

AUGUST



Scenario-based strategy

SEPTEMBER 2020

Faced with increased complexity and uncertainty in the business environment, companies should operate on multiple future scenarios rather than a fixed plan

Changes in external environment and multiple simultaneous development opportunities increase complexity and uncertainty

To survive and thrive in such environment, companies need **scenario analysis** to address business-critical questions



“How much longer can we stick to our legacy business and expect to create value?”

“Is our strategy resilient to different external scenarios, or even shocks like the Corona crisis – how could we stress-test our strategy?”

“What will our company’s role be in mid-term future, considering the rapid technological development and other major trends?”

“If we execute that strategic M&A move, how will the competitors react – or if we don’t, who will buy that asset and how would that change the competitive landscape?”





“Are there new business opportunities that arise from this crisis and how can we capture them?”

“There are so many growth directions that seem attractive – where should we place our bets?”

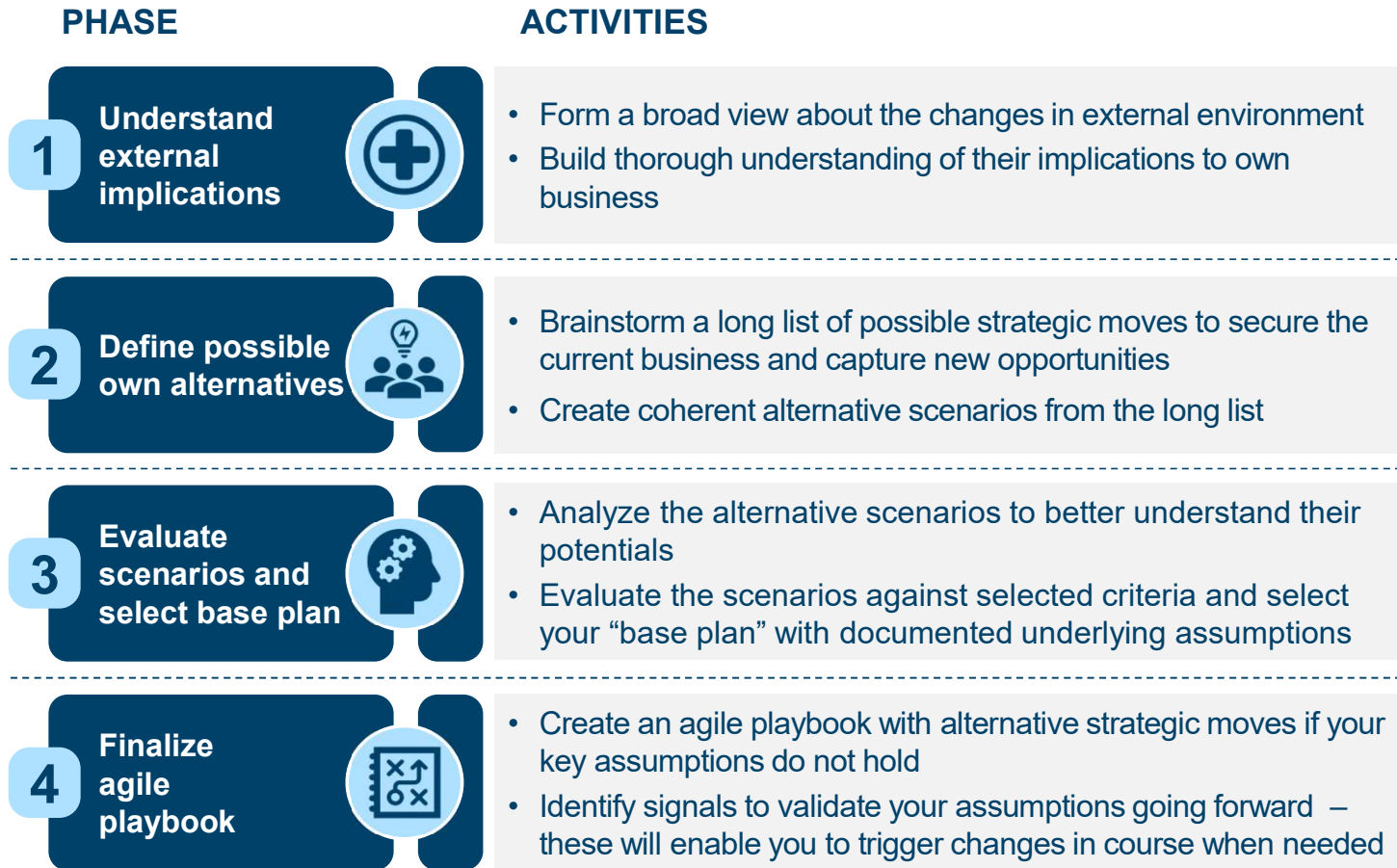
Scenario-based strategy is a superior approach for developing a playbook that enables strategic resiliency and agility to capture new opportunities

HUMAN IMPERFECTIONS AFFECT STRATEGY FORMULATION

SCENARIO-BASED STRATEGY PROCESS TACKLES THESE IMPERFECTIONS

<p>Limited attention capacity</p> 	<ul style="list-style-type: none"> Managers, humans, cannot keep up with all the changes in the business environment Managers tend to simplify assumptions, which might be outdated or wrong 	<p>Steer focus to relevant factors</p> <p>Scenario-based strategy work starts with a systematic view of the external environment, which reveals relevant changes and filters away noises</p>
<p>Narrow imagination</p> 	<ul style="list-style-type: none"> Managers tend to stick to the current strategy when considering future alternatives Limited facts and uncertainty make it challenging to evaluate “wild ideas” 	<p>Compel the creation of multiple options</p> <p>The process forces the working team to generate alternatives over a wide range of variation, as such “wild ideas” can turn out to be a great option</p>
<p>Delegated thinking</p> 	<ul style="list-style-type: none"> Executives tend to delegate strategy formulation to a dedicated team “Broken telephone” communications create the risk of sub-optimal decisions 	<p>Engage people across the organization</p> <p>Early buy-in to own brainstormed alternatives encourages management to engage regularly with the analytical work done by dedicated resources</p>
<p>Emotional threats</p> 	<ul style="list-style-type: none"> Strategic moves often trigger strong emotions towards company and personal interest Aggressive and dismissive behaviors suppress opinions by emotions like fear and shame 	<p>Focus on emotional management</p> <p>The working attitude is explicitly facilitated during the work to reduce emotional threats – e.g. positive and tolerant tone are fostered in scenario creation phase while more critical and challenging mindset are encouraged in scenario evaluation phase</p>

August's scenario-based strategy approach consists of four phases – the outcome is an agile playbook for the business to navigate through future uncertainties



1 Understanding external changes and deriving their possible implications to own business lay the foundation for scenario-based strategy work

Business should form a broad view and thorough understanding of the changes in external environment ... to formulate assumptions about future development in external environment and derive implications to own business

2 Then identify a long list of possible own strategic moves to secure current business and capture new opportunities, suitable moves are combined into coherent alternatives







The alternative scenarios are further analyzed and evaluated using both external and internal lenses to better understand their potentials

3 The alternative scenarios are further analyzed and evaluated using both external and internal lenses to better understand their potentials

Finally, the agile strategy playbook is created to help your company increase its resiliency to unexpected external events and capture new opportunities

4 Finally, the agile strategy playbook is created to help your company increase its resiliency to unexpected external events and capture new opportunities

Our clients have benefited from August's top-notch expertise and ample experience in scenario-based strategy work in creating their own agile playbooks

Client industry	Examples of clients' engagements utilizing scenario-based strategy work
 Financial services	As a response to changes in the market and regulatory environment to protect client's current established market position, a revised strategy was created using elements from 4 identified scenarios
 FMCG	The client's core business had a poor growth outlook and consumer preferences in the market were evolving fast, leading to the need to evaluate several scenarios in parallel and create a playbook to monitor key assumptions and address future events
 Recycling	The client wanted to stress-test their strategy before committing into major growth investments in an unpredictable external environment – scenario work helped confirm the overall strategic direction and improve the analyses of future alternatives
 ICT	Built through several M&A activities, the client wanted to assess the options of "holding company" vs. "industry focused company" and used scenario analysis to make the decision (more industry focused) and improve synergies between selected BAs
 Healthcare	The client needed to revise its strategy to better address the trends shaping the industry – scenario analysis was used to effectively engage a wider part of the organization to the work via facilitated opportunity identification and supported pre-screening of potential growth opportunities
 Energy efficiency	Challenged by increased competition and slow growth, the client, a leader in its field, used scenario-based strategy work to revise its strategy by evaluating multiple scenarios to secure the right direction during disruption

Using this approach, our clients have successfully engaged their organizations in finding the new direction by working on multiple scenarios

"We have never had such a fresh and content rich internal debate before. This was a great way to engage our people!"
- Business Area head of an FMCG company

"Documentation of the assumptions behind the strategic choices and continuous follow-up of their validity, enable us to be agile"
- Charmain of the Board, growth company

"Thanks to the scenario approach, we were much better prepared to react to a sudden regulatory change than our main competitor – giving us an edge on the market"
- Executive, financial institution

Contact us if you want to learn more and access the full document of August's scenario-based strategy approach



TOMI ERE
Managing Partner
Phone: +358 40 823 3848
Email: tomi.ere@august.fi



TIMO VUORI
Executive Advisor
Phone: +358 50 441 9072
Email: timo.vuori@august.fi

For further information on our team and our services visit www.august.fi

AUGUST