



## Addressing the financial impact of COVID-19

### Using scenario-based forecasting

The number of new infections and deaths continues to rise rapidly and, as yet, there are no signs of COVID-19 being brought under control, creating uncertainty regarding how long this will influence the current business environment. As if this wasn't enough, there was an added oil price shock and a travel ban.

Businesses around the world are being severely impacted. Shopping malls and restaurants are deserted; global travel and tourism revenues have collapsed; oil prices have dropped; while the risk of a new debt crisis is looming in the horizon. The severity of the financial impact will vary by industry, and will be highly dependent on the time it takes to get the situation under control, which at this point nobody knows.

As uncertainty rises, and the impacts to the business are more permanent, it is important that businesses are proactive in assessing their capability to withstand disruption, and the options they have to identify, and respond to, potential opportunities. Trying to navigate your company's finances through this level of uncertainty and disruption is not a small task. With scenario-based forecasting you can assess the different alternatives.

#### Scenario-based forecasting

- **Make it a collaborative effort.** Identify the key people from the relevant functions (marketing, sales, finance, supply-chain, HR, IT, etc.) and form a working group. This core team will be responsible for developing and managing the scenario definition and reforecasting processes through the preparation.
- **Identify and agree upon scenarios.** Define plausible alternate futures in which the impact of your decisions will be assessed. These are stories with beginnings, middles and ends, that include twists and turns and show how the environment might change over time. Each scenario must contain enough detail to assess the likelihood of success or failure of different options.
- **Focus on the drivers that matter for your business.** Customize the scenarios to your particular context and challenges, including less obvious possibilities. Be sure to include external risks, like travel or regional shutdown, as well as potential opportunities.

## Scenario-based forecasting (continued)

- **Generate a range of forecasts: four is a good target number.** More than four tend to get confusing, while three scenarios run the danger that people will try to pick the most plausible and forget about the other two.
- **Use flexible time periods.** Be sure to forecast for the short, medium and long terms in line with the different nuances of each scenario. Understanding the different implications and options at each turn is key to being able to adapt.
- **Define and monitor early indicators.** Identify the first signs of the big changes that differentiate the various scenarios. This is particularly important as you identify the appropriate execution for each scenario and your answer does not fit all scenarios.
- **Reforecast, reforecast, and reforecast again.** As you go through one of the scenarios, diligently monitor the evolution of your response, and agree with the members of the working group how the assumptions in the model might need to change. If it's appropriate, reforecast weekly, or daily.

### For more information on how to respond, recover and thrive:

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