Scenario Planning: Are You Ready?

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Disruptions Abound

Events that disrupt business occur every day. And while it is impossible to predict exactly where and when these disruptions might happen, scenario planning can help organizations protect revenue streams, increase profitability, and ensure business continuity despite major upheavals.

Effective scenario planning starts with categorizing the various types of disruptive events that might occur. According to the Cisco Internet Business Solutions Group (IBSG), disruptions can be sorted into four primary groups:

1. Market disruptions (new competition, market transitions, technology advances).
Market disruptions, while significant, are often the easiest to predict. Even so, many companies have been caught off-guard by market changes such as shifting consumer preferences, significant technology advances, and unexpected competition. Sony, for example, created the market for portable music players with the company's Walkman device, but missed the transition from hardware-only solutions to an ecosystem of products that includes integrated hardware, software, and services.

2. Natural and biological disasters (earthquakes, hurricanes, tornadoes, pandemics).
Even though natural disasters are difficult to predict, they are relatively easy to prepare for because we know where they are likely to occur. For example, companies based in California need to be prepared for disruptions caused by earthquakes, while businesses located in the Gulf of Mexico and on the East Coast should be ready for the effects of the annual hurricane season.

Pandemics, while in the same category, are harder to predict. From history, we know a pandemic is coming, but we don't know exactly when it will occur or how severe it will be. Fortunately, the past two outbreaks (SARS and H1N1) were relatively benign and gave businesses an opportunity to prepare for the next pandemic, which could be even more disruptive.

Most CIOs have contingency plans for disruptions likely to affect their technology operations, yet many companies have not prepared for the impact of natural and biological disasters on the overall business. In the case of a major disruption from a new pandemic, for example, businesses must be able to answer questions such as:

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- How can employees continue to work if they can't go to the office?
- How will we communicate with customers?
- How will we continue to manufacture our products?
- What are our business strategies?

3. Political or social change (terrorist attacks, new regulations, "green").
Disruptions caused by political or social change are both easy and hard to predict. For example, most terrorist attacks are nearly impossible to foresee, while increasing regulations from a shift in political parties can be relatively easy for which to prepare. As businesses become more global, preparing for political and social disruptions becomes more complex since each region of the world is subject to different political and social forces. Complicating matters further, we tend to think about the world from our own vantage points.

Google, for example, was recently caught off-guard by China's action to block its service. Google's stock price has dropped more than 15 percent (as of September 23) from its 2010 peak, in large measure over concerns about the China standoff.[1] By being aware of worldwide political environments, CIOs can help their companies make more informed business decisions.

Although green fits within the political / social category, it is a special case. Green has moved beyond politics to become widely accepted by businesses worldwide. Today, most executives realize their companies have a social responsibility to care for the planet. Many companies have also determined that being green simply makes sense since it can have a positive impact on the bottom line by attracting more customers, improving customer loyalty, and increasing profits due to reduced costs from being more efficient.

4. Unexpected events. It is impossible to be prepared for every disruption. Given this, CIOs can help their companies prepare for and respond to unexpected events by creating business and technology architectures that are agile and flexible.

To do this, it is important to establish the right architecture, since it is difficult to reverse course once implementation has begun. If done right, an agile architecture makes it easy to replace individual solutions in order to stay current. As an example, the roads, freeways, airports, and railways that make up a country's transportation infrastructure are relatively set. Yet, it is easy to introduce vehicles—cars, trucks, planes, and trains—that operate more efficiently within the transportation infrastructure.

CIOs can play a critical role in selecting and implementing an architecture that will support objectives that businesses want to achieve in the future, while being prepared for disruptions that may occur at any time. In building the architecture, it is also important that CIOs rely on strategic partners that have a vision for the future.

Impact of Disruptions

The impact of not being prepared includes missed revenue opportunities, increased costs, and even going out of business. The following examples highlight some of the risks of failing to prepare for the types of disruptions just discussed.

- **Blockbuster**—The world's largest movie-rental company, with about 3,000 stores in the United States, filed for bankruptcy in September 2010 after failing to adapt its

storefront model to online technology pioneered by rivals. Conversely, Netflix grew by renting movies online and through the mail, while Coinstar prospered by placing Redbox vending machines offering $1 DVD rentals in supermarkets, drugstores, and other convenient locations.[2]

- **Encyclopædia Britannica**—This provider of learning and knowledge products did not fully envision how disruptive the Internet would be to its business. By the time executives recognized that most customers no longer wanted the company's content in book form, it was almost too late. The company has since done a good job of transforming itself by offering a mix of printed and online products. In doing so, Encyclopædia Britannica has retained its reputation as one of the world's most trusted sources of information.
- **Kodak**—Once known as a leading innovator in the photography market, Kodak's business was severely disrupted by the transition from physical media to digital media. And while the company no longer enjoys the leadership position it once held, it has reinvented itself by moving into several commercial imaging and cinematography markets.

While these examples highlight the risks of losing focus and not preparing for future events, for most companies, the impact is much less dramatic. By not being prepared, however, businesses can expect higher costs and longer recovery time, potentially causing decreased customer loyalty and confidence.

It is important to note that many companies have used disruptions to their advantage. Amazon.com, for example, helped transform retailing by enabling people to buy products online. YouTube created an entire business from the positive disruption of inexpensive, prolific video-camera technologies. And Facebook is benefiting from peoples' desire to connect and share information.

Benefiting from Disruptions: Take a Broader Business View

Disruptions are a risk only if businesses aren't prepared. Effective scenario planning requires CIOs to take a broader view of their roles. Because technology underpins everything companies do, CIOs are in a strong position to provide valuable insights about how technology can improve their businesses.

CIOs should also initiate dialogues with colleagues about how technology can help prepare their business units for disruptions. Even though CIOs won't have all of the answers, they can be the catalyst for further discussions. For example, a CIO could approach the head of customer service and mention that younger customers prefer to communicate using instant messaging rather than email and voicemail. This could then lead to a discussion about developing a new service that would rely on the company's technology architecture.

In addition, CIOs should consider:

- Using mechanisms such as customer advisory boards to receive feedback from customers
- Establishing strategy groups that can step back from day-to-day issues to determine which businesses to pursue, what customers will require to meet their future needs, and where major market opportunities exist

- Holding scenario-planning exercises to help foresee and prepare for future events, as well as to uncover indicators that allow companies to determine when certain disruptions typically occur
- Starting a council that brings business and technology leaders together to discuss how IT can play a role in advancing the company to benefit all of its constituents, including owners, shareholders, employees, communities, and the environment.

Business Benefits of Scenario Planning

By being prepared, companies can avoid the pitfalls discussed at the beginning of this paper. Other benefits include:

- **Greater customer loyalty and retention**—Companies that know where they are headed instill greater confidence in their customers. This confidence often translates into greater loyalty, which protects important revenue streams. In addition, by moving swiftly when disruptions occur, companies can keep their customers from worrying and switching to other vendors.
- **Increased revenues**—Companies that are prepared for disruptions can attract more customers. This is because customers want suppliers on whom they can rely on for a steady stream of products and services.
- **Reduced costs**—Companies become inefficient when they don't have a roadmap. By establishing confidence and a clear direction based their ability to predict possible disruptions, companies can be more effective and efficient.
- **Enhanced employee productivity and retention**—A common direction also instills confidence in employees, increasing their productivity and company loyalty.
- **Creating new business opportunities**—By anticipating market disruptions and technology trends, visionary companies can create and enter new markets to ensure future revenue streams.

During the economic downturn, for example, Cisco was able to quickly detect what was happening, react to the situation, and communicate with its customers, employees, and partners. This allowed the company to limit damage from the crisis and recover more quickly than many other companies.

What To Do Now

To successfully prepare for and respond to the next wave of disruptions, Cisco IBSG recommends CIOs complete the following six steps. By doing so, CIOs can ensure their companies will not only survive, but thrive, in the face of upcoming disruptions—no matter what they are or when they happen.

1. Contemplate all of the possible disruptions that could affect your company
2. Ensure your company and each business unit have a plan for every potential disruption
3. Develop a business strategy based on possible disruptions for the short, medium, and long term
4. Align the IT vision, strategy, and execution plan with that of the company

5. Review IT disaster recovery plans to ensure adequate capacity and effective processes are in place

6. Instill a culture of mobility and virtualization now. By using technologies such as telepresence and web conferencing, you can socialize concepts, such as working remotely, with executives and employees. When a disruption does occur, it will be easier for people to adjust because of their familiarity with solutions that can lessen the impact of a disruption.

Endnotes

1. Source: "Google's Stock," *The Wall Street Journal,* March 24, 2010.
2. Source: "Blockbuster Files for Bankruptcy After Online Rivals Gain," Dawn McCarty, Linda Sandler, and Tiffany Kary, Bloomberg, Sept. 23, 2010.

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More Information

Cisco Internet Business Solutions Group (IBSG), the company's global consultancy, helps CXOs from the world's largest public and private organizations solve critical business challenges. By connecting strategy, process, and technology, Cisco IBSG industry experts enable customers to turn visionary ideas into value.

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