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STRATEGY

Beyond Strategic Planning

The past three years have seen firms keeping their heads safely down, hiding from the bad economic storm and focusing on survival, which has meant too often, “Get any work at any cost.” As recovery rolls forward, albeit in an unsteady manner with both regional and national ruts and bumps, firms are finding they face a new set of challenges:

- What is this new business environment?
- Where will it go from here? Up? Down? Sideways? Sea change?
- How do our clients fit into this new environment?
- How do we fit into it?
- What do we need to do going forward?
- What needs to change so we can survive and thrive?
- Does anything work from the good old days?

THE ENVIRONMENT

Many of the CEOs we speak with regularly tell us they have never seen anything like this before. It is not like the Great Depression; it is not like previous deep recessions. They do not have parallel experiences to draw on for reacting to today’s situation or to project what next year will bring. In the past, it would have been enough to go back to the strategic plan to get clarity

on what direction to take, to base plans on our own confidence about where things would go. We all believe that next year and the year after will improve, but none of us is quite sure what that means.

For example, how can one make sense of what is happening (or rather, not happening) in housing, and what does it mean? Suburban development has been a main economic driver in the hot Sunbelt states for years. However, home sales of all kinds remain flat, foreclosures continue and developments abandoned in 2007 are of interest only to raccoons. One mystery in this event has been that, by contrast with the suburbs, urban housing has retained more of its value or, at least, has lost less of it. In his article “Here Comes the Neighborhood” in the June 2010 issue of *The Atlantic*, Christopher Leinberger says, “In densely built inner suburbs, like Arlington, Va., and in the walkable, urban neighborhoods of the District of Columbia, prices typically dropped about 20%. Housing on the suburban fringe, on the other hand, lost about half its value.” Homeowners in the suburbs are still far underwater on their mortgages, and it appears today that it will be some years before this disparity vanishes. Most people claim they would rather live in a big, open floor plan house in an expansive neighborhood out of town than rubbing elbows in a compact home or apartment in the crowded downtown area. Yet Leinberger believes that urban areas are more viable options for the future because of their intrinsically compact nature: they are walkable, bikeable and most have fair to excellent urban transit and streetcar systems. In the suburbs, every workday involves an expensive, time-draining excursion into town. Even a trip to the corner store for milk requires using the car, making that carton much more costly than the one in the city that was carried home on foot. The new future is coming. Fossil-fuel use is on the decline; homes are unlikely to see an artificially inflated value bubble again in our lifetimes; pressure is on the government to reduce immigration; people want to live in walkable, mixed-use environments with great public transportation. With these conditions emerging, will suburban development continue to be a significant factor driving the economies of the Sunbelt states?

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HOW TO DEAL WITH UNCERTAINTY

Leaders of firms have already seen the complexity of the new future implied in the previous example. In the past it was likely sufficient to know your clients, keep a weather eye on your competitors, and review your strategic plan every few years to evaluate whether to open a new office,

enter a new geography or drop an unproductive service line. Today the firm leader deals with a business landscape that shifts from day to day, with long-standing truths about markets shifting as well.

There is an array of drivers that must be taken into consideration, and they are not always what we are accustomed to — they must be viewed at many levels from local impacts to international trends:

- Economic
- Political
- Environmental
- Social
- Global
- Technological

There are vastly differing opinions about what is happening in each of these drivers and how the current level of uncertainty will shape them going forward. A tool that can help work through the many permutations of all the drivers is scenario planning.

SCENARIO PLANNING

The major difficulties firms have found with scenario planning are the expense and investment of time needed to create future scenarios that are applicable to the organization. For the most part, the skills needed to build usable scenarios are not in the firm's toolbox.

Some firms have tried using a short cut, determining what seem like the best-case and worst-case scenarios and trying to plan for both. But as the forces behind the drivers listed above play out in the world and marketplace, the future will not be black and white — it is subtler than bleak or bright, so plans based on only two alternative futures likely will not offer a sufficiently robust framework for strategic planning.

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True scenario planning, based on a variety of possible future situations that have been extrapolated from actual trends, is the tool of choice for forward-thinking firms. However, the same difficulties remain — creating the scenarios and the large investment in time and labor that can require. Firms tend to have deep knowledge about their own

markets, their clients and local or regional conditions that are key to their current business. However, they are not trained to do either the macro or fine-grained analyses of world and national trends and extrapolate the deep impacts these trends carry with them.

To mitigate this situation, FMI's Research Services Group took on the task in 2009 of bringing together more than 50 leaders from firms in the A/E/C industry: academia, clients and industry organizations to develop a set of base scenarios for planning use.

The resulting four scenarios (see Exhibit 1) are designed specifically for architecture, engineering and construction firms in their planning process. These scenarios were created by in-depth analyses of trends and key drivers, analysis of implications by the entire team and expert projections through 2020. The scenarios explore four different directions as to how the future will play out, reflecting the complexity and changeable nature of the real world.

HOW SCENARIO PLANNING WORKS

Using the scenarios for planning is a multistage process that draws out particulars for each firm’s unique situation, and results in a specific set of

Exhibit 1
Summary of Scenarios

	Global	Social	Technological	Economic	Political	Environmental
Perfect Worldview	Very stable geopolitical environment Intensified globalization Smaller, flatter world	Diverse, mobile workforce High demand and competition for AEC talent Sustainability as a key social value Sophisticated public infrastructure	Rapid technological progress Innovative AEC culture Industrywide standards and interoperability	Strong GDP growth Strong financial investment in AEC industry (public and private) Strong adoption of public-private partnerships	Widespread adoption of AEC industry codes and regulations at national and global level	Strong control and protection of the natural and built environment National and global initiatives drive carbon footprinting in design and construction processes
Struggle for Stability	Unstable geopolitical environment Globalization slows down Governments focus on improving their local situations	Social disparities increase; middle class is threatened to dissolve Strong emphasis on building local human capital Crumbling infrastructure	Rapid technological progress (“leapfrogging” of dirty technologies) Grass-roots approach to improving collective well-being drives innovation	Slow GDP growth Government stimulus programs provide foundation for attracting private capital in AEC markets Protection of local industries Emergence of “pockets of prosperity”	Unstable local politics and continuous regional disputes Undue political influence and lobbyists impact development of capital projects	Local initiatives drive sustainable business practices in design and construction Focus on using local materials and resources
Building Walls	Very unstable geopolitical environment Slowdown in globalization; very limited cross-border collaboration Governments focus on protection and survival	Large social disparities Very high levels of unemployment Limited skilled workforce Very rudimentary public infrastructure	Low levels of innovation and knowledge sharing Limited industrywide technology standards High emphasis on defense technologies	Negative GDP growth Financial investment in AEC industry limited to defense-related projects Restrained exports of materials to ensure supply for local needs	Local regulation and nationalistic protectionism dominate Strong restrictions on labor mobility (limited cross-border collaboration)	Drive toward sustainability has come to a halt Most readily available resources used, irrespective of environmental impact
Controlled Environment	Stable geopolitics; highly regulated political and economic environment Governments focus on improving their local situation	Thoroughly planned and controlled sociocultural environment Strong unionization across all industry sectors Extensive solid public infrastructure	Governments place high emphasis on R&D Rapid technological progress Industrywide standards mandated at federal level	Slow but steady GDP growth Governments control strategic industries (including AEC) and allocation of key resources Restrained exports of materials to ensure supply for local needs	Industry regulations and policies dictated at federal level Labor rates and mobility dictated by unions and controlled by governments	Emphasis on sustainability of the built and natural environment Governments mandate regulations and policies for accessing and using natural resources

strategies for steering the direction of the firm, and contingency plans for the less likely, but still possible, scenarios (see Exhibit 2).

We begin by assisting the planning team to gain a strong understanding of the scenarios, the trends that they represent, and why the future could play out according to each of the scenarios. The planning team then identifies the implications of the four scenarios on the firm's direct business environment as scenarios play out over time.

The next step uses these implications to adapt the scenarios to be specific to the firm. These enhanced scenarios take into account such things as the firm's current markets, specific issues for the areas where they practice, the pressures on their clients, etc. Using the scenarios as the foundation, planning groups can quickly build firm-specific scenarios.

With firm-specific scenarios, the planning team brainstorms potential strategies to achieve success for the firm under each scenario. Comparison of the strategies for the four scenarios enables the team to find commonalities in the strategies. The common strategies, which appear to be effective in responding to multiple scenarios, give the firm the most flexibility and responsiveness and become key elements in the primary strategic plan.

The next step is to build a more detailed plan based on these common strategies. Using the best practices of strategic planning, the team crafts an implementation plan based on the selected strategies. For firms with multiple offices, business units or practice areas, the final step is to adapt the corporate strategic and implementation plans to fit each unit's or geography's specific needs and resources.

By examining how various strategies may play out over time, the firm also gains the ability to analyze how shifting trends could affect

performance, enabling leadership to adjust strategies as needed. Flexibility and adaptability are key to future success and are an intrinsic part of the scenario planning process. Part of the intent of the scenario planning approach is to develop skills in dealing with ambiguity and uncertainty.



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This process offers a variety of architecture, engineering and construction firms new levels of comfort in dealing with the uncertainties of our current environment.

CONCLUSION

Traditional, deterministic strategic planning that firms have grown comfortable with does not fulfill the need of the volatile environment we now face. The belief that we have a crystal ball in which to see the future and with that knowledge can set clear strategies is a 20th century concept. In this 21st century, we must plan for a world where firms are flexible

and react appropriately to a variety of significant, continuously evolving drivers. The scenario planning process offers the opportunity to practice how to act in response to changing drivers. At the same time, it allows organizations the opportunity to build strategies and plans for setting direction, growing confidence in their ability to compete effectively and respond quickly to changes in the world. ■

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