectionism may be revived. Companies (could) react by trying to protect existing assets with layoffs, reduced R&D investment, reduced product development, and lower foreign direct investment, several of the professors noted. Consumers may compound the problem by reducing spending dramatically. The bottom line in this scenario: A long, global recession.

2. **Slow Growth:** This, too, is a grim scenario, though not as irredeemably dismal as the previous one. In this case, "disruptive events with moderate impact continue, and while seen as normal, they result in an economic malaise." This scenario would be marked by debt and currency problems in key world economies, though a full-blown global recession is avoided. Unemployment would be modestly higher but manageable, but consumer confidence would be low. Politically, the war against terrorism could head toward a stalemate situation. Companies would get used to the risks of terrorism and learn to cope with their losses. They would make modest investments. The bottom line in this scenario: Life becomes an overpowering shade of gray.

3. **Thriving on Chaos:** In this scenario life is still gray, but sunlight begins to filter through the gloom in some areas. "Unpredictable disruptive external events" would continue, but "corporate and national resolve to be successful in the face of adversity" would drive modest prosperity. While uncertainty would continue, it would be considered a cost of doing business. Companies would try to seize business opportunities amid the disruption and uncertainties, and make increasing investments in areas that seem to be potentially profitable. In the political arena, the global realignment of the U.S. with Russia and China would open up new market opportunities, but the Islamic and developing nations would be shut out of these new alliances. The war against terrorism would continue without a clear victory. The bottom line: Life could be better, but there's money to be made if you know where to look.

4. **Global Growth:** This, clearly, is the best-case scenario, one in which "countries and peoples of the world recognize common goals and focus on economic development and peace as the route to permanent stability." The key features of this scenario would be that the recession proves short-lived and the business cycle would return to normal; the global coalition against terrorism would evolve into a coalition for peace and commerce, and the threat of terrorism would fade. Investments in new technologies for energy management would reduce the role of oil in Middle Eastern politics. Consumers would feel confident about the future, increase their spending, and lay the foundations of a sustained economic recovery. Trade barriers would be lowered and the developing economies would grow in tandem with the developed ones.

If these four scenarios - or a combination of them - represent what lies ahead in the next three years, what

strategies should companies put in place today to deal with them? Part of the answer will emerge at the December symposium. Clearly, though, neither these scenarios nor the strategies that follow from them will apply across the board. The scenarios will play out differently not only in different industries, but also in various regions of the world. Accordingly, the strategies that companies develop to cope with these situations will need to vary to reflect these differences.

Consider an example. As cases of anthrax have multiplied in recent weeks, the pharmaceutical industry has been directly affected by the threat of bioterrorism. For a few days, it appeared as though the industry might face inroads by the government into the patents that protect its products - represented most visibly by Cipro, the antibiotic that Bayer produces and which is being widely used to treat anthrax infections. As a recent article in the New York Times pointed out, drug companies have not only succeeded in staving off this threat, but they have also launched a massive lobbying campaign to shape the battle against bio-terrorism. In some ways, this represents what companies might do in the "thriving on chaos" scenario.

Or take the computer industry. Under the first two scenarios, when stagnation rules, hardware manufacturers might see demand for their equipment plummet since their customers would be unwilling to make such purchases. At the same time, however, these companies could see demand for security products increase - and this could represent an upside opportunity as well. Should governments around the world respond to continuing terrorist activity by introducing computerized identification systems, these opportunities might increase manifold.

As these examples show, it would be a mistake to allow the uncertainties that prevail today to put business decision making on hold. The future may be unclear, but one thing is certain: In today's circumstances, scenario planning is more than a tool. It is a weapon to combat uncertainty, and the future will belong to companies and executives that wield it well.

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