Next Generation Wargaming
Improving strategic agility in an uncertain world

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Companies have always faced uncertainty and volatility in their bid to outmaneuver competitors, yet more recently this volatility seems to be escalating. Recent black swan events (see box),¹ like the mortgage bubble and resulting Wall Street crisis, remind business leaders their companies face critical challenges that may be largely unpredictable, but can have an outsized impact on profitability and sustainability.

Many companies believe agility is the key to competitive advantage in a volatile business landscape. Though the term “agility” is sometimes overused by business leaders and their advisors, it describes well the desire among large, global enterprises to react and adapt quickly to changing market conditions—even those events that shake their very core. Agile companies anticipate possible or likely changes, sense when these seismic shifts are occurring, and adapt faster than their competitors.²

To build an agile enterprise, executives should treat agility as a muscle, exercising and strengthening it to ensure the organization will be capable when beset with a worst-case, unforeseen scenario. In recent years, companies have used business games to build agility and preparedness. Wargaming in particular, a set of business acumen exercises adapted from the military, pits a team representing the company against a team simulating a major competitor—all to test the possibility of a potential future event and understand how it may affect an enterprise.

While an interesting exercise, traditional wargaming is inherently myopic and rarely results in tangible value due to two major flaws:

The first flaw is that traditional wargaming does not sufficiently account for future uncertainties. Traditional wargaming tends to address the single, most likely scenario. In real life, as the number and pace of uncertain, game-changing events increase, industry leaders face greater pressure to place the right bets when investing scarce resources. The inability to account for multiple uncertainties is a critical flaw in traditional wargaming.

The second flaw is that traditional wargaming infrequently moves beyond brainstorming into tangible action. Traditional wargaming has a large brainstorming component, in which participants offer ideas about how to address a future-state scenario. Without extensive prior preparation, however, there is no guarantee the strategies laid out during the real-time exercise are comprehensive. In fact, attendees are likely to come up with additional ideas after the wargaming session is over, causing the strategies selected during the simulation to be called into question and undermined. Once undermined, ideas generated during a simulation inevitably stall.

To achieve true strategic agility, we created a new hybrid methodology called Next Generation Wargaming. It combines elements from two separate methodologies—traditional wargaming and scenario planning—to generate actionable competitive strategies that take into account a wide range of alternate futures.

Next Generation Wargaming can be particularly valuable to anticipate major market events like new legislation or M&A activity, new competitive entrants or major shifts in competitor strategies, or catastrophic or black swan events.

What is a black swan?

A black swan is an event that is largely unforeseen, but one with historic, devastating consequences. The black swan theory says those events—even if exceedingly rare—have an outsized impact on history due in part to the inability of individuals, systems and organizations to imagine them. They may be economic (the mortgage bubble), environmental (the BP oil spill), political (the “Arab Spring”) or deliberate disasters (9/11).
FIGURE 1
Next Generation Wargaming methodology allows companies to proactively plan for a wide range of uncertainties, resulting in an agile, actionable and outcomes-oriented competitive strategy.
Sample questions arising from market uncertainties

• How could black swan events cripple our company?
• What are our company’s biggest vulnerabilities?
• Will increasing M&A activity affect our target markets?
• Which emerging competitors pose a threat to our company and why?
• What new policies and regulations that impact our industry will the government implement?
• Which grassroots efforts will influence the direction of our industry?
• What financial/economic events may occur that will impact our industry?
• How do we anticipate which events to plan for and the results of these events?
• Which opportunities should we pursue going forward and/or where should we cut back?
To overcome the first shortcoming of traditional wargaming—insufficiently accounting for future uncertainties—Next Generation Wargaming relies on scenario planning.

Scenarios must have four characteristics:

1. **They must be outside of the company’s reasonable sphere of influence.**

   Future-state scenarios should include market events beyond the control of the company developing the competitive strategy. For example, government legislation is a market event that is outside of the company’s control and so should be incorporated into future-state scenarios. Conversely, market events that are within the control of the team representing the company (for example, customer satisfaction) should not be included in scenarios. Instead, these company-controlled factors should be considered potential strategies the company could pursue.

2. **They must be feasible.**

   Scenarios must consider a wide range of possible future events, but not so many as to make the wargaming exercise unwieldy or unfocused. Planning for market events that are technically possible but unlikely dilutes the value of the resulting competitive strategies and ultimately causes more harm than good. However, only planning for market events that are almost guaranteed to occur also limits the value of scenario-planning. In practice, setting the bar at a 5 percent or greater chance of occurring is an effective cutoff for ensuring the proper balance between comprehensiveness and feasibility.

3. **They must have significant impact.**

   Market events should only be included in a scenario if they will have a significant impact on the company’s target market(s), business strategies or critical relationships (for instance, customers, suppliers or competitors). Importantly, significant events may include both “macro” drivers (for example, the European sovereign debt crisis) and “micro” drivers (the launch of a competitor’s product or a business unit divestiture). Both positive and negative outcomes should be considered because market events can be binary in nature (such as the recent Supreme Court ruling on US health care reform).

4. **They must be differentiated.**

   While some events may remain constant from one scenario to another, each scenario as a whole should force the teams to think very differently about the market and their competition. As the defining element of scenario planning, sufficiently differentiated future-state scenarios are absolutely critical. They enable teams to consider the proper range of potential market events and the strategies to deal with them.

If these four criteria are met, scenario planning will cause the company to think about its market and competitive strategies in very distinct ways.

**FIGURE 2**

Competitive strategy is most robust when it enables success regardless of future market developments. Next Generation Wargaming results in the development of robust, flexible competitive strategies that enable strategic agility.
Next Generation Wargaming can be customized to fit any industry, any scale, and any market landscape

One of the greatest benefits of Next Generation Wargaming is the ability to scale the approach to fit any uncertain competitive situation. Because competitive challenges and future market uncertainty exist in every vertical, Next Generation Wargaming can be applied effectively across diverse industries.

It is also possible to vary the scale of Next Generation Wargaming from a company level to the level of a business unit or a single brand or product. Depending on the scope desired, the team can set a variable time horizon to address short, medium, or long-term competitive challenges.
Improving Traditional Wargaming: Menus of Strategic Objectives

To overcome the second major shortcoming of traditional wargaming—difficulty translating ideas brainstormed in real time into tangible action—the Next Generation Wargaming development team should create comprehensive sets of possible competitive strategies before hosting the competitive simulation. These sets of potential strategies are referred to as "menus" of strategic objectives because they will serve as the master list from which simulation teams will select a particular combination of strategies to best address each scenario.

Unlike future-state scenarios, which are the same for the team representing the company and the simulated competitor team, separate menus of objectives must be created to reflect the unique culture, goals and historical strategies of each party. Analyzing the strengths, weaknesses, opportunities and threats of the company and its competitor(s) provides a strong foundation for developing these menus. Both proactive and reactive strategies should be included, while considering all relevant customer, competitor and other stakeholder-focused strategies to ensure the list is comprehensive.

Developing robust, comprehensive menus of strategic objectives prior to the competitive session enables participants to focus on selecting the best strategies, rather than spending valuable time trying to brainstorm them. After the session, attendees can have confidence that all ideas were considered and fully discussed, and they can solidly agree on which strategies to implement.

The Competitive Simulation Workshop

Once the preparations are complete, the next step is to conduct a detailed competitive simulation workshop. Due to the time constraints of workshops, highly structured facilitation is needed to cover all material and ensure all market uncertainties and potential strategies are adequately considered.

To begin, the simulation teams should be presented with a scenario and asked the following question: "Given what you know about the future, what strategies will you pursue to realize success?"

Using predeveloped menus of strategic objectives, each team will select a mix of the strategies it believes are most critical to success. As in the real world, not all strategies can be selected so participants will have to prioritize and marshal resources effectively. Simulation teams will also be able to learn about and address each other’s selections, and revise their tactics accordingly. This process is repeated for all scenarios (typically three to four).
To implement new competitive strategies quickly and effectively, organizations need collaboration and executive support

A common criticism of traditional wargaming is that it typically results in little more than a fun exercise. As such, it is critical to translate competitive insights and recommendations into tangible actions. To accomplish this, the core team, executive leadership, and key operational stakeholders (the team responsible for implementing activities) should collaborate as early as possible. For example, a company should carefully vet proposed scenarios with members of the extended executive team (such as finance, R&D, marketing, and strategic planning). If the focus of this activity involves a joint venture with another company, the core team should include representatives from both companies.

Following their review of the scenarios, these stakeholders should also participate in the wargaming exercise/competitive simulation and help develop the competitive strategy recommendations. At this stage, senior leadership’s input should be solicited as well to ensure buy-in and future support. This support will help enable a quick and effective transition from strategy to action.
1. **Market Focus & Position**
   - A. Sales focus to establish global presence, regional dominance
   - B. Emerging market with targeted solutions
   - C. Value-based differentiation

2. **Distinctive Capabilities**
   - A. Global operations with local relevance
   - B. Strategic IT investments, efficiency
   - C. Adaptive pricing, talent, supply chain, cost management
   - D. IP management

3. **Performance Anatomy**
   - A. Market/leadership & disciplined execution
   - B. Leadership continuity

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- Organization Performance Management
When the competitive simulation is complete, each team will have chosen and pressure tested a set of ideal strategies for each scenario.

After analyzing the objectives that were selected by each competitive team, three types of insights should be developed:

“Critical” activities
Highly prioritized by the company in most or every future-state scenario. They represent the team’s core, competitive positioning, deemed critical for realizing success no matter what future developments take place.

“Core competitor” activities
Highly prioritized by the competitor(s) in most or every future-state scenario. Participants gain reasonable indicators of whether competitors may pursue these strategies, no matter what future developments take place; proactively planning for these activities is strongly advised to help prevent competitors from dictating terms in the marketplace.

“Trigger-based” activities
Highly prioritized by the company, but only in specific future-state scenarios. These are potential future events that should be monitored; companies are advised to define associated strategies that can be implemented either proactively or in the event of a trigger.

These activities can provide the company with valuable insights to mitigate future risks, capitalize on future opportunities, and maximize its strategic agility. Yet to do so, the company—beginning with senior leadership—should insist upon translating insights gained from the competitive simulation into tangible action.

To begin, critical activities should be integrated immediately into the company’s functional plans. Where no such plans exist, these activities may serve as foundational competitive strategies. While some activities will be well known, others are likely to be less intuitive (yet no less essential). The use of multiple scenarios gives the company a larger sample size in considering which activities to implement in the real world. Critical activities have an extremely high probability of generating value despite future uncertainties. This knowledge is essential as company leaders face the challenge of deciding which initiatives to fund with limited organizational resources.

By the same rationale, the company should also implement strategies based on the core competitor activities selected during the simulation. Because these activities will generate value for the competitor(s) in most or all future-state scenarios, the company should develop and implement counter-strategies, proactively, if possible. Like the critical activities, some will be obvious, while others may pose a greater threat than originally suspected. Next Generation Wargaming enables teams to consider counter-strategies in-session, so the organization will already have a strong foundation with which to counter these competitive actions.

Last but not least, the company must also leverage the trigger-based activities to make fully informed decisions regarding resource allocation. Even if the company does not pursue a given trigger-based activity, it can improve its response time by monitoring the market for specific triggers or events. This preparation enables the company to sense change and quickly implement predefined activities as a response, which is essential for achieving high performance through strategic agility.

Due to the rigor of the Next Generation Wargaming methodology, our experience shows organizations may implement up to 80 percent of competitive recommendations resulting from this exercise. Contrasted with traditional wargaming, which often ends after the competitive simulation workshop, Next Generation Wargaming helps ensure management develops and implements an agile, actionable and outcomes-oriented competitive strategy.
Next Generation Wargaming helps a global life sciences company double analysts' sales estimates

A global life sciences company was preparing to launch a critical new product into a therapeutic area against a competitor that was armed with superior clinical data and expected to launch the same quarter. The company hired Accenture to help develop a robust competitive strategy via Next Generation Wargaming while accounting for market uncertainties.

Accenture partnered with the company to develop future-state scenarios that accounted for the variability of critical market events. For example, the scenarios considered emerging data from ongoing clinical trials, accelerated or delayed approval timelines for either of the new drugs, and competitive responses from existing drugs within the market.

The project team held a competitive simulation, which resulted in 18 competitive recommendations—nearly 85 percent of which the company implemented within six months of the simulation. After the launch of the company's and competitor's drugs, several key market events addressed during the simulation came to fruition. As a result of Next Generation Wargaming, the company had proactively taken steps to realize success if those events occurred, enabling the brand to significantly outperform analysts' expectations.

In the first fiscal year following its launch, the brand performed twice as well as analysts' sales estimates. While many other factors contributed to this market success, the consensus at the company was that the results still would not have been possible without Accenture’s Next Generation Wargaming approach.
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