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How Business Leaders Can Reduce Uncertainty with Scenario Thinking

Recent events such as the COVID-19 pandemic and the volatile stock market have left business leaders feeling unsettled, but scenario thinking can help prepare for future outcomes.

By Frank Williamson, Oaklyn Consulting

From the COVID-19 pandemic to Saudi Arabia's oil price cut, bond market liquidity issues, and the stock market correction, the last month has certainly been unsettling for people all across the globe. Few could have anticipated such a torrent of concerning news, and yet here we are—making this moment a perfect illustration of the importance of scenario thinking.

As a business leader, you bear the responsibility not only for your clients' well-being, but also for the well-being of your company and its employees. Scenario thinking can help you understand your company's resilience across a wide array of situations and the plausibility of each. Armed with a better awareness of possible future results, you can make wiser, more informed decisions in the present.

What is scenario thinking?

Scenario thinking is the process of imagining a variety of plausible scenarios and the things that cause those scenarios, then testing your company's resilience across each one. This is different from the stress tests used by financial institutions and investment portfolios to ensure that they have adequate assets to weather extreme economic situations. Stress tests are inherently implausible and are designed to be extreme examples.

In contrast, with scenario thinking, you're thinking as broadly as you can about what might happen, being willing to challenge conventional wisdom while staying within the realm of possibility. It's not about predicting the future; it's about being prepared for any of a number of situations. The endpoint should be developing a plan of action so that your company will be OK across all the scenarios that you envision.

The four steps of scenario thinking

The process of scenario thinking can be broken down into four key elements:

- 1. Developing plausible alternatives that challenge conventional wisdom:** Since the coronavirus is consuming everyone's newsfeeds and minds, let's use it as an example: The Washington Post provided a simulator of social distancing's effect on the spread of the virus. In each case, a different number of people practices social distancing, which means a different number of people ends up becoming infected. Hospitals should analyze each scenario and ask pertinent questions: Do we have enough ICU beds for critically ill patients? Do we have enough ventilators? Are we adequately staffed? The important thing to remember is that you are not committing to the possibility you find most likely. Rather, you are creating a detailed plan for each so that you're ready for the one that becomes reality. While a worldwide pandemic isn't common, it doesn't necessarily

challenge conventional wisdom. But recently, we saw something unexpected when the concern about COVID-19 caused a decrease in both the stock market and bond market. Usually, when the market declines, people move funds out of it and into treasury bonds, but that did not happen in this case. The market's avoiding U.S. treasuries as a safe haven in favor of cash certainly challenged the conventional way of thinking.

2. **Creating structured time for discussion and dialogue:** Scenario analyses should be conversations involving multiple perspectives. The length of time you spend on this step often depends on external factors. If you're analyzing a current situation, such as your company's response to COVID-19, you may only have one or two days to make a decision. But scenario planning should also be addressed annually among a company's key decision makers to prepare for possible events over the next 12 months. As you discuss possible scenarios and come to a conclusion on reasonable outcomes, be sure to include company leaders and any experts on the topic at hand who may work outside the organization. For example, leaders of a company in the energy sector discussing economic sustainability might consider consulting with environmental activists to counter the opinions of those focused on power generation.
3. **Quantifying the potential impact:** It's easy to look at a situation and say, "That would be really good for business" or "That would be terrible! We can't let that happen." But you should always quantify possible results to determine their impact. Emergency rooms facing an uptick in coronavirus patients know they will be overwhelmed—but by how much? What does "overwhelmed" mean in actual numbers, and what specific steps can be taken—bringing in additional beds or extra staff, for instance—to avoid that outcome?
4. **Staying focused on an end goal:** It's easy to get carried away when brainstorming possible scenarios. (If aliens are a topic of conversation, you've probably gone too far.) Keep your discussion focused on a concrete plan at the end, even if in the near term that leads to additional questions or research. Remember, the intention of scenario thinking is not to be an academic exercise, but rather to create legitimate solutions to real-life problems, even if they haven't happened yet.

As you think about specific scenarios, use these building blocks to flesh out the details of how a certain series of events could play out for your business.

- **Current trends and driving forces:** What is happening right now that could change your business's current trajectory? Consider all factors, including national and global events, changes in your industry and the market, and changes in consumer behavior.
- **Determining plausibility:** What is the likelihood of one of these shifts occurring? What does it mean for your business if a certain scenario occurs?
- **Time frame:** How long would it take for a specific external factor to affect your business—weeks, months, years, or decades? How much lead time would you have to address it? **End state:** After you've responded to the scenario, what does the end result look like for your business? Whatever changes you decide to make in preparation should be clear and concrete enough to explain to other decision makers.
- Finally, once you have your plan in place, you should look for any unintentional biases that may exist and determine how to overcome them.
- For example, many people suggest in the midst of COVID-19 that office workers should work from home. While social distancing is certainly important to minimize the outbreak, there are other factors to consider. For

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instance, many assume that all workers in an office have access to a laptop at home. Before implementing a work-from-home policy, managers should make sure that any staff members who don't own a laptop have a way of accessing the company network remotely. To fight bias, be aware of the limitations of your personal perspective, place a high premium on learning and talk to people who bring different backgrounds to the table.

Scenario thinking is an exercise that gets better with practice. Over time, it will become more natural to think of scenarios, driving forces, plausibility and biases. If you need to make a quick decision, it may be beneficial to consult an advisor who has applied scenario thinking in other contexts.

The Bottom Line

Ultimately, there are limitations to even the most comprehensive scenario thinking, because life never unfolds exactly the way we expect. However, by looking realistically at what could potentially happen, you make yourself more prepared to deal with what does end up happening. As Dwight Eisenhower once said, "Plans are worthless, but planning is everything."

About the Author

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Frank Williamson is the founder of [Oaklyn Consulting](#), a consulting firm that helps investor groups and private businesses, from startup to middle market, with mergers, acquisitions, capital-raising, investor relations, succession, and other strategic corporate finance decisions. Oaklyn Consulting does not work as a broker but as an extension of clients' boards and management teams, charging time-based fees for investment banking advice.

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