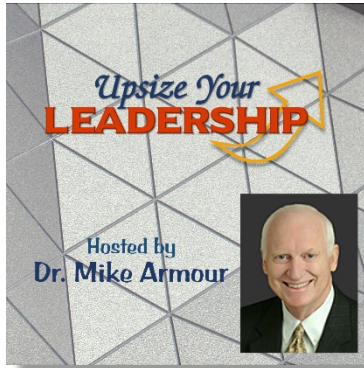


# Strategic Plans Are Not Enough

Hosted by Dr. Mike Armour

## Episode UYL2020

Podcast Date: December 29, 2020



We're just days away from a new year. Time to break out our strategic plans and business plans, brush them off, and revise them.

But the upcoming year has the word "UNPREDICTABLE" written large above its entrance. The COVID pandemic has made planning more challenging than ever. Who knows what the business climate will be like next month, much less nine or ten months from now?

We all have our hopes that we are on the cusp of recovery. But no one knows for sure. Yet one thing is certain. We've learned from this crisis that strategic planning, as vital as it is, cannot take every eventuality into consideration. A different approach

to planning is called for. And that's my topic today. Join me as we look at strategic planning from a perspective sure to help you Upsize Your Leadership.

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Strategy has always fascinated me. As a youngster I took a special liking to games like chess that put a premium on well-developed strategies. I loved reading biographies of people who saw great strategic opportunities and seized on them. By my twenties I was writing my first organizational strategic plans. Later I studied strategy formally in graduate seminars.

It was no mere accident, therefore, that when I started my leadership development firm in 2001, I named it Strategic Leadership Development International. My goal was to work with men and women who were responsible for developing or implementing strategy.

The firm got a jump start by landing two early clients who were looking for a strategic overhaul. One was in the for-profit community, the other in the non-profit world. In the first case we developed a strategic plan that led to breath-taking growth and a highly profitable buyout of the company a few years later.

In the case of the non-profit, we structured a strategic plan which took their international operations in an entirely new direction, a plan which still guides them these 20 years later.

I say all of this to emphasize my belief in strategic planning. I encourage it at every opportunity. But the COVID-19 crisis has driven home the fact that we need something over and above strategic plans. Like business plans, strategic plans typically forecast the future by making

straight-line projections of current trends. They don't allow for wholesale disruptions brought on by forces outside of our control.

For instance, I formally launched my company in the spring of 2001, with a business plan which called for delivering services nationwide. I set out ambitiously to build that clientele. I was barely underway, however, before the events of 9-11 brought air travel to a halt, wiping out the option of serving clients beyond a reasonable driving distance.

My strategic plan had no contingency for extended suspensions of air travel. To survive, I had to quickly shift gears and focus exclusively on building a local client base. Fortunately, this disruption came when the company was only months old. It had not grown financially dependent on clients spread across the nation. Had 9-11 occurred three years later, the outcome might have been far different for my firm. By then I would have relied so much on clients nationwide that a shutdown of air travel would have literally been disastrous – especially since Skype and Zoom technologies were still distant dreams.

How, then, do we incorporate unforeseen disruptions into strategic and business planning? The answer is, by supplementing strategic planning with scenario planning. Scenario planning fundamentally answers the question, “How should we respond if horrendous development X were to happen?”

If “scenario planning” is a new term to you, the concept itself dates back to the 1950s. It was used in think tanks and academic circles and found its way into military war-gaming. It broke into the corporate world as a result of a singular global disruption – the OPEC oil embargo of 1973. For listeners too young to remember that crisis, let me tell you what it was like from a consumer standpoint.

We had moved to San Jose, California in April that year. Gasoline prices were much higher in California than they had been in our native Texas, but gasoline was in plentiful supply. Then the OPEC nations decided to cut off oil deliveries to the U.S. Needless to say, the price of gasoline shot up like a rocket – if you could buy it. On Sundays, no gas could be sold, by state law. But there was no guarantee that you could buy gas any other time of the week.

Many service stations went days on end with no gasoline in their inventory. The ones who did have gas operated only limited hours. Once they had pumped their day's allotment, they shut down. Shutdown usually came well before noon.

For the consumer, this meant getting in line shortly after dawn at a station which would open around 7 a.m. By seven, the line would stretch for several blocks. Shortly after that, a service station attendant would walk the line, counting the number of cars. At a certain point he would put a sign on the rear windshield of a vehicle saying, “Last car to be served.” Everyone further back in the line was simply out of luck.

I usually sat in line for three hours to get ten gallons of gas. (That was the maximum a station was permitted to sell individual customers.) During the embargo, I read many a book while waiting in a gas line. And to make matters worse, gas was in such short supply that you could not buy it every day. You could either buy on even-numbered days or odd-numbered days, depending on whether your license plate was even or odd.

Thus, if Friday was your day to buy, the ten gallons you put in your tank had to last you until Tuesday, since you were not eligible to buy on Saturday, stations were all closed on Sunday,

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and you were again ineligible to buy on Monday. Wearing a mask and social distancing due to COVID is a minor inconvenience compared to the oil crisis.

But if the oil embargo changed life for consumers, it wreaked havoc on the oil companies. Their refineries either set idle or operated at reduced capacity, because they had no oil imports from Venezuela or the Middle East. They had not foreseen this scenario any more than the public did, and they were totally unprepared.

Concurrently, another change was underway politically which had staggering implications for the oil industry. The environmental movement was gaining steam, and the press for cutting carbon emissions was gaining a regulatory foothold. In almost no time at all, oil companies were forced to reformulate their primary products, with marked increases in the cost of refining. Big oil had not foreseen the rise of environmentalism any more than it had anticipated the OPEC crisis.

It was in this setting that Shell Oil Company decided to borrow the concept of scenario planning from academia and the military. Other corporate giants would follow Shell's lead in the future. But Shell set the early benchmarks for scenario planning. This was their approach.

They formed a team to think through and describe various potential scenarios which could occur on a worldwide scale and which could have adverse implications for the company. They also looked at potentially disruptive developments in specific countries vital to the company's operations.

Next, Shell chose one of these global scenarios each year and made it the topic of extensive strategic conversations. Managers across the entire company were brought together in settings where they wrestled with the question, "What could we do, how should we respond, if this situation were to become reality?"

At first glance, this might seem like a mere academic exercise, of no practical business advantage. But the process had several important benefits.

First, it conditioned people to quit thinking in simplistic, straight-line assumptions about the future. In the process, they became more attuned to watching for unfolding development which held the potential for becoming disruptive. This heightened sense of awareness became something of a corporate early warning system.

Second, Shell's scenario planning fostered outside-of-the-box thinking about solving problems. In the process of working through these what-if scenarios, many creative ideas emerged which had immediate business application, independent of the scenario under consideration.

In addition, managers grew more accustomed to looking for deeper complexity in problems and issues that might have formerly considered only superficially.

Third, even though specific scenarios may have never become realities, just thinking them through helped managers later when similar situations occurred unexpectedly. Because of the scenario planning discussion, managers were armed with an arsenal of ideas about how to cope with circumstances of this nature.

Now, I'm not suggesting that you need to replicate the Shell approach. I've used this example simply to illustrate the concept. On a much smaller scale, you might consider ways to supplement your overall planning scheme with at least limited scenario planning.

I have a client who just lost a customer who accounted for a huge percentage of the company's annual revenue. A year ago, the customer was highly profitable, with thriving locations all over the country. But they got wiped out by restrictions imposed after COVID and are now in bankruptcy.

Another company, a profitable manufacturer, has been a go-to supplier for the hospitality industry for decades. They never envisioned a day when the hospitality industry would be so hard-hit that orders for the company's products would dry up completely.

Still another client's profitability has been tied to huge conventions. With entire industries suspending conventions or putting them on hold indefinitely, my client faces staggering challenges just to continue operations.

All three of these companies would have been better served had they devoted time periodically to serious contingency planning based on a scenario in which they lost the bulk of their customer base. Where else would they turn to find new markets for their services or products? How would they surface these new customers? How would they streamline their cash flow while bringing new customers on line?

There are at least six scenarios which any business would be wise to consider.

- The first, as we've just outlined, is the loss of a significant bloc of customers.
- Second is a loss of critical suppliers or essential materials.
- Third is a natural disaster or an industrial accident which cripples production or vital logistics systems.
- Fourth is a sudden spike in costs which wipes out profit margins.
- Fifth is the extended illness or incapacity of the business owner or some other mission-critical worker.
- Sixth is the loss of investment funding or borrowing capacity or a marked increase in the cost of money. (Some of us are old enough to remember the Carter recession when home mortgages rates reached 18%.)

You could easily expand this list by adding other scenarios which are unique to your company and the way that you do business.

Don't try to bite off all of these scenario plans at once. Remember that Shell, with all of its resources, tackled only a single scenario each year. Because of their size and the scale of their global operations, of course, their scenarios were quite difficult to analyze. A small or medium-sized business might be able to take on a scenario quarterly or semi-annually. The time table is less important than undertaking the task.

If we've learned anything in 2020, it is that the unexpected can happen on a wholesale basis and without warning. Scenario planning is not the only way to prepare for such eventualities. But it ought to be a major weapon in your planning arsenal.

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