Business Uncertainty and the Uncertainty Advantage

In business environments, the only true certainty lies in, well, business *uncertainty*. Natural disasters, international conflict, market slumps, pandemics like COVID-19, and a host of other potential disruptions lie in wait on a daily basis. And while it's critically important to have plans in place to survive these crises, forward-thinking businesses are also ready to view times of crisis as opportunities to improve their business position and competitive strength via *uncertainty advantage*.

Tapping into the power inherent to business uncertainty requires a willingness to embrace unorthodox approaches, expand your understanding of the risk factors most likely to compromise your operations and supply chain, and develop value-focused, proactive strategies. It can be an uphill climb, but putting in the time and work can yield rich rewards both during crises and the recoveries that follow them.

How Business Uncertainty Creates Opportunities

The traditional approach to business risk is to play things safe. The standard approach is to build strategies around managing uncertainty: ensure business continuity, minimize waste and expense, and guard against needless additional risk. Faced with cyber-attacks, industrial mishaps, environmental calamities, market failures, and disease outbreaks like the coronavirus, companies are quick to hunker down and take the risk-averse road, especially with higher levels of uncertainty. The goal when managing uncertainty is often (perhaps too often) focused on mitigation, on surviving current events and then improving the survival strategies likely to be used in dealing with whatever future events promise additional risk to the business.

But times of uncertainty do more than disrupt the status quo: they also present decision makers with new opportunities they may not have otherwise had, and the chance to transform risk into reward through creativity and out-of-the box thinking.

This is of particular importance in the age of digital transformation. In a complex global business environment, every stakeholder, from investors to staff to senior management, wants as much information as possible—more so when crises strike. Investing in data collection, management, and analysis tools, as well as next-gen tech like robotic process automation supported by artificial intelligence (AI) provides a clear picture of current events—and an analytical foundation for predicting and adapting to future events. In doing so, it also supports a more risk-tolerant and agile approach that reveals hidden opportunities for innovation, process improvements, and greater profits that might not appear without these digital data tools.

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The Four Levels of Business Uncertainty

In the November-December 1997 issue of *The Harvard Business Review*, researchers Hugh Courtney, Jane Kirkland, and Patrick Viguerie outlined a new strategy for dealing with the four types of business uncertainty. In doing so, they also offered a glimpse at how important it would soon become for companies to implement emerging technologies to move beyond traditional, mitigation-focused, risk-averse models in order to achieve competitive strength and innovation. To hew to those outdated models would doom businesses to mere survival at best, or slow attrition in an increasingly complex and competitively sophisticated marketplace at worst.

Data sits at the center of the Harvard model for uncertainty management. To identify the risk that comes with uncertainty and the opportunities it holds requires an understanding of how much information is actually present in even highly uncertain environments, including:

- **Known Data:** Information such as demographics, market trends, and social/cultural/technological shifts that provide a reliable foundation for estimating future

consumer demand, likely market penetration, potential strategic partnerships with key suppliers, etc.
- **Unknown, but Knowable, Data:** Information not readily available, but accessible through data analysis and review. For example, opportunities for process optimization to remove risk and improve productivity, or planned activities by competitors designed to increase their competitive advantage relative to your own.
- **Residual Uncertainty:** The uncertainty remaining once you've completed your analysis, and the source of risk exposure, as well as opportunity for those willing to pursue it.

In establishing a framework for this residual uncertainty, the team identified four types of business uncertainty:

1. A Clear Enough Future.

At this level, uncertainty is low enough that decision makers can develop a workable strategy likely to achieve the company's goals. Consider the case of a grocery store dealing with declining sales due to the outbreak of the coronavirus and unexpected competition from a nearby fast-food eatery that, with its dine-in area closed by quarantine, is now selling its supplies as groceries to consumers, along with delivery to their homes.

The grocery store might not have immediate access to the costs and profit margins such a competitor is incurring and achieving, respectively, but such information is, in fact, knowable through market research. So, to, is the possibility that the competitor will continue to offer these services once the lockdown is lifted. By working to obtain that data, the company can then reduce uncertainty to minimal levels, and use cost and risk data to formulate its own plans and pricing in establishing delivery services that meet or exceed the standard set by the competition. The grocery may even identify an opportunity to (for example) leverage its more robust supply chain and relationships to strike strategic deals that make its new delivery service a competitive strength by getting the jump on other, more direct competitors.

2. Alternate Futures

At this level, uncertainty is large enough that analysis cannot narrow the future to a single likely outcome, although it may provide a thumbnail guide to the relative probability of two or more potential outcomes. With this information, you can develop a set of potential strategies based on the most probable of these scenarios. It's wise, however, to develop additional contingencies to provide strategic flexibility should things take an unexpected turn.

Industry regulations, legislative mandates, or competitor's strategies can all create this level of uncertainty. Presented with multiple discrete outcomes, it makes sense to have a general strategy flexible enough to adapt to the one that actually manifests.

3. A Range of Futures

Like level 2, this level of uncertainty involves multiple potential outcomes. Unlike level 2, these outcomes are not discrete, and so fall into a broad range, rather than a set of specific options.

Say, for example, your small business is looking to tap into an emerging market. The software your company sells has not yet been widely adopted, although market research indicates strong consumer demand for the features it provides. However, the dearth of available data on specific aspects such as platform, interface, price point, and ideal consumer demographics make it hard to narrow the range of customer penetration or competitive positioning, leaving you with a broad range of potential sales to not-quite defined consumers who may or may not be willing to pay a certain price for the features and format you offer. As with level 2, the more information that can be locked down, the clearer your potential options become.

Alternatively, if you have an established business and are considering implementing an emerging technology, you may face similar levels of uncertainty if the technology doesn't have enough data—or, more importantly, enough specific data—to provide you with a reasonable projection for cost/benefit analysis, long-term return on investment (ROI), etc.

4. True Ambiguity

At this level of uncertainty, nearly everything is up in the air. There's insufficient data to establish even a range of potential outcomes, let alone one or more that might be the most likely to occur. In fact, you may not even have the ability to identify all the data you need to engage in analysis, strategic planning, and decision making.

This level of uncertainty is the rarest, and the most transitory, as additional information and analysis can turn a level 4 into a level 3, then a level 2, etc.

The passage of time, and the exponential availability of data in the global economy, can also help uncertainty "downshift," although of course a proactive approach can speed this process and help you reduce uncertainty—and improve your company's planning and competitive performance—much more quickly.

Three Areas of Opportunity Created by Business Uncertainty

Uncertainty as a potential source of advantage is hardly new; after all, if everyone suddenly became a virtual clairvoyant, able to predict every potential outcome, then competitive advantage would cease to exist.

Instead, by identifying and quantifying both uncertainty and its potential for untapped value, businesses can transform it into what we call uncertainty advantage. Using the Harvard framework, companies can move away from the idea of uncertainty as something to be dreaded or eliminated, and toward one that regards it as a potential source of lasting value generation.

How? By shifting priorities away from preserving existing value and toward finding novel, productive, and profitable ways to generate new value from the unknown, unexpected, and unlikely. Traditional risk management strategies of course remain an important part of business, but they are preventative, rather than proactive.

Generally speaking, flipping the script on business uncertainty happens in one of three ways:

- **Opportunities for new growth and greater revenue.** Facing a deeply uncertain market in China after a multinational crackdown on corporate corruption, pharmaceutical giant AstraZeneca bucked the trend of damage control set by competitors. Instead, it invested in strategic relationship development and massive investment in technologies the Chinese government was keen to pursue. The result? Double-digit sales growth and substantial competitive strength in the emerging biologics market.
- **Improved decision-making and strategic planning.** The more data available to a company's decision-makers, the more quickly they can make smart, strategic decisions. Tapping into the "knowable unknowns" by analyzing and optimizing business processes, for example, can reveal opportunities to generate long-term value by eliminating redundancies, identifying key suppliers with the potential to become partners, or identifying a hitherto-unexposed Achilles' heel in your production supply chain, customer support, or logistics.
  For example, Rockwell Automation discovered a fatal vulnerability in its approach to supplier management during a risk management analysis in 2007. It modified its entire supply chain strategy to focus on strong relationships with essential suppliers providing high-quality goods, which not only helped mitigate risks to production, but helped to create the collaborative, innovative, and diverse supplier network they have in place today.
- **Improved ROI through process improvement.** Effective business process management is essential for extracting maximum value from every workflow in your business. Optimization, through thorough analysis and tools like process automation, greatly reduces uncertainty. It also cuts costs and reduces time and resources spent, while generating value in less direct ways.
  Automating low-level, high-volume tasks such as invoice processing, for example, improves cash flow accuracy, eliminates human error, and reduces cycle times. It also frees up staff to apply their talents to more strategic work, and allows you to capture more early payment discounts while reducing late fees and penalties. With costs down, productivity up, and continuous improvement providing ongoing enhancements, your balance sheet will show greater value for every dollar spent.

A Cultural Shift

Beyond technology, it’s crucial to invest in the education and training necessary to transform your corporate culture to one where problems and challenges are viewed as opportunities, rather than failures. From the C-suite down, your entire organization will need to be trained to embrace the digital tools and concepts required to snatch opportunity from the jaws of uncertainty.

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Is Your Business Ready to Take Advantage of Uncertainty?

In business, as in life, there are no guarantees. But uncertainty doesn’t have to be a source of fear, frustration, or financial loss. By investing time and energy in identifying the level of uncertainty, and embracing the tools that make robust data management and analysis possible, your business can find the silver lining of opportunity hiding in the cloudy skies of risk exposure.

With a willingness to look beyond traditional risk management and a commitment to agility, you can tap into emerging markets, meet consumer demand in innovative ways, and find exciting new approaches to strengthening your competitive performance.

Get the Automation and Analysis Tools You Need to Thrive in an Uncertain World with PurchaseControl

Find Out How

About **PurchaseControl**

PurchaseControl is cloud based procurement software for business spend management. We empower businesses by providing greater transparency and oversight into the purchasing process. With PurchaseControl, you have the flexibility to manage how spend actually happens instead of how you wish it would happen.

The entire PurchaseControl team has experience within a range of businesses, and as such, we bring a practical, holistic approach to purchasing. We understand what it takes to run a business and apply that knowledge to make PurchaseControl as effective as possible for all users.

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