

# Scenario Planning

A Necessary Skill to Drive Better Decision Making in Integrated Business Planning



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Imagine the **possibilities**,  
realize the **potential**.

*There's a tendency in business to think of planning numbers as being cast in stone. It can be uncomfortable when things happen that threaten the accuracy of numbers, even on the upside. To paraphrase a common statement: "Don't just think what could go wrong; also think what could go right."*

There's also a tendency to not want to think about what may cause future plans to change. That's why best practice Integrated Business Planning (IBP) includes a review of assumptions and, when needed, scenario planning to help businesses anticipate and manage change.

In reality, nothing is ever static in business. Wise business leaders think in terms of the current reality, best case, and worst case scenarios. These scenarios are ideally prepared in advance and updated with the planning assumptions as needed, monthly as part of IBP, as well as annually as part of Strategic Planning.

In my 28+ years of industry experience, the development of scenarios is a skill that is acquired. Integrated Business Planning (IBP) is a cross-functional process (see Figure 1). That means that coordinators of the Product Management, Demand, Supply, Finance, and Integrated Reconciliation Reviews need to be well-skilled in scenario planning as well as risk and opportunity management in order to implement IBP more effectively.

Figure 1



### What Is Integrated Business Planning?

Integrated Business Planning is a decision-making process to align strategy, portfolio, demand, supply, and resulting financials through a focused and exception-driven monthly replanning process. The result is a single operating plan, over a 24+-month rolling horizon, to which the senior executives hold themselves and their teams accountable for achieving. Done well, it is the formal way that the business is managed and strategy is connected to execution.

Capital intensive industries tend to be good at risk management and scenario planning. Think of industries that produce chemicals, oil, pharmaceuticals, and power. Accidents in these industries can be catastrophic, impacting lives, assets, facilities, and the environment. Accidents can also be highly disruptive to company revenue and sometimes, the overall economy. The ability to plan around these events is critical to business success.

Risk management and scenario planning are an on-going process for many businesses in these industries. Some companies have functions or departments, like process safety and risk management or financial planning and analysis, where that is one of their primary responsibilities.

I spent a good part of my career in the chemical industry in process safety and risk management as well as supply chain management. When helping to lead the implementation and operation of IBP, it was easy to grasp how scenario planning would make IBP more effective and drive improved financial results.

Building scenario planning skills across business functions was not quite as easy. The process safety and risk management group in a chemical company has a well-defined process. In fact, risk assessment and the resulting scenarios are a valued discipline with well-defined industry standards, such as OSHA and ISO.

Why not use that expertise as a model for scenario planning in our IBP process? The goal in doing so was to create a process where the same methods were used to assess risks and opportunities and present scenarios.

A clear concise “evergreen” scenario planning process is essential. It solves the problem of having to “re-educate” business leaders every month on the data and information being presented.

It is not uncommon to identify the need to do a better job with scenario planning until after implementing the IBP process. I recommend that scenario planning be included as part of the initial design of the IBP process.

Here is some advice and observations on how to design scenario planning as part of an IBP process. This information is a summary. Please contact me directly for more detail and to answer any questions you may have. My contact information is provided at the end of this paper.





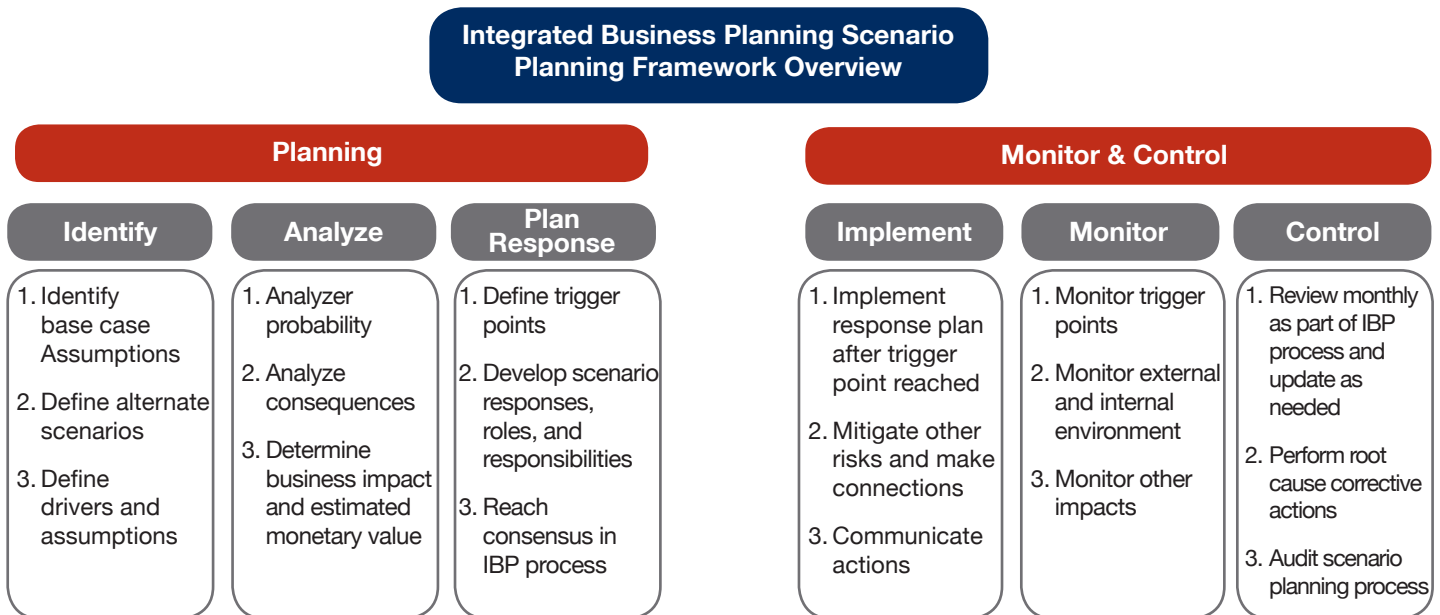
## 1. Agree on a Framework

I learned early on that adaptation of an existing framework is a very useful approach for getting things done in a minimal amount of time. Don't reinvent the wheel.

The Project Management Institute's (PMI) Risk Management framework is a useful model to adapt for IBP scenario planning as well as risk and opportunity assessment.<sup>1</sup> If this framework is already in use for project or product management, it has the added advantage of being understood by at least a subset of people involved in the IBP process.

Here's an example of how the PMI framework can be adapted for IBP scenario planning.

Figure 2 – IBP Framework for Scenario Planning



As mentioned earlier, ideally the scenario planning process and framework would be developed as part of the IBP design and be included as part of the IBP design review. This ensures that the implementation team and business leaders understand the scenario planning process and agree with the design.

<sup>1</sup> A Guide to the Project Management Body of Knowledge (PMBOK Guide), Fifth Edition, Project Management Institute, 2013, Newtown Square, PA, page 312.

## 2. Test the Framework Across Functions for a “Real” Case

Be sure to test the framework based on a real business issue that will be addressed in IBP. A best and worst case for sales revenue and margin will involve all of the reviews in an IBP cycle. The response and impact of bringing down a key production line for maintenance or landing a very large sale will involve all reviews in an IBP cycle. These are examples of possible test cases to prove out the framework.

Questions to ask after testing the framework include:

- Did everyone who needed to provide input for the scenario participate and understand their roles?
- Was information presented in a format that provided a clear understanding of the impact on the business, the options, and the tradeoffs of each option?
- Was too much information gathered and analyzed, which made it time consuming and difficult to get to the heart of the situation?
- Were business leaders willing to provide direction and make a decision?
- How does the framework need to be refined to facilitate better scenario planning and decision making?



### 3. Appoint a Scenario Management Leader

To more quickly develop scenario planning expertise, appoint a leader of the effort. Having a scenario management leader facilitates making informed decisions in the IBP process. This, in turn, enables business leaders to more quickly perceive the value of scenario planning in IBP for managing the business more effectively and driving financial and operational improvements.

The scenario management leader needs to have analytic skills as well as the ability to see the “big picture.” This person also needs to be well respected by managers and executives.

Often the coordinator of the Integrated Reconciliation Review (IR) is the ideal choice for the scenario management leader. The leader of the IR is responsible to make sure that executives are presented the information needed to make informed decisions in the Management Business Review. The IR coordinator is also responsible for ensuring that all appropriate functions have a voice in the process.

Professionals in the finance organization are often called upon to serve as the scenario management leader. They tend to be objective with a focus on the overall well-being of the business and have the ability to present data succinctly. I have worked with some very skilled finance professionals who have led effective scenario planning efforts.

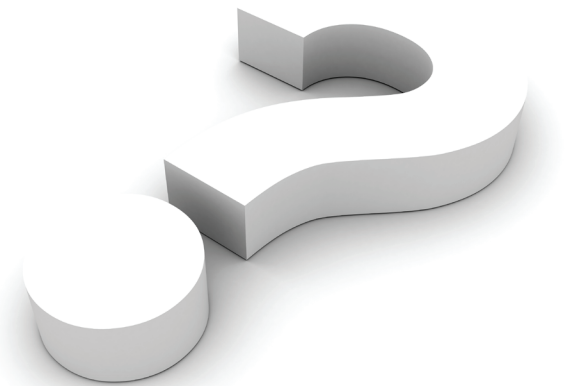


## 4. Honor the Discipline of the Process

Shortcuts lead to poor decisions. The framework of the process should be designed to produce thorough assessments of risk and opportunity upon which to base the development of scenarios.

When tempted to skip steps in the process, the following questions should be asked:

- What information or data analysis will be missing?
- Who will be cut out of the process, and what will the impact be?
- What won't be delivered to the executive team in terms of information and recommendations? Will they still be able to make an informed decision about what will be best for the business?



## 5. If Scenarios Are Not Included in Every IBP Cycle, Ask Why Not.

Business is rarely stable. Things change, including demand, sales capability, product innovation schedules, and production output. Things happen, including weather disasters, earthquakes and tsunamis, political unrest, changes in the economy, and tariffs.

Some of the instabilities are generated inside the business. Other instabilities are created externally and are harder to control.

Business leaders can control the anticipation of what could happen and contingency planning. If they are not regularly reviewing the output of risk and opportunity assessments in the form of scenario plans, they should ask why not. They should also task the IR leader to ensure that appropriate scenario planning is being done.

The development of most scenarios should not be a last-minute task but should be incorporated into business planning processes in the appropriate time horizon. A best practice IBP process is planning in the aggregate at least 24 months in the future, with the ideal focus being months 4-24. The purpose of a demand control, or demand execution, process is to manage change in months 1-3 in the planning horizon.

Additional guidance on the timing of the steps in the IBP process is available in a white paper written by my colleagues, Timm Reiher and Eric Deutsch<sup>2</sup>.

More information on focusing on the near term, 1-3 months in the future, is available in a white paper written by David Holmes, Timm Reiher, and Todd Ferguson<sup>3</sup>.

Best practice standards for IBP, which include standards for scenario planning and demand execution and control, are defined in *The Oliver Wight Class A Standard for Business Excellence, Seventh Edition*<sup>4</sup>.

## Case Example #1 – Scenario Planning Drives Better Decision Making

An electronics company that produced consumer devices routinely planned how models would be discontinued and new models would be introduced. The planning included how much inventory of the discontinued models would be carried. Discount pricing for the discontinued model was also formally considered to shape demand for the discontinued model.



The transition from the old model to the new model was a balancing act. The discounted price promotion could create demand for the discontinued model that would outstrip inventory. Was it wise to build more of the “old” product to satisfy this demand when a new model was going to be introduced?

In this case example, customer strategies were also important to consider. A highly valued customer had been regularly purchasing a large quantity of old models when the manufacturer discontinued notice was issued, as did other customers who regularly purchased small quantities of the devices.

<sup>2</sup> Timm Reiher and Eric Deutsch, *Get Rhythm: The Operating Cadence of Integrated Business Planning – Frequently Asked Questions*, [www.oliverwight-americas.com](http://www.oliverwight-americas.com)

<sup>3</sup> David Holmes, Todd Ferguson, Timm Reiher, *Demand Control: An Often Missing Link in a Demand Management Process*, [www.oliverwight-americas.com](http://www.oliverwight-americas.com)

<sup>4</sup> *The Oliver Wight Class A Standard for Business Excellence, Seventh Edition*, John Wiley & Sons, 2017, pages 53, 56, and 89.



As the company prepared to introduce the new model, discussions centered around how much cash could be risked on building inventory to fulfill the demand for the discontinued product. Through the IBP process, business leaders considered whether it was wise to invest \$11 million in inventory to support the anticipated demand for the soon-to-be discontinued product.

In considering the investment, it became apparent that some key people and relevant data were not included in the discussions as needed. The chief operating officer was the owner of the Management Business Review. He insisted that input from the regional sales organization and the sales leader for the large customer was included in the scenarios that were created. This decision, in turn, spurred a reassessment and better definition of the cross-functional roles and responsibilities in the IBP process.

The involvement of the sales organization resulted in improvements to the Demand Review process as well. The commercial organization took responsibility for the Demand Review, rather than delegating it to the supply chain organization.

Inventory tactics as well as customer risks and opportunities were better understood as a result of these actions. The business leaders reached consensus on the decision, and a better process to review and analyze scenarios was developed.

The launch of the new device was successful. The old model was discontinued with very little inventory remaining after the product launch.

## Case Example #2 – Scenario Planning Drives Cross-Functional Collaboration

When a tragic accident caused the shutdown of a manufacturing plant, the scenario planning skills of the company's risk management teams were deployed for the IBP process.

The leadership team did not have to create a new methodology for scenario planning. The orientation of the scenarios was different, however. The scenario plans produced for IBP focused on management of the business in light of losing 20 percent of the company's manufacturing capacity.



The leadership team was well disciplined in identifying their focus – the business. They did not overburden the Management Business Review with information on the investigation of the accident. The investigation itself was respected as a separate process.

The business recovery plan developed as part of IBP was driven by the development of scenarios. The leadership team focused on how to manage demand with supply constraints and how to rebuild supply by outsourcing production.

In the end, the executive team made better decisions with cross-functional participation that helped to mitigate revenue losses while dealing with a serious process safety event.

## Scenario Planning Is a Necessary Skill

How well is scenario planning performed in your company? My experience has shown it is a necessary skill. Feel free to contact me to discuss how to build scenario planning skills in your company.



## ABOUT THE AUTHOR



**Pamelyn Lindsey** is a principal with Oliver Wight Americas. Pam has specialized experience in Integrated Business Planning implementations, demand planning, financial integration, scenario planning, and the Oliver Wight IBP Accelerator software tool. She has a proven track record in Supply Chain process improvement, hands-on implementation, and delivery of related coaching, training, and education for senior management as well as multi-level teams with a solution-oriented approach.

Pamelyn is formerly the Director of Global Supply Chain Operations and global leader of Executive S&OP and Integrated Business Planning for Ciena Corporation, a global telecommunications and network strategy company. She led the implementation of best practices to improve revenue predictability, profitability, and working capital at Ciena.

Her 25 years of experience with The DuPont Company focused on leading continuous improvement with roles in project management, manufacturing, training and development, and process safety and risk management. Pam served as process design leader for the global supply chain improvement and transformation project, which involved both process and technology implementations of DuPont Integrated Business Management (DIBM), Integrated Financial Reconciliation, and Scenario Planning. Pam has worked in pharmaceutical, chemical, fluoroproducts, and agricultural product lines at U.S. based sites with global experience in all regions.

Pam is an Oliver Wight Certified IBP Instructor, ESOPT/IBP-A Lead Instructor, Associate APICS Instructor, APICS Certified Supply Chain Professional, and Six Sigma Black Belt. Pam received a Bachelor of Science degree in Mechanical Engineering from the University of Pittsburgh.

## ABOUT OLIVER WIGHT

At Oliver Wight, we believe sustainable business improvement can only be delivered by your own people. So, unlike other consultancy firms, we transfer our knowledge to you; knowledge that comes from nearly 50 years of working with some of the world's best-known companies.

*The Oliver Wight Class A Standard for Business Excellence* is recognized by organizations and industry commentators as the definitive measure of business excellence. We have a long-standing reputation for innovation; we continually challenge the industry status quo, so you get the latest in fresh thinking around core business processes and their integration with people and technology.

Your Oliver Wight partners will coach, guide, and inspire your people to drive change throughout your organization, allowing you to create a culture of continuous improvement and innovation that simply becomes, for you, 'the way we do things.' We call our approach to change management the Proven Path; it's a proven, sustainable approach that will transform your business performance and deliver results straight to the bottom line.



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