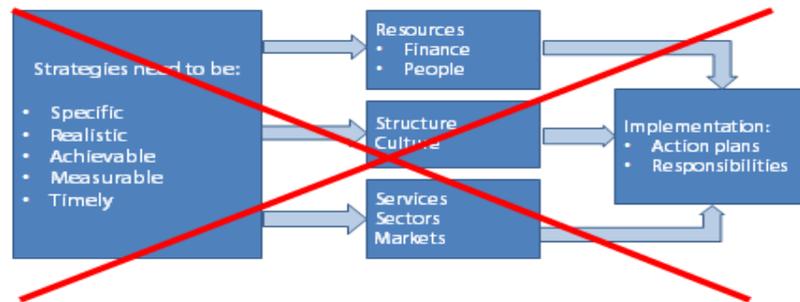


PETER SCOTT CONSULTING

Briefing Note June 2017

How to use scenario planning to stay ahead of the Brexit curve

Traditional processes of strategic planning and decision – making by businesses require reasonably foreseeable outcomes. Unfortunately in relation to planning for Brexit, these do not necessarily fit the bill, because **currently with Brexit there are no foreseeable outcomes.**



Businesses are rightly asking questions such as:

- What will be the impact of Brexit on our business?
- Will our current plans still be valid?
- What can we do to protect our business?

Some businesses, including possibly some law firms, may consider taking the following options:

- Try to ignore Brexit, or pretend that it won't impact the business because *"We have an exclusively UK business!"*
- Consider the complexities involved but drift into paralysis as *"There are just so many unknowns."*

- Focus on reacting to outcomes that they hope will happen, or feel are most likely to happen, even though there is a high level of uncertainty as to any particular outcome at the moment.

The real risk is complacency! The business world in the UK will be different post – Brexit and inaction should not be an option.

So what should businesses be doing **now** to better plan for their post – Brexit futures?

Brexit in whatever form it ultimately takes will impact on your business and **your clients' businesses** in as yet unknown ways with potentially serious consequences.

Businesses need to urgently consider how to be ready for the impact from the various possible scenarios which may arise from Brexit, and **scenario planning** has been developed to help businesses plan their futures, even in times of high uncertainty

As a first step, if you have not already done so, you should establish internally a group tasked with understanding the implications of Brexit for your business, and any actions that may need to be taken. Such a group will need to have **leadership** capable of successfully driving forward the process

How can using processes based around scenario planning help businesses to more effectively plan ahead even in times of high uncertainty for business as at present?

Scenario planning is a strategic management tool to help businesses develop flexible long term plans and is an ideal tool to use in relation to the Brexit process which may last many years. It is important to appreciate however that scenario planning is **not** forecasting.

The planning process involved also assumes that the future will differ greatly from what we know today and as we already know, our post – Brexit future will be different to today, although how different is an unknown factor. Accordingly, scenario planning is based on creating a series of **different futures**

- from a combination of **known factors** (which include in the case of Brexit, the Referendum vote and the serving of the Article 50 Notice with its two year expiry date);
- with possible **alternative driving forces** (it seems from news headlines that **politics, economics and legal** will be the main driving forces, although we do not know which will ultimately dominate). Politics seems to have dominated so far but post the recent General Election, perhaps economics will get more into the driving seat?

As we have seen over the past year since the Referendum, Brexit is a moving target so businesses will need to continuously monitor and review events as they unfold using a process such as that set out in the flowchart below.



What outcomes do businesses need in relation to Brexit?

While every business will be different, there are likely to be certain **key issues** arising out of Brexit which will be common to most businesses. For example, businesses will need to have clear understandings of

- Their **key risks** which may arise as a result of whatever kind of Brexit we end up with, so they can develop and implement contingency plans;
- The **opportunities** which may be available depending on what kind of Brexit we have, so they are better prepared to invest in new markets, services, capabilities, people and innovation
- What **innovation / improvements** in their businesses may be needed to take advantage of opportunities or to mitigate risks
- The likely **impact on clients / customers** and key markets / sectors currently served
- How they can develop **flexible strategic plans**, ready to respond quickly to the changing Brexit landscape and which can be implemented more rapidly and effectively.

How should businesses begin a scenario planning process in relation to Brexit?

1. Possessing a degree of **agility** will be a key requirement if businesses are to successfully navigate Brexit. This is because agile businesses:

- focus strongly on change management;
 - have strong leadership;
 - have effective planning and quick response times to threats and opportunities;
 - have streamlined decision – making processes; and
 - their people are open minded, flexible and prepared to learn new skills and ways of operating.
2. **Begin by scoping your key issues** to identify the key factors you will need to know about the future if, as Brexit negotiations gradually clarify issues, you are to be better positioned to make more informed decisions.

Key issues for many businesses are likely to include:

Risks

- Clients / customers
- Services / products
- Access to markets / sectors currently served
- Regulation
- People / employment
- Competition
- Financial
- Fiscal
- Operational
- Others?

Opportunities

- New clients / customers
- New services / products
- Access to markets / sectors not currently served
- Competition weakened
- People
- Innovation
- Change management
- New ways of working
- Others?

Areas where improvements which may be needed

- Governance
- Agility
- Risk and compliance management
- Investment in new services / products / markets / sectors
- Financial expertise
- Business development
- New ways of working
- Use of technology
- People management
- Learning and development

Processes which you can use to help you to scope your key issues are likely to include:

- **Brainstorming** workshops – groups in your business should be encouraged to make suggestions with no restrictions on their creativity or imagination, in order to identify any core impact areas
- **News headlines** – continuously monitor global, national, European and sector press and media to identify major issues
- **Feedback from clients and customers** across relevant sectors to find out how they believe Brexit may impact on their businesses, to understand the most significant areas of opportunity and risk to them, their forward planning and how the likely impact on their businesses may affect how they buy services / products in the future.

3. Create a series of possible scenarios.

Businesses will also need to understand and plan how to be prepared for the impact of the **driving forces** relating to Brexit which are creating the current high uncertainty

Normally a strategic planning tool such as **PESTLE – (political, economic, social, technological, legal and environmental)** can be used to scan external influences and help a business analyse the different forces in play to arrive at a series of different scenarios - see <http://pestleanalysis.com/what-is-pestle-analysis/>

In the case of Brexit, the main **driving forces** currently appear to be -

- **politics** (so far seemingly dominant for both sides, and being in the hands of the political gods, this creates high uncertainty)

- **economics** (the need for the UK to have access to the single market or to stay in the Customs Union so far seems to have taken a back seat although this may be changing post - the recent General Election)
- **legal** (the requirement for Parliament to agree to the serving of the Article 50 notice and ultimately approve of the Brexit deal (if there is one))

Given the **political, economic and legal driving forces** currently in play in relation to Brexit, businesses might wish to consider adopting an approach similar to this:

- Begin by basing your scenarios around some of the **global scenarios** currently under the media spotlight (see below)
- Keep the scenarios **simple** – no more than say four
- Ensure you consistently focus your scenarios in relation to the areas of **potential impact** on your business – the risks and opportunities which you have identified
- Keep your scenario planning process **interactive** by closely involving your teams as events unfold so you can respond quickly and effectively

Possible scenarios to use

The **FT** suggested the following four possible scenarios – *FT 20 July 2016*

<https://www.ft.com/content/5ec21720-49c1-11e6-8d68-72e9211e86ab>

	Possible scenarios
Hostile divorce	Talks collapse. Exit from EU with minimal transitional arrangements. Little if no access to single market. WTO trading terms (Hard Brexit or the 'cliff edge' scenario)
Clean break	Tariff transition, agree trade terms and deal ratified by EU countries. But no EU passport for financial services. Long negotiating timescale
Amicable transition	Remain part of EU single market but on adjusted terms. Preferred continuity option for big business and the City. Still contribute to EU budget. Free movement of labour likely to be the sticking point. (Soft Brexit)
Change of heart	Remains a full member. In the hands of the political gods.

You can use for example whichever of these scenarios you decide on, to identify and test the key issues you have identified in relation to Brexit and your business. Of course it is likely that these scenarios will change during the course of the Brexit negotiations and so you can continuously adapt your scenarios *to keep ahead of the Brexit curve*.

For example, in relation to **risks to your business**, you can construct a table like the one below to plot possible outcomes likely to flow from any particular scenario.

Risk impact of Hard Brexit	1	2	3	4
Clients				
Regulatory				
People				
Competition				
Financial				
Fiscal				
Operational				
Others?				

You can then repeat the table for each different scenario you choose. In the same way you can use different scenarios to seek to identify and test the issues you have identified regarding possible **opportunities** for you

Possible opportunities Hard Brexit	1	2	3	4
Clients				
New services				
Competition				
People				
Change management				
Innovation				
New ways of working				
Others?				
Some things may improve as a result				

You can use a similar table in relation to testing any **deficiencies / areas needing improvement** in your business if you are to manage Brexit risks and take advantage of opportunities.

Improvements needed	1	2	3	4
Hard Brexit				
Governance				
Agility				
Risk and compliance management				
Financial expertise				
Business development				
Ways of working				
Technology				
Learning and development				
Others?				

Brexit is a moving target which is why businesses will need to closely and continuously ensure they **monitor Brexit developments**, so as events unfold businesses can respond with greater agility and success.

As developments occur, businesses should **map the implications** and test them in the ways described above. They should then make decisions as to any possible actions required, including any **immediate actions needed** irrespective of possible Brexit outcomes.



Implications for the business will also need to be **collated** to show where there may be risks, opportunities and areas for improvement which are **common** to each of the scenarios used.

Businesses which are able to assess the implications for them of Brexit, rather than opting for inactivity based on complacency or lack of knowledge, will be the ones able to more quickly grasp opportunities, mitigate any risks and build their competitive advantage over rivals

Scenario planning will not provide businesses with all the answers they need in relation to Brexit, but it is a process which if used effectively is likely to help businesses to better understand the possibilities which may occur and in so doing, to help them to better plan their futures in these highly uncertain times.

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