Top 5 Strategy Development Tools

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Preface

This eBook describes five essential business strategy development tools. You can use these to help you develop a strategy for your business unit or organization.

It describes following development tools:

- The Three Levels of Strategy
- Bowman's Strategy Clock
- Simonson and Rosen's Influence Mix
- Blue Ocean Strategy
- Scenario Analysis

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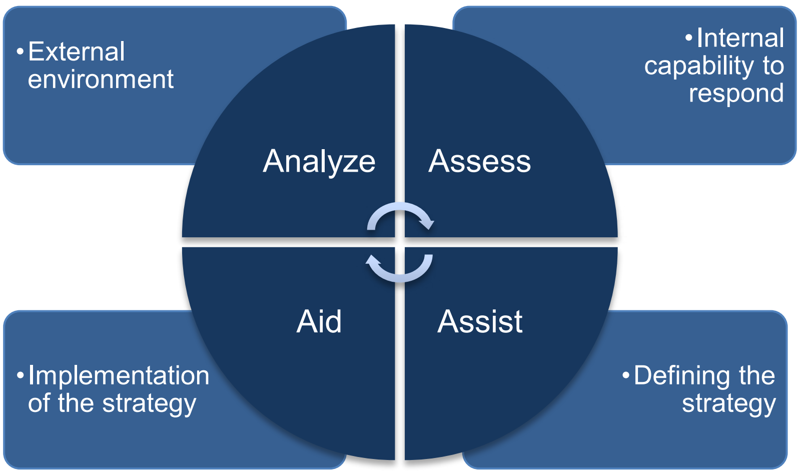
Introduction

This eBook describes the five essential strategy development tools successful organizations use regularly to ensure their future success and profit. You can use these as part of your decision-making and involvement in developing your organization's business strategy.

Business strategy can be described as:

> *'Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences' Johnson et al. (2008).*

Management plays a key role in providing the background information and impact potential alterations in both operations and strategy. As a manager it is essential that you understand the best way to assess how effective each business process is in terms of its use of resources.



Being aware of what these five tools can achieve and how they aid your strategy development will enable you to take an active and productive role when providing such information.

1. The Three Levels of Strategy

Knowing how to create a wining strategy is essential for any organization. Successful strategies consist of three levels, which combined put your organization on the path to a prosperous future.

The three strategy levels are Corporate, Business and Functional. Together they ensure that your daily operations and your long-term goals are addressed.

2. Bowman's Strategy Clock

Bowman's Strategy Clock is an excellent strategy tool for defining your organization's market position. This method breaks down your potential strategy options into eight segments. These are – low price/low value, low price, hybrid, differentiation, focused differentiation, increased price/standard product, high price/low value & low value/standard price.

3. Simonson and Rosen's Influence Mix

The Simonson and Rosen's Influence Mix looks at a variety of important elements that frequently come together in a buying decision and you use this tool to relate them to your market. It is one of the few strategy tools that accounts for the impact technology has on the decision to buy. There are three main factors involved in the influence mix - 'Prior Preferences Beliefs, and Experiences', 'Information from Marketers' and 'Input from Other People'.

4. Blue Ocean Strategy

W. Chan Kim and Renée Mauborgne developed their Blue Ocean Strategy after ten-years of studying over 150 strategies spanning over thirty industries. It is an innovative way to think about strategy it encourages organizations to seek out uncontested market space rather than battling against competitors.

A ‘blue ocean’ is space that has yet to have been explored by any other business. It helps you to develop a strategy that allows you to exploit this market until the ocean becomes ‘red’ as competitors enter. This tool uses the four points - raise, eliminate, reduce and create to identify such opportunities.

5. Scenario Analysis

The Scenario Analysis tool will help you to develop a strategy based on your ‘best guess’ of what the future holds for your specific market. This tool has five steps – defining the problem, gathering data, separate certainties from uncertainties, develop scenarios and use the scenarios in your planning - that build in to the scenario analysis process.

The Three Levels of Strategy

Strategy is at the heart of business. All businesses have competition, and it is strategy that allows one business to rise above the others to become successful. Even if you have a great idea for a business, and you have a great product, you are unlikely to go anywhere without strategy.

Many of the most successful businessmen and women throughout history have been great strategic thinkers, and that is no accident. If you wish to take your business to the top of the market as quickly as possible, it is going to be strategy that leads the way.

Of course, before you can get into the process of determining your own business strategies, you need to understand what the word ‘strategy’ really means in a business context.

> *Does it involve long-term planning as to the general course of the business?*
> *Or is it related to the day-to-day operations and how they are designed in order to achieve success?*

Well, in practical application, strategy can refer to both of those things and more.

To help you understand strategy in business, this article is going to look at the three levels of strategy that are typically used by organizations. Only when all three of these levels are carefully considered will your business be able to get on the right path toward a prosperous future.

Corporate Strategy

The first level of strategy in the business world is corporate strategy, which sits at the 'top of the heap'. Before you dive into deeper, more specific strategy, you need to outline a general strategy that is going to oversee everything else that you do. At a most basic level, corporate strategy will outline exactly what businesses you are going to engage in, and how you plan to enter and win in those markets.

It is easy to overlook this planning stage when getting started with a new business, but you will pay the price in the long run for skipping this step. It is crucially important that you have an overall corporate strategy in place, as that strategy is going to direct all of the smaller decisions that you make.

For some companies, outlining a corporate strategy will be a quick and easy process. For example, smaller businesses who are only going to enter one or two specific markets with their products or services are going to have an easy time identifying what it is that makes up the overall corporate strategy.

> *If you are running an organization that bakes and sells cookies, for instance, you already know exactly what the corporate strategy is going to look like – you are going to sell as many cookies as possible.*

However, for a larger business, things quickly become more complicated. Carrying that example forward to a larger company, imagine you run an organization that is going to sell cookies but is also going to sell equipment that is used while making cookies.

> *Entering into the kitchen equipment market is a completely different challenge from selling the cookies themselves, so the complexity of your corporate strategy will need to rapidly increase.*

Before you get any farther into the strategic planning of your business, be sure you have your corporate strategy clearly defined.

Business Strategy

It is best to think of this level of strategy as a 'step down' from the corporate strategy level. In other words, the strategies that you outline at this level are slightly more specific and they usually relate to the smaller businesses within the larger organization.

Carrying over our previous example, you would be outlining separate strategies for selling cookies and selling cookie-making equipment at this level.

> *You may be going after convenience stores and grocery stores to sell your cookies*
> *While you may be looking at department stores and the Internet to sell your equipment.*

Those are dramatically different strategies, so they will be broken out at this level.

Even in smaller businesses, it is a good idea to pay attention to the business strategy level so you can decide on how you are going to handle each various part of your operation. The strategy that you highlighted at the corporate level should be broad in scope, so now is the time to boil it down into smaller parts, which will enable you to take action.

Functional Strategy

This is the day-to-day strategy that is going to keep your organization moving in the right direction. Just as some businesses fail to plan from a top-level perspective, other businesses fail to plan at this bottom-level. This level of strategy is perhaps the most important of all, as without a daily plan you are going to be stuck in neutral while your competition continues to drive forward.

As you work on putting together your functional strategies, remember to keep in mind your higher-level goals so that everything is coordinated and working toward the same end.

It is at this bottom-level of strategy where you should start to think about the various departments within your business and how they will work together to reach goals.

> *Your marketing, finance, operations, IT and other departments will all have responsibilities to handle, and it is your job as an owner or manager to oversee them all to ensure satisfactory results in the end.*

Again, the success or failure of the entire organization will likely rest on the ability of your business to hit on its functional strategy goals regularly. As the saying goes, a journey of a million miles starts with a single step – take small steps in strategy on a daily basis and your overall corporate strategy will quickly become successful.

Good strategy alone isn't going to automatically lead you to success in business, but it certainly is a good place to start. Once you have sound strategies in place, the focus of the organization will shift toward executing those strategies properly day after day.

Of course, your strategies will need to be continually monitored and adjusted as you move forward to ensure you are staying on a path that is consistent with the goals of the business, so always keep the three levels of strategy near the front of your mind as your guide your company.

Key Points

- All organizations have competition, and it is strategy that allows one business to rise above the others to become successful.
- There are three levels of strategy that are typically used by organizations'. Corporate level strategy covers actions dealing with the objective of the organization, including acquisitions and the coordination of strategies of individual business units for optimal performance.
- Strategic decisions tend to be value-oriented, conceptual and less concrete than decisions at the business or functional level. It is concerned mainly with growth and renewal rather than in market execution.
- Business level strategies detail actions taken to provide value to customers and gain a competitive advantage by exploiting core competencies in specific, individual product or service markets.
- Functional strategy involves providing objectives for specific functions, allocation of resources among different operations within that functional area and coordination between them.

Bowman's Strategy Clock

Strategy is something that is easy to take for granted in business. Many business owners and managers fall into the trap of thinking that they can just roll out a great product or service and instantly have a successful business.

While it helps to have something great to sell, you also need an overall strategy for your business to ensure that you are able to execute all parts of the operation efficiently. If you fail to create a good strategy, there is a chance that your business will fall short despite your best efforts.

One tool that you can use to find your place in the market is Bowman's Strategy Clock. This is a method of strategy thinking that breaks down your potential strategy options into eight segments.

Most businesses should be able to find the right strategy for their operation within one of these eight options. All eight are listed below, along with a short description.

Low Price - Low Value

This is the 'cheap' end of the market. Goods do not cost very much in this segment of the market, and they aren't of a very high quality, either. Most likely, you aren't going to select this part of the strategy clock as your ideal starting point for a business.

Instead, you might find that you have to try to compete at this level because you don't have another option. If the product or products that you are selling don't stand out from the rest of the market in any way, this is where you will be forced to fight for sales.

Low Price

When a company wants to sell a high volume of a product for a low margin, this is the area of the market where they choose to compete.

> *Low cost leaders are often some of the biggest names in a particular market.*

This is because it requires tremendous volume to turn a profit when selling your goods for a very low price.

Most smaller and medium sized businesses are unable to take this approach because the volumes they achieve simply will not sustain the business over the long term without a high retail price.

Hybrid

It isn't necessarily easy to slot yourself into the 'hybrid' segment of the market, but it can be a good place to land if you are able to do so successfully. When a company takes a hybrid approach, it means that:

They are competing both on the quality of their products as well as the price.

If you can manage to build a reputation for selling quality goods while also being among the low cost leaders in the segment, you will have a chance to grow customer loyalty and gain market share.

Differentiation

This part of the market is all about standing out from the crowd despite selling something that plenty of other businesses have to offer.

The key to being differentiated in your market is branding.

You have to make an impression with your target audience, to the point that they will choose your product over other options even if you are selling at a higher price.

Focused Differentiation

The luxury brands that exist throughout many markets are said to use a focused differentiation strategy. The high price that these items sell for comes along with a higher perceived value in the minds of the consumers.

Margins are extremely high in this part of the market, but volume tends to be rather low. If you attempt to position your business in this market segment, you are going to need a strong marketing team to give your brand the image and recognition that it needs to move product at such a high price point.

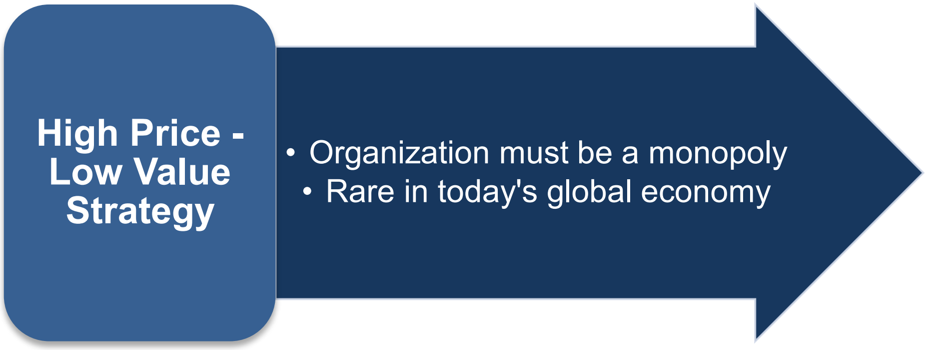
Increased Price – Standard Product

Most businesses will find this to be perhaps the most difficult position on the wheel to occupy. With this strategy, you are simply going to raise prices without changing anything about the quality of your product. Obviously risky, you could find a payoff in the form of larger profit margins – or you could find your sales numbers quickly slipping while you rush to lower prices once again.

This might be effective as a short-term strategy if your company is enjoying positive feedback from customers currently, but raising prices is a sure way to force the market to look elsewhere in the long term.

High Price – Low Value

This strategy is really only an option for those who have a monopoly in their market. If you have entered a market niche that is light on competition, you may be able to charge high prices while offering a relatively low quality product.

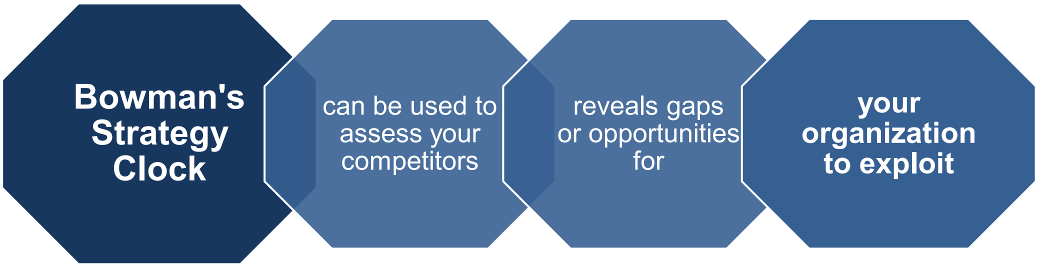


Of course, in the long run, other competitors are sure to enter the market at a lower price and you will be forced to adjust. Monopolies are very rare in today's global economy, and when they do arise, they never last for long before the competition arrives.

Low Value – Standard Price

The final strategy on the wheel is a losing one. If you are going to provide the market with a poor quality product, yet you are going to try to sell it for the same price at higher quality products, you are going to lose in the end.

Many businesses have tried to 'cheat' this law of business by sneaking into the market with a poor product, but they never last long and they almost always lose money in the process.



Using Bowman's Strategy Clock is a great way to get an idea of how various businesses are competing in the market, and where you can fit into that market to carve out revenue for yourself. One good technique to use with the assistance of this tool is to look at your competition and try to place each business appropriately on the clock.

Once you decide how it is that your competitors are trying to succeed in the market, you can look for opportunities and make your move.

Key Points

- Bowman's Strategy Clock is used to analyse the competitive position of a company's offerings in comparison to those of its competitors.
- There are 8 possible options, three of which (6, 7 and 8) are uncompetitive because the price is greater than the perceived value.
- 1) Low Price and Low Value Added: The product is not differentiated and the customer perceives very little value, despite a low price.
- 2) Low Price: Businesses positioning themselves here look to be the low-cost leaders in a market. Margins on each product are low, but the high volume of output can still generate high overall profits.
- 3) Hybrid: This involves an element of low price and some product differentiation. It can be a very effective strategy if the added value is offered consistently.
- 4) Differentiation: This requires high quality product with strong brand awareness and loyalty.
- 5) Focused Differentiation: This the strategy adopted by luxury brands, which aim to achieve premium prices by highly targeted segmentation, promotion and distribution.
- 6) Increased Price-Standard Product: This is a very short-term strategy as the opportunity to sell for a high price without justification seldom lasts long.

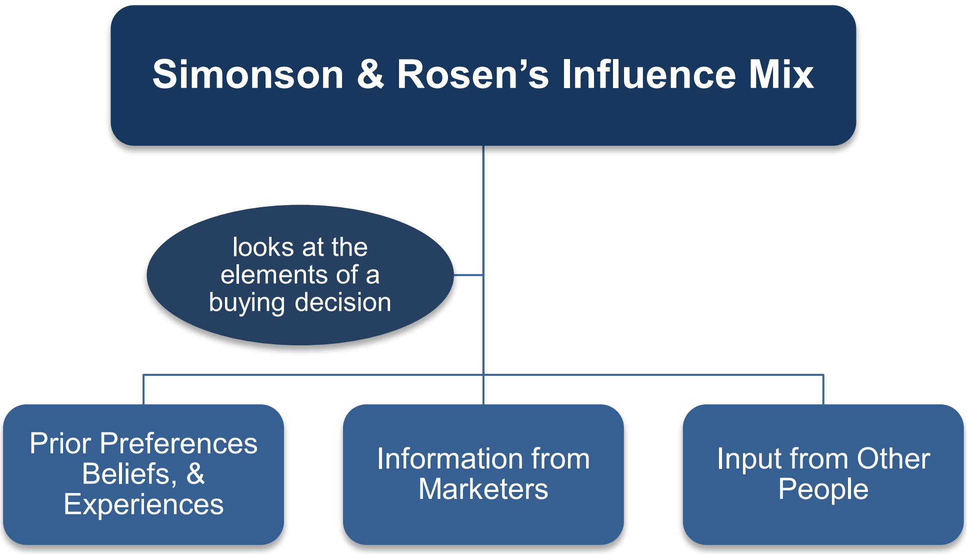
Key Points cont.

- 7) High Price-Low Value: This is only sustainable where the organization has a monopoly.
- 8) Low Value-Standard Price: Setting a standard price for a product with low perceived value is likely to lead to an ongoing loss of market share.
- As with Porter's Generic Strategies, Bowman's Strategy Clock considers competitive advantage in relation to cost advantage or differentiation advantage.

Simonson and Rosen's Influence Mix

The world has changed thanks to technology, and specifically, the Internet. That is not breaking news. What you might be surprised to learn, however, is just how much the changes that we have seen due to technology have influenced consumers buying decisions.

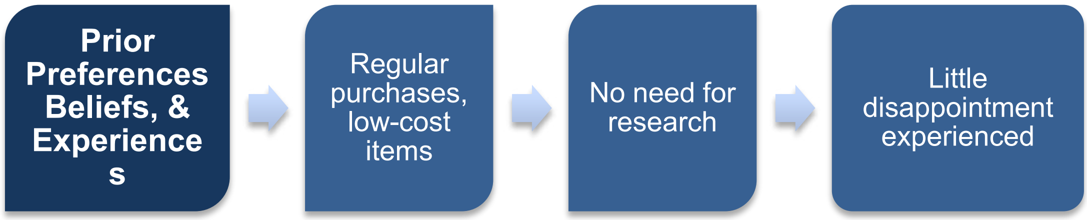
There is more information available now than ever before, meaning buyers have plenty of resources at their fingertips to consult before they make a purchase. As a business owner or manager trying to sell a product or service, that can be both a good or bad thing. While you have plenty of opportunities to present your target market with information, you have to make sure they are seeing the right information at the right time.



In Simonson and Rosen's Influence Mix, you can look at a variety of important elements that frequently come together in a buying decision. Different markets will feature a different blend of the various factors, and it is up to you to decide which ones are going to play the biggest role in your specific market. The content below is going to look at each of the three main factors involved in the influence mix.

Prior Preferences Beliefs, and Experiences

This is where the decision making process for most purchases can be found. The things that you buy on a regular basis – think groceries, gas, household supplies, etc. – are going to live in this part of the mix. You don't need to do extensive market research when you are going to buy a beverage, for instance, because you already know what kind of beverages you like. It won't be necessary to access online reviews or check social media to contemplate your purchase – you simply pick up the brand that you know you like, and you get on with your day.



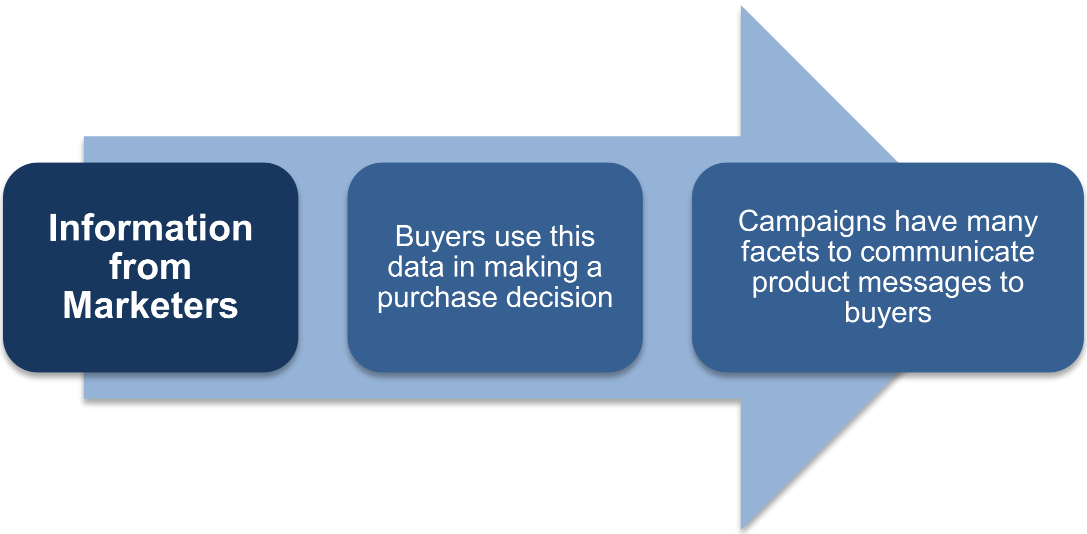
Price obviously plays an important role in this equation as well. The things that you buy on a regular basis tend to be low-cost items, so you aren't as worried about taking the time to do research. If you purchase a beverage for a dollar or two and you don't end up liking that drink, you simply won't buy it again. There isn't a big loss experienced by spending a small amount of money on this purchase, even if you are disappointed in the product you receive.

Thinking about this from the perspective of your business, you will likely find your own products in this part of the mix if you sell low-cost, commonly purchased items. From a positive perspective, living in this part of the mix means you may not have to do as much work to convince buyers to try your products. Since you will be offering an item that isn't very expensive, buyers may be more willing to give you a try. On the other hand, buyers in this area usually have established preferences already in place, so they may pick up the products they are familiar with before they even consider your offering.

Information from Marketers

Products that are affected by this part of the Simonson and Rosen Influence Mix are those that can be sold through a great marketing campaign. These usually aren't the cheapest products on the shelves, but rarely are they the most expensive either.

Most likely, the products you find that are being sold effectively by great marketing campaigns are those are somewhat more expensive than a product already being purchased. For example, if you produce a high-end product in a market that has plenty of low-cost options, you may be able to gain market share through effective marketing.



It is usually the job of the marketing department to infer a reputation of quality onto a product that is being taken to market. If you are going to hit the shelves with an item that will be higher priced than the products of your competitors, you have to do a great job of promoting your item as being superior in some way. What is it that makes yours the best around? By conveying that message to your audience, you just might be able to draw their eyes to your product – even at a higher price.

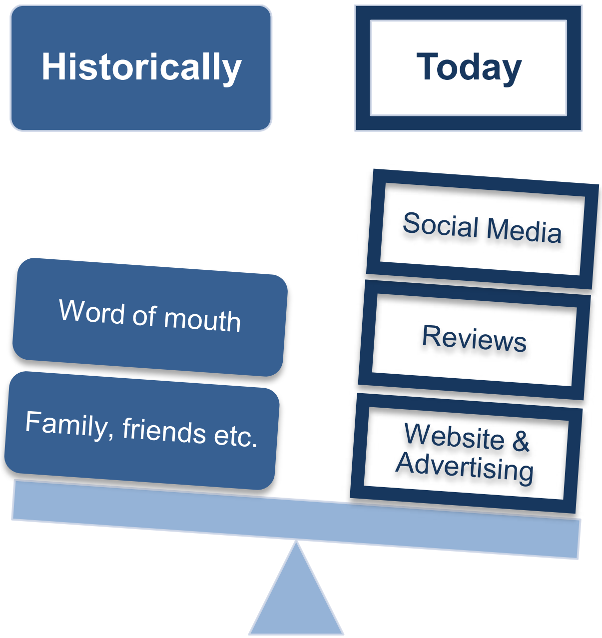
The information that you deliver to your audience can be presented in a number of ways, from content on the packaging to advertising that you run in print on or TV. The method that is used to deliver the message will depend on the product in question, the profit margin available for a sale, and the target market that you are attempting to reach.

Input from Other People

In days gone by, the input you received from other people prior to making a purchase would have involved 'word of mouth' from friends, family members, co-workers, etc. Of course, that has all changed in the 21st century. Today, it is frequently social media outlets that provide the opportunity to gain information from others on products or services.

> *Usually, it is the higher-priced, 'big' purchases that will be determined largely through the endorsements of others.*

Products such as computers, cell phones, tablets, vehicles, and more can all be helped or harmed by input from others.



Understanding that social media has a major impact on large buying decisions, it is a good idea for businesses to track social media interactions and use the open design of those platforms to get involved when necessary. An active social media presence from your organization will not only help to inform buyers about your product, but it can also be an opportunity to demonstrate your commitment to customer service.

The influence mix that has been presented by Simonson and Rosen is helpful for many organizations to understand how their potential customers are going to be thinking about their purchases. It is always desirable to 'get in the mind of the customer', and this influence mix is a great way to do just that.

Once your company has a good idea of how consumers will be making buying decisions, it will be much easier to make marketing and pricing choices on all of your products.

Key Points

- There is more information available now than ever before, meaning buyers have plenty of resources to consult before they make a purchase.
- While you have plenty of opportunities to present your target market with information, you have to make sure they are seeing the right information at the right time.
- Different markets will feature a different blend of the various factors, and it is up to you to decide which ones are going to play the biggest role in your specific market.
- Prior preferences and experiences influence most low-cost everyday purchases and buyers will usually stick with their established preference unless they see a good reason to try something new.

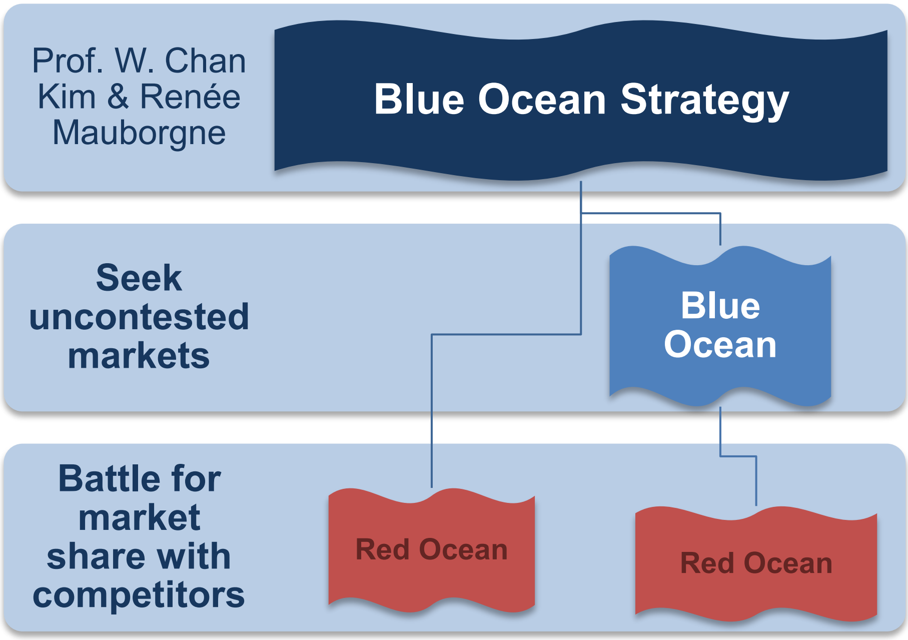
Key Points cont.

- Traditional forms of marketing (pricing, packaging, positioning, etc.) still have a part to play in persuading customers to try something new.
- Many one-off purchases are decided on the basis of information from review sites and social media rather than ‘word of mouth’ from friends, family members, and co-workers.
- Products such as computers, cell phones, tablets, vehicles, and more can all be helped or harmed by input from others.

Blue Ocean Strategy

As a business owner or manager, do you regularly focus on your competition? If so, you aren't alone. Most businesses are focused on their competitors as they try to take control of a large slice of the market.

While that is certainly a logical and time-tested method, the relatively new Blue Ocean Strategy (2005) is an innovative way to think about business. Professors W. Chan Kim and Renée Mauborgne describe this strategy in their book titled 'Blue Ocean Strategy'. They are co-directors of the INSEAD Blue Ocean Strategy Institute.



Rather than fighting toe-to-toe with your competitors for market share, this strategy instead encourages businesses to seek out uncontested market space that they can have all to their own. When successful in this pursuit, it is possible to dramatically increase the value of a company while simultaneously making the previously identified competition irrelevant.

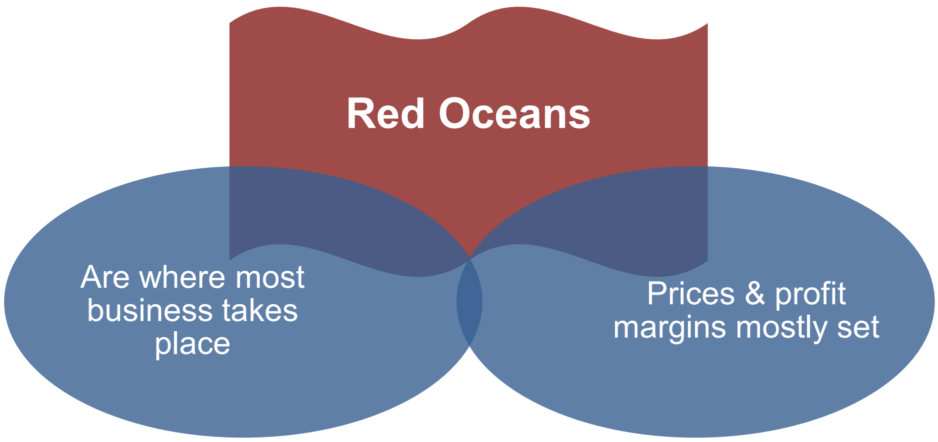
A 'blue ocean', as used in the title of their book and strategy, is basically uncharted territory in the business world. You can think of Blue Ocean as:

> *A market space that has yet to have been explored by any other business – meaning it is a land full of opportunity.*

If you can manage to get your company into a blue ocean in the market, you will have all the opportunity in the world to make large amounts of money in a potentially short period of time.

While that blue ocean might not remain open forever (in fact, it certainly won't remain open forever), you can make huge gains in both revenue and brand recognition while you are the only player in the game. Even as other competitors begin to work their way in, turning that 'blue' ocean 'red' (with competition), you should still have the advantage as you were the innovator in this space.

Why You Should Avoid Red Oceans



The Blue Ocean Strategy book defines 'red oceans' as those which already contain a high level of competition.

> *'Red oceans' as those that already have high levels of competition.*

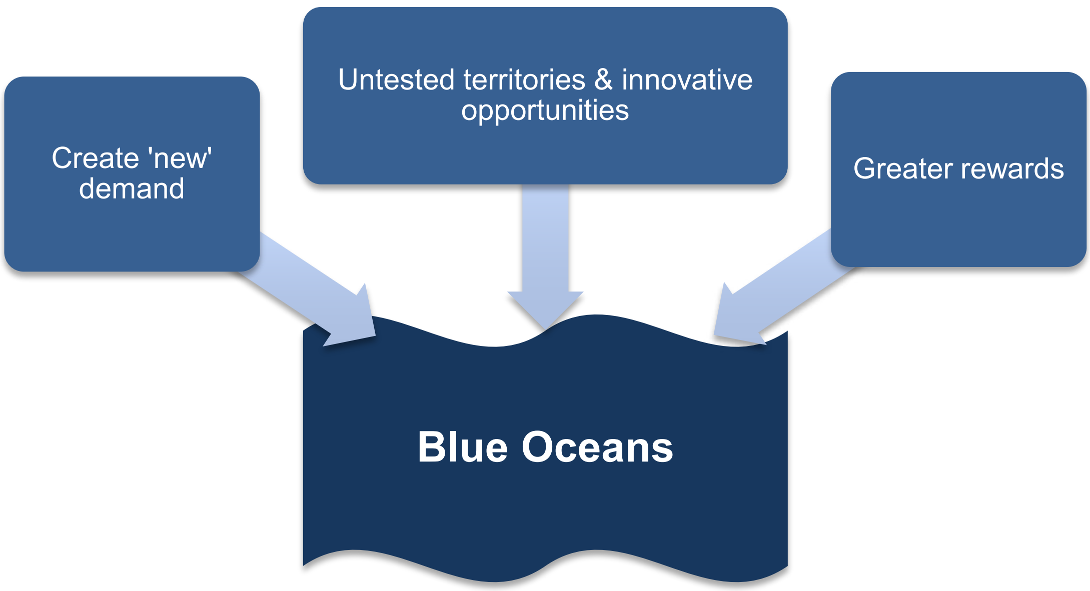
Although there is an inevitability to having to compete in crowded markets, there are too many advantages to avoiding this situation to ignore the possibility of looking for blue space. In an already contested market, there is a natural cap in place on the potential of your business. You won't be able to 'hit the jackpot' in terms of business growth or sales figures, because the market is already set.

Even if you are able to carve out a respectable share of business for yourself, it is highly unlikely that you will rocket to the top of the business world in an already competitive space. The prices and profit margins are largely set before you even arrive, meaning your ceiling is relatively low.

You can't afford to completely stay away from red oceans because that is where the majority of business takes place, but continuing to look for blue oceans is a great way to take the limit off of what you can accomplish.

Creating New Demand

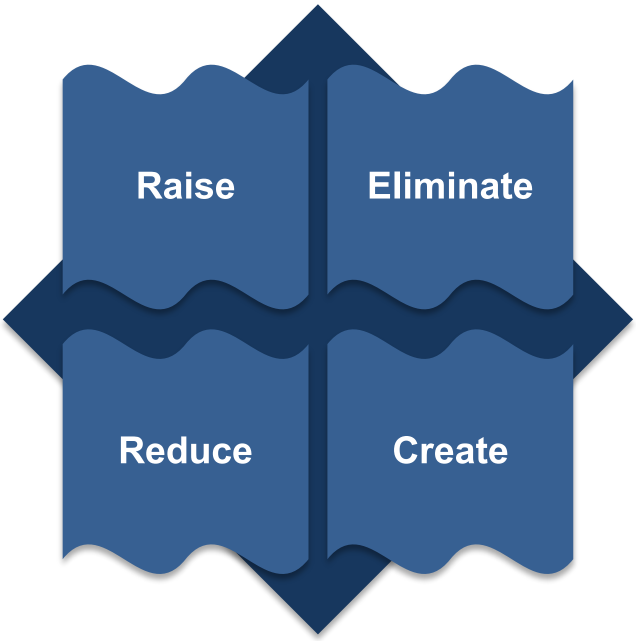
Most businesses start with the idea of filling a demand in the market, but the Blue Ocean Strategy holds that it is far better to create a new demand that doesn't even exist at the moment.



While doing so is obviously a great challenge, the rewards can be many. There are new markets being created all the time by the innovation of new products and services, and the businesses that are on the cutting edge of these markets tend to be some of the largest in the world. Organizations willing to go into untested territories are taking a big gamble, but that gamble sometimes pays off in a huge way.

Finding Open Space

Of course, locating the opportunity to create a blue ocean for your business is going to be the biggest challenge of all. It is easy to sit back and think that 'everything has already been done', even though that is clearly not the case.

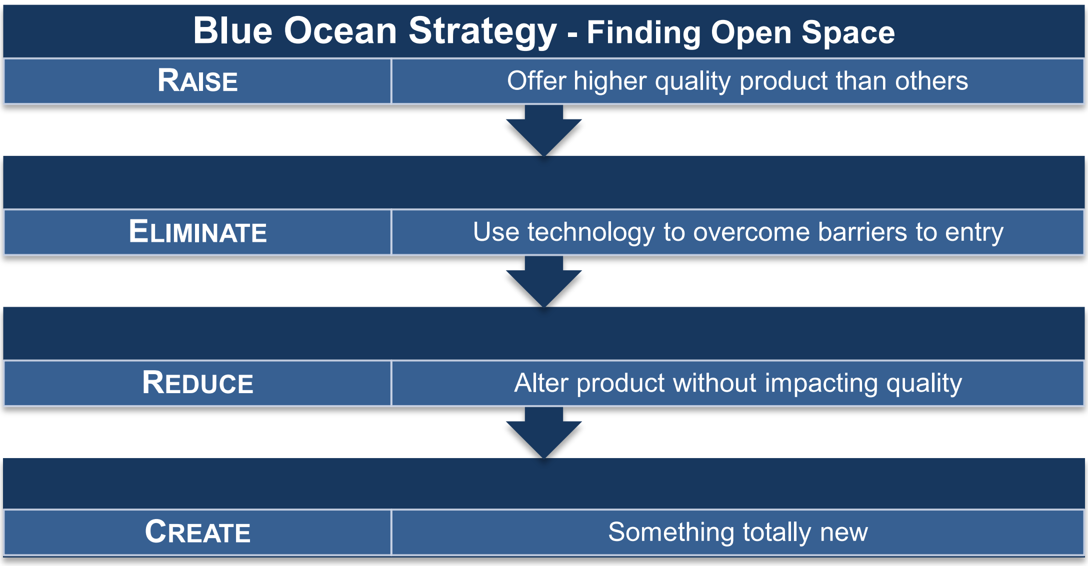


There are four points that are presented within this book that will help you look for blue oceans around the edges of your business market.

- **Raise**. The first point has to do with raising the quality of one factor or another as compared to industry standard. In other words, you could create a blue ocean by offering a product that is of a significantly higher quality than anything else currently offered within the industry. Perhaps you will use more advanced technology, or better materials, to develop an amazing product that grabs the attention of consumers. By rising above and establishing a new level, you will be playing in a market all your own.

- **Eliminate**. Many industries have barriers or characteristics that simply do not need to be in place. Often, these are issues that were once relevant, but are no longer a problem thanks to developments in technology. If you can eliminate unnecessary parts of the business tool within your organization, you could find a way into an open space that leaves you competing at a low price or on a faster timeline.

- **Reduce**. This is the opposite of the idea of raising the level of a product or service within the industry that you compete. Instead, you can choose to reduce the standard on a point that isn't necessary in order to leave your customers with a quality item. You might be over-engineering a certain element of your product, or you may be using an expensive material where a cheaper alternative would do the same thing.



- **Create**. The last point on the list is where innovation comes into the picture. This point has you and your company creating something that has simply never before been seen in the industry. This is probably the most difficult point to be successful with, as it takes incredible creativity and a willingness to go out on a limb, but it also holds the biggest potential for success if your product is a hit.

The Blue Ocean Strategy allows business owners to ‘think big’. You aren’t just trying to scrape by when you use this kind of strategy in your business. Instead, you are trying to achieve great things on a large scale.

It can be intimidating to approach your business from this big picture perspective, but it is exciting at the same time. If you do manage to find a section of blue ocean that you can claim as your own, it just might go down as the leading accomplishment of your professional career.

Key Points

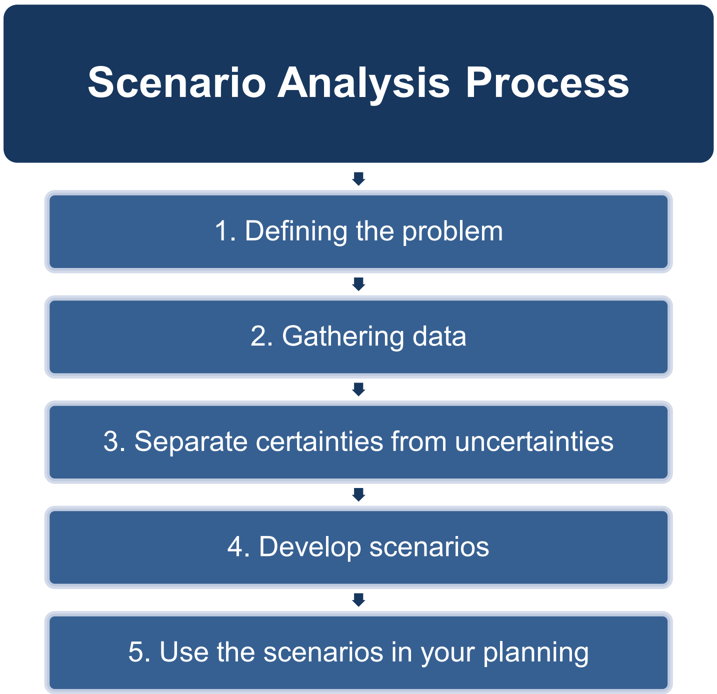
- Blue Ocean Strategy is a book published in 2005 and written by W. Chan Kim and Renée Mauborgne, professors at INSEAD and co-directors of the INSEAD Blue Ocean Strategy Institute.
- The premise of the book is that companies can succeed by creating ″blue oceans″ of uncontested market space rather than by battling entrenched competitors.
- They produce evidence that these strategic moves create a leap in value for the company, its buyers, and its employees while unlocking new demand and making the competition irrelevant.
- They define ‘red oceans’ as those which already contain a high level of competition where there is a natural cap in place on the potential of your business.
- You won’t be able to ‘hit the jackpot’ in terms of business growth or sales figures, because the market is already set.

Key Points cont.

- Finding open space is difficult but there are four points that are presented in the book that will help you look for blue oceans around the edges of your business market.
- The four principles are: create uncontested market space by reconstructing market boundaries, focus on the big picture, reach beyond existing demand and get the strategic sequence right.

Scenario Analysis

Wouldn't business be simple if you could only accurately predict the future? Of course it would. Deep down, that is what everyone who works in a business-related field is trying to do – predict the future in order to make the right decisions to be positioned for success.



If you knew what the market was going to look like in a few months or a few years, you could place your company in the perfect spot to reap great financial rewards. While that kind of perfect vision into the future isn't going to be possible anytime soon, you can use the Scenario Analysis tool to make your best guess as to the future of your specific market.

There are five steps build in to the scenario analysis process. In the content below, we will take a closer look at each of these five steps.

Step One – Defining the Problem

This seems to always be where things get started in business. Before you can make plans and devise strategies to move forward, you need to know exactly what the problem is that you are trying to solve.

Business is really just a string of problems and solutions, and the companies who can come to the solutions in the shortest amount of time will usually come out on top in the end.

> *What problem is it that you can solve with your product or service? Is this a problem faced by a large number of people, or only a small group?*

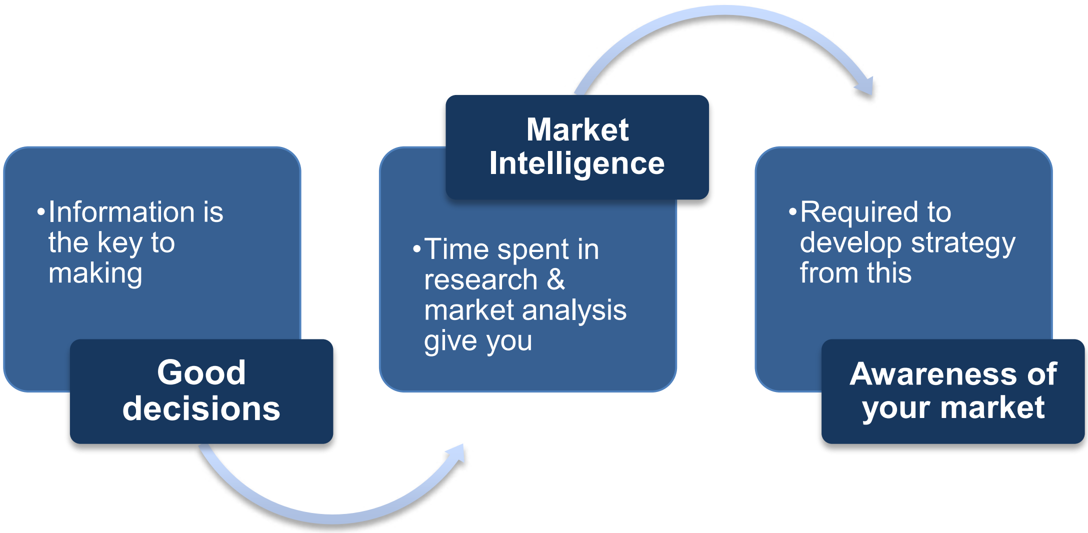
Once you have a clear definition of the problem that you are setting out to solve, you will have a much better idea of how you can best locate, attract, and serve your customers.

Step Two – Gathering Data

Information is the key to good decision-making. If you don't have data to back up the choices you are making, you are actually just guessing at what the market will hold for your and your business.

Take the time and effort to do detailed analysis of the current state of the market and any threats or opportunities that will affect that market moving forward. With a better picture of how the market as a whole is going to move, you can then decide how your product or service will fit within that market in the years to come.

The past tends to be the best predictor of the future, so looking back at the way your specific market has developed previously – or, looking at other, similar markets – is one of the best tools you will have available for data collection.



Understanding how long products tend to remain in the market, and how long they are able to hold on to a top position, will be a great help toward the goal of projecting future developments in this business space.

Step Three – Separate Certainties from Uncertainties

Not all of your projections are going to come with the same degree of confidence. You will have some points that you identify as things that you feel are certain to happen, while other predictions will be based in fact but also based somewhat on 'gut' instinct.

In this step of the scenario analysis, you are going to separate out the points that you feel are certain from those that seem uncertain in nature.

Once you have separated out your projections into these two categories, step back and take a big picture look at your lists. Are the predictions in the 'certain' category the most important ones to your business, or are they most incidental?

In this way, you can evaluate how confident you are in the choices that you are making for your business. If most of the important predictions you are making about the future fall into the uncertain category, you will have to proceed with care and plenty of caution.

Step Four – Develop Scenarios

In this step, you are going to take the uncertainties from the list you created in the previous step and put them to the test. Since you are uncertain of these outcomes, you are going to create multiple scenarios that will allow you to think about what your business would look like if each were to come true.

For example,

> *If the market has a whole is in good health, what will that likely mean for your business?*
> *If the market is struggling, how will that affect your company?*

Play out a variety of different scenarios and you will start to get a good idea of the risk you may be taking on should you choose to proceed with your plans.

Take some time to work through a number of scenarios, but only follow this process on the points that you would consider important. If there are some incidental points on your list that won't have much of an effect on business as a whole, you don't need to bother with the scenario process.

Step Five – Use the Scenarios in Your Planning

This is where you put to use the information and ideas that you have developed while using this technique. Now that you have some scenarios created based on your various predictions and projections, you can alter your business planning as necessary.

For instance, you can adjust your planning to avoid the parts of the business that would seem to be the riskiest, while increasing your commitment to the parts of the company that seem like more of a 'sure thing'. There is always going to be risk in business, of course, but tweaking your planning based on the scenarios you envision will hopefully limit your exposure to that risk.

No business owner or manager can perfectly see into the future – that is a goal that simply isn't attainable. However, if you are willing to sit down and spend some time developing a number of scenarios that relate to how your business will perform under a number of market conditions, you can make choices that reduce the risks you are taking.

In the end, it is all about positioning your organization for the best possible chance at success, and scenario analysis can help you do just that.

Key Points

- Scenario analysis is a 5-step process of analyzing possible future events by considering alternative possible outcomes.
- Step 1) Define the Problem – Before you can make plans and devise strategies to move forward, you need to know exactly what the problem is that you are trying to solve.
- Step 2) Gather Data – Take the time and effort to do detailed analysis of the current state of the market and any threats or opportunities that will affect that market moving forward.
- Step 3) Separate Certainties from Uncertainties – Separate the points that you feel are certain from those that seem uncertain in nature.
- Step 4) Develop Scenarios – Go through this process on the points that you would consider important, ignoring incidental points on your list that won't have much of an effect on business as a whole.
- Step 5) Use the Scenarios in Your Planning – Now that you have some scenarios created based on your various predictions and projections, you can alter your business planning as necessary.
- This process does not try to show one exact picture of the future but presents several alternative future developments.
- It is useful to generate a combination of an optimistic, a pessimistic, and a most likely scenario.

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