



Scenario and Action Planning in Uncertain Times

Financial impact, rapid response: tackle the challenges of the COVID-19 crisis and the recovery phase with a scenario and action-based intervention.

The COVID-19 crisis has disrupted economies all over the globe, throwing the business environment of most companies into turmoil.

Coping with what is likely the most threatening economic crisis since World War II is a tall order indeed. Traditional planning and forecasting methods don't seem able to grasp the uncertainty that now blurs the outlook. These methods are often too narrow and linear to deal with such an unusual situation. Many of them rely on outdated assumptions and overly complex plans, hampered by inflexible processes that make it difficult to respond with the necessary speed. This is not very reassuring when we are facing such fundamental uncertainty. Nobody

knows whether the novel coronavirus will be contained for good in the near term, nor whether new waves will bring even tougher lockdown measures and more economic damage. The complexity increases further when you factor in the varying trends in each different region. Then there is the issue of when and how an eventual recovery will play out. Will we see a V-shaped recovery or rather an L-shaped crisis drag on? And as a business, how do you swiftly adapt your operations and strategy to this constantly shifting context of very different, yet equally possible future scenarios?

In this edition of CFO Insights, we argue that a rapid response intervention based on scenario thinking offers answers to

these questions – provided you approach it the right way: by expertly combining cutting-edge methodology and technology, such as AI-based tools, with a focus on actionable outcomes derived from qualitative trend analyses and financial modeling. Addressing the practicalities of scenario thinking in the midst of the COVID-19 crisis, we will discuss various elements and enablers that you might need to add to your toolkit. Developing plausible scenarios can become a viable framework from which you can derive future decisions. So how do you get started? ➤

Beyond forecasting

A rapid response intervention involves sequencing and deploying several steps and elements in a lean and efficient way: build scenarios, quantify their financial impact, develop an action portfolio, implement actions and monitor results. Before we start, however, it might be useful to review what scenario planning is actually all about. The idea is to account for different plausible futures, which are extreme and divergent, to help anticipate a wide range of possible outcomes. It is crucial to understand that such a broad scope of projections is not a matter of merely enriching traditional linear forecasts with a statistical corridor between worst-case and best-case deviations. Forecasting with a backwards-looking probabilistic approach eliminates uncertainty from the equation, and thus by definition disregards black swan events and unexpected fundamental shifts in the business environment – precisely the kind of thing we are dealing with at the moment, and actually have been for quite some time now. Over the past few decades, events like these have shown that they are indeed a realistic prospect to be reckoned with – be it 9/11, the fall of Lehman Brothers, the Euro crisis, Fukushima, Brexit or now COVID-19. It follows that scenarios should not be anchored in an extrapolation from historical data but in a qualitative representation of extreme, yet plausible future events and outcomes. In order to be useful, scenarios have to be both conceivable and poignant; only then can they prepare us for disruption.

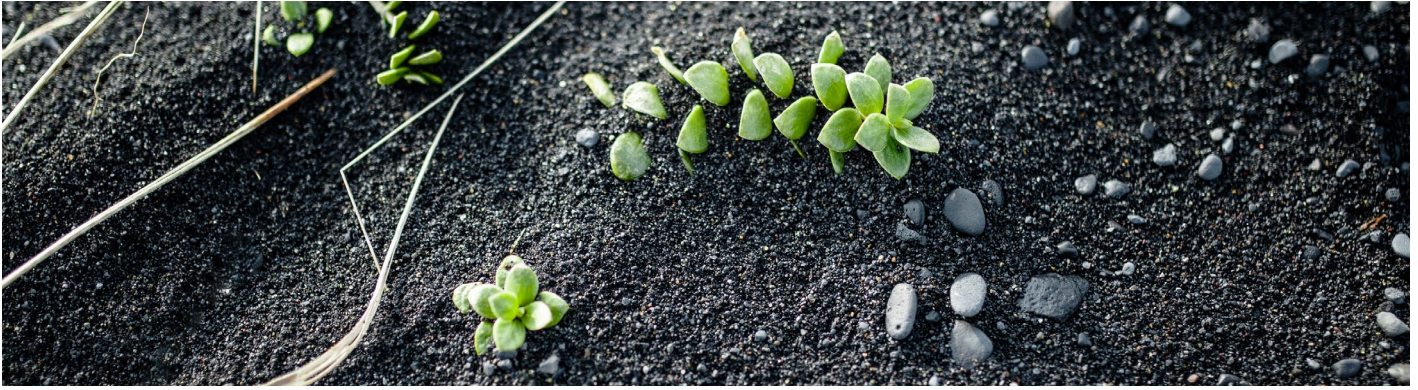
Crafting scenarios

We recommend that you start by framing your rapid response with the four most relevant and distinct future scenarios, spelling out the specific risks and opportunities in each case. Focused trend research, ideally with the aid of digital trend sensing technologies, is a key first step. Scenario experts from Deloitte’s Center for the Long View use the proprietary AI tool Deep View for this, which we will explain in more detail below (Enabler Tip – Digital Tools). After you have combined the results with qualitative insights in specific COVID-19-related political, social, technological and economic drivers, you can apply this to your individual business environment with different time horizons. For instance, your trend intelligence might signal that a significant slump in B2B activity is likely in the medium term, that certain sales channels may possibly deteriorate or that projections indicate a particular global region such as the Americas is expected to lag behind during the next recovery phase. As a basis for our scenario work, Deloitte scenario experts maintain a detailed library of COVID-19 drivers in various areas: technology (e.g., digitalization of key processes), society (e.g., altruism), politics (e.g. travel restrictions) and the economy

(e.g., workforce mobility). We then look at a set of additional dimensions as scenario fundamentals and judge them according to their realistic prospects. For instance, the resilience of supply chains is detailed on a scale ranging from “systemic breakdown” to “painful but resilient”.

So, how does this work in practice? The scenarios are first set out in narratives describing the various possibilities. With a client from the telecommunications industry, for example, Deloitte’s experts developed four scenarios for the coming 24 months. Differences in the ability to monetize critical infrastructure (low vs. high) and in the dominating customer interface (in-person vs. digital) provided the framework for four distinct scenarios based on holistic assumptions about societal and political developments. We called the best-case scenario “Transformation Squeeze-out”: the spread of COVID-19 is slowing, digitalization is accelerating, and the quick economic rebound is causing a significant uptick in demand for premium telecom and value-added services, among many other things.





Putting a number on it: the financial impact

Having established the four scenarios, the obvious question then becomes how to transform these into blueprints for actual business decisions and actions. This requires us to express the financial implications of each scenario in numbers. The secret to a successful rapid response lies in integrating both the qualitative and quantitative dimensions of the scenarios. What does each scenario mean if it is translated into profit & loss, balance sheet and cash flow calculations? By projecting financial implications within certain corridors, a more holistic picture of the possible scenario outcomes will emerge. We use a model that integrates all material business drivers to assess the financial impact. Based on the experience of Deloitte's finance experts, we recommend working with a set of around ten drivers combined with five planning dimensions, such as organization, region/market, product and customer, which should be sufficiently precise to cover 80 percent of the respective business model. Coming back to the telco industry case mentioned above, elements such as changes in demand, cost pressure and ability to invest are described in detailed financial form in the calculations. You will need the input of experienced specialists with in-depth sector expertise to provide informed assumptions and estimates in this process. The quantitative assessment for each scenario gives you a baseline: what would happen to your business in this scenario if you did nothing? This information is the necessary precondition for the next step – establishing detailed action plans to optimize outcomes.

Knowing what to do: action plans and updated forecasts

Once you have detailed the scenarios and their financial impacts, you can develop appropriate action portfolios dedicated to each scenario. No action portfolio will be defined for scenarios deemed extremely unlikely. In order to identify suitable actions, it is helpful to rely on an established, tested catalogue. Deloitte experts curate a library of actions describing sector-specific initiatives and their impact on business-specific drivers, clearly indicating the cost, timeline and financial impact of each action. After having identified and selected them, you must evaluate and prioritize each action based on its potential. As an example, a client from the consumer business sector created the following action portfolio:

Revenue: shift the sales channel mix towards online; launch new marketing campaigns; introduce additional discounts.

Staff costs: reduce personnel provisions for holidays and overtime; introduce short-time working arrangements.

To make the action portfolio more responsive, specific triggers can be assigned to individual actions. For instance, if liquidity indicators fall under a certain threshold, the organization could switch from relatively modest actions such as reducing personnel provisions to more drastic actions such as staff reductions.

After configuring action portfolios for individual scenarios, it is important to feed their potential impact back into forecasts and plans. Accuracy and speed of this step can be improved considerably with the help of an advanced planning and simulation tool (see below: Enabler Tip – Digital Tools).

Getting real: execute and monitor

When you envisage a rapid response intervention to deal with uncertainty, it is essential that you approach it as a process rather than a one-off activity. You need to undertake regular realignments after initiating and executing each action. By tracking and monitoring results, you can use them in a feedback loop of continuous adjustment. It will then be possible to tweak your action portfolios, depending on the actual developments, and further refine and update forecasts correspondingly. You can also introduce additional actions if required as well as different monitoring intervals, both monthly and weekly, changing the frequency during the implementation phase if new circumstances emerge. As interdependent actions play out in each scenario, you will also need to monitor external factors. Is the scenario unfolding as anticipated? Are new trends emerging that might justify changes to the action portfolio? One scenario may also morph into another one at some point. Staying on top of monitoring is much easier with advanced digital tools. At Deloitte, we use the proprietary AI tool Gnosis for that purpose (see below: Enabler Tip – Digital Tools).

Respond, implement, succeed

Responding to COVID-19-related uncertainty is a challenging task. We have identified a set of critical success factors for your scenario-based rapid response intervention. Firstly, from an organizational point of view, make sure that you manage the activities with a cross-functional task force to oversee all aspects and phases: scenario building, quantifying scenarios, planning actions and monitoring. By adopting a centralized cross-functional approach, you will benefit from diverse perspectives and proceed rapidly in a lean, responsive and flexible way. Then, when you start building your scenarios, make sure to take a holistic and aligned view on the specific risks and opportunities of each scenario. Ensure transparency on financial impact; gain confidence in your preparedness by setting up detailed action plans even for dramatic eventualities; and validate your approach through continuous scenario and action monitoring. This will enable you to respond rapidly if unforeseen events occur suddenly, as you had already anticipated them in your preparations. The benefits speak for themselves: with a scenario-based response, you will ensure that your decision making is well-founded, you are fully aligned with your management board and you communicate better with your stakeholders. Above all, you will be prepared for the next phase of the crisis as well as the recovery, no matter how that phase actually manifests itself.



Enabler Tip – Digital Tools

Access superior insights with digital tools: Scenarios might appear simple and straightforward in their narrative format, but they are informed by extremely complex data sets. That is, in fact, precisely what they are for: to boil down objective data into actionable situational descriptions. Advanced analytics tools are ideally suited to help you to get a grip on your data, increasing the speed, cost profile, objectivity, quality and, above all, the scope of the enquiry. At Deloitte, we have developed a variety of proprietary tools that you may find useful.

Deep View is an AI-based trend sensing tool that is perfect for information deep dives. The tool processes massive amounts of mostly unstructured data from over 300,000 news and information sources, for example using natural language processing (NLP). It produces striking visualizations that are particularly helpful in the early stages of scenario building. Deep View helps analyze macro trends quickly, simplifies complexity and is easy to use.

Another very powerful AI tool we developed is Gnosis, which we use during the execution phase. It can monitor how a situation evolves in real-time. Gnosis works by analyzing many different data sources, deriving indicator-based decision support and enabling a flexible business response.

A third digital solution that Deloitte experts use is the Advanced Planning &

Simulation Tool, particularly at the stage of scenario quantification. This tool is based on a set of roughly ten business-specific drivers and five planning dimensions. Sector-specific pre-configurations ensure ease of use and fast results. COVID-19-specific driver modeling for scenario quantification is included. The tool allows a precise assessment of actions, e.g., in terms of their impact on key drivers and simulating the effects of each scenario.

Enabler Tip – Lab Approach

You can significantly improve your rapid response interventions with a dedicated lab approach, as opposed to conventional planning workshops and alignments. The highly focused and structured lab format allows you to strategize much more rapidly and efficiently. A dedicated team carries out the necessary preparations, such as trend research, prior to the lab. That means everything is already in place when the lab kicks off. Participants are guided through the agenda by selected industry experts along clearly defined steps to maximize efficiency and guarantee actionable outcomes. In our scenario-based response projects, we typically hold multiple labs across several weeks: from the scenario development or strategic options labs (phase 1) to the action identification, evaluation and prioritization labs (phase 2). At a later stage during execution (phase 3), we host control tower sessions to monitor the implementation.

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