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## Imagining failure can lead to success



Retailers will by now be well advanced planning for next year. To most of us planning is a tedious necessity – ‘failure to plan is planning to fail’.

There is, however, a difference between

planning and preparing a plan. Former US President Dwight Eisenhower said: “Plans are useless, but planning is indispensable.” But generally far more time is spent forecasting numbers than in planning what is to be done.

Behavioural economist Daniel Kahneman argues that plans tend to be too optimistic. He identifies four reasons for this: focus on goals, not past experience; concentration on ourselves, not what third parties might do; thinking just about our own capabilities and ignoring possible chance events; and excessive trust in what we know, rather than what we don’t know.

He emphasises the importance of setting a base point. In planning terms, this is what is statistically the most likely outcome if we just carried on doing everything as now. A common business planning error is to overestimate this.

If you assume that sales attrition is modest, competitors taking, say, only 1% off your sales, then as soon as you add all the sales uplifts from your initiatives, sales growth starts to get pretty bullish. Competitors will be planning their own initiatives, but it’s always tempting to assume that they won’t damage you much.

Executives like to be – and to be seen to be – ambitious. There can be a degree of machismo in signing up to challenging targets. But it’s



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important to distinguish between challenging targets and realistic overall outcomes. Competitors’ future initiatives need to be taken seriously. Chance events also need to be recognised as playing a potentially big role in any situation.

Does over-optimism really matter? It might mean that you run out of cash or disappoint shareholders. Fortunately, no self-respecting finance director bases guidance to analysts or banking forecasts on their colleagues’ business plans. They sneak in comfort elements, as they know full well that most plans are not achieved in full and they understand the risks of underperforming on debt facilities or against City expectations.

Behavioural research shows that excessive optimism tends to make people ignore or underplay risks. This is, after all, one of the key lessons of the banking crisis.

Do planning processes make us too confident? Kahneman suggests holding a planning ‘premortem’. Sit down and assume the plan proves a disaster. What might have happened to have caused this?

That allows negative thinking in a way that is uncomfortable for most businesses. I wonder what a Tesco ‘premortem’ would have sounded like before its £1bn exit from its US adventure. Ironically, imagining failure may be the best way to avoid it.

This process would also draw out risks in a more tangible way than the usual sterile business risk section of a plan. It would also remind us of the rule, so often forgotten: success = talent + luck. And that failure is, perhaps just as often, talent minus luck.