

Augmenti Consulting



FUTURE-PROOF AND DE-RISK EXECUTION WITH WAR GAMING

You can't precisely predict the future,
but you can be better prepared for it.

When War Gaming is Suitable for You

The traditional strategic planning process is a tried-and-true method for aligning the organization towards specific short and long-term goals. Nevertheless, its execution is fraught with difficulties.

The following examples are typical:

01.

The existence of too many variables and outcomes that cannot be controlled or accurately predicted.

02.

High interconnectedness of decisions, making it difficult to predict competitors' movements when making your own.

03.

Being concerned that one would overlook blind spots that could harm the business's performance.

04.

Believing the notion that too much is at stake. Hence justifying the need to cover all bases.

To deal with the obstacles, companies are using war gaming to aid strategy definition and de-risk execution. There are two main, separate applications for war gaming: **market testing and enhancing organizational readiness.**

In the first application, war gaming is applied to **test market responses to proposed market moves or signals.** The simulations can be either upstream to customers, or downstream to suppliers along the value chain; and

For example, a metals business had to renegotiate long-term supply agreements with its top three customers. The management's conundrum focused on timing (should I act now or wait until each contract has expired?), sequencing (should I begin with the most significant client or the one with the least bargaining power?) and achieving the most profitable market equilibrium (how to maximize profits while maintaining relative margins among clients?)

In another instance, a manufacturer tried to break up an oligopoly that was dominated by a small number of suppliers that siphoned off a sizeable portion of the industry's profits. The objective was to identify possible market movements and signals that would provide higher, more consistent profit margins. Ultimately, The management team wanted to reach a consensus on whether there was an appetite to play this high-stakes game (*"there is no turning back after the opening salvo"*).

In the second type of application, war gaming helps organizations to **enhance organizational readiness against threats** emanating from the outside, such as significant changes in market dynamics, or from within, such as the introduction of a new operating model or the simulation of responses to operating crises.

For instance, the leadership of an energy conglomerate needed to jolt the organization out of its complacency as it dealt with the loss of a de facto monopoly in a crucial market segment. Per the CEO, *"We, as an organization, are not yet ready to face powerful, nimble new entrants that will quickly erode our margins"*. Over the course of a year, there were multiple rounds of war games, each of which replicated the most recent competitive environment.

In another case, a global fast-moving consumer goods company was finally moving away from autonomous country operations and toward a centralized, regional operating model. During the design phase, they internally simulated how the new model would operate under various scenarios. This was critical to ensure buy-in from the key influencers and de-risk the roll-out of the new operating model.

War gaming is a potent tool, especially for:

- Persuading individuals to support bold strategic decisions.
- Assistance in boosting self-assurance in negotiations with suppliers or clients.
- Run stress tests of the strategy and uncover blind spots.
- Improve organizational alignment for major forthcoming events, such as a corporate transformation or significant market shifts.

Get the Most of War Gaming

We advise paying attention to the following best practices to ensure that war gaming is used effectively:

The Issue at Hand Must be Clearly Defined

Form on the critical hypotheses that needs to be tested. Avoid overstretching, as this will lead to frustration with uninspiring findings, with limited applicability.

Select a Few Significant Value Drivers

Evaluate the exercise's results (what is the yardstick to measure success?). For example, in the metals example, a simple, comprehensive EBITDA value model was built for all players. This was enough to extract powerful insights.

Develop Plausible Scenarios

Consider the issues and value drivers mentioned above. Avoid overlaps of scenarios as they may cloud debriefing sessions. The Shell-style scenario planning method is a good way to build realistic, in-depth narratives for each scenario.

Limit the Portfolio of Options (Moves) and Reactions (By the Market)

If not, the simulations are too complex to run in a reasonable length of time. Running parallel sessions with minor variations is a useful practice – participants are often surprised by the wide variations in outcomes.

Role Play in Interdisciplinary Teams

Make sure that members of each competing team come from different departments, and regions. In the consumer goods example, a production manager acted as a sales representative, assisting him in developing fresh viewpoints and recognizing a larger range of ramifications.

Hold In-Depth Debriefings

Examine the results and key takeaways. Unintended, unforeseen consequences frequently startle us. In the energy example abovementioned, people began to recognize how vulnerable their competitive position was and began to debate defensive strategies to safeguard the company.

Ensure that the Strategic Planning Process Receives Proper Feedback

Examples of follow-up actions include inputs on strengths and weaknesses, updated definition of worst-case scenarios, and areas that need more research.

Although you can't anticipate the future with absolute certainty, you can be better prepared for it. When utilized wisely, war gaming is a potent tool.



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