

Scenario Planning
Master Class 2012

Scenarios at Shell and Rabobank

De Ruijter Strategy hosted the Scenario Planning Master Class (SPMC) in the evenings of 7 and 8 June 2012. The programme brought together participants of the SPMC and a number of experienced scenario practitioners from De Ruijter's relations network. Paul de Ruijter was very happy to be able to gather so many seasoned scenario planners in one room. In his welcome speech he emphasised the need for collaborative thinking by SP practitioners about the important and interconnected topics that will determine our future, such as energy, water, food, finance and housing.

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Scenarios at Shell

food-water-energy nexus

Ewald Breunese (Manager Energy Transitions and Coordinator Grants & Incentives at Shell Nederland BV) worked in Shell's scenario department in the late 1990s. He is the author of the recently published book Strategic Control and he still is a promoter of Shell's scenario planning. Breunese described how scenarios are used within Shell and he shared Shell's view of the dilemma between expected and desired futures. Furthermore, he stressed the importance of the water-food-energy nexus.



Shell prefers Blueprints over Scramble scenario

Exactly 40 years ago, in 1972, Shell created its first set of future scenarios. One of these scenarios described a situation similar to the later oil crisis of 1973. Another event that was pre-imagined in Shell's scenario sets was the fall of the Berlin wall. Although scenarios aim to help thinking about uncertain futures, they also range across trends and predetermined developments. World population growth and increasing wealth are examples of such predeterminations. And, according to Breunese, the event of an oil crisis was also viewed by Shell as a predetermined element.

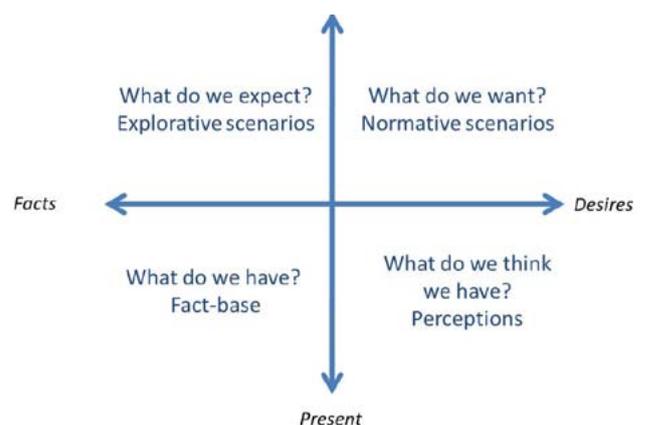
In 2008, before the credit crunch, Shell published a new set of two scenarios: Scramble and Blueprints. Ever since, levels of volatility and uncertainty have risen significantly. Therefore, the company recently issued a blue book that contains an updated version of the scenarios. Scramble and Blueprints have one big discriminator and that is human behaviour. What is special about this particular scenario set is that for the first time in its history, Shell indicated a preference for one scenario.

Both Scramble and Blueprints have the same point of departure: our energy consumption keeps rising, traditional energy sources cannot keep up and carbon emissions rise unacceptably. In Scramble, actions do not keep up with the pace in which events happen. Today's problems receive more attention than tomorrow's challenges. However, eventually an energy transition is realised. In Blueprints, on the other hand, actions outweigh events right from the start, because shared interests and benefits are recognised. Collaboration is a key characteristic of the Blueprints world, in which the energy transition is quickly and efficiently realised.

The latter is the scenario preferred by Shell. And this brings Ewald to the question of the future we want versus the future we expect.

The dilemma of normative scenarios

Facts and perceptions are often mixed up. To give an example, Breunese talked about a questionnaire on the share of renewable energy sources in the Dutch energy mix. Whereas respondents assumed that renewables accounted for around 40% of our energy supply, in reality it is only 4%. The fact that people notice more and more wind mills and solar panels in their environment leads them to believe that these produce a larger amount of energy than they actually do. The same applies to CO₂. Although our country depends heavily on fossil fuels and CO₂ emissions per capita in the Netherlands are 1.5 times the average in Europe, many Dutch people are convinced that Holland is one of the cleanest European countries in terms of CO₂ emissions. This discrepancy between facts and perceptions, shown in the bottom part of the graph, is partly due to lack of effective communication.



As to the upper part of the figure – explorative scenarios versus normative scenarios – Breunesse distinguishes between technology and fact-based explorative scenarios, such as Shell's Blueprints and Scramble, and normative scenarios. Those, he says, are often developed by politicians, NGOs and the general public. This raises the question of scenario ethics. Normative scenarios, and to a lesser degree explorative scenarios, contain the hidden assumptions and desires of the people who made them. A network of academics is starting research into this theme.

The water-food-energy stress nexus

At the Eco-Marathon, an event organised by the city of Rotterdam and Shell, Shell launched a short film showcasing its latest ideas about the future. This time the focus is on the planet's resources and the tight links between the world's water, food and energy systems. According to Shell, pressure on supplies will increase in the coming decades as global demand will keep rising: if things continue unaltered, humankind will need 30% more water, 45% more energy and 50% more food in 2030 than we do today. The question is, of course, how to bridge the gap between demand and supply. We will need new solutions and renewed collaboration between countries and industry. Private and public sectors will be of great importance in realising this. This film reflects the starting point of a new way of thinking within Shell.

Discussion: the three A's

Rabobank's Cees Onderwater brought to the floor that he found it hard to reconcile Breunesse's story with the fact that during the last few years, Shell stepped up its investments in traditional energy sources whereas investments in renewables were put on hold. In reply to this accurate observation Breunesse explained that an energy transition involves more than only a shift from traditional to renewable energies. According to Breunesse, three A's are imperative in our choice of energy sources: Availability, Affordability and Acceptability.

The three A's in energy:

- **Availability**
- **Affordability**
- **Acceptability**

As to the first factor, Availability, Shell now invests in natural gas as a bridging fuel between traditional and renewable sources. With regards to Affordability, it is true that solar energy has reached grid parity – but this was brought about by tax measures. Finally, the third A, Acceptability, is very influential. Coal, nuclear energy and biomass are not acceptable to the general public, nor are windmills in the Dutch city of Urk or underground carbon storage in Barendrecht. Natural gas, on the other hand, is still acceptable. Shell has chosen to benefit from this acceptability before shifting to renewables completely. As Breunesse puts it: in the transitory phase between now and the end of the transition (presumably 2100 or later) the show must go on.

Henk Vlessert, corporate strategist at insurer Achmea, raised the point that he thinks the current volatility will not slow down the transition, as Breunesse suggested. On the contrary, he believes, it is exactly this volatility that creates a sense of urgency and leads to change. This spurred a debate about whether or not as a consequence of volatility people might abstain from investing in long-term causes.

In conclusion, Sebastian Reyn from the Ministry of Defence underlined that the most important issue is to prepare for the worst. Although you may hope for one scenario you should also get ready for the other ones.

*We will need new solutions
and renewed collaboration
between countries
and industry*

Rabobank 2030 scenarios for the 2012-2017 strategy



*the importance
of speaking the
same language*

Hans Stegeman, Head of national research at Rabobank, talked about his experiences with scenario planning. Over the last years, Stegeman and his team have worked on the IN2030 scenarios. In the spring of 2011, the book 'IN2030' was published. It contains detailed projections of living, working and doing business in the Netherlands in 2030 and a set of scenarios. It was shortlisted for the Management Book of the Year 2012.

Stegeman reflected on the reasons for Rabobank to work with scenarios, the content and process of the IN2030 scenarios, and the difficulties involved in the next step: using scenarios to develop strategy.

Why scenarios?

For financial institutions it is not very common to



create future scenarios.

In general, banks are not driven by the long term. Therefore the focus of their strategy is not as long term as, for example, Shell's. Nevertheless, as Rabobank is a cooperative bank, it does consider the long term on a regular basis.

The starting point of this Rabobank scenario exercise was the fact that the board wants to get a grip on uncertainties and prepare a new 2012-2017 strategic framework by developing scenarios that describe relevant internal and external factors. Stegeman informs us that this assignment was not as clear as it initially seemed. First of all, although using the term scenarios, the board actually had stress tests in mind. 'One of the most important lessons learned', Stegeman says, 'was the importance of speaking the same language. This is crucial for the success of a scenario project.' Secondly, there were discussions about the horizon of the project. Stegeman and his team changed the time frame. Whereas the board wanted to prepare for 2012-2017, Stegeman and his team eventually came up with scenarios for 2030. In their eyes this is the appropriate time frame for scenarios that will enable the board to make wellfounded strategic decisions for 2012-2017.

As Stegeman and his team started their trend analysis, new questions arose. First of all: what can we be sure about these days? It is certain that the

world population will grow, but will it have reached 8 or 11 billion in 2030? And what about wealth: is that an outcome or a given? What can we say about the division of wealth? Secondly, valuing the relevance of various internal and external factors posed difficulties. Stegeman decided to concentrate on trends in the Dutch home market and in food and agriculture, since these are the Rabobank's key areas of focus. Nonetheless, he was aware that international trends and geopolitics also exert a huge influence on the bank.

IN2030 scenarios: likely vs. preferable

Two key uncertainties were selected as a framework for the IN2030 scenarios. On the horizontal axis there is the extent to which developments occur gradually: from evolutionary to revolutionary. The vertical axis represents the degree of harmony in which developments take place: in harmony or conflict? The fact that the axes are rather abstract made it easy to fit everything else in. This enabled



Stegeman and his team to create four coherent stories – although it proved a difficult task that took them half a year. After showing the audience a short film introducing the four scenarios, Stegeman asked them to vote on two questions. Firstly, which of the scenarios they thought most likely to occur. Each scenario received more or less equal votes. Secondly, we were asked which scenario we preferred. There, the outcome was much more distinct. A small minority (three people) preferred Capricious Consent, a huge majority voted for Flowingly Forward. The difference between the outcomes of the two questions was exactly what Stegeman wished for. According to him, it shows that in everyday life wishes and facts are often mixed up. As soon as people realise that we tend to plan only for the preferable scenario instead of for all the likely scenarios, the purpose of the exercise is clear.

From scenarios to strategy

When translating the scenarios to a strategy for Rabobank, Stegeman and his team came across a number of challenges and questions:

- Is our current strategy a growth strategy? And is growth even possible if we look at the world outside?
- Can we remain all finance in the Netherlands? There is international competition (for example in a situation like Agile Antipoles) and demand is decreasing.
- What does our slogan 'close to the customer' mean in each of the scenarios? Do we want to be physically close or virtually close? Who are our customers? And should we hold on to our current organisational structure as a result?
- Food & Agri is currently an important area of focus to us; will we still be able to benefit from it in the future, for example in a situation like

in Slow Strife where there is a sharp division between East and West?

The scenario exercise did not only produce insights for Rabobank's strategy, Stegeman and his team also learned some lessons with regards to the actual process of scenario planning. 'First of all,' Stegeman says, 'be very clear about what you mean by "scenario" and about your deliverables. And manage expectations. It is also important to be aware of the fact that not everybody is capable of or willing to open up to scenarios. Therefore, you must be ready to deliver your message wherever you can! The translation of the scenarios to results is crucial! Rabobank did this, for example, by designing an app for the iPad which enables you to test your own strategy and decisions in the different scenarios.'

Discussion: who do you trust?

Achmea's Henk Vlessert asked the question whether scenarios can also be used to move a board into their blind spot. Stegeman replied that this can be done, but it was not the main focus of the IN2030 scenarios. IN2030 is, however, not the only scenario study within Rabobank. Cees Onderwater, who worked on an earlier Rabobank scenario project that focused on payment and saving, adds that, for instance, the degree of public trust in banks was one of the key uncertainties in their scenarios. Ewald Breunese noted that the IN2030 scenarios do not contain views and perceptions from other parts of the world, Chinese, Asian or US perspectives, for example. The scenario project seems to have a rather Dutch focus. How does that relate to the Rabobank's global ambitions? Hans Stegeman admitted that IN2030 is very much a Dutch piece of work. Not only is this the result of time constraints, it is also due to the fact that the executive board's focus is on the Netherlands.

Cooperation

This evening's presentations and discussions provided interesting and insightful best practice stories for our Master Class students and the special guests from our relations network. They also brought to the fore the continuous challenges even large companies like Shell and Rabobank, with years of scenario planning experience, still face. Both content and process are benefiting by sharing the experiences of both experienced and new practitioners all over the world, in the belief that jointly we can create better futures.

De Ruijter Strategy, Saskia Stolk, June 2012

Next Scenario Planning Master Class
7 & 8 March 2013

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