OLIVER WIGHTPAPER series

Scenario Planning Trigger Points

Creating an Integrated Response to Scenarios

Imagine the **possibilities**,
realize the **potential**.®

Scenario Planning

Scenario Planning is crucial to response and recovery to changes in our environment.[1] This has always been true and is talked about everywhere in business planning today. Leading companies are learning how to consistently implement scenario planning to sense and respond to triggers in a way that protects and promotes the business.

In this white paper, we provide insights on how to best utilize Integrated Scenario Planning as a decision-making tool by understanding Trigger Points, Response Plans, and related Roles & Responsibilities. We discuss:

- How to answer the "What If, Then" question by defining Scenario Trigger Points.
- "Who does What, When" a trigger point is reached.
- The importance of reaching consensus on a plan of action in response to scenario triggers.

Answering the "What If, Then" Question

Integrated Scenario Planning (ISP) provides a **structured framework** for organizations to think about the future and manage change. The ISP Framework outlines the Planning and Implementation stages of scenario planning.[2]

Integrated Scenario Planning Framework

Planning			Implementation		
Identify	**Analyze**	**Respond**	**Mitigate**	**Monitor**	**Control**
1. Identify base case assumptions 2. Define alternate scenarios 3. Define drivers and assumptions	1. Analyze probability 2. Analyze consequences 3. Determine business impact and expected monetary value	1. Develop scenario responses, roles, and responsibilities 2. Define trigger points 3. Reach consensus	1. Implement response plan after trigger point reached 2. Mitigate other risks and make corrections 3. Communicate actions	1. Monitor trigger points 2. Monitor external and internal environment 3. Monitor other impacts	1. Review scenarios and update as needed 2. Perform root cause corrective actions 3. Audit scenario planning process

Reference: Project Management Institute

© Oliver Wight International

[1]Pamelyn Lindsey, CSCP, Robert Hirschey, Chris Groven, Scenario Planning Has Never Been More Important, www.oliverwight-americas.com
[2]Pamelyn Lindsey, CSCP, Scenario Planning: A Necessary Skill to Drive Better Decision Making in Integrated Business Planning, www.oliverwight-americas.com

ISP answers the question **"What If?"** and enables leadership teams to consider what future events are probable and significant, what the business impact would be, how to respond to or benefit from a given situation, and how to plan the **"Then"** action initiated by **Trigger Points.**

In the Planning Phase, ISP identifies alternate scenarios with clear assumptions, modeling of potential outcomes, providing clarity on roles & responsibilities, and defines trigger points to develop and implement proactive and agile response plans. In the Implementation Phase, ISP monitors trigger points to mitigate risks, maximize opportunities and adapt as conditions change internally and externally.

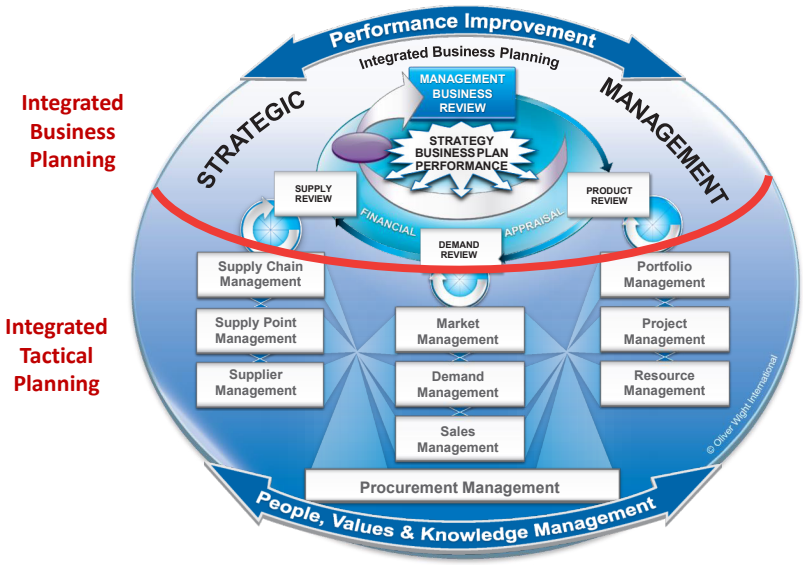
A primary objective of ISP is to provide executives with timely, credible information upon which to make decisions in times of uncertainty or over longer planning horizons.

ISP fits into mature business planning processes across any planning horizon. Integrated Business Planning (IBP) is a formal monthly decision-making process led by senior management that evaluates and revises time-phased projections for demand, supply, portfolio, strategic projects, and the resulting financial plans over a 24+ month horizon.[3] One of the key differences between IBP and traditional Sales & Operations Planning (S&OP) is the integration of scenario planning with improved simulations and modeling. Mature IBP processes also utilize scenario planning to manage gaps and provide visibility to risks.

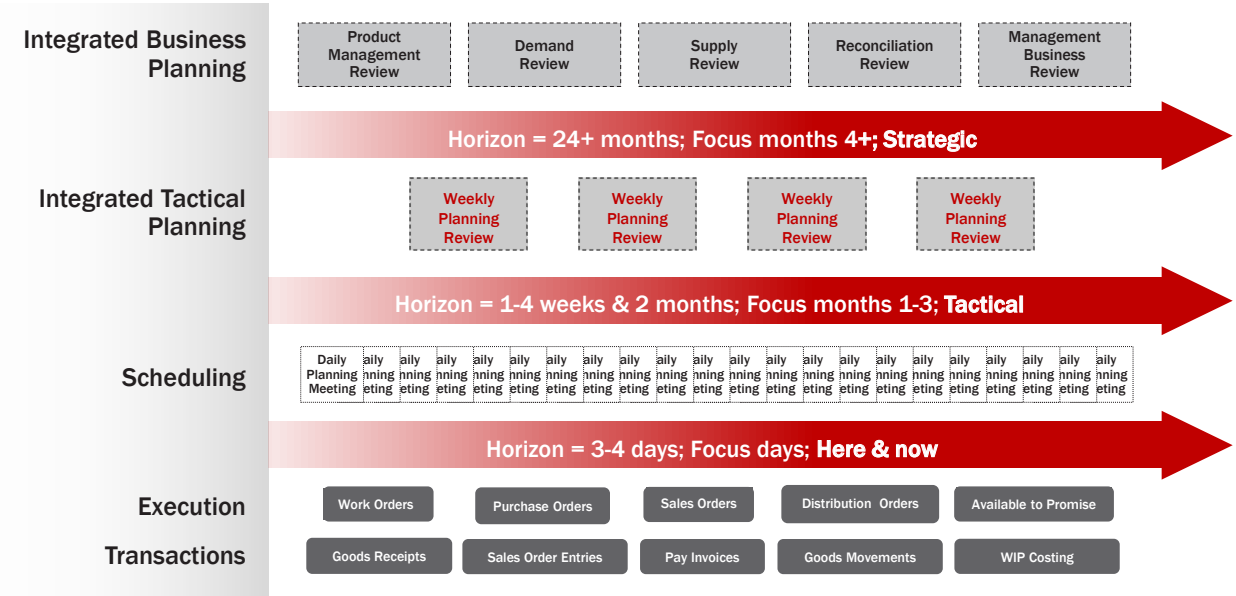
S&OP and IBP: What is the Difference?

[3]George E. Palmatier and Colleen Crum, Transitioning From Sales &Operations Planning to Integrated Business Planning, www.oliverwight-americas.com

Integrated Tactical Planning (ITP) is a cross-functional, middle management process that routinely re-aligns and re-optimizes core process plans (product, demand, and supply), and facilitates effective communication. This is done weekly, typically over a ±13-week horizon. It considers changes to the plans and, as required, escalates decisions to senior levels. A primary objective of the process is to ensure the execution of previously agreed Integrated Business Planning process plans. ITP helps senior management to focus on the four-to-24-month horizon and, in the process, helps liberate the organization.[4]



Scenario Planning spans the IBP and ITP planning horizons, and the ISP framework can be applied to ask "What If" questions. We recognize that in a crisis, no one is waiting for a monthly process to make decisions. This is where weekly and daily processes come into play. In fact, in a crisis, even minute-by-minute processes come into play. For example, in a process safety event or fire, there is an incident commander who is dealing with issues in real-time. Likewise, scenario planning concepts, best practices, and fundamentals can be adapted across any planning and execution horizon.



In all cases, effective scenario planning requires defining the "What If" question, for example, what is possible, and what is the possible outcome. With a clear picture of future risks and opportunities, organizations can determine what chain of events, or single event, will trigger a given scenario.

[4]Rod Hozack, Todd Ferguson, Stuart Harman, Dawn Howarth and Robert Hirschey, Effective Execution of S&OP/IBP Plans through Integrated Tactical Planning, www.oliverwight-americas.com

What is a Trigger Point in the Context of Scenario Planning?

Trigger points are previously agreed upon thresholds that, when crossed, initiate action. Trigger points define the event, or series of events, that make it necessary to consider acting or changing course. In the context of scenario planning, once a trigger point is met, we may choose to activate a response plan. Most often, trigger points represent a change to the assumptions that are a key component of the business planning process. Assumptions may be internal - within the business' control - or external - outside the business' control.

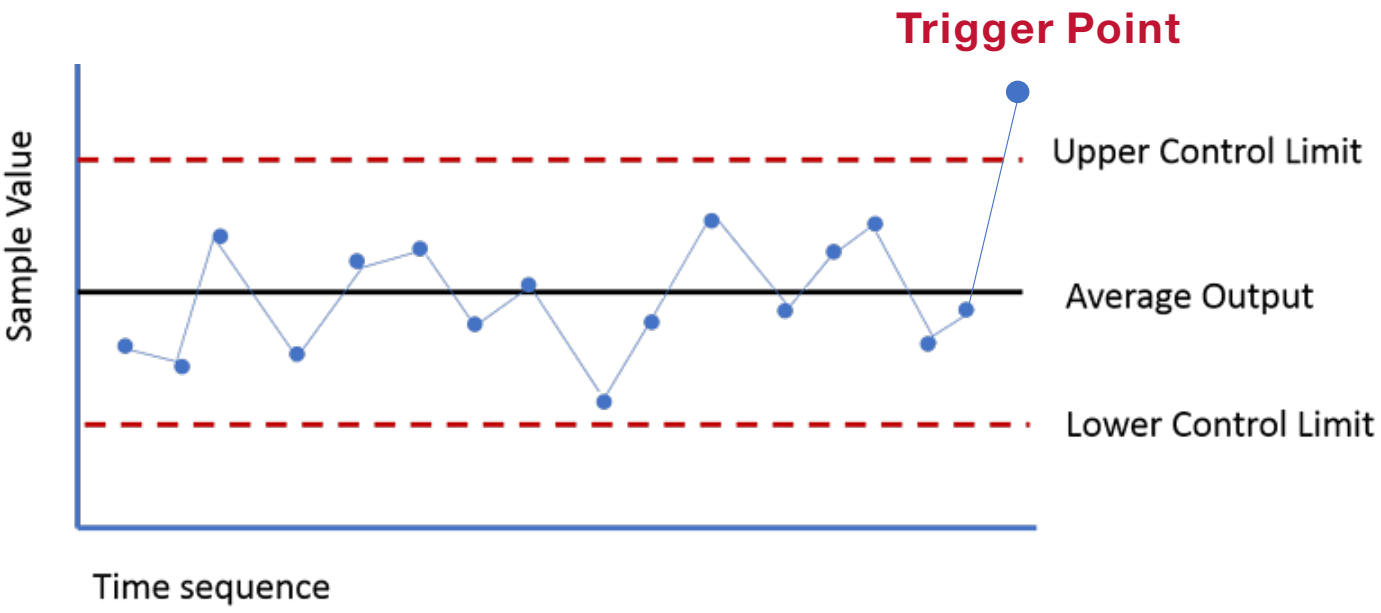
For Trigger Points to be an effective tool in scenario planning:

- The response options to the trigger should be modeled, analyzed, and agreed upon in advance.
- Trigger points require a thoughtful, proactive approach, with the potential business impact clearly understood.
- Both Internal and External trigger points should be defined.
- Responses to triggers can be Binary (If, Then).
- Responses to triggers can also have tiers and be more complex (If, Then, Else).

The analogy of manufacturing and process control limits may be helpful. For most manufacturing processes, a Lower Control Limit (LCL) and an Upper Control Limit (UCL) will be specified.

When the UCL or LCL is crossed, action may be initiated. For example, if the UCL is exceeded, corrective action will be taken via a process adjustment. A different process adjustment will occur if the LCL is crossed.

Similarly, within ISP, when a UCL or LCL is crossed, action may be required.



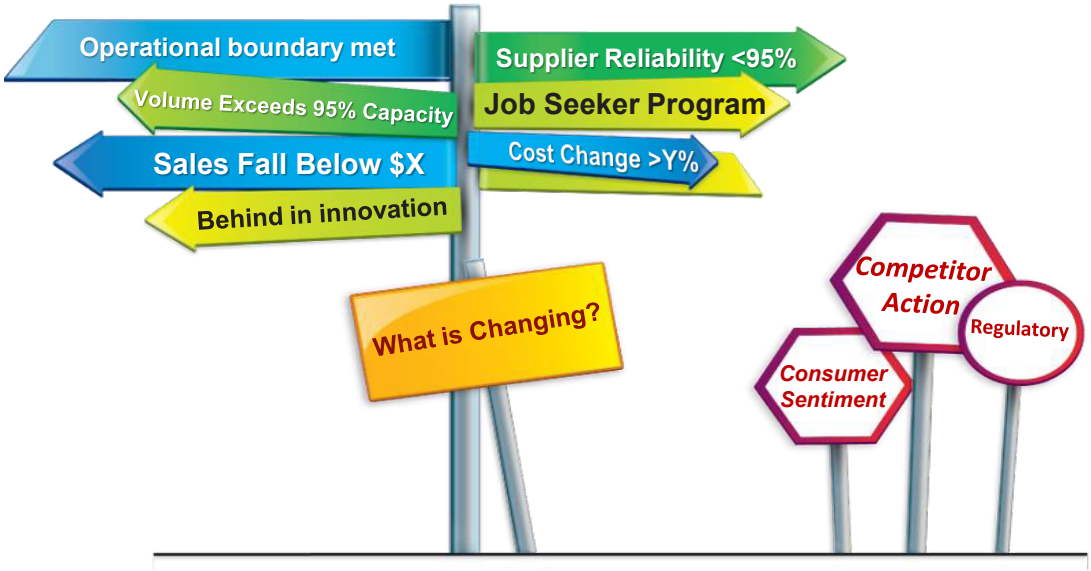
In defining Trigger Points, a broad perspective should be utilized to ensure "no stone is left unturned." This will require a view of both internal and external factors.

Examples of internal trigger points:

- Margin on our new product pipeline drops below 10%.
- Work-force turnover exceeds 25%.
- Overtime exceeds 16% due to increased absenteeism.
- Combined risks or opportunities within a specific planning horizon exceed a predetermined revenue or volume threshold (i.e., $10M or 50,000 pounds).
- Customer satisfaction drops below 90%.
- A critical product launch is delayed three months.

Examples of external trigger points:

- New Housing Starts have decreased more than 5% vs. prior year for 2 two consecutive quarters.
- Plastic resin availability is restricted to 80% of the prior year's buy.
- Tariffs on imports from Asia decrease to pre-2016 levels.
- A hurricane is forecast to make landfall on the U.S. Gulf Coast.
- Global supply chain disruptions, i.e., COVID-19 pandemic, Suez Canal blockage, plastics raw material shortages, etc., which creates both supply shortages and new demand opportunities.
- A competitor launches a rival product that takes direct aim at a key product line, geography, and market segment.



Triggers can be Internal or External

Defining "Who does What, When"

Trigger Points require a planned response. This may require process and/or financial modeling to determine the potential impact. Thinking through the potential impact in advance allows the organization to develop a robust response plan. This prevents being forced to react to a situation without adequate preparation. The response plan will define **"Who does What, When."** Using a proactive approach to define each one of these elements will allow the organization the ability to respond and the flexibility to be agile and adaptive in that response instead of reactive.

The "What, When" also benefits from advanced understanding and determination of the allowable tolerance around the UCL and LCL before real action is taken. Setting such action tolerances in advance, in addition to the trigger point UCL and LCL, prevents "knee-jerk" reactions and allows the "What, When" scenarios to play out with the needed resources and priorities.

Reacting and Responding are Different

Reacting

An action taken automatically to a stimulus, without analysis or planning

Responding

An action taken with prior thought and planning

*It's the **forethought** and **planning** that makes the difference …*

Here are some examples of a planned response:

- If our workforce turnover exceeds 25%, John – VP of HR, will deploy our retention incentive plan and our workforce referral bonus next quarter.
- If tariffs from Asia decrease to pre-2016 levels, Kim - VP of Supply Chain, will move 10% of our manufacturing from Central America to Vietnam over the next two years.
- If New Housing Starts decrease more than 5% vs. prior year for three straight quarters, Jean - Plant Manager, will reduce manufacturing to two shifts per day, and if housing starts decreasing by 10%, Jean will redeploy our workforce to product line "Y."

To effectively deploy scenario planning using trigger points:

1. Ask "What If"

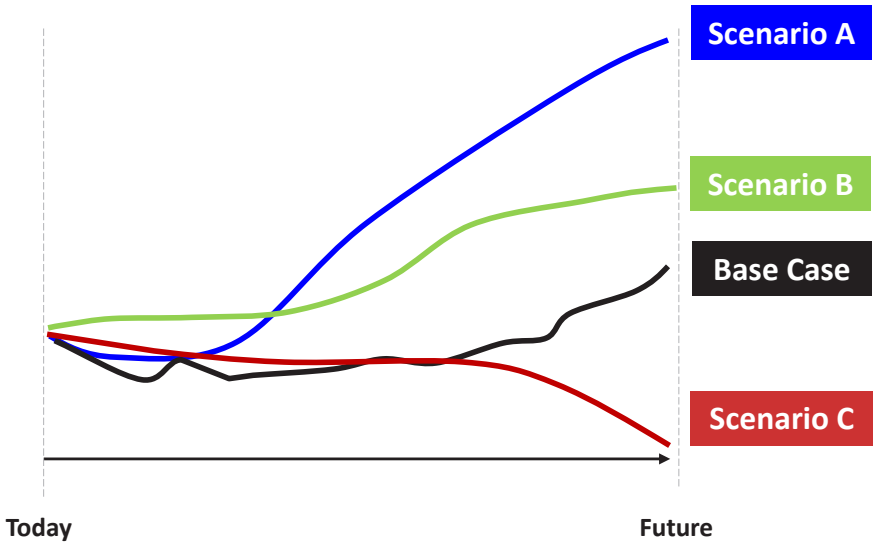
This begins with a clear understanding of the starting point, current conditions, or **base case**. The base case is formed by establishing agreed-upon **assumptions**. With the current situation understood, the trigger defines what has changed. For example, the "What-if" is:

- If our workforce turnover exceeds 25%.
- If tariffs from Asia decrease to pre-2016 levels.
- If New Housing Starts decrease more than 5% vs. prior year.
- If opportunities in Q3 exceed $10M.

2. Define "What Then"

What is the action that needs to be taken to mitigate the risk or maximize the opportunity when the trigger point is reached? If the impact is material enough, then **alternate scenarios** may be needed along with specific response plans. These response plans may be needed to get us back on plan, to close gaps to targets, or capture an opportunity to exceed the plan. For example, the "What Then" is:

- Deploy our retention incentive plan and our workforce referral bonus.
- Move 10% of our manufacturing from Central America to Vietnam.
- Reduce manufacturing to 2 shifts per day.
- Model a demand plan which includes potential business impact if additional opportunities are won.
- Deploy sales actions in the face of competitive threats.
- Have marketing actions in place for base business in case of a delayed product launch.



3. Determine "Who will act and When"

Once we understand the scenario or deviation from the plan and our response to it, we need to identify an implementation plan that includes **who** does **what** and **when**. Clearly, roles and responsibilities are key to implementing agile responses. If there is ambiguity on "who does what," delays can occur. This can result in lost opportunities or catastrophic losses. Determine the "Who" and "When" - examples follow:

- John, the VP of HR, will deploy … next quarter.
- Kim, the VP of Supply Chain, will move 10% of our manufacturing … over the next 2 two years.
- If New Housing Starts decrease more than 5% vs. prior year, for three straight quarters, Jean, the Plant Manager, will …
- Lisa, VP of Sales, will review opportunities in the plan and consider appropriate revisions for Q3.
- Kim, VP of Supply Chain, will position raw material ordering based on the upside scenario beginning in the second half of the year.
- Michael, VP Marketing, will trigger responsive marketing programs in the event of hostile competitive actions if the product launch is delayed by three months.

Integrated Scenario Planning answers

WHO does WHAT, WHEN "WHAT IF" happens

WHAT IF	THEN	WHO	WHEN
Scenario	**Response Plan**	**Owner**	**Trigger Point**
Turnover has been increasing over the last year and, if it continues, Line 2 will have to shut down, impacting our priority customers with an expected $5M revenue starting in Q4.	Deploy Retention Incentive and Referral Bonus Plans	John, VP of HR	If turnover exceeds 25%

In the Planning Phase, we define the response, decide who will track and execute the response, and agree to the trigger(s) for action. Once the trigger points have been defined with roles, responsibilities, and timing, the assigned parties monitor conditions both internally and externally to determine if a trigger point has been reached, considering any tolerances to prevent undue hasty reactions.

During the Implementation Phase, once the trigger is met, it is communicated by those responsible for monitoring the trigger. Then it is time to execute the response plans that have been defined. As response plans are being executed, we will want to monitor the effectiveness of these response plans, adapting to changing environments as needed.

Reaching Consensus

As we all know, work gets done by people and teams. We determine **who** will get the work done by defining **roles and responsibilities**. Someone must also be accountable for the scenario planning process. Someone must drive decision-making. The selection of this individual is critical to the success and credibility of the scenario planning process. This person needs to be well-respected by managers and executives and have the right analytical skills and ability to see the "big picture." The ability to visualize impacts to the business, from both internal and external factors, is also a key skill for this role. Ultimately, this individual must possess the ability to drive consensus on the response plan to ensure the response is implemented when the trigger is met.

To reach consensus, we must answer:

- Who is responsible for monitoring the trigger?
- Who has the authority to initiate the response?
- Who is responsible for executing the response?
- Who is responsible for monitoring and mitigating consequences?

Reaching Consensus in Scenario Planning

Consensus: A position reached by a group as a whole

- ISP response plans are robust, based on cross-functional perspectives.
- ISP response plans are good for the entire business end-to-end.
- It is alright to disagree but not to undermine.
- The ISP lead is a "big picture" thinker, knows the business impact, and facilitates consensus.
- Once consensus is achieved, everybody supports the plan.

Consensus requires active participation of all team members, creative thinking and open-mindedness, communication and listening skills, conflict resolution, and facilitation. At the end of the day, we want everyone to understand the decisions made and the plan of action based on the agreed trigger points.

Integrated Scenario Planning provides organizations with a structured framework to plan, prepare and respond to change. Robust response plans, as part of ISP, define what will be done by whom when a trigger point is reached. Building consensus within the organization ensures response plans will be executed as expected.

All these are necessary skills for success in these times of rapid change. Feel free to **Contact us** to discuss how to build scenario planning skills in your company.

About the Authors

Pamelyn Lindsey
Oliver Wight Principal

Pamelyn Lindsey has specialized experience in Integrated Business Planning implementations, scenario planning, demand planning, and financial integration. She is formerly the Director of Global Supply Chain Operations and global leader of Executive S&OP and Integrated Business Planning for Ciena Corporation. She also worked for The DuPont Company for more than 25 years as an internal consultant and continuous improvement leader implementing scenario planning frameworks as part of Integrated Business Planning and Enterprise Resource Planning Transformations. Pam also spent many years consulting in process safety and risk management.

Chris Groven
Oliver Wight Principal

Chris Groven has more than 28 years in the downstream energy industry where he developed and implemented strategies from refining to market participation, drove quality improvement in manufacturing and financial disciplines, and achieved lasting efficiencies across an integrated business – always focused on sustainability.

Peter Alle
Oliver Wight Principal

Peter Alle offers 30+ years of experience in fast-moving consumer goods in operations and strategy leadership roles. He has led global business transformation improvement initiatives for a multi-national consumer goods/food business. Peter had global responsibility for implementing Integrated Business Planning, SAP Demand and Supply Planning, and co-led procurement, distribution, and transportation improvements that led to substantial savings.

About Oliver Wight

Oliver Wight has a 50-year track record of delivering business improvement to some of the world's best-known organizations. We believe that sustainable improvement can only be made through your own people. Unlike other consultancy firms, we transfer our knowledge to you, which means you can achieve performance levels and financial results that last. Our principals are seasoned professionals who have real-world manufacturing experience. They are thought leaders in the fields of supply chain management, integrated business planning, demand management, and product management. The largest worldwide consultancy of its type, Oliver Wight has offices throughout Europe, North and South America, and the Asia/Pacific Region.

OLIVER WIGHT

Oliver Wight Americas
P.O. Box 368, 292 Main Street
New London, NH 03257, US

T: +(800) 258-3862
E: info@oliverwight.com

https://www.oliverwight-americas.com/

Oliver Wight Asia/Pacific

Ground Floor, 470 St Kilda Rd,
Melbourne, Victoria 3004, Australia

Oliver Wight EAME LLP

The Willows, The Steadings Business Centre
Maisemore, Gloucester, GL2 8EY

Imagine the **possibilities**,
realize the **potential**.®

The information contained within is proprietary to Oliver Wight International and may not be modified, reproduced, distributed or utilised in any manner in whole or in part, without the express prior written permission of Oliver Wight International.