Scenario planning helps financial leaders navigate business disruption

Business forecasts and predictions are challenging at the best of times but the events of 2020 have highlighted a gaping hole in our ability to rapidly understand and convert fluctuating socio-economic parameters into strategic forecasts that effectively protect the future of our employees, suppliers and shareholders. The unique and evolving nature of the disruption meant that the strategies we devise now need to also consider the financial impact of new ways of working while charting a course to recovery.

The uncertainty around the key value drivers that business leaders are always trying to understand and predict, such as economic trends, customer behaviour and industry shifts has increased. The unique nature of the pandemic and limited data around how past pandemics have affected organisations only made forecasting the future that much more difficult.

Business leaders have had to adjust to evolving information on the spread of the pandemic and attempt to determine which geographies or businesses will be hit hardest or recover fastest. In addition, they must also consider the financial impact of new ways of working and operational upheaval. A challenge that has accentuated the shortcomings of planning processes and tools where current solutions lack agility, functionality and rigour to model short and longer-term strategies in times of crisis. Limited data around how past pandemics have affected organisations only made forecasting that much more difficult.

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Dynamic scenario planning for an agile business

Dynamic scenario planning plays an essential role in helping businesses navigate the ongoing challenges of financial forecasting. It provides a systematic way to create multiple plausible future scenarios, and devise company strategies that will serve well irrespective of which scenario comes true.

This means businesses can identify the trigger points or thresholds that require certain financial activities, such as cutting costs or exiting a market.

Cash is king

The uncertainty has caused businesses to focus more on liquidity, with cash solidifying its reign as king more strongly than ever. The long-term approach to liquidity, prevalent in the past, has changed. Companies are now managing cash on a monthly, weekly or even daily basis. This means scenario planning must become a regular exercise, as financial teams struggle to answer questions from the boardroom at speed.

The future is still uncertain. How long can businesses carry on without solid projections for revenue, cash flow or inventory? How can they deal with disruptions in payments to suppliers or from customers?

And how can they satisfy the need for communication and engagement with stakeholders across the business who need to know how to proceed in uncertain times?

Scenario planning the right way

Getting scenario planning right requires several factors.

First, ensure it becomes an integrated part of your budgeting and forecasting process. This includes seeking input and data from all parts of the business, including sales, marketing or product development, to create a holistic view of your organisation.

Done right, you can create an agile, iterative and incremental way of working. Finance leaders feed in key drivers and assumptions to model scenarios and perform 'what if' analysis on the core KPI sets.

This ensures that the plans support the right business goals and strategy. As the business executes on these new plans, finance can update scenarios with the latest actuals and the new economics and then feedback those fresh insights to the business to further refine strategy.

If you're just getting started with scenario planning, build up incrementally and start with smaller models with only few key drivers to flex. Build a use case, use it to drive actionable insights into the business, prove it and then scale it to the next use case. Once you've mastered the basics, look to gathering real-time information to create an always-on forecasting capability with more levers to pull.

Look to the technology

So what about the underlying technology and tools that enable dynamic scenario planning?

The current economic challenges and the greater need for future visibility and planning has highlighted the shortcomings of current tools. Financial leaders know they need help. Our research shows 63% of CFOs intend to change their product or service offerings because of COVID-19, but it is not easy to pivot the data in different views or expand the modelling capability to plan for new products or services in a rapid way.

In a poll of viewers to a recent PwC webinar, 62% of attendees said their organisations rely on Excel for scenario planning. Excel has several shortcomings: it's time-consuming to update and generate reports. It lacks seamless integration with varied data sources. And the insights are not as sophisticated as with scenario modelling tools.

Organisations require integrated solutions, which are flexible, ensure data integrity and work well with information from all parts of the business. Costs for modern, cloud-based tools have come down, too, so upfront investment is no longer a barrier to entry.

Finally, financial leaders must build up the skills in their teams to use these tools to best advantage. Having the right capability and a level of capacity in the team to own the scenario modelling process and the solution can prove invaluable.

No one can predict the future. But with the right processes and tools for dynamic scenario planning, businesses can prepare for the future – whatever that may be.

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