Scenario Planning Thinking

Idea In Short

Forecasts tend to fail at exactly the moments when leaders need them most. Scenario planning offers a different tool: a small set of coherent, plausible stories about how the future could unfold, used to test decisions and widen the thinking of the people who make them. The method grew out of Royal Dutch Shell in the early 1970s, where Pierre Wack and Ted Newland led a team that challenged the comfortable belief that oil supplies were secure. This article explains what scenarios are and are not, how to build them, how to use them in strategy, and which traps to avoid, with a clearly labelled hypothetical example to show the steps in practice.

In the early 1970s, most oil executives assumed supplies were secure and prices would stay stable, largely because the big oil companies seemed to be in control. A small team at Shell asked an uncomfortable question: what if that were not true? They did not predict the oil shocks. They prepared managers to think about them, and the habit of imagining other futures became a lasting corporate tool.

What scenario planning is

Scenario planning, according to a SAGE encyclopedia entry, is a process within strategic management that combines the creation of stories or images of plausible futures with the practical strategic and policy means of providing for them.1

A scenario is a story, not a number. It describes a path from now to a possible future, with causes, actors, and turning points. The story makes the future concrete enough for managers to discuss what they would do.

Scenarios are not forecasts. A forecast picks the most likely outcome. A scenario set describes several outcomes that could each happen and asks what you would do in each.

How Shell began

Strategy and Business describes scenario planning as one of the few management innovations created in a corporate setting. It names Pierre Wack as the leader of Royal Dutch Shell's London scenario team.2

Wikipedia credits Wack as the first to develop scenario planning in the private sector, at Shell's London headquarters in the 1970s.3

The SAGE entry adds that Wack and Ted Newland led a small team in the early 1970s that examined the price of oil when dominant thinking at Shell held that supplies were secure. It says the approach gained credence by stretching company thinking beyond the confines of the forecasting paradigm.

IMD adds that Wack's work was said to help the company anticipate two oil shocks in one decade, and that scenario planning later played a significant role during South Africa's transition from apartheid in the early 1990s.4

Why scenarios beat single forecasts

A forecast needs the future to resemble the past. Major shifts break that assumption, and those shifts are what hurt a strategy most.

McKinsey's article on the use and abuse of scenarios argues that scenarios offer a less threatening way to lay out futures in which the assumptions behind today's strategy may no longer hold. Managers can discuss a story about the world changing without feeling that they are attacking a colleague's plan.5

The same article says scenarios help teams learn which drivers matter and which do not. That learning often changes the questions a team asks, which is as useful as any answer.

Predetermined elements and critical uncertainties

An Emerald article on Wack's concepts explains that by predetermined he meant events that have occurred, or are almost certain to occur, whose consequences are not yet clear.6

The distinction is useful. Some developments are close to certain, such as an aging population or a regulation already passed. Others are open, such as how customers will respond or which technology will win.

Good scenarios treat the first group as the base and vary the second. Mixing them up leads to stories that dodge the real uncertainty or that treat settled facts as open.

McKinsey adds that scenario work can uncover inevitable or near-inevitable futures, because many economic actions bring predictable reactions that strategy often ignores.

How Shell structures its scenarios

A later Emerald article on Shell's energy scenarios notes that the company continues to generate two principal scenarios as extremes of a spectrum of plausible futures, and it assumes the real future lies somewhere between them. It adds that Shell is careful to present its scenarios as alternative outcomes of known macro trends involving many players, as opposed to Shell's own desired outcomes.7

Other organizations use three or four scenarios, and the right number depends on the purpose. Two scenarios make contrast easy but can feel like good versus bad. More scenarios add richness but may overwhelm the audience.

Whatever the number, the scenarios should differ in ways that matter to the decision, not only in tone.

Building scenarios step by step

Begin with a focal decision. Choose a question with a long lead time, such as whether to build a factory, enter a market, or invest in a skill.

Gather information broadly. Talk to people outside your usual circle, read widely, and look for early signs of change.

List the driving forces: social, technological, economic, environmental, and political. Sort them into predetermined elements and critical uncertainties.

Pick the two or three uncertainties that matter most and are least predictable. Combine their possible outcomes into contrasting settings.

Write each scenario as a short story with a name, a logic, and a timeline. Check that each is internally consistent and plausible.

Using scenarios to test strategy

Run each strategic option through each scenario. Ask how it performs, what it would require, and what would signal that the scenario is unfolding.

Look for robust moves, which pay off in most scenarios, and for options that keep choices open. Also note bets that work in only one future, and decide whether the upside justifies the risk.

Define early warning signs for each scenario. Tracking those signs turns the scenarios into a monitoring tool, not a one-off workshop.

Revisit the scenarios on a schedule. As events unfold, update the stories and the strategy.

Who should be in the room

Scenario work improves when the group is varied. People from finance, operations, sales, and technical teams see different signals, and each group's blind spots differ.

Bring in outsiders where you can. Customers, suppliers, regulators, and academics often hold views that insiders have stopped noticing.

Appoint a facilitator who does not own the strategy. That person can press on weak assumptions and keep the conversation on the stories instead of defending current plans.

Give senior leaders a role without letting them dominate. Their sponsorship matters for follow-through, but junior voices often raise the signals that change the stories.

Write down the reasoning. When scenarios are documented with their assumptions and sources, later teams can see why the stories took their shape and update them.

Schedule enough time. A rushed session produces thin stories, while a well-paced one lets people challenge each other and refine the logic.

A hypothetical example

Imagine a hypothetical regional bus operator deciding whether to buy a large fleet of electric buses, which would lock in costs for fifteen years. The strategy team identifies two critical uncertainties: how fast charging infrastructure arrives, and whether the city introduces road pricing.

They write four short scenarios. In one, charging arrives early and road pricing passes, so demand for buses grows. In another, charging lags and no pricing arrives, so diesel hybrids stay competitive. The team tests the purchase plan against each story and finds it works well in two and badly in one. They stage the purchase in three tranches and set triggers tied to charging rollout and the pricing vote. The operator and figures are invented, but the example shows how scenarios shape a decision.

Cautions

Do not treat scenarios as predictions. Stories about possible futures are not forecasts of the one that will happen, and McKinsey's article devotes space to the common traps in using them.

Avoid stories that are too similar. If all scenarios share the same hidden assumption, they will not stretch thinking.

Keep the effort proportionate. A months-long program for a small decision wastes time, while a short workshop may do for a modest one.

Finally, link scenarios to action. A set of vivid stories that changes no decision has failed, however good the writing.

- 1Scenario planning, SAGE Knowledge
- 2The man who saw the future, strategy+business
- 3Pierre Wack, Wikipedia
- 4Back to the future: the case for scenario planning, IMD

- 5The use and abuse of scenarios, McKinsey
- 6A perceptive and persistent pioneer, Journal of Management Development
- 7Shell scenarios for energy 2050, Strategy and Leadership

Summary

Scenario planning thinking means developing detailed alternative futures and using them to test strategy. Scenarios are not forecasts or preferences but plausible stories that stretch thinking beyond the forecasting paradigm, as the Shell experience showed. Good scenarios rest on drivers that matter, uncover near-inevitable developments, and make uncomfortable assumptions easier to discuss. The method has traps, including treating scenarios as predictions and building too many. Choose one decision with a long lead time, write two or three contrasting futures for it, and ask which choices hold up in all of them and which only work in one. Share the results with colleagues and ask what they would add.