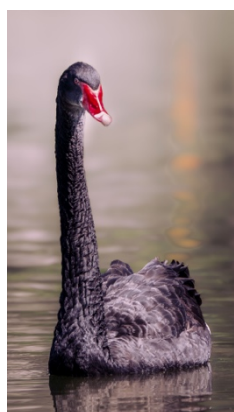


# The black swan: be prepared for what you didn't see coming

Jeroen Toet | Jester Strategy



Where the ostrich buries its head in the sand and would rather not make any choices (see the previous article), the black swan confronts us with something else: events that we barely saw coming, if at all, but that change everything in hindsight. The term “black swan” became widely known largely through the book of the same name by Nassim Nicholas Taleb. For centuries it was assumed in Europe that all swans were white, until black swans were encountered in Australia. A single observation was enough to overturn a deeply held conviction. In a strategic context, the black swan stands for an event that seems improbable, has a major impact and is, after the fact, often rationalised as something that could have been foreseen. Suddenly we say: “We really could have seen this coming.” And that is precisely where it becomes interesting for strategy.

## Which black swans are worth attention?

Organisations can never be prepared for everything. You cannot have a complete plan ready for every conceivable disaster, crisis or bizarre turn of events. “What if a meteorite hits our head office tomorrow?” is good fun for the imagination, but not much use for strategy. So the question is not: how do we prepare for everything? The question is: how do we make sure we are not completely blindsided by events that may seem improbable, yet are conceivable and could have an enormous impact? Relevant “predictable surprises”, as it were: developments that, on some level, we know could happen, but for which we nonetheless fail to organise ourselves adequately. What if a crucial raw material suddenly becomes unavailable? What if an important market abruptly closes? What if the national digital infrastructure – and therefore ours too – goes down for a prolonged period? What if new regulation changes the playing field at a stroke?

## Prepare with ‘what if’ scenarios and playbooks

A good way to deal with such black swans is *contingency planning*: creating “what if” scenarios and accompanying playbooks. Not as a prediction, but as preparation. Sometimes a single scenario is enough, though it is better to explore branches as well. What if the disruption is short-lived? What if it persists for months? Does the government intervene or not? Does the problem escalate gradually, or all at once? When you develop a shared picture of different scenarios together, it helps to describe them in a uniform way. What exactly happens? How does the market dynamic change? Which key metrics shift – such as falling demand, interest-rate or currency movements, purchase prices or the availability of capacity?

For each scenario you then devise a playbook: a carefully considered package of actions, options, decision criteria and responsibilities, thought through in advance. What do we set in motion under scenario A? Which



options do we want to have ready for scenario B? Which signals tell us that we need to escalate? Who is allowed to take which decisions? A good playbook does not stop the black swan from appearing. But it does prevent everyone from having to work out, in the moment, what the options are and who actually gets to decide. In a mild scenario, extra communication, stock-building or temporary cost control may be enough. In a more severe scenario, it quickly becomes a matter of more fundamental issues: portfolio choices, different markets, new partnerships or even redesigning your business model.

## **Crisis management with a strategic by-catch**

At the same time, there is also a danger here. A black swan is, by definition, an exceptional event. Often it is a crisis-like moment: incidental, disruptive and not necessarily representative of the world in which you normally operate. So you should not simply base your entire long-term strategy on it. Playbooks are primarily intended to build resilience and to enable you to act over a relatively short horizon, often in order to 'survive'. They help you to have options ready, to shorten response times and to avoid panic-driven decision-making. But the interesting by-catch is that parts of those playbooks can often have strategic value beyond the crisis scenario too.

At one of our Asian clients, for example, such an exercise led to investments in new sectors. These were originally conceived as part of a crisis playbook: ways to reduce vulnerability in existing markets and to open up new revenue opportunities should a scenario escalate. On closer analysis, however, some of these investments turned out to be worthwhile not only in that severe crisis scenario, but also if the black swan failed to materialise altogether. That is perhaps the finest reward of contingency planning: you not only prepare for disruption, you sometimes also discover robust strategic options that you would not otherwise have taken seriously.

## **But is it really a black swan?**

Perhaps the most important question, in the end, is this: are we actually dealing with a black swan at all? That may sound like semantics, but it is strategically crucial. Because if something is truly exceptional, incidental and barely foreseeable, then a crisis playbook is the right fit. In that case you want to be prepared, to have options ready and to know how to act quickly. But if an event is part of a structural development, a crisis playbook is not enough. It then really belongs within your strategy itself.

Take pandemics. For a long time these were seen as black swans: exceptional and improbable. But is that still justified? Climate change is shifting disease vectors. West Nile virus and dengue, for example, are already gaining ground in Europe. Urbanisation, deforestation and pressure on habitats bring humans and animals into contact more often, increasing the likelihood of disease transmission. And high levels of international mobility mean that a local outbreak can spread around the world far more quickly. In other words: there are structural forces increasing the likelihood of pandemics. The question of conscience then becomes: should you merely keep a crisis playbook ready for this? Or does it call for strategic choices about, among other things, supply chains, workforce, digitalisation and geographical spread?

The same applies to many other so-called black swans. Cyberattacks. Extreme weather. Geopolitical shocks. Sudden trade barriers. Energy crises. Just how incidental are these still? Perhaps we still call them black swans because that is more comfortable. It quietly absolves you of a little responsibility, too: "Nobody could have seen



this coming.” Or: “We thought it was so improbable.” They are also often not the most pleasant things to think about. But if something is in fact a structural risk, then you really do need to deal with it structurally.

## Look the black swan in the eye

The black swan therefore calls for two forms of strategic maturity. The first is being prepared for disruption. Not by trying to predict everything, but by working out relevant ‘what if’ scenarios and having playbooks ready. So that you don’t only begin to think once the crisis has already started. The second is daring to examine honestly whether something really is a black swan. Is it an exceptional event for which a crisis approach suffices? Or is it a sign of a structural change that calls for fundamental strategic choices? Because that is perhaps where the greatest strategic pitfall lies. Not that we failed to see the black swan coming, but that, in hindsight, we have to admit it had been swimming around for far longer, while we preferred to keep calling it an exception.

In short: create playbooks for events that could disrupt you. Use the by-catch to discover robust strategic options. And, above all, ask that uncomfortable question: is this really a black swan, or simply a change that we have, for too long, been unwilling or afraid to look at?

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## About the author

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