The CFO's Scenario Planning Starter Kit

Best practices and first steps

Planning for uncertainty

How can finance plan accurately in a time when business models, the economy, and technology are undergoing rapid change? What happens when outlier events like COVID-19 hit and your organization isn't prepared?

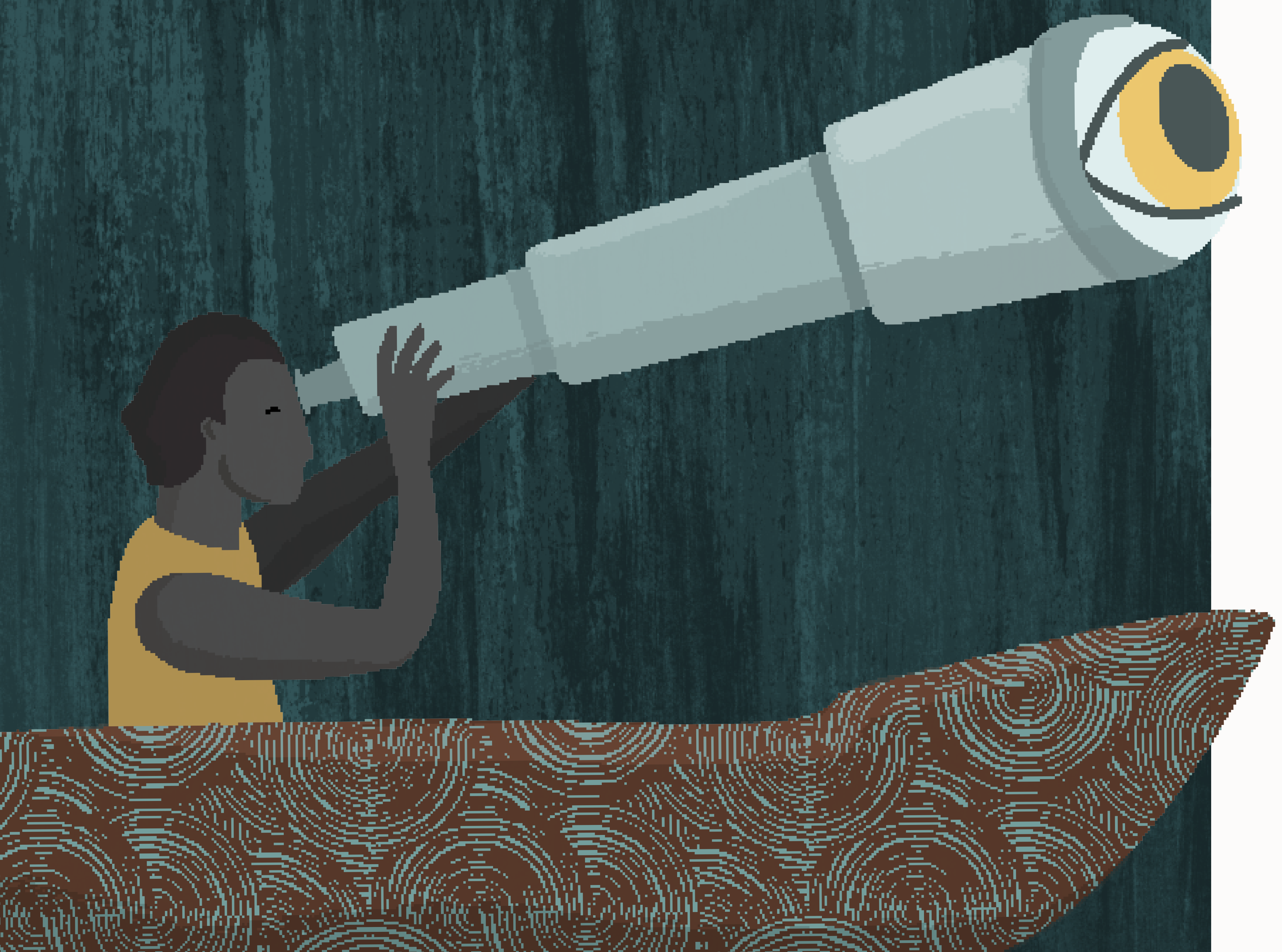
Forward-thinking CFOs and their teams are using scenario planning to eliminate some of the guesswork and be more prepared in times of uncertainty. This type of short-range planning allows finance to run faster, more frequent scenarios to examine potential impacts on the business three, six, and 12 months out.

As the COVID-19 pandemic has shown, many situations lack historical data for teams to refer to when creating plans, making swift decisions and accurate forecasting difficult. By identifying potential shifts, scenario planning helps companies minimize risk, stay agile, and maintain business continuity—so they're better prepared for what's ahead.

Get best practices

Best practices for scenario planning

Before you start scenario planning with your team, let's review a handful of best practices.



1 Identify senior stakeholders up front

This should be a top-down strategic exercise that involves a shortlist of high-level stakeholders from across the business. This ensures the right leaders are bought in from the onset and that you have the C-suite support you need for fast decision-making. Once finalized, the full plan can be rolled out to the larger team for implementation.

2 Focus on key drivers

Use root cause analysis to identify what's most important right now. One way to start is by looking at your financial statements and asking, "What supports this line item?" Don't rely too heavily on traditional drivers that are more applicable to long-range planning. Instead, think about those that will best capture what's happening now. (This helps make the team aware of unlikely alternate futures they hadn't thought of and spot warning signs more quickly.) A few examples of key drivers for scenario planning might include: number of stores, price mix of products, commodity prices, workforce productivity, shifts in customer demand, and operational costs.

3 Collect and analyze multiple sources of data

Scenario planning requires collecting quantitative and qualitative data to develop key assumptions. Combine information from both internal and external sources. For example, look at sources like Harvard Business Review for general data about the macroeconomics of past pandemics or recessions. You can also examine national census and industry association records when compiling external data.

4 Apply a full trial balance

Think across your full income statement, balance sheet, and cash flow. Overly focusing on just two or three key areas, such as cash or revenue in isolation, will not give you enough transparency into cause-and-effect relationships. Consider including miscellaneous debit items such as office/warehouse rent, equipment, and salaries, as well as credit amounts like accumulated depreciation, unearned fees, and accounts payable.

5 Limit the scenarios you model

A maximum of four scenarios should be used to cover probable outcomes—from "low impact on our business" to "potential bankruptcy." Start with a broad set of scenarios, then narrow your set before running comprehensive analysis. As you go, build enough detail into each selected scenario to thoroughly assess the success or failure of your proposed solutions. To do so, compile the internal and external data needed to shape key assumptions. Make sure to stress-test each scenario thoroughly using a type of data modeling known as Monte Carlo simulation. Thoroughly evaluating all options ensures that you will be as prepared as possible when the unlikely happens.

Get first steps

Steps to get started

Step 1

Make sure you have technology to support agile, efficient scenario planning. Often, on-premises legacy systems don't have the scalability to spin up multiple, complex scenarios quickly and accurately.

Step 2

Assess scenario outcomes with Monte Carlo simulations. This technique allows you to quickly look at the likelihood of a range of scenarios, the different solutions available, and the probability of a plan's success. It can be hugely valuable when there is a high degree of uncertainty in assumptions. These simulations can be easily run in a cloud-based Enterprise Performance Management (EPM) solution.

Step 3

Outline a plan for continual monitoring and frequent adjustments. Unfortunately, scenario planning isn't "set it and forget it." To keep pace with a changing world, you'll need to revisit your scenarios as conditions change to ensure their relevancy. When a scenario is eventually outmoded by an evolving market, you can remove it and replace it with another.

See reminders

Quick reminders

Do:

- Focus on a few major uncertainties (that affect drivers)
- Perform a logic check on selected scenarios
- Determine financial metrics and other KPIs
- Update scenarios and assumptions regularly

Don’t

- Create scenarios without selecting the drivers and uncertainties first
- Develop too many scenarios
- Fixate on any one scenario or try to create the perfect scenario
- Adopt a “set it and forget it” mindset

Move forward

Looking forward

Planning for alternate futures not only helps ensure business continuity and financial solvency during worst-case events, but it also deepens the strategic value finance can bring to the table. Raising the awareness of risk across groups emphasizes the weight of uncertainties, drives planning for best-case scenarios (like spikes in demand), and encourages broader, more innovative thinking.

Putting scenario planning into action also supports company culture. How? It helps your finance team reposition itself as a strategic partner to the business. As you go forward with your planning, consider how this undertaking can affect other parts of the business, like communicating financial results effectively. If you can improve the performance of other teams and instill confidence in employees, customers, and investors, the scenario plans you create will become exponentially more influential.

Drive more accurate short- and long-term plans with Oracle Fusion Cloud Enterprise Performance Management (EPM).

To learn more, check out *Charting a Path to Growth with Scenario Planning.*

Get the guide