

Deloitte.



Financial planning in a COVID-19 world

How to adapt to the next normal

September 2020

Consulting ●

What happened in Finance when COVID-19 hit the world

“We want to evaluate five different scenarios to understand how they will impact us, should they materialise. When can we have these ready?” asked the CFO.

In times of crisis, when uncertainty is high, **speed and flexibility** when evaluating business impact become even more critical to **support insightful responses** to the unprecedented business environment. During the first hectic weeks of the COVID-19 outbreak, many executives were in fact flying blind, making decisions based on gut feeling rather than data-driven impact assessments. Even now, several months into the pandemic, **most solutions** supporting critical decision-making **are highly manual and rather unsophisticated**. The crisis has revealed that only few organisations are in

possession of tools and processes to **support rapid decision-making** by evaluating multiple scenarios quickly. On the contrary, most organisations have resorted to back-of-an-envelope style calculations in Excel to help their CFOs **evaluate multiple scenarios** without it taking several weeks. This simple approach is far from **the future planning** that encompasses real-time simulation of multiple scenarios, understanding the impact on fundamental business drivers, resulting in actionable outcomes – **in time to respond before the situation has changed again**.

Preparedness over prediction

Scenarios are stories about what the future may be like, created through a structured process to stretch thinking, challenge conventional wisdom, and drive better decisions today.

Scenarios are not predictions about what will happen. They are hypotheses about what could happen, designed to open our eyes to new opportunities or hidden risks.

Scenario planning plays a critical role within a planning ecosystem and has multiple applications



What to use **scenario planning** for?

It is critical for a modern Finance function to be able to perform scenario analyses both in times of crisis and in a more stable business environment. Scenario models are fit for several purposes where key applications are:

- Crisis management
- Top-down target setting
- Strategic planning
- Cost-out transformations



How does scenario planning **interact** with my other planning activities?

Scenario planning should be interlinked with other planning processes to inform and drive decision-making throughout the organisation. Examples of key interlinked processes are:

- Annual budget
- FTE planning
- Long-term planning
- Capital planning
- Stress testing

Crisis management and scenario planning

Some organisations have suspended their market guidance. Others don't know how to budget for next financial year. Most are not well prepared for a second crisis. How can scenario planning help organisations get back on their feet?

Use transparent and honest communication to the capital markets to improve investor relations

Crisis and increased uncertainty raise a demand for *more* transparency – not less. Capital market analysts need to understand the scenarios the executive team is working with and how they are addressing challenges to ensure ongoing profitability. Communicating bands is fully accepted by the markets when they are accompanied by openness and a credible story explaining the uncertainties surrounding those bands. The outcome? Remain an attractive investment in the eyes of the capital market to positively impact your organisation's share value.

Avoid spending resources on an obsolete budget by making the process lighter and more flexible

Long budget processes have always had the inherent risk that the budget is obsolete the minute it is put in place because the situation has already changed. This challenge has only been reinforced by the current situation. Instead of a traditional bottom-up budget, leverage high-level scenario planning to decide on the most likely scenario, including underlying drivers, and cascade it down the organisation to the level needed. This approach will create at least the same value and free up many resources in a time where all hands are needed on deck to navigate the business.

Prepare a contingency plan as an integrated part of the 'normal plan'

As part of the next normal, a bigger focus should be put on mitigating risks by preparing contingency plans as part of the 'normal plan'. It's impossible to foresee exactly how the next crisis is going to impact - and that's not the aim. The aim is to be better prepared for the next crisis because you already understand the room to maneuver your company in times of increased uncertainty.

Case study

The situation

Like almost everyone else, this country branch of a global convenient store chain was taken by surprise when the COVID-19 pandemic swarmed across the world. The sudden shutdown of offices and schools and limitations on movements impacted the convenient stores significantly. How did they navigate these troubled waters?

What did they do?

Because the company had just implemented a new flexible budget model, they were in a position to overlay the model with scenario capabilities quickly. Within two weeks, they were able to plan using scenarios with different recovery curves for each store cluster and evaluate the impact of store closures as a strategic option. The scenarios could easily be cascaded to the granular level needed by the business, using the high degree of automation built into the new budget model.

What did they get out of it?

Finance played a critical role in steering the business by quickly evaluating the financial impact of different options, providing crucial answers. The ability to granulate those answers created a level of credibility, which would not have been possible to obtain in a simple, high-level Excel model.



When written in Chinese, the word 'crisis' is composed of two characters. One represents danger and the other represents opportunity

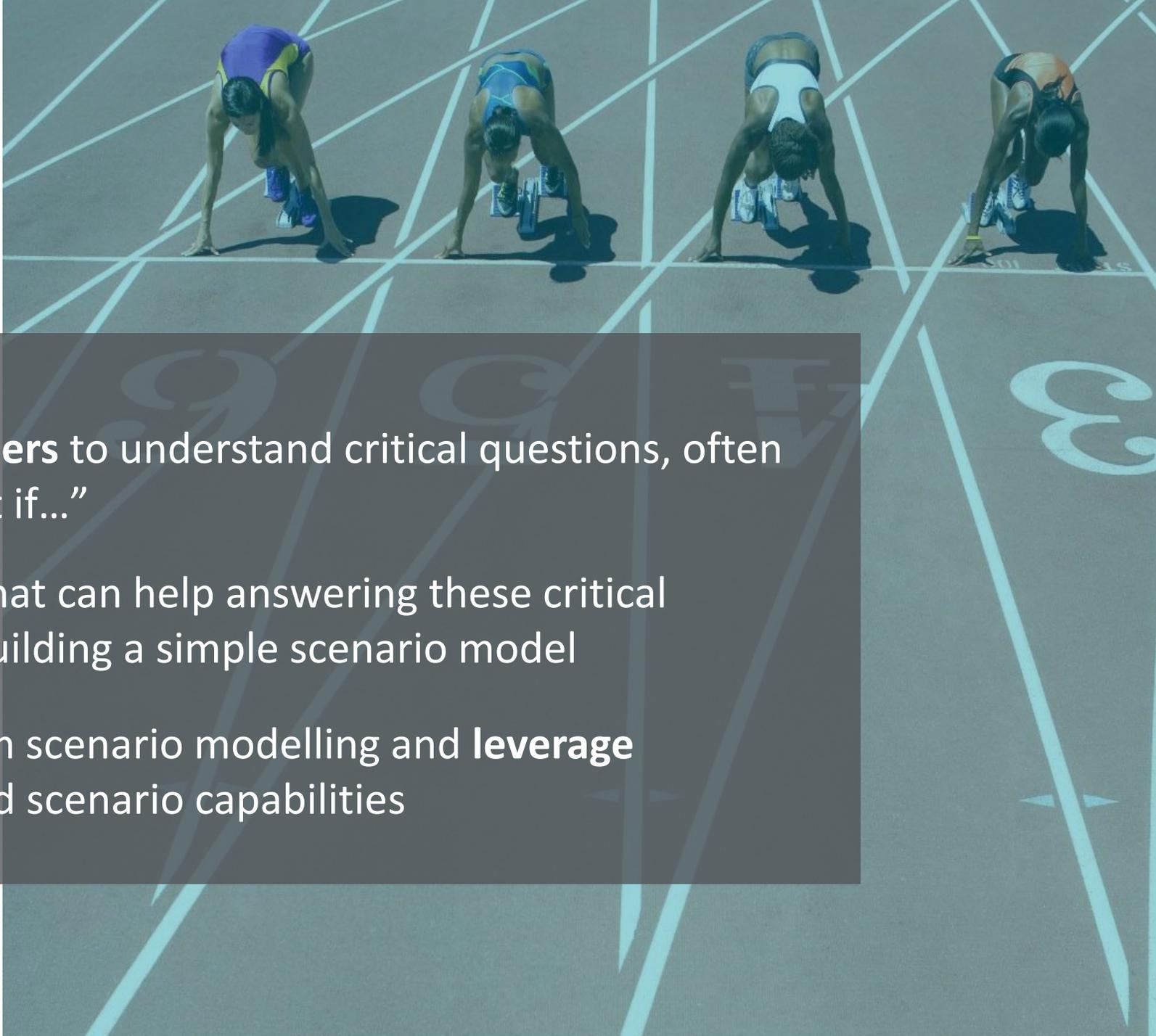
- **John F. Kennedy**

Former President of the United States



66
99

Seize the opportunity



- 01 Engage **key stakeholders** to understand critical questions, often beginning with “What if...”
- 02 Identify **key drivers** that can help answering these critical questions and start building a simple scenario model
- 03 Socialise **insights** from scenario modelling and **leverage momentum** to expand scenario capabilities



Questions and enquiries



Kim Tegner
Partner, Business Finance

ktegner@deloitte.dk



Jeppe Holm-Andersen
Director of Business Finance

jhandersen@deloitte.dk



Nikolaj Dons
Head of Planning, Budgeting
and Forecasting

ndons@deloitte.dk

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

About Deloitte

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the “Deloitte organization”) serves four out of five Fortune Global 500® companies. Learn how Deloitte’s approximately 312,000 people make an impact that matters at www.deloitte.com.

Deloitte Touche Tohmatsu Limited

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.