Guide to Scenario Planning for Functional Leaders

Look to the future to make decisions today
Scenario planning doesn’t make predictions and choices; it enables executives and strategists to explore and evaluate plausible alternative futures to make strategic plans more robust and resilient. It’s common at the enterprise level to incorporate different assumptions into strategic plans. But disruption creates uncertainty and increases the risk that static assumptions quickly become irrelevant.

Scenario planning is especially critical now, as COVID-19 drives the need to reset business strategy and strategic plans amid disrupted conditions.

Many functional leaders have little experience of strategic scenario planning, even though they may regularly work with their CFO to build budgets and forecasts, both of which are tied more directly to the operating plan. As a result, many functional leaders will need to expand their scenario-planning capabilities, but those who can learn and apply scenario planning can help their organization to navigate an increasingly uncertain future and dynamic environment.

This guide answers 7 critical questions for functional leaders

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Scenario planning? Why now?

The COVID-19 pandemic has triggered a wide range of strategic planning activities — which aim to recover the enterprise from the pandemic in the medium term, and renew it in the long term.

A range of Gartner research, including the CIO Agenda 2020, shows that especially during disrupted times, agile decision making and strategy setting result in outsized performance — and establish a lead over the competition that sustains long after the initial disruption.

Strategic scenario planning facilitates agile strategy setting. As a tool, it offers a way to frame the discussion about hypothetical future business scenarios — and helps business leaders to identify future uncertainties and develop suitable action plans to respond to change and capture opportunity.

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What should a functional leader know about enterprise scenario planning?

Understanding how disruption affects enterprise strategic and operational decisions helps functional leaders to make small but powerful changes to prepare their teams to act on the risk and opportunities that a time of flux can create. Enterprise scenario plan comprises five steps:

1. **Define your focal issue**, the most important planning question or consideration that you are uncertain about; e.g., how to succeed in a world disrupted by COVID-19.

2. **Identify the two most critical uncertainties among external forces that could affect the focal issue**. They must be independent from each other; e.g., duration of the combined economic and health crisis and extent of behavioral change.

3. **Identify the extremes of each uncertainty** and plot them on an x-axis and a y-axis to form a quadrant (see Page 11). Describe each quadrant to create four separate plausible future stories.

4. **Develop strategic options** for each of the four scenarios. Prioritize and decide which to pursue, assessing the risks and opportunities in each.

5. **Establish drivers for each uncertainty** and identify and monitor signposts that reveal which quadrants are emerging, then take relevant actions.

Remember! These are all collaborative activities. Engage a team of diverse critical thinkers with different perspectives and from multiple functions to get the best results!
How do functional leaders contribute to enterprise scenario planning?

As a functional leader, get ready in these four ways to contribute — and do so successfully — to enterprise scenario planning.

What you need to do to get ready to contribute successfully

**Learn**

- Understand and contribute to:
  - Business model ideas, metrics, key terminology
  - Techniques to drive business model innovation
  - Industry context, macro/market conditions
  - Disruptors/drivers of change
  - Strategic objectives and priorities

**Synthesize**

- Develop tough questions and challenge thinking
- Bring key information for decision making
- Facilitate discussion among key leaders
- Raise business leaders’ understanding of your function’s outlook and contribution

**Communicate**

- Use business values and not your function’s values
- Establish and share key messages and themes
- Be provocative, and identify uncertainties and potential impacts

**Participate**

- Actively and be dependable:
  - Ensure that key meetings are organized and well-run
  - Establish time to prepare, attend and follow up
  - Organize time with members outside the meetings
  - Accept actions and follow-ups, and commit deliveries
How does scenario planning work differently at the functional level?

A function’s scenario-planning activities mirror those executed during corporate scenario planning, but instead of creating scenarios, functional leaders begin by cascading down the corporate-level scenarios. Your expertise comes into play when you interpret and assess the implications of each scenario for your function.

For example, at the corporate level, responding to a market turn might translate into efforts to attract new customers. But for a function, it might mean renegotiating with suppliers or increasing support for ad hoc workload surges.
How do you assess implications of the scenarios for your function?

For each scenario, diagnose and articulate the implications for your function on two fronts:

1. **Supply-demand along with needs analysis:** For each scenario determine what the organization will need from your function to effectively respond. Pay particular attention to new capabilities and also to shifts in volume or demand. Consider how your function may need to increase or decrease its available resources in response.

2. **Risks and opportunities:** Identify vulnerabilities and potential risks and opportunities associated with each scenario. Consider whether those risks and opportunities significantly change the work that your function will do to support the strategy, and develop plans to respond.
How do you assess implications of the scenarios for your function? (Continued)

Sample diagnostic questions for scenario impact brainstorming

<table>
<thead>
<tr>
<th>Needs Analysis</th>
<th>Risks and Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>How does this change the importance of current functional capabilities from near- and long-term perspectives?</td>
<td>Would this require us to make incremental or disruptive strategy changes?</td>
</tr>
<tr>
<td>What is the impact on our key third-party service providers (e.g., financial status, service quality)? What contingency plans should we discuss with them?</td>
<td>What are the areas of increased risk exposure?</td>
</tr>
<tr>
<td>What functional capabilities are scenario-agnostic?</td>
<td>How would this affect the criteria and weightings used for deciding functional investments?</td>
</tr>
<tr>
<td>How does it affect work distribution between employees and third-party service providers?</td>
<td>Are there possible areas of contention between business demands and the resultant demands on my function?</td>
</tr>
<tr>
<td>How would this affect our current staffing and budgeting plans?</td>
<td>How does this affect the organization’s risk appetite?</td>
</tr>
<tr>
<td>Who are the key internal and external resources we need to retain?</td>
<td>What new opportunities to innovate and what value do they create?</td>
</tr>
</tbody>
</table>
How do you turn scenarios into action plans for your function?

Once the implications, risks and opportunities are clear:

• Stress test existing projects, initiatives and plans against each scenario. Identify “sure bets” that work across all scenarios, “safe bets” that work across three scenarios and “risky plays” that are relevant in only one or two scenarios.

• Brainstorm new projects, initiatives or plans needed to be fully successful in each scenario.

• Adjust the function’s strategy, goals and projects or initiatives for a given scenario.

• Translate these into action plans for each scenario by deciding which levers (e.g., people, processes, systems, budget) you should pull to meet business needs, manage risks and capitalize on opportunities.

• Make the exercise pragmatic by leading your teams to define actions they must either start or stop doing.

• Make sure action plans match the severity of the implications and tie back to the function’s core objectives.

• Make sure to monitor scenarios or indicators that a particular scenario is beginning to emerge to focus planning and inform actions to take. Identify tripwires that trigger action plans.

Your action plan may state, for example, that the function will cut 10% from its budget in the event of a dramatic financial crisis, but what determines that “a dramatic financial crisis has occurred?” What does the action plan look like?
How do you turn scenarios into action plans for your function? (Continued)

How the legal function’s scenario planning might have looked for Brexit

Look at the current state of Brexit negotiations and work through a series of scenarios leading up to the end of 2019 and beyond.

**Implications on demand and supply of services**
- Increased support will be needed for...
- ...

**Risks**
- Work permits may impact current EU staff
- Employees become anxious and frustrated by the economic uncertainty and are disengaged, distracted and make errors

**Opportunities**
- The employees that are downsized from other organizations present a solution to the talent shortage at certain positions in your organization

**Implications on legal strategy and risk exposure**
- Prioritize support for...
- ...

**Adjust strategy and main goals; create near- and long-term action plans**
- Functional strategy and goals, adjusted by each scenario resulting in a list of “sure-fire” projects and a list of scenario-specific projects

**Monitor scenarios**
- Monitor signposts to sense which scenario is developing and immediately begin incorporating relevant project ideas

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How does scenario planning feed into functional strategic planning?

Scenario planning is often used to augment strategic planning processes. Scenarios enable you to determine suitable action plans or strategies for different possible futures — so reveal how to react to a specific future and which set of actions would make sense no matter what conditions ultimately unfold.

Scenarios don’t forecast the future; they explore what’s possible for pursuing opportunity as well as managing risks. But the scenarios’ underlying assumptions are themselves helpful to corroborate or challenge strategies.

In the scenario-planning process, you document the conditions that must be true for that scenario to come about. You can assess those conditions to determine if the strategic initiatives you’re planning at that moment are really optimal, or if the operating/business context has shifted enough to undermine the value of your initiatives and cause you to rethink the plan.

Well-done scenarios are hard to create but highly valuable. And importantly, scenarios can drive immediate action and decisions, not just long-term planning.

Now, more than ever, given the disrupted and uncertain environment, scenarios can therefore be key to setting strategic plans and keeping them current.

In mapping scenarios, the first step is to identify the key driving forces that are most relevant to your function and then craft scenarios focusing on the interplay with the most critical uncertainties that will impact those forces. The driving forces should be largely unrelated.

On the example on Page 11, the driving forces are customer risk tolerance and regulatory environment.

The critical uncertainties related to those two driving forces are the degree to which customers will tolerate risk and the degree to which regulations will favor consumers versus institutions.

The underlying assumptions used to build these scenarios feed into your strategic plan.
How does scenario planning feed into functional strategic planning? (Continued)

### Scenario development: Illustration

<table>
<thead>
<tr>
<th>Regulatory Environment</th>
<th>Consumer Views on Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer-centric regulatory environment</td>
<td>Consumer risk tolerance is low</td>
</tr>
<tr>
<td>Institution-centric regulatory environment</td>
<td>Consumer risk tolerance is high</td>
</tr>
</tbody>
</table>

#### Scenario A
- Government introduces greater consumer protections and constrains provider selling strategies
- Customers remain wary and mistrustful
- Providers struggle with compliance in a low- to no-growth environment

#### Scenario B
- Government protections of consumers restores consumer confidence
- Sparks fast economic recovery and stock market booms again
- Increased new business compensates for increased cost of compliance to new regulations

#### Scenario C
- Government adopts a passive approach to regulating financial markets
- Financial firms regularly introduce new products for investors willing to take high risks
- Profits and volume for financial services companies are at an all-time high

#### Scenario D
- Customers are wary of risk and seek to preserve their limited capital
- Industry enjoys government protection and financial cushioning
- Hostility toward industry grows

Specific scenarios come to fruition as uncertainties are resolved, making it clear which initiatives are most important and relevant and the actions a function must take to help the organization succeed in a changed environment.

- Write the extreme outcomes of each uncertainty on the two ends of the axes.
- Write the scenarios based on how these two uncertainty outcomes interact, within the context of likely truths.
Scenario Planning Template

**Instructions**
Write the extreme outcomes of each uncertainty on the two ends of the axes.

For each quadrant, analyze how the two extreme uncertainties’ outcomes will interact when considered simultaneously, within the context of the likely truths identified.

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