

# Automotive News

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## Guest commentary: Boost strategic agility through scenario planning

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The only constant is change.

As we start 2025, it's a fitting time to remind ourselves that this isn't the first occasion when the automotive industry has faced significant market, policy and regulatory ambiguity. Let's not forget how we adapted to the challenges posed by the pandemic, the 2008-09 recession, the aftermath of 9/11 and other pivotal events.

Yes, it is difficult to navigate the many contradictory signals currently swirling around. However, the industry has gotten pretty good at staying nimble amid change — largely through scenario planning.

This is a perfect opportunity to dust off the scenario-planning playbook. From potential tariffs to electric vehicle policies, there are already plenty of foreseeable implications that we can start wrapping our arms around. Indeed, the biggest mistake industry professionals can make right now is to do nothing.

### Don't just 'wait and see'

We're hearing quite a few organizations say, "Let's wait until the second quarter to begin strategic planning." While their caution is understandable, this approach is too much like the frog who remains in the pan as the water temperature rises. Agility demands action, and scenario planning can help identify those actions despite all the unknowns.

Scenario planning is a tried-and-true technique for playing the "What if?" game. It allows organizations to forecast and calculate the business impacts from a wide range of possible circumstances. It's not just a theoretical exercise; the ultimate objective is to define a set of actions to take should a scenario come to fruition.

Scenario planning gives automotive suppliers, automakers, investors and others the ability to quickly capitalize on — or mitigate

the effects of — various situations. Whereas business case planning is useful to prove the value of specific activities surrounding specific events, scenario planning sets the foundation for rapid response to whatever curveballs might be thrown.

### Establish a guiding framework

The first step in scenario planning is to pull together a cross-functional team that ideally comprises people from executive leadership, finance, sales, operations and supply chain working together to:

- Access data and information to support scenario development
- Decide which scenarios seem most likely/plausible
- Determine the impact of each scenario
- Define the responses to each scenario.

Convening a cross-functional team ensures that the best insights are available to inform scenario planning and that the resulting recommendations are truly used for tactical and strategic decision-making.

Scenario planning explores both qualitative and quantitative business impacts. Some data points to analyze might include volumes, pricing, margins, costs, competitive positioning, production locations, foreign content percentages, access to talent and information about potential policy shifts (e.g., changes to tariffs, federal EV incentives and environmental regulations).

With such information, organizations can build "bookend" scenarios based on variables representing the extremes. For example, one scenario might be a tariff restriction between the U.S., Mexico and Canada. The variables might include tariff percentage and duration. So, one bookend scenario might assume a 1 percent tariff for one month, while the other assumes a 100 percent tariff for four

years. Then, for each scenario, the scenario planning team should evaluate:

- How would business be impacted? (e.g., production volumes, supply chain, market demand)
- How long could we sustain this scenario?
- What decisions would we be forced to make?
- What actions would let us take advantage of this scenario?
- What actions would mitigate this scenario?

To be clear, scenario planning should never be a one-time event. It should be done even in times of relative stability and become a dynamic process that is continually updated as events unfold. Moreover, good judgment is just as crucial as good data. If the team finds a scenario unbelievable or unlikely, they should replace it with another scenario they deem more realistic. Whether scenario planning is done daily, monthly, quarterly, etc., should depend on how material the scenarios are to the business's overall health.

### Plan, prepare and thrive

Scenario planning is a tool that enables us to legitimately forecast and calculate potential business impacts from "what if" situations. While automotive organizations should always consider it a core competency, it is especially valuable heading into a year that's expected to bring new challenges. Therefore, there is no reason to delay strategic planning; scenario planning empowers organizations to adapt to change.

For automotive organizations that lack a scenario planning process, now is an excellent time to implement one. By identifying and analyzing scenarios, organizations can recognize opportunities, mitigate risks and make well-informed decisions to ensure long-term success.