

Scenario planning – what is it?

What is the purpose of this article?

This article enables a discussion about scenario planning and why it's critical to your company's success and survival.

The audience for this article includes: boards of directors, CEOs, the C-Suite, and investors

This article does not provide tax, legal or financial advice.

You must do your own research and fact-based analysis using current and relevant information.

What are the critical learnings in this article?

- 1) It is impossible to predict or forecast the future.
- 1) Scenario planning is a process to prepare to succeed in a broad range of futures. It is not an attempt to predict a single outcome.
- 2) Your strategy is one component of scenario planning.
- 3) Scenario planning is not enough for success and survival. You need a competitively differentiated talent pool (board of directors, CEO, C-Suite, etc.)

Why do you need scenario planning?

- 1) It is impossible to predict or forecast the future.
- 2) Scenario planning helps your company prepare for the unexpected.
- 3) Basing all your decisions, plans and actions on a single, assumed to be perfect, forecast will likely result in failure.
- 4) An unknown future provides you with lots of opportunities as well as risks.
- 5) Future success depends on your company responding quicker and better than your competition.
- 6) Scenario planning helps to reduce the natural biases that all decision makers have.

In 2019, who could have predicted:

- 1) A 2020 global pandemic with massive economic impacts.
- 2) In early 2022 the largest land war in Europe since WW II started
- 3) Nov 30, 2022 ChatGPT was announced, and the Generative AI revolution began
- 4) In late 2023 large scale war began in the middle east.
- 5) Jan 20, 2025 President Trump was inaugurated. Massive changes within the US Government and around the world began immediately.

The future is a black swan.

What is scenario planning?

- 1) Scenario planning is a process to prepare to succeed in a broad range of futures. It is not an attempt to predict a single outcome.
- 2) Your strategy is one component of scenario planning.
- 3) Without scenario planning, you are hoping that you have guessed the right strategy for the unknown future.

The scenario planning process has three stages

Stage 1 Prepare the initial set of scenarios

- 1) This is a one-time event.
- 2) There are a minimum of three scenarios: 1) the base case which represents your current strategy, strategic plan, and related plans; 2) your company fails in the future; 3) your company is a wild success in the future.

Stage 2 Monitor the external and internal factors of your scenarios on an ongoing basis

- 1) Has anything happened which requires your strategy to change?
- 2) Has anything happened which requires updates to your scenarios, including your base case which represents your strategy and strategic plan

Stage 3 Update your scenarios.

- 1) You may need to create new ones

What is the definition of a scenario?

A scenario is a point-in-time description of your company and its environment. The description may include:

#1 External Components e.g.

- 1) Key members of your company's ecosystem E.g. competitors, suppliers, partners, politicians and regulators,
- 2) Technology
- 3) The economy
- 4) The talent pool

- 5) Demographics
- 6) Social upheaval – from local to global. This includes war.
- 7) Climate change

#2 Internal components e.g.

- 1) The talent pool – board of directors, CEO, C-Suite, etc.
- 2) Processes
- 3) Technology
- 4) Knowledge
- 5) The ability or inability to quickly learn and change

#3 4 different scopes to consider

- 1) What will the world look like?
- 2) What will the countries you operate in look like?
- 3) What will your marketplace look like?
- 4) What will your company look like?

#4 A scenario has multiple points in time e.g.

- 1) Today The current situation
- 2) Year by year into the future.
- 3) The second last year is the final year of your value creation plan.
- 4) The last year is at least 10 years out.

#5 Trigger points

- 1) You may identify changes in external and internal factor which will require immediate revisions to your scenario.

What is a very simple example of a scenario?

Appendix A has an illustration of a very simple scenario, created by a one sentence prompt to the free version ChatGPT.

Why will one of your target years be 10+ years?

Many organizations make decisions and take actions where the outcome can be more 10+ years. Some examples include:

- 1) Some Japanese companies look out 100 years to see if they will survive and prosper
- 2) Some organizations start their talent recruit in school with students as early as 10 years old. One example of why do this is because many students start to lose interest in STEM subjects between the ages of 11 and 15.
- 3) Private Equity firms are often focused on maximizing value creation by the years 10-12.
- 4) New planes, natural resources development, and other investments may take more than 10 years to pay off.
- 5) Demographic and immigration change can take a long time to transform a country.
- 6) Families with large wealth can have a multi-generational perspective.
- 7) Government policy and legislation can have a long-term impact.
- 8) The appointment of supreme court judges can transform a country over the long-term.
- 9) Hiring permanent employees may be a long-term commitment.

Is scenario planning enough to ensure your future business success?

- 1) Scenario planning is not enough.
- 2) You need the right talent (board of directors, CEO, C-Suite, etc.) to be able to make decisions and execute more quickly and effectively than the competition.
- 3) Your team of talent needs to be competitively differentiated. This does not mean that every single person is the best in the world.

What further reading should you do?

- 1) “Your company will fail” Most companies will fail, disappear, or provide poor investor returns.

<http://koorandassociates.org/avoiding-business-failure/your-company-will-fail-v1/>

What is your business strategy?

<http://koorandassociates.org/strategy-and-strategic-planning/what-is-your-business-strategy/>

What are your next steps?

#1 Define the words/concepts you’re using, in a glossary. I’ve seen major confusion when the same words mean different things to different people.

#2 Outline the three stages of scenario planning.

#3 Identify who is develops the scenarios. Consider using 3rd parties (such as MBA interns) to create success and failure scenarios.

#4 Complete Stage 1 – creation of three scenarios – in one week.

#5 Launch stages 2 and 3.

#6 Learn and improve on an ongoing basis.

Appendix A scenario created by the free version of ChatGPT

The intent of this simple scenario is to generate discussion. The scenario is not intended to be accurate in terms of the cause-and-effect relationships. I am not recommending the use of ChatGPT vs other AI tools.

My prompt to ChatGPT

Create a scenario for a hypothetical Canadian bank called OldBank, in which the bank fails in 2030. Include: financial metrics, political changes around the world, and technology developments from China and Africa. List what happens year by year, starting with 2025

The response from ChatGPT

The Collapse of OldBank: A Year-by-Year Breakdown (2025–2030)

OldBank, a once-stable Canadian financial institution with deep roots in conservative banking, faces a dramatic collapse by 2030 due to a combination of poor financial management, political instability, and disruptive technological shifts from China and Africa.

2025: Early Signs of Strain

- Financial Metrics:
 - OldBank reports a 3% decline in profits due to higher-than-expected loan defaults in the commercial real estate sector.
 - Rising interest rates cause mortgage delinquencies to rise by 18% year-over-year.
 - The bank's stock price drops 12% over the year, amid investor concerns over its exposure to high-risk sectors.
- Political & Global Economic Changes:
 - The U.S. Federal Reserve maintains high interest rates, slowing global economic growth and increasing borrowing costs worldwide.
 - Canada's federal government tightens banking regulations in response to growing concerns over housing market instability.
- Technological Developments (China & Africa):
 - China's central bank launches a global digital yuan initiative, allowing international trade to bypass traditional banking systems.
 - African fintech companies introduce blockchain-based banking networks, drastically reducing reliance on Western financial institutions.

2026: Increased Competition & Technology Disruptions

- Financial Metrics:
 - OldBank's loan portfolio shrinks by 9%, as businesses shift to alternative lenders offering lower fees and better digital services.
 - Net income falls 15% year-over-year.
 - The bank cuts 5,000 jobs due to cost-saving measures.
- Political & Global Economic Changes:
 - Canada's housing market sees a major correction, with prices in major cities dropping 20%.
 - Global trade becomes increasingly fragmented, with nations forming regional financial alliances outside of Western banking influence.
- Technological Developments:
 - China expands its AI-driven financial services, allowing direct AI-managed investments in emerging markets.
 - African digital payment platforms partner with Chinese banks, bypassing SWIFT and reducing reliance on Western financial infrastructure.

2027: Major Losses & Market Share Decline

- Financial Metrics:
 - OldBank reports a \$3 billion loss in Q2 due to bad loans in the collapsing real estate sector.
 - Stock price drops another 25%, causing panic among shareholders.
 - Deposit outflows increase as customers shift funds to decentralized finance (DeFi) platforms.

- Political & Global Economic Changes:
 - The U.S. dollar weakens as the global financial system becomes more multipolar.
 - Canada's government proposes a digital loonie, reducing the need for traditional banks in everyday transactions.
- Technological Developments:
 - China's AI-driven credit rating systems outperform Western models, leading businesses to prefer Chinese-backed financial services.
 - African economies integrate blockchain-based identification systems, allowing seamless banking access without traditional infrastructure.

2028: Regulatory Pressure & Liquidity Crisis

- Financial Metrics:
 - OldBank's liquidity ratio drops below 8%, triggering regulatory concerns.
 - Large corporate clients withdraw over \$10 billion, fearing insolvency.
 - The Canadian government intervenes, forcing OldBank to sell \$20 billion in assets to stay afloat.
- Political & Global Economic Changes:
 - Canada enters a mild recession, increasing banking sector stress.
 - The government increases support for state-backed fintech solutions, competing directly with traditional banks.
- Technological Developments:
 - African digital currencies become widely used in global trade, further reducing reliance on Western banks.
 - Chinese AI-driven financial advisors replace human wealth managers, offering ultra-low-cost investment solutions.

2029: The Final Collapse Begins

- Financial Metrics:
 - OldBank fails to secure emergency funding as investor confidence collapses.
 - The bank's market capitalization drops to \$2 billion, down from \$40 billion in 2025.
 - A bank run begins as depositors rush to withdraw funds, overwhelming OldBank's liquidity reserves.
- Political & Global Economic Changes:
 - The Canadian government signals it may not fully bail out OldBank due to the growing digital banking sector.
 - Major pension funds and institutional investors dump OldBank's stock.
- Technological Developments:
 - African and Chinese digital banks offer direct international accounts, siphoning off millions of OldBank's customers.
 - AI-driven credit systems become the global standard, rendering traditional credit analysis obsolete.

2030: OldBank Declares Insolvency

- Financial Metrics:
 - OldBank declares bankruptcy in Q2, unable to meet withdrawal demands.
 - The Canadian government splits OldBank's assets between fintech startups and remaining competitors.
 - Shareholders and uninsured depositors lose billions.
- Political & Global Economic Changes:
 - Canada launches a government-backed digital financial network, eliminating the need for traditional banks in many sectors.
 - The global banking landscape is now dominated by AI-driven, decentralized financial systems.
- Technological Developments:
 - Chinese and African AI-powered financial services become the dominant players in global banking, pushing out legacy institutions.
 - Western banking collapses in several markets, marking the end of an era for traditional financial institutions.

Conclusion

OldBank's failure in 2030 is not just a result of financial mismanagement—it is the consequence of global economic shifts, technological disruption, and changing consumer behavior. By the time it collapses, the world has moved

beyond traditional banking, leaving OldBank unable to compete in an era dominated by AI, blockchain, and decentralized finance.

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