



Philequity Corner (May 9, 2022)

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When the scenery changes

Today is the day for change.

It's a time to anticipate new challenges, strategies, and possible outcomes. Different plot lines can involve varying sets of players and settings. It is from the making of movies that we get the term "scenario".

A "scenario" (sometimes called a storyboard) is a device that movie directors use to shoot different scenes, characters, endings, script, costumes, and props. The various approaches allow the director to re-imagine the story and how much the budget will cost.

Scenarios are also applied to business planning, economic projections, and investment strategies.

Scenario-building is a planning tool used to explore various actions and reactions and come up with strategies to fit different developments that affect business. Real life is more complicated than moviemaking though. A set scenario for the next six months after a new leader is proclaimed can be derailed by unexpected events like a pandemic, a super typhoon, or even another invasion closer to home. These "Black Swan" events can upset even the worst-case scenarios imaginable.

Even in the most settled of times, research groups that track company performances deal with scenarios from announced strategies of the subjects they cover. This may involve plans to acquire a company, launch a digital initiative, sell assets that will be leased back and put all these changes in a model for future earnings and debt cover of the company. Prices of stock need to reflect future earnings, or losses.

Scenario-building presumes an appreciation of how different variables support or oppose one another. It is important to see the links between cause and effect, actions, as well as reactions to events.

Whoever is declared the winner in today's election will bring a new set of policy makers. Maybe new rules will be introduced. And even when the old rules still prevail, there will be a period of waiting on how these rules will be implemented...or not.

Will there be an easier way of doing business under a new leadership? How will foreign investors view the change of management of the country? Will foreign capital flow in or out?

Scenarists have similarities with conspiracy theorists. Imagination is their strong suit. No improbability is dismissed. Even potential new players and a swing to different countries will affect old partnerships.

Planners talk of "best case" and "worst case" scenarios as convenient labels for the conclusion of a string of events whether beneficial or harmful to a particular group. Possibly, one side's best case may be a competitor's worst one. Scenarios differ according to the desired outcome of the principals involved.

Think tanks use history and culture to construct realistic scenarios. What can we learn from the past? Thus, the analyst for an authoritarian scenario tries to understand the military mindset and the effect that power has on subordinates and favored business groups in a new business normal.

The rise and fall of the Roman empire may be able to teach a few lessons (Do not over-reach). Still, we understand how information spreads much faster in a digital world, requiring major tweaks applied to history, including an event that happened exactly fifty years ago.

Because they deal with the uncharted future, scenarios cannot fully anticipate sudden twists in the plot. Even in movies, the main characters don't always determine the ending. There is the supporting cast and the mob of extras that can change the ending of the story.

With about 6,000 new appointments in government and its regulatory structure, the political impact of any new administration keeps scenario-builders busy. Even charting the private sector's winners and losers will be a game of scenarios too.

Scenarios need to keep up with the twists in the plot. Still, meticulous planning can only go so far. Sometimes, even the worst-case scenarios being planned for can turn out not pessimistic enough. Improvisation may be necessary to keep one's balance.

Still, we count on the strength of institutions like the private sector and its ability to be flexible without flexing its muscles.

We look forward to analysts' reports for the end of the first half of this year as mostly "better than forecasted".

The scenario of a better business climate is not too far-fetched. Scenarios still need to be flexible, much like a script being changed to allow for a happier ending...or more episodes needed to get there.

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