PLANNING DURING A PANDEMIC

Economic Scenario
Planning Helps
Companies Navigate
the COVID Economy

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Planning during COVID-19 is extraordinarily tough.

In 2021, companies must contend with an unprecedented level of uncertainty and flux. How long will the pandemic–driven recession last? Will the economy roar back or sputter? Are shifts in consumer spending temporary or part of the "new normal"?

The unique nature of this recession compounds the planning challenge. A recession typically causes a broad downturn. What's happening instead is a series of micro-recessions and micro-recoveries that have given rise to economic winners and losers. When building 2021 plans and forecasts, companies must understand and account for variables such as:

▶ **Regional Differences:** The COVID-led recession has wreaked havoc on some states, but barely touched others. In fact, the gap in economic performance at the state level is the largest on record. A variety of factors explain the difference, including number of COVID-19 cases, the response of state governments, and regional dependence on vulnerable industries, like tourism and energy.

▶ **Industry Variations:** Historically, recessions have put downward pressure on nearly all sectors. This time around, select industries and product categories are doing remarkably well. With restaurants, gyms, and offices closed, consumers are spending more on groceries, furniture, and lawn and garden. At the same time, spending on travel has fallen to 30% of pre-COVID levels and the entertainment industry has been decimated.

▶ **Economic Anomalies:** Many of the traditional barometers of economic performance are sending mixed signals that add to the uncertainty. For example, during the first six months of the recession, the relationship between unemployment and consumer spending broke down. That's because stimulus checks and enhanced unemployment benefits put more dollars in the hands of U.S. consumers.

These tumultuous, atypical times demand a new approach to business planning and forecasting. Companies are in uncharted territory and the traditional "recession playbook" is of no help. Historical and internal corporate data are substantially less relevant. What's needed is a framework for companies to plan—and re-plan— within the context of a constantly changing environment with a host of new external factors impacting business performance.

"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

ECONOMIC SCENARIO PLANNING

Economic scenario planning helps companies better navigate today's tightly coupled health and economic crises.

Economic scenario planning involves modeling company performance under a range of future economic conditions. During the current COVID crisis, economic scenario planning is a valuable way to project business outcomes given how the pandemic might play out and what that means for the economy. Considerations include:

- When will COVID cases taper off?
- How long will government restrictions last?
- When will businesses reopen and rehire, and how will that vary by industry or region?
- How will consumer spending change now that the last stimulus checks have been mailed?
- Will credit conditions continue to be a stimulus, or will banks tighten credit lines?

Companies get a view into possible trajectories for the business, whether pandemic concerns dissipate quickly (Optimistic scenario), decline steadily (Baseline scenario), or persist well into 2021 (Pessimistic scenario).

Executive leaders and financial planning teams can foresee the duration and magnitude of the

pandemic's impact on their business plans. They can make sense of the economy using up-and down-side scenarios. And they can stay on top of COVID's evolving impact—and adjust plans and forecasts accordingly—by updating scenario models on a regular basis.

Economic scenario planning is a strategic technique for businesses in nearly any industry, including manufacturing, retail, and consumer goods. Companies can apply the approach to operating units, product categories, and major geographic markets. Economic scenario planning allows for dynamic planning models driven by the rapidly changing market conditions brought on by the COVID-19 pandemic.

2021 Revenue Projections
—Baseline —Optimistic —Pessimistic

2020   2021
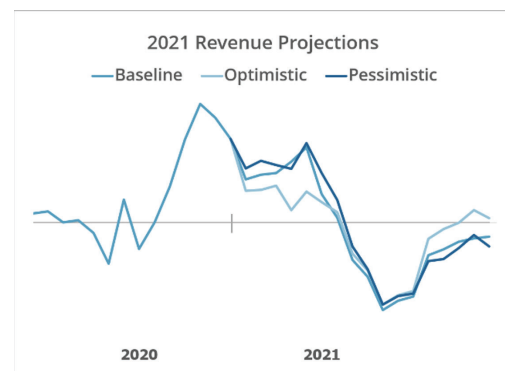
Macroeconomic scenarios should be built by experienced economists and based on a multi-dimensional assessment of top contributing factors.

Health and Government	Business Rebound	Consumers	Financial
• COVID-19 cases • Vaccine availability • Stimulus measures • Business restrictions	• Reopening and hiring • Business investment • Supply factors • Demand factors	• Disposable income • Consumer confidence • Shopping patterns • Savings rate	• Monetary policy • Credit market • Default rates • Oil prices

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WHAT'S NEEDED FOR ECONOMIC SCENARIO PLANNING

Companies should look for a solution that combines external data, econometric modeling, and the expertise of professional economists.

Economic scenario planning is more accurate and accessible than ever, thanks to advances in big data, cloud computing, predictive analytics, and artificial intelligence (AI). The most powerful economic planning solutions bring together these three key components.

▶ **A World of External Data:** Fundamental to economic scenario planning is the integration of external data into the planning process. A solution with a global data cloud enables the ongoing capture and analysis of millions of quality datasets from sources around the world.

A well-balanced approach draws on both hard and soft data. Hard data, like housing starts or retail sales, show real results over time. Soft data are based on sentiment and are especially relevant during COVID because they signal consumer intent. Scenario planning in volatile times also benefits from near-term, high frequency datasets—such as Google searches, mobile payments, and store foot traffic.

▶ **AI-Powered Econometric Modeling:** Econometric modeling is a proven technique for predicting business performance based on external (generally economic) factors. The Institute for Business Forecasting and Planning (IBF) calls econometric modeling the most accurate predictor of economic headwinds and tailwinds.

For economic scenario planning, custom econometric models predict company

outcomes under different macroeconomic cases. An AI-powered econometric modeling engine can build and test 1,000s of models in minutes, while machine learning improves models over time. A platform with this capability allows companies to adopt and iterate scenario planning quickly, easily, and broadly across the business.

▶ **Deep Economics Expertise:** Experienced economists can help companies maximize their understanding and use of economic scenario planning. They can explain how different macroeconomic scenarios will impact business performance and be an objective sounding board for planning hypotheses.

Economists also play a key role in monitoring the course of the pandemic and its economic fallout. Their professional expertise ensures the validity of the underlying macroeconomic scenarios.

BENEFITING FROM ECONOMIC SCENARIO PLANNING

Companies can improve planning, forecasting, and risk management with a clearer view of future performance under different economic scenarios.

Scenario outlooks can inform the plans and actions that improve business outcomes during a time of tremendous uncertainty and upheaval. Advantages of economic scenario planning include:

▶ **Planning Accuracy:** The insights from economic scenario planning can help sharpen strategic, financial, and operational plans. Scenario outlooks provide valuable guardrails for forecasting and help planners factor in variations by region and business unit.

▶ **Enterprise Resilience:** Companies must build agile planning capabilities to succeed in a period of heightened volatility. The ability to quickly refresh dynamic scenario models allows companies to stay alert to—and capitalize on—the first signs of economic recovery.

▶ **Risk Mitigation:** Economic scenario planning helps companies foresee downward pressure from the pandemic-led recession. When headwinds lie ahead, they can make course corrections to protect profitability.

▶ **Shareholder Guidance:** The SEC has emphasized the importance of letting investors know how COVID-19 will affect financial performance. Economic scenario planning helps companies give more informed forward-looking guidance to shareholders and the board.

ECONOMIC SCENARIO PLANNING IN ACTION

Large retailers deemed an essential business have been some of the pandemic's biggest economic winners. Grocery chains and retailers selling home and garden supplies have benefited from homebound consumers stocking pandemic pantries and taking on new DIY projects. Retailers in rural markets have also enjoyed a sales uptick since many have been unaffected by the most stringent shutdown measures.

But will that continue in 2021?

Analyses suggest that a Pessimistic macroeconomic scenario will continue to favor essential large retailers—at least in the short term. Sales in the second half of 2020 were buoyed by factors like the closure of small competing retailers, increased interest in home improvement, and reduced spending on travel and entertainment.

However, the long-term picture is different. The Pessimistic scenario—in which the recession lingers through 2021—shows the biggest drag on sales. Ultimately, businesses like these will fare better if pandemic concerns dissipate quickly and the economy rebounds strongly.

Economic Scenario Planning from Prevedere

Companies planning in 2021 are in uncharted waters. *The question on every business leader's mind is how will the pandemic affect next year's numbers?*

Economic Scenario Planning from Prevedere helps companies navigate what's next. The solution projects future business outcomes for three plausible macroeconomic scenarios under COVID-19. Scenario outlooks are based on our unique combination of economic data, AI-powered econometric modeling, and the expertise of senior economists. Companies use our economic insights to sharpen plans and forecasts, improve shareholder guidance, and better prepare for an uncertain future.

The Economic Scenario Planner was built using Prevedere's AI Engine, which can be integrated into any data lake or data warehouse or can be imported into most BI and analytics tools, including Microsoft PowerBI, Tableau, SAS, Excel, and many others.

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

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Prevedere is a predictive analytics software company that delivers insights into future business outcomes based on economic trends. Our predictive economic intelligence offering helps executives see what lies ahead for their business and solve for upcoming risks and opportunities. Our SaaS solutions apply the power of machine learning and predictive modeling to millions of indicators of global economic and consumer activity. Prevedere customers include Fortune 500 industry leaders in retail, manufacturing, and consumer packaged goods. To learn how Prevedere can help provide executive-level strategic insights, please contact 888.686.7746 or inquires@prevedere.

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