



Stress Testing Your Strategy

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You've just updated your strategy and/or your budgetary plan. This is usually when the group takes a breather and then migrates into implementation. But there is an important next step that we often neglect until it's too late. Spend a bit more time and look for the potential events that could render your strategy useless. Stress test your plan and build organizational nimbleness with Scenario Planning.

As the leadership in the Electric Components Industry know only too well, potential disruption lurks everywhere. Supply chains break. Technology changes. Tax laws change. There are any number of factors that can impact the assumptions you rely on as the foundation of your strategy. The goal is to anticipate these potential risks – and opportunities - to the degree practicable so that you aren't left exposed.

The field of Scenario Planning is largely attributed to Ted Newland and Pierre Wack at Royal Dutch Shell where the practice helped their organization navigate some of the most impactful global changes of the last 50 years. It is now an entire field of consulting. (There is an abundance of available background on this topic, a few of which are listed at the end of this article.)

“Alternate scenarios can serve as relatively low-cost insurance policies. You are less likely to be blindsided if you've taken the trouble to imagine some unwelcomed surprises. And on the upside, scenarios can identify white-space opportunities that remain unfilled until a first mover occupies the space that less imaginative competitors never knew existed.”

Jay Ogilvy
Global Business Network¹

Your company may not have the benefit of an entire department whose sole purpose is to research and analyze uncertainty but you most certainly can and should at least have some rudimentary discussions.

In its simplified form, the basic process is this:

- Brainstorm potential changes

- Prioritize based on likelihood / risk / reward

- For the each priority:

 - Outline first steps needed to address impacts

 - Identify how you will know when this scenario is approaching / imminent

¹ Ogilvy, Jay. “Scenario Planning and Strategic Forecasting”. *Forbes*. Jan. 8, 2015.

<https://www.forbes.com/sites/stratfor/2015/01/08/scenario-planning-and-strategic-forecasting/#6dee1a96411a>

“What if?”

The first step is to brainstorm what could change. Compile your first level of ideas and then loosely organize them into risks and opportunities. Then organize again by type. You might have organization specific, industry specific....all the way to global economic / political / social. Or you might have them organized by process, organization, technology. The structure will be apparent once you review the feedback. Once you have this all visually represented, step back and look for white space. What might you be missing? Are customer-facing impacts adequately addressed? What areas (usually external) might not be on your radar? Continue brainstorming and organizing as needed until the major change elements are all addressed.

Next, prioritize what you have assembled into a short list. Typical prioritization metrics include:

- Likelihood that it will occur
- Degree of impact on organization
- Risk / Reward or Threat / Opportunity

The analytic types in the room may have trouble with this step without more research but my experience is that the wisdom is in the room to make this determination with a high degree of confidence. Don't discard the broader map of what you have created. You should refer back to it periodically for a reality check.

You don't need to boil the ocean here. Your desired end result is a handful – certainly less than a dozen – of potentially impactful events that could significantly influence the success of your organization if they came to pass. Be careful not to get stuck in this part of the process. (I am happy to share a simple facilitation process that can keep this effort moving.)

“So What?”

For each of your prioritized Scenarios walk through how this situation could unfold. Can you prevent this Scenario from occurring or can you merely mitigate the impacts? How will you need to pivot? How quickly will you need to move? Can you capitalize on any competitive advantage if others are slow to react? Map out the impacts to your industry, your customers / suppliers, your competitors, your organization.

Your goal here is to define first level steps that you will need to quickly put in place. Develop an outline of a deployment strategy (be sure to include communications) and an organization map of affected departments and individuals.

It is likely that there will be implication overlaps between some of your Scenarios. For example tax law changes can impact manufacturing sourcing. If you are mapping this you can color code the overlaps.

Again, don't get lost in the details. This is a placeholder until such time that this looks increasingly like a reality, at which point you can develop a more detailed tactical plan as needed.

Are We There Yet?

For each of your Scenarios, develop a tracking process to monitor. Do you have the leading edge data sources you need to inform in advance? (The extensive resources at ECIA are a great place to start.) How will you know when you are approaching the conditions that will turn your scenario into a reality (there can be many shades between yellow and red on your dashboard)? When do you pull the trigger?

And finally, designate your lookouts. The appropriate individual or department should be evident by context but make sure you have communicated to them that they are on point and that they understand what specifically they are looking for. Further, insure they understand the chain of command for alerting leadership.

One last note: In addition to bringing together operational and financial leadership to have this discussion, you also want to include personalities that you might normally take pains to omit: the sceptic, the debater, the daydreamer. If you choose to validate at the business unit level you might want to also include the types that would be critical to implementing whatever pivot is going to be needed: the change agent, the cheerleader, the informal influencer, line level users.

Beyond your immediate organization, this is also a great conversation topic for executive interactions with your customer and/or supplier organizations. “What are you keeping an eye on that might impact your organization and ours? What do you think we should be doing (ideally together) to prepare?”

Scenario Planning is one of the most effective tools for insuring your strategy is a living plan and not “Credenza Ware”. You may not foresee everything but you are likely to catch those with the most significant impact. And with time, this type of broader thinking will benefit your entire organization.

If you would like further information on the evolution of Scenario Planning at Shell, here are some resources to help get you started:

What Are Shell Scenarios?

<https://www.shell.com/energy-and-innovation/the-energy-future/scenarios/what-are-scenarios.html>

Khong, Dr. Cho. “The Shell Scenario Methodology”. http://www.isis-it.com/efonet/index.php?option=com_docman&task=doc_download&gid=81&Itemid=41

Wilkinson, Angela and Kupers, Roland. “Living In The Futures”. *Harvard Business Review*. May, 2013. <https://hbr.org/2013/05/living-in-the-futures>