

Scenario Planning: Prepare for the Unexpected





Imagine if your organization was already prepared to respond to the changes brought about by COVID-19. It may sound unrealistic, but it is possible with a process known as scenario planning.

Let's say you already considered the business implications of social distancing, economic recession, legal mandates, and the technological changes we've seen so far in 2020. If so, you would be ahead of the game – able to respond to rapid changes and capture market share from less-prepared competitors.

Scenario planning is a savvy management tool that helps organizations deal with the uncertain world in which we live. Since none of us can predict the future, and relying on luck is risky, scenario planning gives businesses an advantage over those who hedge their bets on "best-possible-outcome" assumptions.

What is Scenario Planning?

Simply put, scenario planning is the process of asking, "what if...?" Scenario planning is a hybrid of risk management and strategic planning, helping executives proactively avoid risks and plan tactics to improve their chances of success. It's a formal method of evaluating future possibilities across a range of industry-relevant scenarios.

Scenario planning differs from both contingency planning and sensitivity analysis. Contingency planning is based on one specific variable such as, "what happens if our data center goes dark?". Sensitivity analysis considers how changes in one variable might affect our business. For example, "what would happen if interest rates rise 1% versus 10%?". Scenario planning on the other hand considers a much more diverse set of variables changing at one time. For example, if you are a healthcare company you might consider vastly different scenarios that might occur with the future of health insurance and government regulation.

What Are the Benefits of Scenario Planning?

All businesses must make predictions about the future of their organization and consider different outcomes and how the organization will respond to each. While the future is uncertain for virtually all industries, there are ways to ensure your business is not placing all its "eggs in one basket." The better your business is prepared to respond to changing environments, the greater your chances of success.

The primary advantages of scenario planning include:

- Better strategic planning for when the past is not the best indicator of the future market
- Knowing where capital investments will be the most beneficial
- Capacity to respond to market changes with speed and efficacy



- Improved relationship-management to maintain your organization's customer loyalty
- Asset protection
- Informed business strategy and execution
- Quicker recovery in the event of cash flow challenges
- Ability to capture market share from less-prepared competitors

What Are the Steps of Scenario Planning?

Scenario planning will look slightly different for every organization and industry, and successful scenario planning should be tailored to your business's unique needs. Nevertheless, there are some common steps in every organization's scenario planning process.

Determine How Certain Changes May impact your Business

At a high level, a business should consider how social, economic, political and technological changes may affect their industry and particular business.

Social - What if a global pandemic occurred?

Economic - What if the U.S. enters a recession?

Political - What if the federal government creates new regulations for healthcare insurance?

Technological - What if software is created that significantly changes the way people buy what we sell?

These help you think through different issues to consider for your company.

Determine the Scope of Your Planning

It's best to start by focusing on one issue. Decide which issue you are seeking to address and how far into the future you would like to look - 1 year, 5 years, 10 years, or more.

Invite the Right People

One of the most important aspects of scenario planning is to consider different states of the future. It helps to bring together participants who have different roles, backgrounds and points of view. This variety will help to challenge your general assumptions and help you create a wider variety of future scenarios to consider.



Identify Variables

Determine the internal and external factors that might influence the future business environment for your company. For example, variables might include demographic changes, consumer spending patterns, access to capital, technological innovations or new government regulations.

Collect Data

Harness the power of historic and predictive data collection to create alternative hypotheses for the future. Try to collect and analyze historic trends, future projections, data regarding potential sources of disruption, and relationships between key variables.

Develop Scenarios

Ideally, try to identify 2-4 scenarios, or plausible alternative views, of the future based on the potential changes in variables you previously identified. The goal is to significantly deviate from the general baseline assumptions that you've been using for your modeling and planning. Draft a brief narrative for each scenario so that you can develop strategies to address each situation.

Create and Test Strategies

To take scenario planning from concept to its practical application, you will want to brainstorm strategies to minimize risk and maximize opportunity for each scenario. You will evaluate how organizational decisions and priorities will need to change under each scenario. You'll also begin to identify strategies that might be useful across multiple scenarios.

Maintain & Update

To keep scenario planning from becoming an impractical management exercise, companies need to keep evaluating and updating their plans. Scenarios should be updated anytime a company experiences changes to internal or external variables. This way, management can revisit original scenarios, identify new threats and opportunities, and recalibrate potential strategies

Final Thoughts

No matter the industry, scenario planning can help your organization proactively plan for an uncertain future. Our accounting firm has a seasoned team of professionals with the expertise to help your organization conduct scenario planning to give you the competitive edge. To learn more about how we can help your business with scenario planning, contact our office today.



800.221.2509

Flower Mound

4880 Long Prairie Road
Suite 100
Flower Mound, TX 75028

p 972.221.2500

f 972.436.8887

Denton

2717 Wind River Lane
Suite 130
Denton, TX 76210

p 940.591.9300

f 940.591.9334

khaaccountants.com