

LEVERAGING UNCERTAINTY

Developing strategy in times of uncertainty

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CLARITY. FOCUS. EMPOWERMENT.

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Organisations need to become more sophisticated in dealing with uncertainty. By embracing, managing and quantifying uncertainty you can obtain greater clarity on your strategy, and leverage uncertainty to achieve superior performance.

We live in a world which is less linear and more fluid, with fast-changing conditions, and ongoing global economic and political uncertainty. Recent developments have contributed to a heightened sense of uncertainty, with Donald Trump being unexpectedly elected as President of the United States, Theresa May triggering Article 50 to start the process of the UK leaving the European Union, combined with economic instability in Europe, the refugee crisis and ongoing tensions in the Middle East. The only consistency is that uncertainty will remain high for some time.

In times of heightened uncertainty, our ability to think rationally can easily become overwhelmed. It is often believed that strategy and uncertainty are incompatible – that if there isn't enough certainty about the future, then you cannot develop strategy effectively. The reality is that there will always be some uncertainty, and there is no guarantee that the future will be less uncertain or less complex.

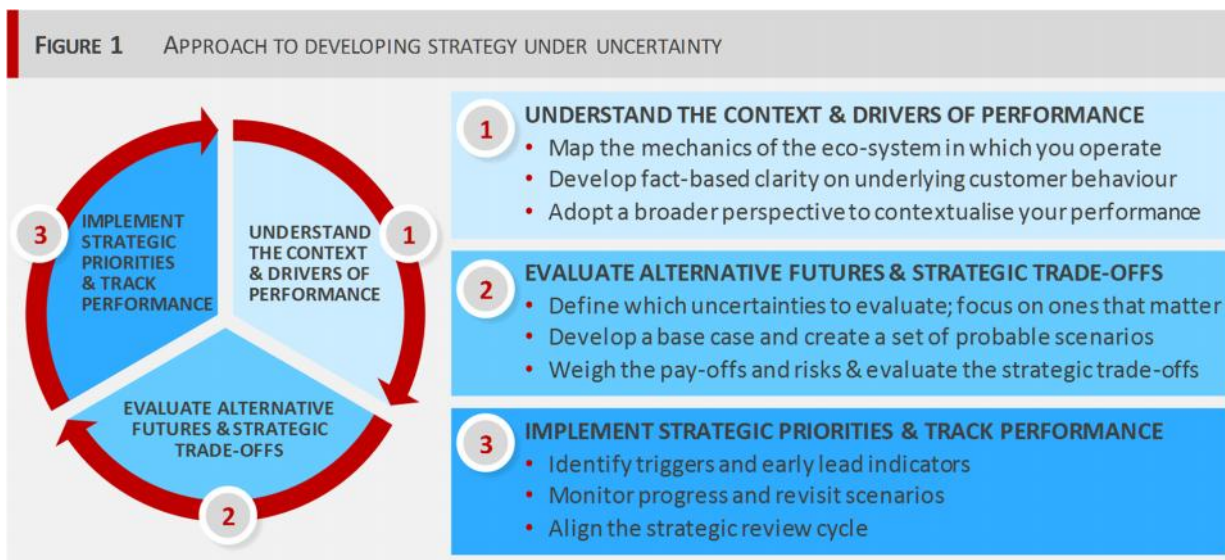
The danger with a wait-and-see approach to strategy is that the competition may be proactively developing a strategy to navigate and exploit the uncertainty to their advantage, which could leave you in a worse competitive position. Furthermore, without a clear strategy in place, your organisation risks the inefficiency and ineffectiveness of poor focus and decisions having no coherence – which places increasing pressure on your organisation's performance.

***“It is in times
of uncertainty,
when strategy is
most important”***

It is in times of uncertainty when you have to be clearer about your strategy. The companies that survive and succeed are the ones who are very clear about who they are and how they are going to compete, and manage the circumstances to continue delivering value. This strategic clarity helps them successfully navigate through ambiguous situations.

It is also during these times when new opportunities emerge, and those companies that are most prepared to take advantage of them are the ones that will benefit the most. Ambiguity can unlock potential, by making companies explore strategic options that they would not have otherwise considered. Ironically, it is also at these times when performance expectations are lowered, and management have more flexibility to make unprecedented strategic moves that they may have otherwise been unable to do.

Senior management will need to become more accustomed to working with uncertainty, and take the necessary steps to make coherent strategic decisions under uncertainty. Figure 1 outlines an approach of how organisations can manage uncertainty to make better strategic decisions.



UNDERSTAND THE CONTEXT & DRIVERS OF PERFORMANCE

Building clarity on the structure and mechanics of the ‘eco-system’ in which you operate, and the underlying customer behaviour, is fundamental to strategy. It provides a solid basis on which to identify growth opportunities, and evaluate how emerging trends and market events could affect brand performance in the future.

MAP THE MECHANICS OF THE ECO-SYSTEM IN WHICH YOU OPERATE

Every organisation operates within an eco-system to deliver value to its customers. An organisation’s eco-system typically includes its suppliers, its staff, its distribution network, other organisations with which it collaborates, its direct and indirect competitors, and of course, its customers.

Few organisations have a proper appreciation of the underlying mechanics of their eco-system – how it is structured, how it is evolving, and more importantly how the interdependencies between the key elements drive brand performance. This understanding is fundamental, whether you are operating during uncertainty or not, as this ‘blueprint’ helps to reduce complexity when making strategic decisions.

When mapping your eco-system, it is important to start by disentangling the main factors driving performance for your brand, as well as the performance of competing brands. This ensures you focus on mapping the most important structural elements of your eco-system.

Organisations need to collect data on their eco-system, through a combination of internal performance data, desk research, industry and competitor reports, as well as internal surveys and primary research studies. Uncertainty can be reduced by resolving ambiguity where possible. If the underlying mechanics are clear and the right analysis is performed, it is often possible to identify clear trends that will influence potential demand for a brand. Consequently, by adopting a data-driven approach, some factors that seem uncertain are in fact foreseeable.

DEVELOP FACT-BASED CLARITY ON UNDERLYING CUSTOMER BEHAVIOUR

Whether you operate in a B2C or B2B industry, or whether you are a profit or non-profit organisation, you need to get into the mind of your customers and those you want to target.

Customers are the engine which drives performance, and should be placed at the centre of your eco-system. You need to develop a unified customer view of your industry, based on a deep understanding of underlying customer behaviour, their needs, attitudes, usage and purchasing behaviour, and what drives their choices. In our experience, the best results are achieved when this view is anchored in actual customer behaviour (captured through longitudinal tracking panels or online diaries), as opposed to stated behaviour. Clarity on underlying customer behaviour often reveals untapped opportunities to drive performance.

“Clarity on underlying customer behaviour often reveals untapped opportunities”

It is also important to segment your customers, as not all customers are equal in terms of the value they generate for your brand, and not all customers have the same needs and requirements. Furthermore, not all customer behaviour will be impacted the same way as circumstances change and new situations emerge.

For organisations that operate in B2B industries, it is important to extend your line of vision beyond your immediate customers to also understand end-customer behaviour, as changes in end-customer choices are likely to ripple through the system and influence your performance.

ADOPT A BROADER PERSPECTIVE TO CONTEXTUALISE YOUR PERFORMANCE

Once you understand the underlying customer behaviour and the mechanics of the eco-system in which you operate, you then have to widen your perspective. You will need to detect and interpret patterns in politics and macroeconomics, and draw implications on how they could impact your eco-system, and ultimately your brand’s performance.

It is possible for the impact of macro events to surpass competitive and operational considerations. Clarity on your eco-system provides the context in which to develop hypothesis and plausible scenarios on how these exogenous events may influence customer choices and brand performance – this is discussed in the next section.

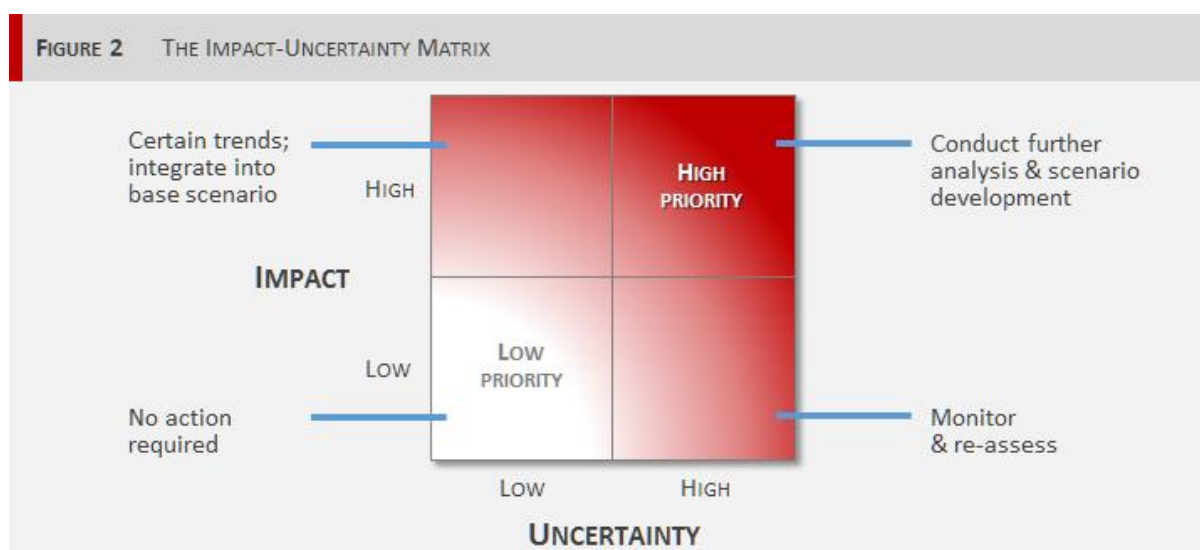
EVALUATE ALTERNATIVE FUTURES & STRATEGIC TRADE-OFFS

Faced with increasing levels of uncertainty, a scenario-based planning process is key to robust strategy development. The aim is to see the future before others do, in terms of how the competitive environment, market conditions and customer behaviour could change. This foresight allows you to craft strategic moves to shape the future to your brand's advantage, and helps to identify the lead indicators to monitor to ensure you do not miss a strategic turn.

DEFINE WHICH UNCERTAINTIES TO EVALUATE – FOCUS ON THE ONES THAT MATTER

Review the market and category trends, and identify potential market and macro events that may affect your brand's future performance. You may identify several areas of uncertainty about future performance, therefore it is important to focus on those uncertainties that could have a significant impact.

A useful approach to prioritise the uncertainties is to categorise each event or trend according to the level of uncertainty and the potential impact on performance – as shown in Figure 2.



Areas of 'high uncertainty' and 'high impact' should be explored as a priority. Some of the areas that initially fall into this quadrant may be clarified with more in-depth analysis thereby becoming more predictable and would shift to the left of the matrix. Other areas will remain highly uncertain, for which developing plausible scenarios would be beneficial.

DEVELOP A BASE CASE AND CREATE A SET OF PROBABLE SCENARIOS

Scenarios are a useful tool to provoke strategic insight, as they force you to think rigorously and systematically about the future environment. As a starting point, you will need to develop a base scenario of brand performance integrating the known and quantified trends in the market. This serves as a benchmark of future brand performance, to determine the extent to which performance is impacted by future scenarios and market events.

You will then need to develop a set of scenarios describing alternative futures. For each scenario, you will need to articulate assumptions about the timing, causality and strength of the impact. To the extent possible, support these assumptions with analogues, relevant data or knowledge of similar situations. Scenarios that describe the extreme points in the range are often easier to define. It is important to limit the number of alternative scenarios to four or five scenarios by focusing on those that have clear strategic implications and collectively account for the probable range of future outcomes.

Simulation capabilities allow senior management to model and evaluate the potential impact of plausible scenarios on the shape of the future eco-system, and the resulting financial impact on brand performance. This allows senior management to acquire a real sense of the likely outcomes of a strategy under different market conditions and scenarios, as well as the risk of following a status quo strategy.

This insight helps senior management make informed decisions about which future opportunities or threats to address (and to what extent), and which ones to endure. This clarity is a significant step in managing uncertainty.

WEIGH THE PAY-OFFS AND RISKS & EVALUATE THE STRATEGIC TRADE-OFFS

Senior management sometimes struggle with trying to balance the range of strategic choices that result from the scenario process, with the development of a coherent strategy. The objective of evaluating scenarios is not to stray away from the organisation's core strengths or long-term vision, but to seek ways to leverage these strengths to navigate through the changing circumstances. Robust scenarios are not intended to predict brand sales, but rather to provide a sense of the magnitude of the impact on brand performance, to help frame the right questions and trade-offs for an organization.

Comparing the scenario outcomes against the base case helps to evaluate the magnitude of the costs and payoffs as well as the potential risks these scenarios expose your brand to. This insight helps in the development of contingency plans, and to determine how to win under the different scenarios. However, when prioritising which strategic initiatives to pursue, it is important to assess the likelihood of each scenario in order not to overreact to the situation.

“Senior management must distinguish between ‘core strategic moves’ & ‘opportunistic strategic moves’.”

Senior management must distinguish between ‘core strategic moves’, and ‘opportunistic strategic moves’. Core strategic moves are those that build on the organisation's capabilities and deliver a positive outcome under all or most of the probable scenarios. This clarity, builds confidence and consensus on which core initiatives to focus on.

Opportunistic strategic moves, on the other hand, are aimed at mitigating potential risks or positioning an organisation to be well placed to exploit emerging opportunities, depending on which scenario materialises. Investment in these strategic moves should be selective, and positioned so that they can be ramped up or scaled down depending on the scenario. Senior management may choose to wait before implementing these initiatives until there is more clarity on the situation, but by being proactively prepared the organisation is already at an advantage over competitors.

IMPLEMENT STRATEGIC PRIORITIES & TRACK PERFORMANCE

“Responding faster than competitors as conditions change is an important advantage”

Organisations that are successful in times of uncertainty are not necessarily better at foreseeing the future, but are better prepared for the range of plausible futures, and have identified the early lead indicators to identify which scenario will unfold so they can rapidly seize the opportunity.

IDENTIFY TRIGGERS AND EARLY LEAD INDICATORS

Responding faster than competitors as conditions change is an important advantage in times of uncertainty. This requires identifying and monitoring lead indicators and trigger events that indicate which scenario the market is moving towards. Organisations must then ensure they have a process not only to recognise these lead indicators, but also to feed the information and insights into their strategic decisions.

MONITOR PROGRESS AND REVISIT SCENARIOS

In addition to tracking lead indicators, organisations must monitor and evaluate the results of implementing the strategic initiatives to ensure they are achieving the desired outcome. Furthermore, senior management should revisit and revise the scenarios as new information comes to light. This feedback helps senior management reshape the strategy.

ALIGN THE STRATEGIC REVIEW CYCLE

Senior management will need to routinely and frequently review performance and its strategic implications. To actively manage uncertainty, strategic decisions will need to be reviewed on a more regular basis (such as weekly or monthly), as opposed to annual planning. The appropriate frequency should be aligned to the speed of change in the market.

Uncertainty will remain high for some time, but this is no excuse for less rigour or clarity in making strategic decisions. Senior management will have to embrace uncertainty and enhance their approach in order to make robust strategic decisions in this environment.

Adopting a data-driven and quantitative approach to strategy, that captures the underlying customer behaviour and mechanics of performance, and explores plausible scenarios, provides the basis for building a shared understanding of the context, opportunities, trade-offs, and lead indicators to monitor.

In this way, senior management will not only make better strategic decisions, but also proactively leverage uncertainty to move ahead of the competition.

About the Author

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