



5 SUCCESS FACTORS

For Scenario
Planning
in the COVID
Economy

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HOW FINANCE TEAMS CAN
ACCELERATE TIME TO
VALUE

prevedere

The pandemic has pushed scenario planning to the top of the CFO's agenda.

In a time of historically high VUCA (volatility, uncertainty, complexity, and ambiguity), Finance teams are better off forecasting several alternative scenarios than a single view of the future. As a result, scenario planning is fast becoming a valuable component of effective business planning and forecasting.

Scenario Planning

Finance leaders are increasingly turning to scenario planning as COVID renders traditional forecasting techniques useless. Scenario planning is a quantitative method that predicts business performance in several potential future states.

The data-driven projections allow Finance leaders to sharpen plans and forecasts by framing near-term expectations for the company.

During the current COVID crisis, scenario planning is a valuable way to project business outcomes given how the pandemic might unfold and what that means for the economy.

“As the pandemic rages on, finance chiefs across sectors are devoting more time and resources to examining a range of potential scenarios.”

The Wall Street Journal

Scenario Planning Success Factors

The objective of this whitepaper is to help Finance leaders understand what's required for effective scenario planning in the COVID economy.

The five success factors are:

1. Enrich scenario plans with external data
2. Build alternative economic scenarios
3. Start immediately and iterate often
4. Understand the economic context
5. Operationalize scenario planning

Finance chiefs interested in adopting scenario planning have several paths forward. A solution that combines these success factors empowers Finance teams to apply scenario planning quickly, easily, affordably, and broadly across the company.

Success Factor #1:

Enrich Scenario Planning with External Data

The pandemic has highlighted the outsize influence of external factors on business performance.

Scenario planning must integrate external data from a myriad of sources to provide meaningful insights for strategic plans and forecasts.

Scenarios based solely on internal drivers completely miss the impact of government policy, supply chain disruptions, changes in consumer behavior, and other COVID shock factors.

A well-balanced approach draws on both hard and soft data. Hard data show real results over time and include measures like GDP, housing starts, retail sales, and unemployment rates.

Soft data are based on qualitative information from a rating, survey, or poll. Soft data are especially crucial during COVID because they signal consumer intent. Scenario planning in today's fast-evolving environment also benefits from non-traditional, high-frequency datasets like Google searches, mobile payments, and store foot traffic.

Success Factor #2:

Build Alternative Economic Scenarios

The most accurate scenario plans are based on econometric modeling.

Econometrics is a proven technique for projecting business outcomes based on economic and other external factors.

Econometric modeling requires sophisticated algorithms and the power of cloud computing. Spreadsheets simply aren't up to the task.

An AI-driven analytics engine can perform billions of calculations to zero in on the most influential external drivers and most predictive econometric models for a given business.

From there, what-if simulations create alternative forecasts based on how the pandemic might play out.

These what-if simulations must consider a broad range of health, government, business, consumer, and market factors.

For example: What if COVID-19 cases rise or fall? What if governments impose or lift business restrictions? And what if unemployment bounces back or remains stubbornly high?

The Institute of Business Forecasting and Planning (IBF) calls econometric modeling the most accurate predictor of economic headwinds and tailwinds.

Success Factor #3: Start Immediately and Iterate Often

Economists expect high levels of uncertainty and volatility to persist through 2021.

Finance leaders must move now to adopt a planning approach that helps their organization navigate the turbulent COVID economy—or risk losing ground to competitors.

They must also be prepared to revise forecasts more frequently because the business environment is evolving so quickly.

A comprehensive cloud-based solution allows Finance leaders to fast-track scenario planning. These modern platforms shave months off the time required to acquire external data and develop econometric models.

The systems also support the agile planning capabilities needed to stay ahead of the ongoing pandemic and its economic fallout.

Planning can become an iterative, repeatable process since dynamic scenario forecasts are easily refreshed with the latest data.

As a result, Finance can provide actionable foresight to the business faster and with less effort than ever before.

Success Factor #4: Understand the Economic Context

The unique nature of this recession makes planning and forecasting even harder than usual.

Unlike previous downturns, this crisis is a series of micro-recessions and micro-recoveries, with varying effects by industry and geography.

Also, many of the traditional barometers of economic performance are sending mixed signals, which ups the level of ambiguity.

Finance and C-suite leaders can make more informed decisions if they have a deeper understanding of the COVID economy, how it's unfolding, and what it means to their business.

That's why it's beneficial to complement scenario planning with insights from an experienced economist.

A senior economist can add valuable economic color to scenario plans. She can explain the macroeconomic conditions behind alternative scenarios and how they affect the business outlook at a granular level.

She can also alert executives to important economic triggers and turning points, and serve as an objective sounding board for planning hypotheses.

“Companies need a new approach to financial planning and performance management—one that informs rapid realignment of plans and actions and ensures organizational resilience.”

McKinsey & Company

Success Factor #5: Operationalize Scenario Planning Across the Business

Companies can amplify the benefits of scenario planning by applying the technique enterprise-wide.

Look for a solution that can create scenario plans for different divisions, regions, and product categories without a lot of extra time and effort.

This requires repeatable, scalable modeling capabilities and the ability to share performance outlooks in executive dashboards and existing tools. Finance leaders who spearhead the broad adoption of scenario planning can help the business develop the resilience and discipline to navigate an uncharted future.

Business leaders can use scenario forecasts to evaluate and discuss options, make more informed operating decisions, and devise contingency plans for different economic eventualities.

The real opportunity is to improve financial performance with clearer foresight. Executive teams can capitalize on the first signs of economic recovery and make course corrections to protect profitability if downward pressures continue.

READY FOR SCENARIO PLANNING?

Finance leaders have several alternatives,
but most fall short.

Management Consultancy

The top consulting firms bring specialized skills to the table, but this approach can be cost-prohibitive, especially when applied in multiple business areas throughout a protracted recovery. Plus, there will be delays in building and iterating models if the consultancy doesn't have a pre-built solution or a pipeline to external data.

Finance

Many Finance teams aspire to do scenario planning in-house but lack the analytical tools to pull it off. Access to quality external data is a common challenge. And many organizations are too time-strapped and resource-constrained to take on another ongoing responsibility.

Data Scientists

Data science teams may be eager to put their analytical skills to the challenge. But it can take months to build econometric models from the ground up, and few teams have the economics expertise to explain the significance of shifting economic signals.

Financial Planning Software

Many systems support scenario planning based on internal drivers, but they don't do econometric modeling. They aren't set up with external data sources, nor are they designed to ingest and analyze massive quantities of rapidly changing information.

Prevedere's Comprehensive Scenario Planning Solution

Prevedere brings together everything needed for successful economic scenario planning.

World of External Data

Prevedere's global data cloud features millions of leading indicators from 300+ trusted sources. The datasets cover an unmatched range of external factors, including macroeconomic, consumer, industry, weather, and financial markets.

AI-Driven Econometric Modeling

The Prevedere platform allows scenario planning to be automated, systematic, and repeatable. Our cloud-based analytics engine combines internal and external data to build and test 1,000s of custom econometric models in minutes.



Deep Economic Expertise

Senior economists draw on decades of experience to help companies interpret, use, and iterate scenario forecasts. They constantly monitor the pandemic's economic repercussions and provide regular updates on the global outlook.

Economic Outlook Dashboards

Always-on executive dashboards display scenario forecasts that automatically refresh as new indicator data are released. Alternatively, open APIs allow insights to be shared in SAP, Hyperion, and other familiar tools.



Actionable Insights for Planning and Forecasting in a COVID Economy

- Custom 12- to 18-month projections under three different macroeconomic scenarios
- Weekly report on leading indicators and macroeconomic factors to watch
- Monthly scenario plan updates and an executive briefing with a dedicated economist
- Economic outlook dashboard showing the most recent scenario forecast

The Fastest Path to Better Scenario Planning

Finance teams quickly realize the advantages of Prevedere's complete scenario planning solution.

Accelerated Time to Value

Get started quickly with a pre-built, cloud-based platform. There's no waiting to find the right data sources or to build econometric models from scratch. And it's easy to scale scenario planning across business units, geographic markets, and product categories.

Accuracy

Sharpen plans and forecasts with unbiased scenarios based on external business drivers and pandemic-related developments. Economists ensure the validity of the underlying macroeconomic scenarios, and machine learning improves model performance.

Agility

Increase resilience during a period of incredibly high VUCA by exploring multiple possibilities in parallel. Scenario plans refresh as new data becomes available, so business leaders are alerted to the first signs of an economic inflection point.

Actionable Insights

Inform financial, strategic, and operational decisions with data-driven scenario forecasts. Executives can prepare for a range of possible outcomes and proactively improve business performance by countering threats and exploiting opportunities.

CUSTOMER SUCCESS STORY

Data-Informed Scenario Planning in Weeks

Challenge

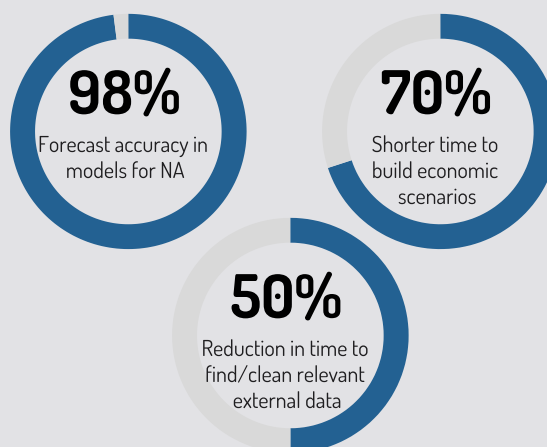
The Finance team at a leading technology company couldn't rely on traditional forecasting methods after the onset of the pandemic. The organization needed to build multiple forecasts based on plausible economic trajectories but was maxed out by current responsibilities.

Solution

Prevedere created three econometric scenarios for the North American division—baseline, optimistic, and pessimistic. The dynamic forecasts update continuously to reflect evolving economic conditions. Economists also identified the most predictive leading indicators for the business.

Results

In just a few weeks, the leadership gained data-driven insights into alternative future scenarios. Finance is more agile in its planning and can make better resource allocation decisions. Regular briefings by a Prevedere economist will keep the team on top of the latest economic outlook and its implications for the business.



Conclusion

There's no end in sight for this period of incredibly high VUCA. As companies prepare their 2021 plans and forecasts, a third COVID wave grips the U.S., a new administration prepares to take office, and pressure mounts for another stimulus package.

Finance leaders can better navigate this uncertain business environment with a scenario planning solution that allows them to:

1. Enrich scenario plans with external data
2. Build alternative economic scenarios
3. Start immediately and iterate often
4. Understand the economic context
5. Operationalize scenario planning across the business

Prevedere brings together everything needed for successful scenario planning during the pandemic. The all-in-one solution accelerates time to value, increases forecasting agility and accuracy, and helps companies capitalize on the first signs of economic recovery.

To learn more about Prevedere's Economic Scenario Planning visit:
www.prevedere.com/economic-scenario-planning