

***Options Thinking Example:
How Options Thinking Can Improve Decisions
With No Calculation or Jargon***

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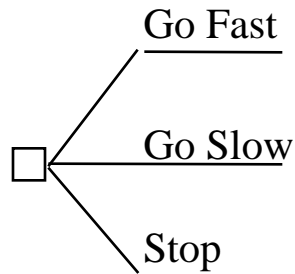
Options thinking uses ideas from stock market options to decompose decisions over time to reduce risk and increase value.

- ❑ **Option** is right (not obligation) to buy (or sell) an asset under specified terms.
- ❑ In decision making, **options thinking** decomposes a decision into a sequence of decisions (or **options**) over time.
- ❑ **Reduces risk** by
 - ◆ Delaying resource commitment
 - ◆ Reducing uncertainty
- ❑ **Increases value** by
 - ◆ Preserving option to proceed at low cost
 - ◆ Permitting creation of new possibilities
- ❑ **Examples:** Invest in
 - ◆ Multiple efforts / technologies
 - ◆ Phases
 - ◆ Reserve capacity
 - ◆ Flexibility
 - ◆ Brand equity
 - ◆ Infrastructure
 - ◆ Ability to switch inputs or outputs

Options thinking might decompose a new technology implementation decision as follows:

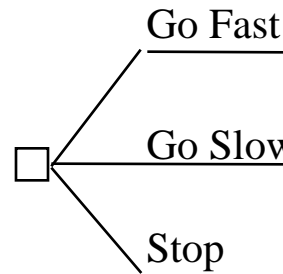
Decision

Technology
Development



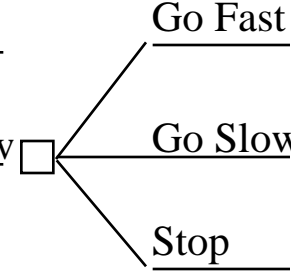
Decision

Commit to
Learning
Applications



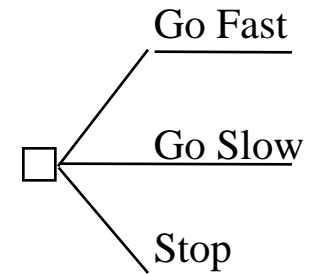
Decision

Proceed with
Small Scale
Implementation

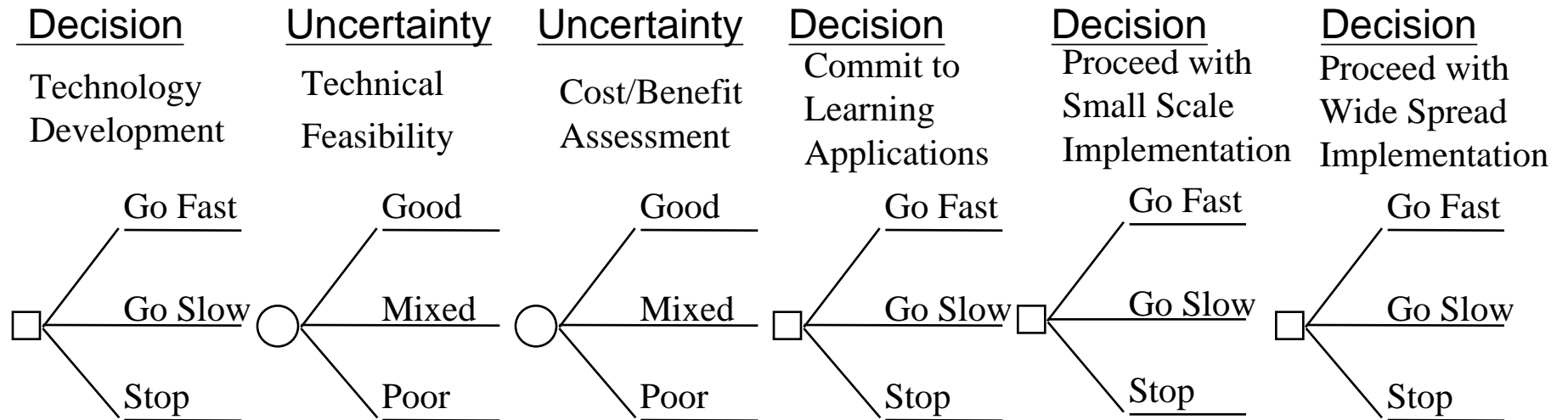


Decision

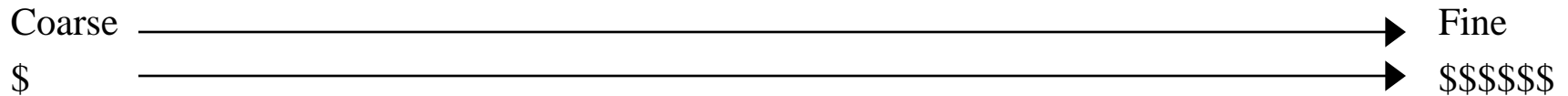
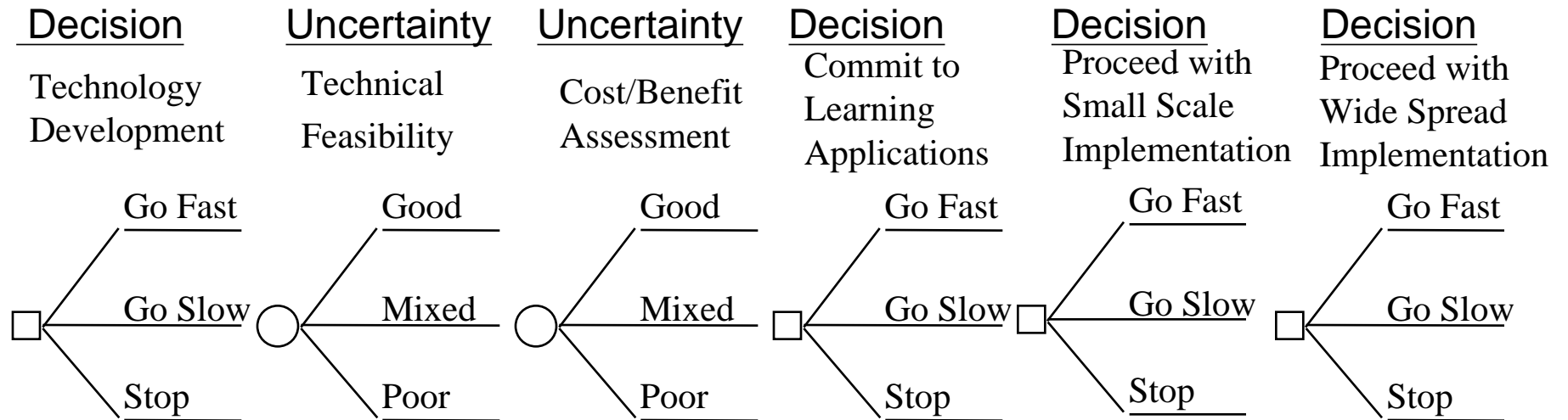
Proceed with
Wide Spread
Implementation



Options thinking might decompose a new technology implementation decision as follows:



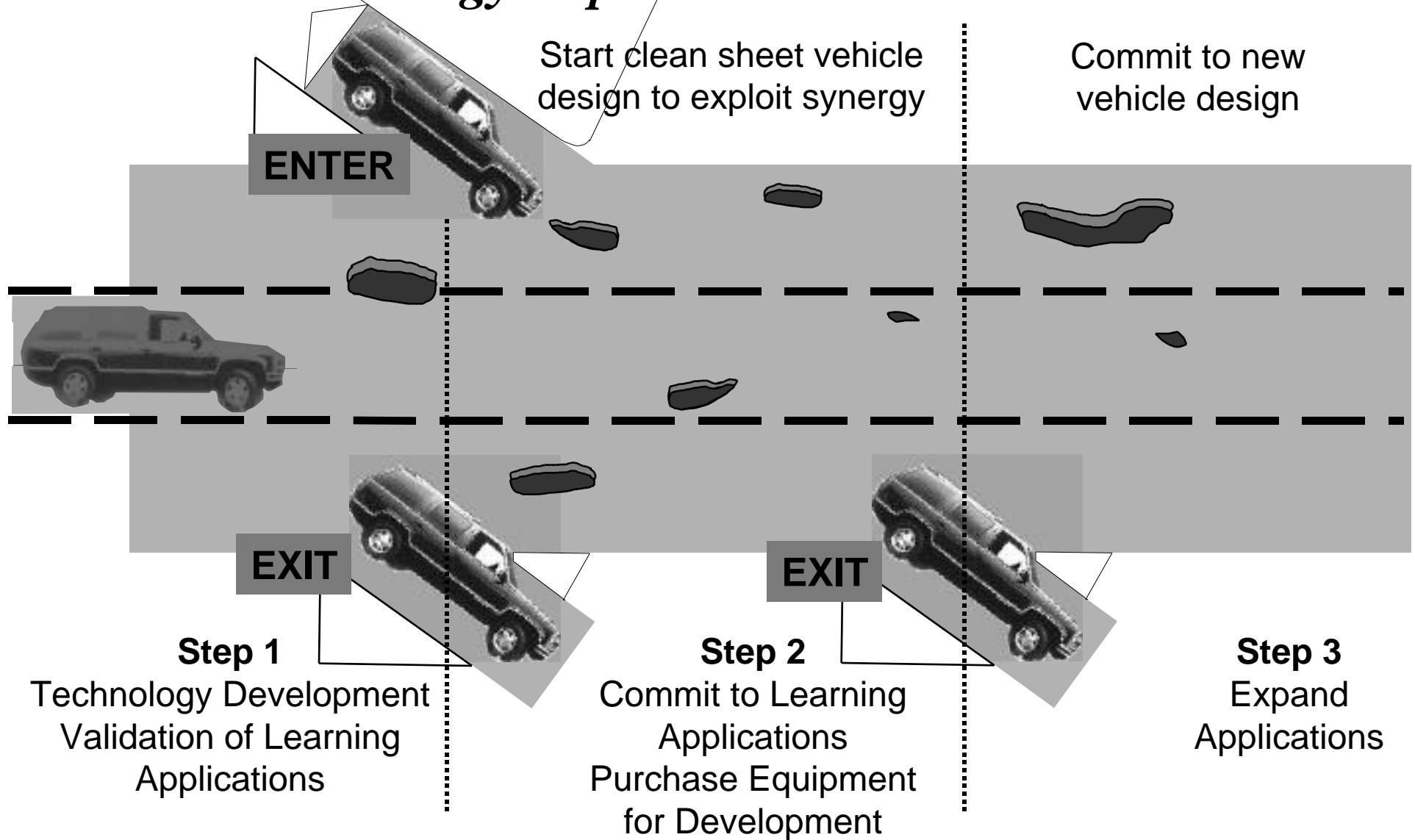
Options thinking might decompose a new technology implementation decision as follows:



For this example options thinking changed the decision.

- ❑ Technology assessment
 - ◆ All agreed technology had high potential
 - ◆ But, many skeptical
 - ❖ Large technical and cost uncertainties
 - ❖ Benefits unproven
 - ❖ New technology risks
- ❑ Team position initially
 - ◆ Unwilling to commit major resources and alter existing process given risks
 - ◆ Unhappy about missing opportunity
- ❑ Options thinking led to realization
 - ◆ Did not need to make technology **implementation** decision now.
 - ◆ Need only make technology **development** decision at low cost.
 - ◆ Later, after resolving uncertainties, can make high cost implementation decisions.
 - ◆ Decided to “**buy**” **option** on technology implementation decision.

The New Technology Implementation Road



Review Board used this chart - no options terms!

Summary Points: Apply options thinking to most decisions.

- ❑ Options Thinking: Decomposing a decision into a series of options over time
 - ◆ Applies to virtually all decision problems
 - ◆ Reduces risk and increases value
 - ◆ Requires no calculation
 - ◆ Requires no added time or complexity
- ❑ Do not even need options terminology
 - ◆ A picture is worth a 1000 words!