



COVID-19: Planning for the future

Using scenario planning to underpin business decision making



What we are seeing...

Many businesses are required to look beyond the immediate impact of CV19 to medium term scenarios through to the recovery. Financial institutions are required to test the durability of their business against a variety of macroeconomic scenarios. Exposed sectors need to consider the changes in the economic environment in statutory audits and reporting the value of business assets.

Beyond those regulatory requirements, testing against reasonable scenarios for the medium-term outlook can help businesses of all kinds get immediate decisions right. Scenarios can help inform decisions over the capital needed to get through shut downs; plan for the capacity needed to respond to a recovery when it comes; and understand the kind of support that it is practical for the business to provide for its suppliers, distributors, workers and other stakeholders.



Key questions to consider now to support effective recovery

- How deep will the contraction be?
- How long will it last?
- What will the recovery look like?
- Should the main concern be the micro shocks to a specific sector or the macro shocks to the wider economy?
- How will the impacts vary across regions and local areas?

Ultimately, the question remains: does the business have a strong enough financial position or does it need to take action? If so, can it do so based on the recovery coming?



Challenges in scenario planning in a crisis

To respond effectively, consider two kinds of shocks, taking place at the same time and interacting:

- Macro: consumers reducing spending if their income falls, or they fear it might fall. More affordable brands benefiting if consumers are looking to save money.
- Micro: varying enormously and including disruptions to supply and demand up to and including outright closure

Macro shocks

The crucial question in determining the scale of the macro shock is the nature of the recovery:

- V-shaped recovery, where the economy springs back to life once restrictions are lifted.
- U-shaped recovery, where the economy returns to normal more slowly, due to higher unemployment and the loss of some businesses.
- L-shaped recovery, where prolonged disruption triggers more widespread loss of jobs, businesses and financial stability.

To understand the different possible pathways, leaders also need to account for the public policy response and its potential to alleviate the pressure on consumers and businesses. Government is deploying enormous financial resources in response to this crisis.

Outcomes

Leaders will need to plan under uncertainty. Developing robust scenarios though, and looking through the crisis to the recovery, can help them make decisions that work for their business now, see them through the duration of the crisis and leave them in the best possible shape for better days.

Micro shocks

- How will supply chains handle restricted movement, forced closures and loss of inputs?
- What immediate impact is there on demand? And is there any pent up demand that might be unlocked later?
- Is there a longer-term macroeconomic impact that should be accounted for?
- Are there unavoidable costs that will be incurred regardless of activity in the business?
- How vulnerable are financial positions among firms in the sector?
- Will policymakers act to provide liquidity, or support demand?

Real insights will come from looking across countries and these past crises (SARS, GFC, 9/11) in a systematic way. Then adding to that an expert view on market dynamics and more specific modelling of the interaction between macroeconomic trends and specific indicators that drive the performance of the business.



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