

ORACLE



Charting a path to growth
with scenario planning

The role of finance in building business agility

When assumptions about business as usual are challenged, the conversation must change from making predictions to asking “what if?” The COVID-19 crisis has shown us that business leaders can’t place their bets on one outcome. Instead, they’ve had to ask: “Will there be fundamental changes to our business model, and to our customers’ expectations?” “What new opportunities will arise?” “How can we position ourselves for recovery and growth?”

Boards and other stakeholders are looking to the CFO and finance team to help provide answers, and to make tough decisions that will have a lasting impact. Enter scenario planning, a tool that gives finance the agility to visualize multiple “what-if” scenarios, and assess how to best respond to each one. This strategic planning method integrates cash-flow forecasting and business forecasting, so organizations can balance short-term needs with long-term priorities.

“After 10 years of positive economic conditions, a lot of organizations had de-prioritized or shifted focus away from the overall discipline of strategic planning,” said Scott Leshinski, a managing director at Huron Consulting, a firm that has helped more than 600 companies transform their planning processes. “A lot of organizations are now starting to shift back toward strategic planning, so it’s creating a renaissance of this capability.”

There’s a concentration on strengthening the balance sheet and optimizing cash flow and capital structure, as companies look to understand the impact of key

decisions on the bottom line, added Leshinski. For many, this means adjusting their operations, reallocating resources, or transforming their business models to capitalize on new opportunities.

Digital cloud solutions are adding tremendous value to the financial planning process. They offer an alternative to spreadsheets, traditional on-premises tools, and niche solutions that are insufficient when it comes to analyzing the impact of outlier events, such as COVID-19, and aligning plans not only across finance, but all lines of business. They’ve also proven their value as companies have shifted to a remote workforce model.

When executed properly, scenario planning is more than a financial tool. It’s an integrated approach to dealing with uncertainty and visualizing the future, so finance organizations can help build agility and move the business forward.

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The value of scenario planning

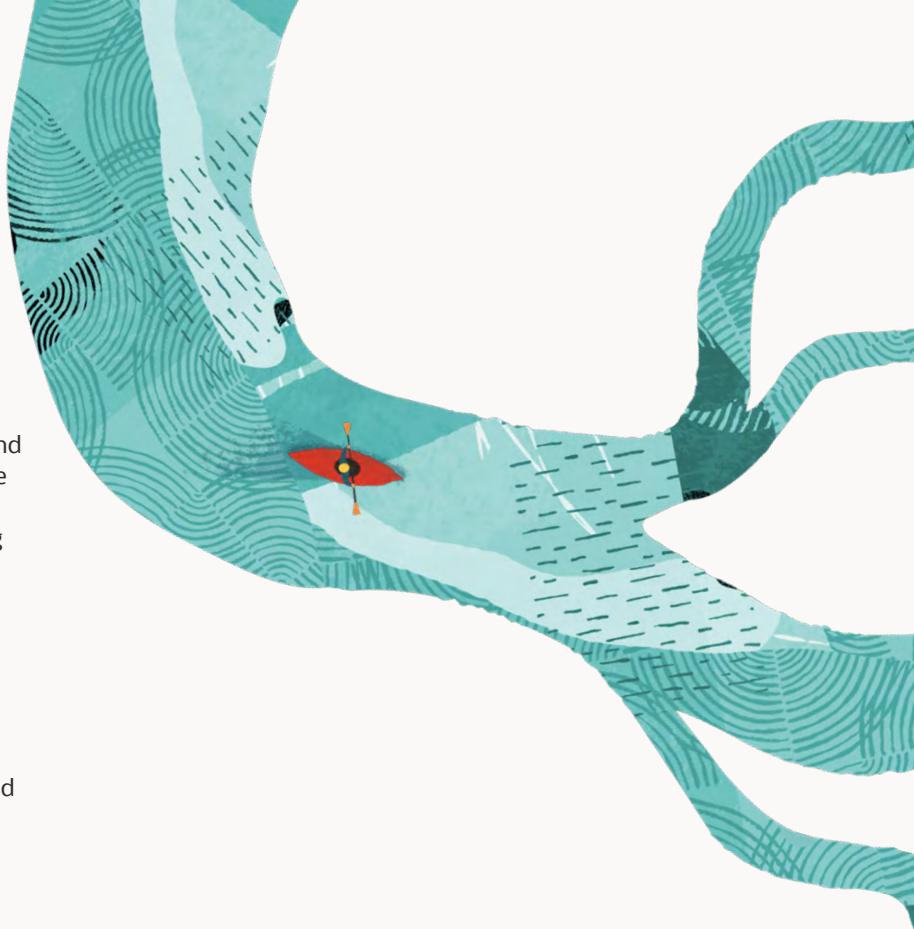
Uncertainty is typically associated with long-term plans and forecasts, but the COVID-19 pandemic introduced extreme uncertainty and disruptions within a few short months. This has made agility critical in the short-term forecasting process as well.

CFOs and their teams were already under pressure to provide better, faster information, and to build digital finance organizations that could react to the pace of change. That has accelerated, with finance now expected to lead the business through crisis, keep operations running, and drive innovation. To do so, they must pull and analyze data from multiple sources across the company, providing insight that supports not only planning and forecasting, but closing and reporting as well. Combined, these financial processes are commonly referred to as Enterprise Performance Management (EPM).

With scenario planning as a key component of a modern EPM solution, CFOs can understand when, where, and how to adjust to disruptions. They can model multiple scenarios, a capability that has become a requirement in a time when historical trends and assumptions are no longer reliable.

“What we’ve learned over the last several years, but more specifically in the last several months, is that flexibility and agility are key,” said Patrick D’Addabbo, director of Strategic Finance at Lululemon, in a recent webcast, [“Using Strategic Modeling and Connected Planning to Navigate Market Uncertainty.”](#) In 2019, his company migrated from standalone, on-premises Hyperion Planning to a combination of Oracle Fusion Cloud EPM and Oracle Analytics. The move shortened processing times, reduced manual processes, and enabled Lululemon’s finance team to model multiple what-if scenarios, faster, to address uncertainties and guide business decision making.

Those capabilities are especially useful in industries that have been heavily impacted. Retailers, for example, have had to factor in phased reopening of physical locations, anticipate shifts in the mix of online vs. in-store revenues, and consider changes in consumer spending. In higher education, professionals have needed to model for a range of possible student enrollment, levels of revenue, and modes of learning delivery. Many companies, across industries, have even pivoted to cater to new needs: We’ve seen clothing companies making covers for N95 masks,



distilleries shift from producing spirits to manufacturing hand sanitizer, universities moving classes online into 2021, and commercial airlines offering cargo-only flights to fill empty passenger cabins.

4 actions to leverage scenario planning

“If you only have one plan, you’re planning to be wrong,” said Edward Roske, CEO of interRel Consulting, in a post on The Modern Finance Leader blog. That’s cause for concern, considering that 51 percent of the 400-plus companies surveyed in [Oracle’s Value of EPM study](#) said they do not have the right tools for predictive planning.

Scenario planning and related EPM software solutions offer key ways to enhance the role of finance teams—so they can take actions that will drive smarter, more accurate decision making.

1

De-risk decisions with Monte Carlo simulation

Monte Carlo simulation, a specific statistical modeling technique within scenario planning, has proven effective in risk analysis—something that’s top-of-mind in the current environment. Many of the decisions companies are making now are high-stake decisions. Leaders need to overcome



natural human bias, like the tendency to be overly optimistic, that often stands in the way of quality decision making. Monte Carlo simulation provides financial planners the ability to stress-test financial models, running hundreds of simulations on each model to understand the probability of outcomes. Finance can use this insight to arm the C-suite with specific responses to different scenarios, and help minimize the risk of adverse impacts.

One area in which Monte Carlo simulation is useful is in making high-stake decisions around things such as mergers and acquisitions (M&A).

2 Communicate plans internally and externally with narrative reporting

After modeling scenarios and developing strategies to address them, finance needs to share their plans with key business stakeholders and investors. The goal is to provide clarity around inevitable questions like, “why aren’t the numbers in line with original forecasts,” and “why are you doing this, instead of that?” To add context to the numbers and open up the lines of communication, many finance organizations use a tool called narrative reporting.

Cloud-based narrative reporting solutions add narrative to scenarios to improve reporting and enable strategic discussions for operational leaders.

3 Optimize your cash flow with cash management

“Right now cash is king,” said Allan Gee, assistant VP of analytic applications at Macerich, during the strategic modeling webcast. “You are hoarding cash like people hoarded toilet paper.”

Access to readily available cash is critical as finance leaders evaluate capital funding strategies, deal with delays in customer payments, and seek ways to pay for goods and services. “We saw in 2008 that even if you had a line of

credit, some banks decided one day to say ‘you don’t have the credit anymore because everyone else is tapping their line,’ ” said Gee. Macerich, a real estate investment trust (REIT), tapped its own line of credit to build its cash position.

Cash management and forecasting tools help to anticipate the flow of cash in and out of a business and create forecasts using data across the organization, globally. Teams can quickly analyze cash requirements and currency exposures, ensuring liquidity and optimal use of cash resources.

4 Uncover new opportunities with profitability and cost management

As companies react, reopen, and reimagine their future, they need a strong understanding of their biggest costs. They need to determine their most profitable—and least profitable—lines of business, locations, or products. That’s where profitability and cost management comes in, helping them identify and eliminate high costs and invest in new opportunities.

Zero-based budgeting (ZBB) is one way companies are improving spending decisions, cutting costs, and reinvesting savings. ZBB is a budgeting method where finance creates a new budget each year, analyzing individual expenses, rather than simply modifying the previous year’s spending. This method has worked well for Oracle customers like Argo Group International, an insurance company that sought to boost competitiveness and improve expense ratios, a measure of profitability used in the insurance industry.



Watch the video:

Argo Invests in Its People with Unified Finance Technology

Cloud-based solutions help finance adjust quickly in a changing environment

Spreadsheets and outdated tools can't deliver in today's climate, where change is inevitable and outlier events like COVID-19 have unforeseen impacts. Spreadsheets lead to broken formulas, inaccuracies, and wasted time on manual entry and consolidations. And traditional planning methods, like single-point projections, ignore the presence of uncertainty, rolling up everything from capital expenditures to acquisitions in a single projection, rather than multiple scenarios.

Cloud EPM solutions with advanced capabilities are helping finance teams optimize the planning and forecasting process. They offer features including: free-form strategic modeling, utilizing a wider range of options or parameters and combining them in multiple ways; flexible, pre-built predictive planning and forecasting tools that can be leveraged immediately; and automation for real-time analysis and report distribution.

Next-generation solutions, such as Oracle Cloud EPM, also have AI and other technologies built directly into the platform, so finance can use AI and machine learning algorithms to examine multiple data sources, predict the most likely outcomes, and make the most informed recommendations. When AI is purpose-built for a specific task in an EPM business process, it can deliver greater accuracy and richer insights—valuable advantages when it comes to decision making.



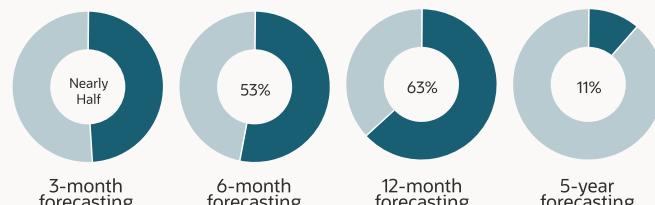
Scenario planning in practice

Shorter cycles, faster outcomes

The days of the five-year profit and loss (P&L) statement may be coming to an end. With a greater sense of urgency around balance sheets, cash flow, and capital structure, companies are turning to shorter forecasts and running faster, more frequent scenarios.

The Association of International Certified Professional Accountants (AICPA & CIMA) and Oracle polled nearly 500 CFOs and senior finance leaders about the timeframes they are using to model different scenarios. The poll revealed that ranges have shortened from previous three- to five-year forecasts. Almost half of respondents now forecast for the next three months, followed by 53 percent forecasting for the next six months, and 63 percent for the next twelve months. Only 11 percent continue to forecast using five-year horizons.

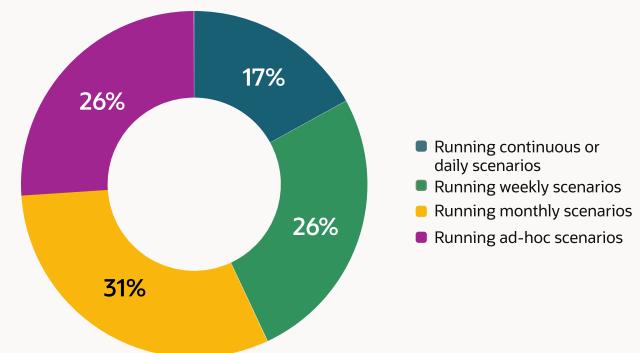
Shift in forecasting timeframes



*based on responses from 500 finance leaders

Participants were also polled about the pace at which they are seeking to predict outcomes and flag warning signs, and that too has sped up significantly. Some 17 percent are running continuous or daily scenarios, with 26 percent running weekly, 31 percent running monthly, and the remaining 26 percent running ad-hoc scenarios.

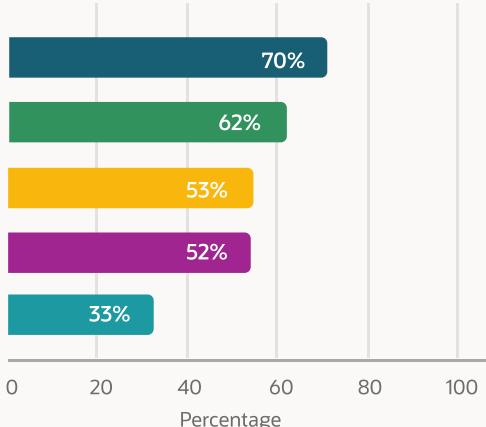
Increased frequency of scenario modeling



*based on responses from 500 finance leaders

For example, a higher education institution is predicting educational trends to plan new classes, and a large foodservice company improved planning accuracy. In fact, the Value of EPM study revealed key benefits among Oracle Cloud EPM customers.

Benefits achieved with cloud EPM



- Decreased the time needed to plan and forecast per cycle
- Increased the flexibility of planning and forecasting processes
- Improved communication and collaboration around the planning process
- Increased their use of zero-based budgeting
- Increased the use of rolling forecasts

[Source: Oracle Value of EPM study](#)

Connect your planning, advance your business

Effective planning needs to seamlessly connect the entire organization. Companies that lack alignment between financial planning, operational planning, and workforce planning struggle with siloed processes, mismatched data, and a lack of visibility to inform big-picture strategy.

Nearly 70 percent of respondents in the Value of EPM study said they struggle to connect HR and finance planning due to siloed processes and limited automation; 51 percent lack synergy between financial planning and controller organizations; and 31 percent can't effectively incorporate financial planning and analysis into line-of-business planning due to disparate systems.

Integrated planning platforms solve for these challenges by combining finance, HR, supply chain, sales, and customer experience applications in the cloud to deliver a single source of truth for decision making. Teams benefit from a common data model, modern collaboration tools, and technologies like IoT, AI and predictive planning. The results: increased agility, deeper and more accurate analysis, and faster business planning.

In a recent [Frost & Sullivan think tank](#), manufacturing industry thought leaders in the business planning domain weighed in on the benefits of integration. “Pivoting between a financial view, a sales view, a manufacturing operations view all based on that same quarter data set can be very powerful for people,” said John Anderson, S&OP Implementation Manager at GE, “and seeing what different trade-offs in one area versus the other might drive.”

Oracle's move to cloud EPM

Simpler processes, faster modeling

Oracle, like many companies across industries and around the world, has had to stay ahead of ever-changing expectations as the needs of our customers, partners, and employees evolve. We've embarked on our own business transformation, moving to Oracle Cloud EPM, with planning as one of three key areas of finance we focused on automating and improving. Here are just some of the results we've seen by moving planning to the cloud:

- 1 Enabled an overall simpler planning process based on sophisticated models, which would be difficult to replicate in spreadsheets
- 2 Simplified planning tasks to create time for strategic risk and opportunity analysis, to help identify how to grow faster
- 3 Eliminated 1000 spreadsheets and 2,000 hours of data gathering
- 4 Built faster scenario modeling and consolidations to enable our finance team to provide real-time recommendations to business leaders
- 5 Gained immediate access to data and predictive analytics enabling finance to deliver recommendations, frequently, to help with strategy formulation and evolution

“Having the capability to model different planning scenarios based on multiple assumptions and variables has helped our strategy development significantly.”

Christopher Donato

SENIOR VICE PRESIDENT
ORACLE NORTH AMERICA APPLICATIONS AND CONSULTING



WHAT'S NEXT

Start visualizing—and planning—your future

CFOs on the forefront of change can do four things today to prepare their teams, and their companies, for tomorrow:

- 1 Increase their use of scenario planning to manage risk and uncertainty, so they can plan for multiple scenarios and outcomes, and assess how to respond.
- 2 Capitalize on cloud capabilities, including built-in emerging technologies, automated planning processes, real-time reporting and analysis, and secure access anytime, anywhere.
- 3 Connect planning across finance—and all lines of business—to empower collaboration, data sharing, and big-picture strategy.
- 4 Choose a proven partner to help them move forward—a vendor that offers robust what-if scenario modeling and related planning and forecasting tools. [Here are five things to look for.](#)

Take the first step

[Read this ebook with how-to's and best practices to get you started with scenario planning.](#)

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