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## **Scenario Planning and New Venture Creation**

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## **Abstract**

Scenario planning is a widely used technique in the strategic planning process. It can give critical inputs to the strategic planning process. Scenario planning is useful in gaining a good understanding of the opportunities and challenges which might emerge in the future. Hence it helps organizations to overcome uncertainties relating to their future to a large extent. Many risks characterize the new venture creation process. In this paper, I discuss the utility of scenario planning in helping start-ups to make crucial decisions during the business planning phase. First, I explain how scenario planning is conducted in organizations. Second, I discuss the critical elements of a business plan and explain the significant uncertainties faced by start-ups in this phase. Third, I discuss how scenario planning helps start-ups to overcome some of these uncertainties.

**Keywords:** Scenario Planning, New Venture Creation, Business Plan

## **Introduction**

Scenario planning is an essential and useful tool in the strategy-making process. It is used by organizations irrespective of their industry sector (e.g., manufacturing and service), size (e.g., large and small), and type (for-profit, NGO, public sector, and social enterprise) for making effective strategic decisions. While making strategic decisions that have a significant impact on the organizations, managers very often do not have access to complete information relating to the key decision variables. Under such circumstances, they make reasonable assumptions to address critical uncertainties. However, in many situations, organizations make wrong decisions leading to poor performance. Scenario planning is not a technique for predicting the future. Instead, it helps organizations to visualize different scenarios that might emerge in the future and prepare themselves to face them effectively.

The development of a business plan is a crucial task in the new venture creation process. A well-prepared business plan will provide all the details regarding the product or service offered, the raw materials needed, suppliers, future products, industry characteristics, competitors, competitive strategy, marketing strategy, financial forecasts, and funding strategy. An outline of a business plan adapted from Scarborough & Cornwall (2015) and Kuratko (2017) is presented in Appendix 1. The entrepreneur who is at the core of the entrepreneurial process needs to be actively involved during the preparation of the business plan. Essentially the entrepreneur is making plans for the future, say the next five to ten years, and hence there is a high level of uncertainty involved. The critical inputs received from the scenario planning process will help the entrepreneur to gain insights about the significant changes which might unfold in the future. This understanding helps ensure that the details presented in the business plan are realistic, and the projections are achievable.

## **An Overview of the Scenario Planning Process**

The organization, first of all, needs to form a team comprising of 15 to 30 participants from its different divisions. The team will also include external stakeholders like suppliers, customers, consultants, and academics. It will be a good idea to add a few individuals with creative skills in the team because they will be able to visualize things relating to the future more effectively. The scenario planning process starts with the identification of a key focal issue relating to the organization. The key focal issue could be either a major strategic decision they want to make or a critical uncertainty that might have an impact on the performance of the organization. Examples of major strategic decisions include acquisitions, alliances, joint ventures, internationalization, new product development, and entering new markets. The significant uncertainties include future demand for a product or service, preferences of the customers, government policies and regulations, availability of raw materials and other resources, economic conditions, and other significant factors affecting the financial performance.

After the identification of the key focal issue the organization needs to go through a series of processes as shown in Figure 1.

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Insert Figure 1 about here  
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After the identification of the key focal issue the team will identify the driving forces that are likely to have significant impact on the key focal issue. These driving forces are identified by interviewing various stakeholders and also by examining secondary data. Subsequently the team ranks the driving forces based on their level of uncertainty and importance to the organization and two driving forces are chosen as critical uncertainties. Using these two critical uncertainties as X and Y axes, they create a 2X2 scenario framework, where each quadrant represents a future scenario, as shown in Figure 2. For example, if we assume that

Critical Uncertainty 1 is Demand and Critical Uncertainty 2 is Supply, Demand will be high on the right-hand side on the X-axis and low on the left-hand side.

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Insert Figure 2 about here  
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Similarly, Supply will be high on the top on the Y-axis and low on the bottom. In Scenario 1, Demand is low, and Supply is high, and hence the company will have difficulty in sustaining its competitive advantage. In Scenario 2, both Demand and Supply are high, and it will be a very favorable situation for the company. In Scenario 3, Demand will be high, and Supply will be low, and hence it will be beneficial for the company if they can source supplies to satisfy the demand. In Scenario 4, both Demand and Supply will be low, and hence it will be a difficult situation for the company.

This example provided above explains how a company can visualize future scenarios and factor them in their strategic planning process. Hence scenario planning is not a technique for predicting the future, but it prepares the organization to face different scenarios that are likely to emerge in the future. After creating the scenario framework, the next step is to identify the four scenarios with proper names that reflect their characteristics. Appropriate narratives should describe the characteristics of each scenario. It will be helpful if some individuals with creative skills are included in the team responsible for conducting this exercise. They will be able to make useful contributions while preparing the narratives.

After completing this exercise, the team should assess the implications of each scenario for the organization and identify the options available if that scenario emerges. The organization should observe the warning signals that indicate the emergence of one scenario or another.

The whole exercise of conducting scenario planning can be completed in about three to nine months.

### **Effectiveness of Scenario Planning while preparing a Business Plan**

As explained earlier, scenario planning is an effective tool for planning under uncertainties, and hence it could be effectively utilized during the business planning process. In section IV of the business plan (see appendix 1), sub-section C discusses raw materials and costs. The example presented in the previous section regarding demand and supply will be relevant while preparing this section. Depending upon the type of raw materials used, the critical uncertainties could also be Availability and Cost. By identifying suitable axes for the scenario framework, the entrepreneur will be able to visualize different scenarios.

Section V of the business plan deals with the industry profile. Scenario planning technique could be used in all three sub-sections while discussing significant trends, growth rate, key success factors, the outlook for the future, and stage of growth. The patterns which exist in the industry at the time of preparing the business plan might change in the future, and that might have an impact on the new venture. Through scenario planning, the entrepreneur can identify multiple possibilities relating to future trends. There are uncertainties regarding the future growth rate of the industry, and scenario planning can provide valuable insights to the entrepreneur. Similarly, while discussing key success factors, the outlook for the future, and the stage of growth, the scenario planning process will be immensely helpful.

Sub-section B, in section VI discusses potential competitors. It would be challenging for the entrepreneur to visualize the nature of competition in the future. Scenario planning could play a significant role in identifying the kind of competition that the venture is likely to face. In a contemporary business situation, the boundaries of the industries get redefined very often,

and hence the nature of competition also might change. For example, companies like Sony and Apple could be competing against the likes of Toyota and Ford in the electric vehicles segment in the future. New competitors from other industries and also new start-ups might emerge as strong competitors. Scenario planning exercise can visualize multiple possibilities regarding competition, and they can help the entrepreneur while discussing potential competitors.

Section XII of the business plan deals with financial forecasts, and scenario planning can provide critical inputs to the entrepreneur while writing this section. The financial projections used by the entrepreneur are based on assumptions, and if some of the assumptions go wrong, the financial estimates also will not be valid. Scenario planning can help start-ups in minimizing the errors relating to their premises resulting in more realistic financial forecasts.

While creating a new venture, many entrepreneurs have an exit plan in mind. Some of them might be planning for an initial public offering (IPO), which effectively transforms their firm into a public limited company. A few others might plan for selling the company at a reasonable price so that they can either retire or re-invest in new business. It is complicated for an entrepreneur to gain a clear picture regarding their harvest strategy (see section XV of the business plan) at the time of writing the business plan. Here again, scenario planning can come to the rescue of the entrepreneur.

### **Further Development of this Paper**

In this paper, I have explained the use of scenario planning during the business planning process. To develop this paper, I plan to conduct a few case studies on new ventures. I will work with the start-ups while preparing their business plans and will use scenario planning while discussing some of the sections as described in the previous section.

## **References**

Garvin, D.A. and Levesque, L.C. (2006) *A Note on Scenario Planning*, Harvard Business School Publishing

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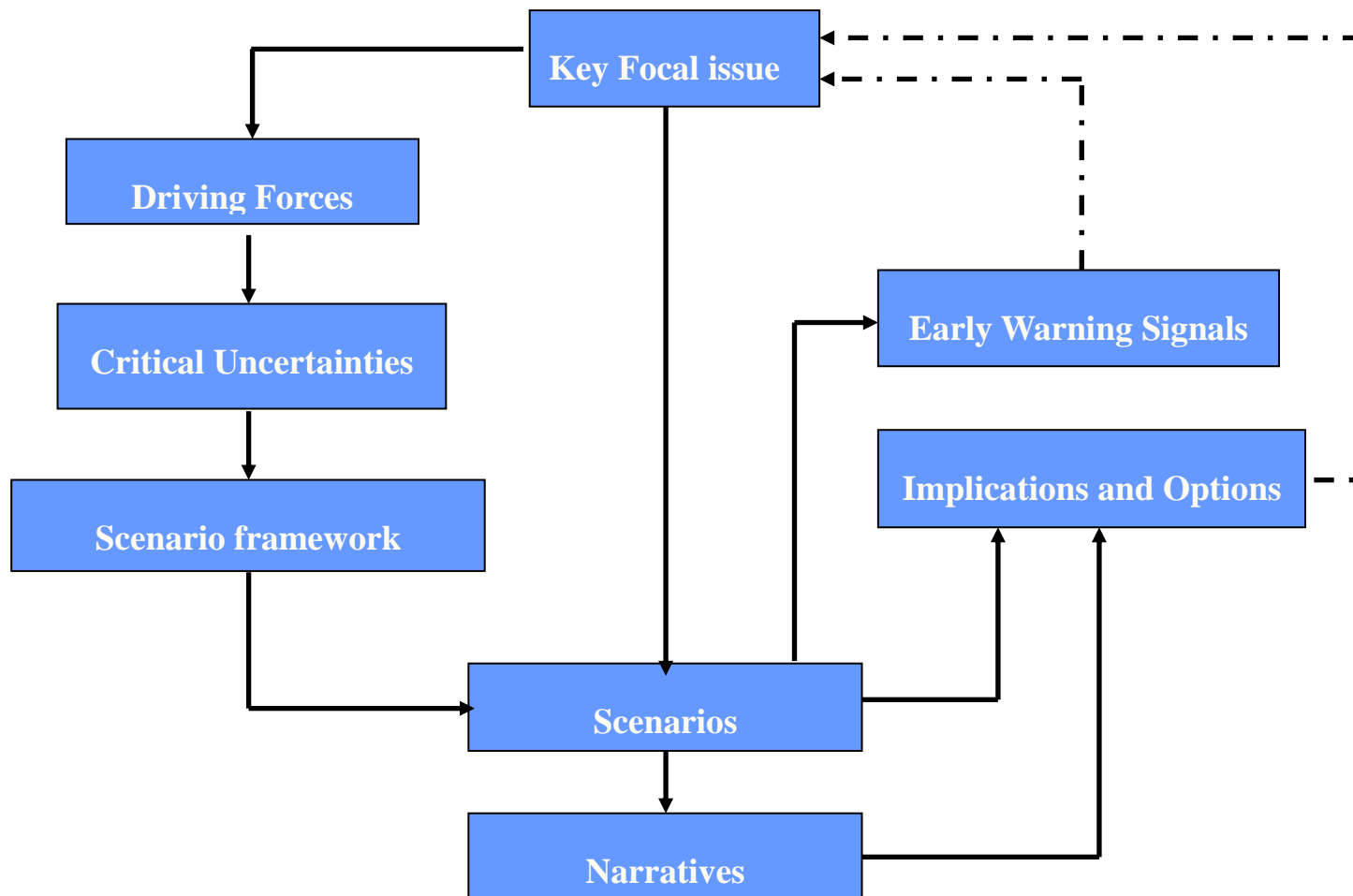


Figure 1: Components of Scenario Planning (Adapted from Garvin and Levesque, 2006)

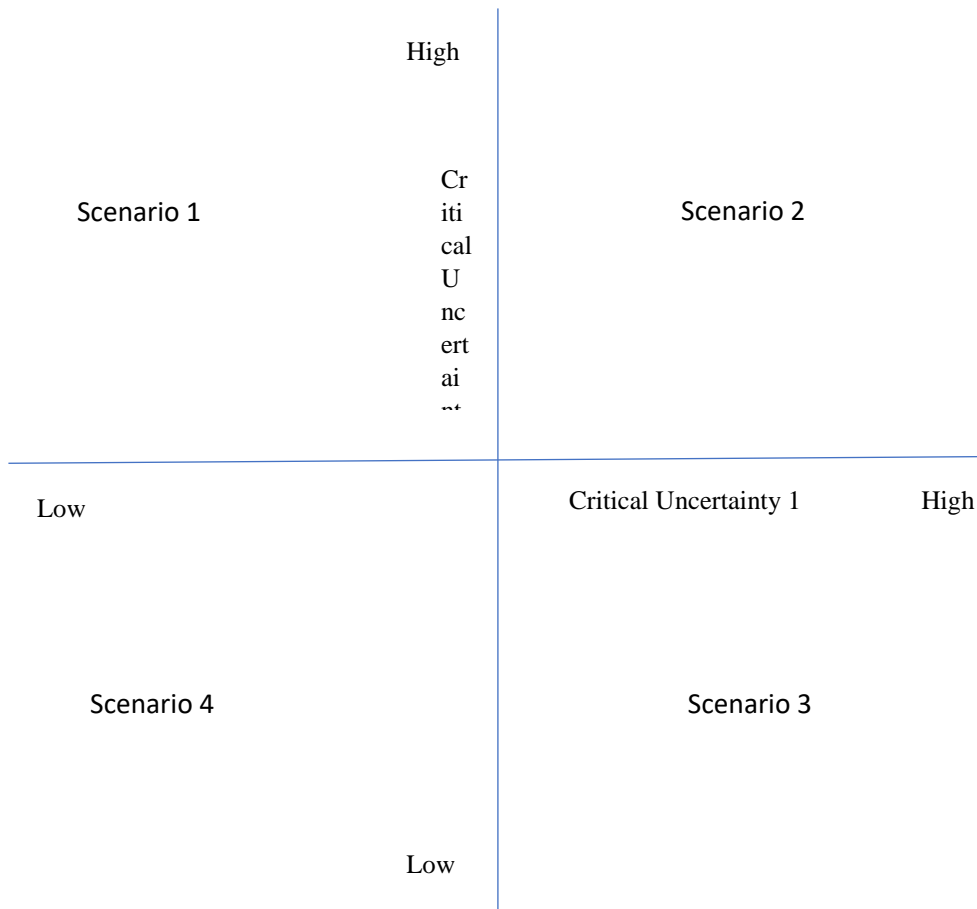


Figure 2: Scenario Framework

## **Appendix 1 – An outline of a Business Plan**

### **I. Executive Summary( not to exceed one page)**

- A. Company name address and phone number
- B. Name(s), addresses and phone number(s) of all key people
- C. Brief description of the business, its products and services, the customer problems they solve, and the company's competitive advantage
- D. A brief overview of the market for your products and services
- E. A brief overview of the strategies that will make your company successful
- F. Brief description of the managerial and technical experience of key people
- G. A brief statement of the financial request and how the money will be used
- H. Charts or tables showing highlights of financial forecasts

### **II. Vision and Mission Statement**

- A. Entrepreneur's vision for the company
- B. "What business are we in?"
- C. Values and principles on which the business stands
- D. What makes the business unique? What is the source of its competitive advantage?

### **III. Company History( for existing businesses only)**

- A. Company founding
- B. Financial and operational highlights
- C. Significant achievements

### **IV. Company Products and Services**

- A. Description
  1. Product or service features
  2. Customer benefits
  3. Warranties and guarantees
  4. Unique Selling Proposition (USP)
- B. Patent or trademark protection
- C. Description of the production process (if applicable)
  1. Raw materials
  2. Costs
  3. Key suppliers
  4. Lead times
- D. Future product or service offerings

### **V. Industry Profile and Overview**

- A. Industry analysis

1. Industry background and overview
  2. Significant trends
  3. Growth rate
  4. Barriers to entry and exit
  5. Key success factors in the industry
- B. Outlook for the future
- C. Stage of growth (start-up, growth, maturity)

## **VI. Competitor Analysis**

- A. Existing competitors
1. Who are they? Create a competitive profile matrix
  2. Strengths
  3. Weaknesses
- B. Potential competitors : Companies that might enter the market
1. Who are they?
  2. Impact on your business if they enter

## **VII. Business Strategy**

- A. Desired image and position in market
- B. Company goals and objectives
1. Operational
  2. Financial
  3. Other
- C. SWOT analysis
1. Strengths
  2. Weaknesses
  3. Opportunities
  4. Threats
- D. Competitive strategy
1. Cost leadership
  2. Differentiation
  3. Focus

## **VIII. Marketing Strategy**

- A. Target market
1. Problem to be solved or benefit to be offered
  2. Demographic profile
  3. Other significant customer characteristics
- B. Customers' motivation to buy
- C. Market size and trend

1. How large is the market?
  2. Is it growing or shrinking? How fast?
- D. Personal selling efforts
1. Sales force size, recruitment and training
  2. Sales force compensation
  3. Number of calls per sale
  4. Amount of average sale
- E. Advertising and promotion
1. Media used – reader, viewer, listener profiles
  2. Media costs
  3. Frequency of usage
  4. Plans for generating publicity
- F. Pricing
1. Cost structure
    - a) Fixed
    - b) Variable
  2. Desired image in market
  3. Comparison against competitors' prices
  4. Discounts
  5. Gross profit margin
- G. Distribution strategy (if applicable)
1. Channel of distribution used
  2. Sales techniques and incentives for intermediaries
- H. Test market results
1. Surveys
  2. Customer feedback on prototypes
  3. Focus groups

## **IX. Location and Layout**

- A. Location
1. Demographic analysis of location versus target customer profile
  2. Traffic count
  3. Lease/rental rates
  4. Labour needs and supply
  5. Wage rates
- B. Layout
1. Size requirements
  2. Compliance with disability rules
  3. Ergonomic issues
  4. Layout plan(suitable for an appendix)

**X. Description of management team**

- A. Key managers and employees
  - 1. Their backgrounds
  - 2. Experience, skills and know-how they bring to the company
- B. Resumes of key managers and employees (suitable for an appendix)
- C. Future additions to management team
- D. Board of Directors or advisers

**XI. Plan of Operation**

- A. Form of ownership chosen and reasoning
- B. Company structure(organisation chart)
- C. Decision-making authority
- D. Compensation and benefits packages
- E. Staffing plans

**XII. Financial forecasts (suitable for an appendix)**

- A. Key assumptions
- B. Financial statements (year 1 by month, years 2 and 3 by quarter)
  - 1. Income statement
  - 2. Balance sheet
  - 3. Cash flow statement
- C. Break-even analysis
- D. Ratio analysis with comparison to industry standards (most applicable to existing businesses)

**XIII. Loan or investment proposal**

- A. Amount requested
- B. Purpose and uses of funds
- C. Repayment or “cash out” schedule (exit strategy)

**XIV. Critical Risks**

- A. Potential problems
- B. Obstacles and risks
- C. Alternative courses of action

**XV. Harvest Strategy** It stands for Initial Public Offering but it should be well understood.

- A. Liquidity event (IPO or sale)
- B. Continuity of business strategy
- C. Identify successor

**XVI. Milestone Schedule**

- A. Timing and objectives

- B. Deadlines and milestones
- C. Relationship of events

**XVII. Appendices** (supporting documentation, including market research, financial statements, organization charts, resumes, and other items)

*Adapted from Scarborough & Cornwall (2015) and Kuratko, (2016)*