

Strategic Initiatives

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Discover.

Analyze.

Strategize.

Implement.

Measure.

Surviving and Succeeding in Times of Turbulent Change

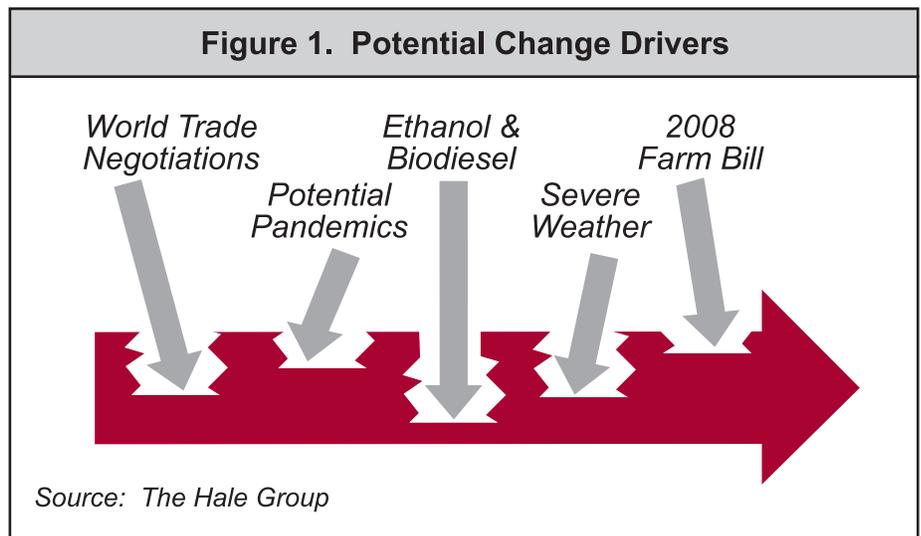
Using Scenario Planning to Prepare for the Future

When I started consulting in 1973, we created ten-year strategic plans for our clients. The pace of change accelerated, and we changed to five-year plans. Now, some of our clients think long-term planning means looking two years into the future.

But, looking only two years out is dangerous.

It is true that no one can make detailed plans far into the future, but thinking strategically about five or ten years from now is absolutely critical. There is a difference between thinking strategically and creating long-range plans.

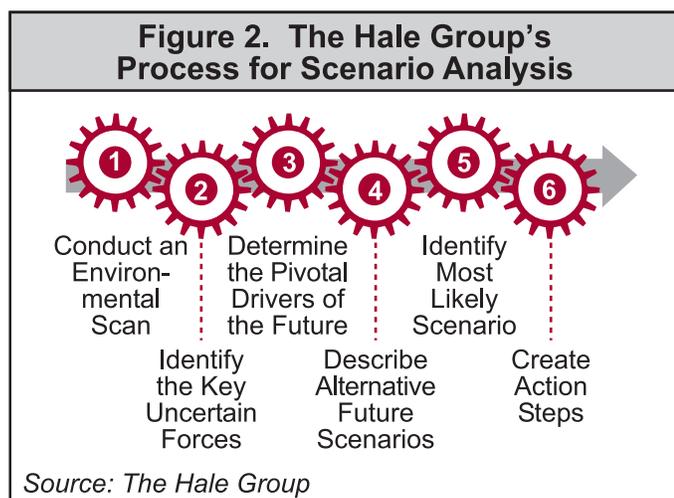
The fact is that some forces will cause serious disruptions in the future and, conversely, others will fizzle out and have little impact. Figure 1 depicts some of the forces that could create major shifts in the way agriculture and agribusiness operate in the future. →



The Hale Group believes that now, more than ever, business decision-makers should use scenario planning to help them think strategically about the future.

Scenario planning is a tool to enable decision-makers to depict and describe several ways the future might unfold, and then think through the implications of each of the alternative futures for the success of their business. Scenario planning changes the way your team thinks about the future.

The Hale Group's process for scenario planning consists of six steps, as depicted in Figure 2.



Each of the six steps is described in the following pages.

Step 1 Conduct an Environmental Scan

The first stage of the process is to conduct research on various forces that could significantly affect the industry over the next five to ten years, such as:

Outlook for Biofuels:

- The future of global crude oil prices
- Alternative sources of energy in the U.S. – especially for transport fuel
- The implications of a major biofuels industry on the rest of agriculture and the food industry

Competition for Farmland:

- Competition for agricultural land – especially from corn, if the ethanol industry continues to grow exponentially

- Potential for conservation land to come back into production
- Potential changes in land values
- The constraints to production from urban sprawl

Globalization:

- The outcome of the Doha round of trade negotiations and / or bilateral trade negotiations
- Global market access and the globalization of agricultural production and world trade
- The competitiveness of U.S. producers vis-à-vis those in other countries, e.g., Brazil

Regulation:

- The future shape of the U.S. Farm Bill
- The future energy policy of the U.S.
- Environmental regulation of animal agriculture in the U.S.

Customers / Consumers:

- Changing tastes of the American consumer
- The future economic growth of China, India, and other developing nations
- Growth and location of the global livestock and poultry industries
- Potential impact of catastrophic animal health problems or crop disease
 - Avian influenza
 - BSE
 - Soybean rust
- Demographic shifts in the world's population
- Growth in consumer income over the next fifteen years

Technology:

- Potential advances in biotechnology
- Consumer acceptance of (or resistance to) GMOs
- Emerging technologies that could be seriously disruptive

Other Factors:

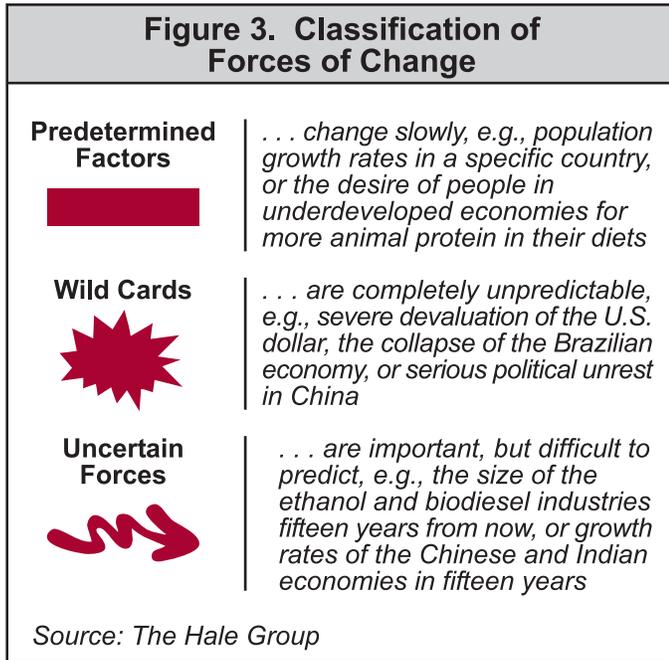
- Potential for unusual weather patterns over a sustained period of time
- Constraints in the U.S. transportation system

Since so much has already been written on these topics, it is usually adequate to collect this information and discuss its potential impact on your business without having to conduct original research.



Step 2 Identify the Key Uncertain Forces

Step 2 involves assessing which forces are likely to be the most important. Forces of change can be classified into three major categories, as illustrated in Figure 3.



Scenario planning focuses especially on the “uncertain forces” and the “wild cards.” The “predetermined factors” are projected with reasonable accuracy and assumed for all future scenarios.

The most important change drivers identified in Step 1 will be assessed according to two major factors – Level of Impact and Degree of Uncertainty, as shown in Figure 4. →



Step 3 Determine the Pivotal Drivers

Step 3 prioritizes the list of change drivers to identify the pivotal drivers – those most likely to have the greatest impact on the way the industry unfolds over the next fifteen years. It is usually a small number of highly influential factors that has the greatest impact on how an industry is shaped in the future. The question to be addressed in this step is:

Which forces will exert the greatest leverage on the future of your business?

The future may surprise us. This realization makes it critical that you monitor industry developments going forward. However, you would be wise to draw upon the collective wisdom of your staff and your trusted advisors to identify those factors that have the potential to shape the future most significantly.



Step 4 Describe Alternative Scenarios

Most future planning is performed by projecting current trends into the future. That works reasonably well for projecting one year, or maybe two years.

Ian Wilson, a well known expert in scenario planning, has observed, **“We shall never be able to escape from the ultimate dilemma that all our knowledge is about the past and all our decisions are about the future.”**

Fundamentally, we cannot predict the future with precision. We can, however, envision different ways the future might unfold and make plans that are focused, but resilient enough to adapt to new developments. The critical ingredient is to fully envision a variety of plausible future outcomes that help us to prepare for more than one specific outcome. →

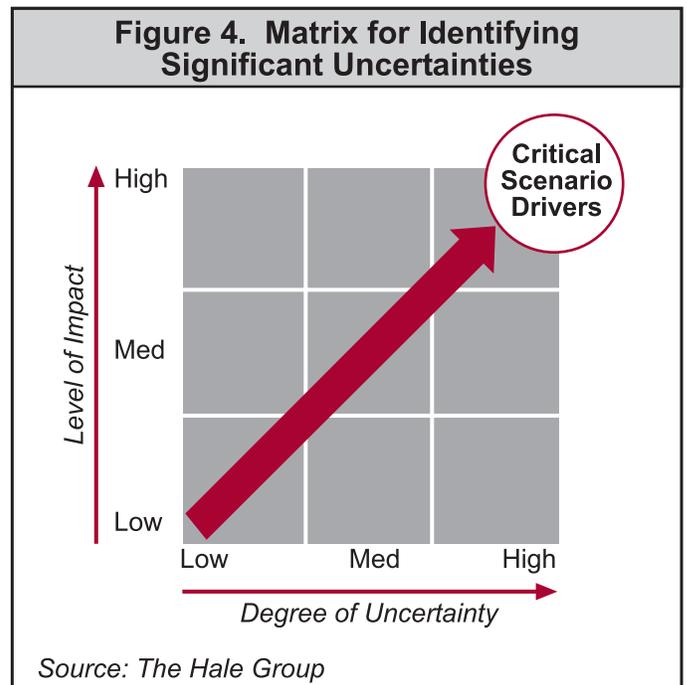
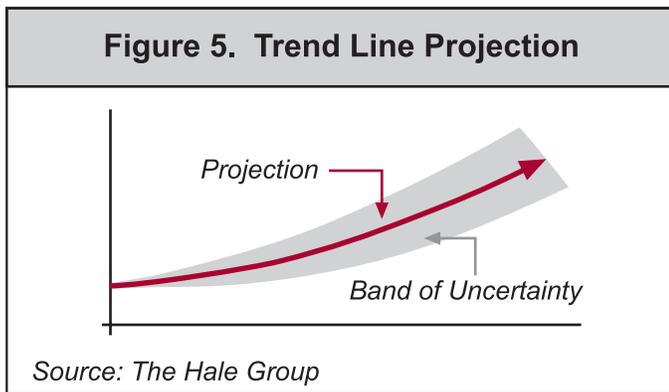
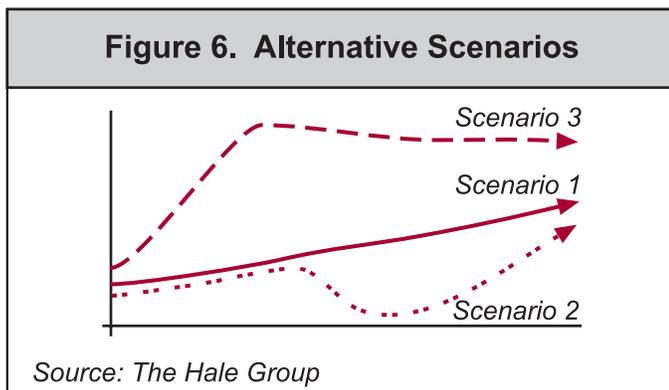


Figure 5 depicts a smooth projection with a relatively small band of uncertainty around it.



That is the way we used to plan. Planning in today's environment requires us to envision radically different possible outcomes in our industry, as depicted by the diverse projections in Figure 6.



Therefore, one of the major objectives of scenario planning is to “think off the trend line.”

Scenarios are a description of several alternative futures that possess a reasonable degree of plausibility. Of course, future events will not unfold exactly as depicted in any one scenario, but they enable decision-makers to become more agile and flexible in their thinking about the future and in making key decisions.

Careful judgment is required in the selection and description of these scenarios so that they stretch our thinking beyond what conventional wisdom believes is most likely, but at the same time, they are realistic and plausible.

Each scenario must have some justification for why the industry could develop in that manner during the next five or ten years.

Each scenario is then “played out” to depict the future operating environment and its implications on the business.

5 Step 5 Identify Most Likely Scenario

One scenario becomes the Baseline Scenario, which is the description of a future around which consensus develops as the most likely, although not certain, future for the industry. This Baseline Scenario will become the vision that drives your business operations as it seeks to capitalize on opportunities and minimize threats.

6 Step 6 Create Action Steps

Future scenarios have to be tied back to decisions that will be made by your business.

For each major scenario, you need to answer questions such as:

- How should we focus our sales effort?
- Do we need to diversify or streamline our product line?
- How should we invest our capital expenditures?
- What new skills do we need to acquire?
- By being nimble, can we gain advantage over our competitors?
- How should we monitor future developments?
- How can we “hedge our bets” and protect ourselves against very different scenarios?
- What is the best way to update and revise our current thinking as events unfold?

The goal of scenario planning is to make sure the decision-makers and the entire organization have a common understanding of the business, are fully aware of the implications of major disruptions that might occur in the industry, share a common fact base, agree on the key assumptions, and move forward toward the same objectives.

The value of scenario planning is the ability to respond to major changes that may occur in the future.