

# Use EPM to Help Navigate Through the COVID-19 Crisis

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## Introduction

The COVID-19 global pandemic impacts organizations in all regions. Some areas show signs the outbreak may be under control; others could still face the worst. Although they stabilized somewhat, global markets suffered their largest decline in history and remain highly volatile. The timing of any global economic recovery simply can't be accurately forecast right now.

Organizations in all regions will face significant uncertainty during at least the next 12-18 months. Management teams and business leaders need to address short-term issues and respond rapidly to changing business circumstances as conditions gradually return to a semblance of normality.

Enterprise performance management (EPM) systems can play a key role in helping organizations navigate through this crisis. They can identify short-term impacts and help organizations react quickly and positively as economic recovery starts.

## Executive Summary

1. EPM systems can help identify short-term and longer-term financial impacts of the COVID-19 crisis on your organization's business plans.
2. The scenario-planning capabilities of EPM systems can help create revised business plans for the next 12-18 months that cover a range of recovery scenarios.
3. The strategy management capabilities of EPM systems enable rapid creation of updated strategic business plans based on changing circumstances. They can help create strategies to deal with the "new normal."
4. EPM systems provide a robust and responsive environment to help organizations manage their way through the COVID-19 crisis.

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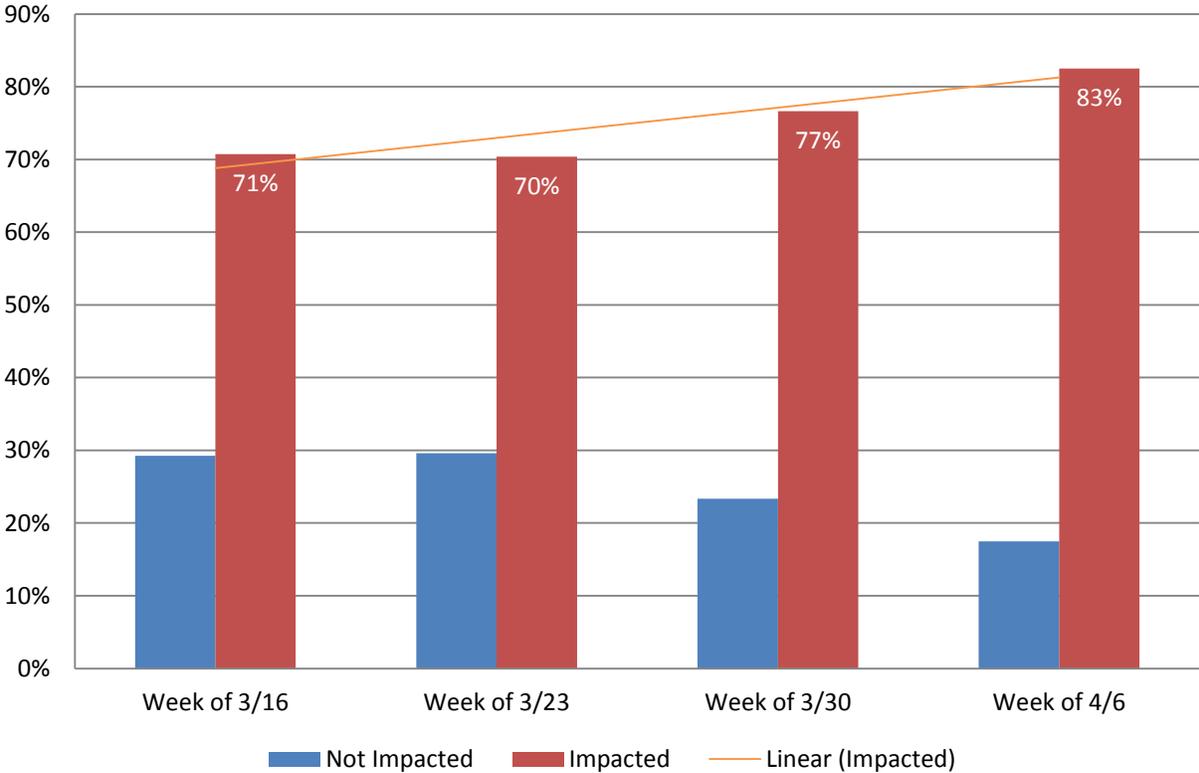
## Recommendations

1. Use EPM systems to help identify short-term issues such as lost revenue streams and how these impact cash flow and working capital.
2. Create revised business plans for the next 12-18 months based on scenario-planning capabilities in your EPM software. Use these to model the impact of any government-provided support programs and how changes affect your cost base.
3. Identify which business areas most likely will recover as the economy improves and which most likely will experience permanent impacts. Create new strategic business plans based on these findings.
4. Consider applying unused or underutilized EPM software capabilities such as cash-flow forecasting, strategy management, and rolling forecasts.
5. Engage with software vendors and system integrators to activate rapidly the relevant EPM capabilities and processes not currently in use.
6. Work with your chief financial officer CFO and your organization's finance team to ensure that, wherever possible, they leverage EPM capabilities and not use spreadsheets.

## Quantify Short-Term Business Impacts

COVID-19 has an immediate and growing impact on most organizations. Dresner Advisory Services is currently conducting our [2020 New Year User Survey](#), and we added questions to better understand how COVID-19 impacts projects or budgets. The latest responses show that, since late March, the percentage of organizations with impacted budgets and projects grew from 70 percent to nearly 90 percent.

### Organizations' Budgets and Projects Impacted by Covid-19



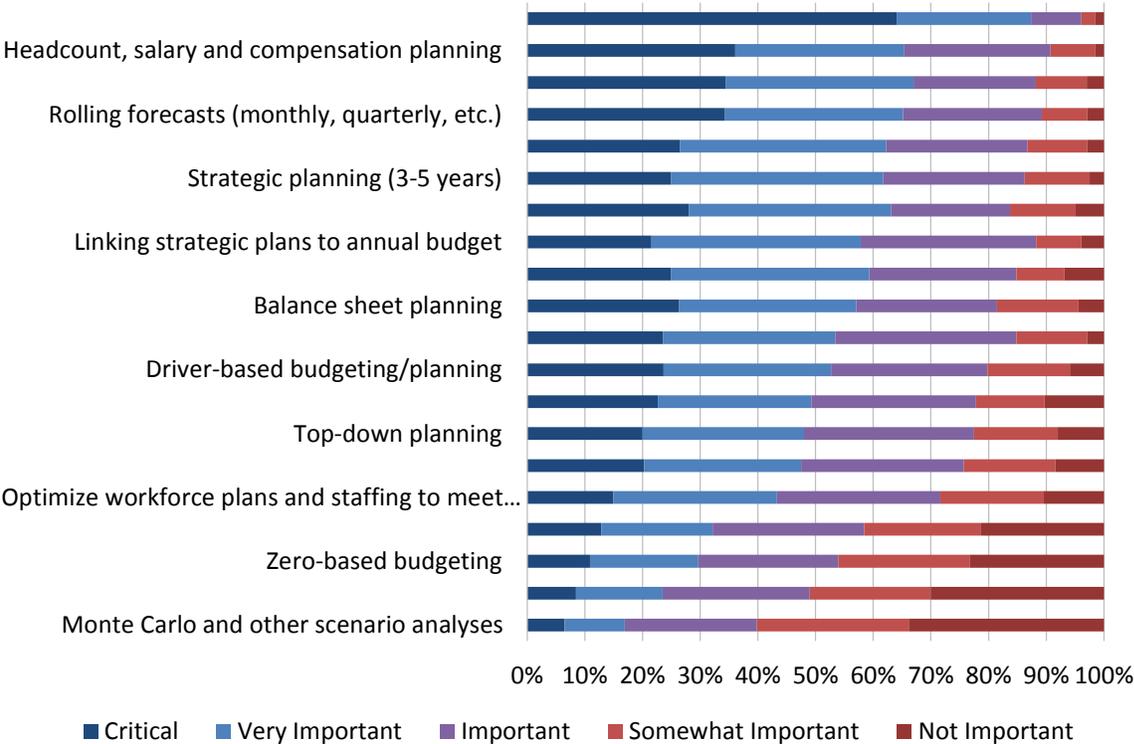
Source: Dresner Advisory Services

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When considering the business impact of COVID-19, most organizations have immediate concerns about loss of revenue and availability of working capital to finance ongoing operations. In particular, understanding the impact on cash flow will be key. Sudden dramatic declines in revenue, coupled with potential customer payment delays, can create cash-flow issues unless costs and liabilities decrease similarly. Business leaders need a clear view into these impacts.

[The Dresner Advisory Services 2019 Wisdom of Crowds® Enterprise Performance Management Market Study Report](#) showed that revenue planning and cash-flow forecasting represent high priorities (seventh and third, respectively) for EPM users. This means organizations can use EPM systems to analyze which revenue streams and drivers of revenue are most affected in the short term and quickly create a forecast that shows impact of this revenue loss on the overall financial budget. These changes will then flow through to the cash-flow planning capabilities of the EPM system (provided these are used). This will highlight potential liquidity issues in the coming months and will help with cost-reduction planning.

## EPM Planning Priorities



Source: Dresner Advisory Services 2019 Enterprise Performance Management Market Study Report

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All organizations undertake some form of revenue planning. (For certain public sector and not-for-profit organizations, the equivalent is identifying funding sources.) However, not all organizations use their EPM systems for cash-flow planning. This capability can be more complex to deploy than revenue, cost, and capital planning capabilities; and it will require coordination with underlying ERP / finance systems.

All the EPM vendors in the 2019 Enterprise Performance Management Market Study Report claimed they supported cash-flow modeling and forecasting. Organizations with EPM systems that currently do not use these capabilities should immediately explore if, and how, they can activate these systems to support COVID-19 impact analysis.

### **Use Scenario Analysis to Model Critical Impacts and Recovery Outcomes**

Scenario analysis is the most-important EPM capability that can help organizations navigate the COVID-19 crisis. Once an organization assesses the immediate impacts, management teams need to decide how they will react.

Organizations should first explore managing the cost base in the face of revenue/funding reductions and determining the corresponding effects on cash flow. They also should model the potential impact of any government-assistance programs. Then organizations can evaluate potential recovery scenarios by modeling how increases in business activity, by region and line of business, will impact revenue, costs, and cash flow.

Organizations should create multiple scenarios so they can compare the impact of different approaches. EPM systems provide high value in this area because they allow the creation and comparison of different scenarios by varying the underlying assumptions and inputs. Once established, a new “base case” can be used as a foundation for creating many different potential recovery scenarios. Most EPM systems maintain an audit trail of changes to the assumptions and allow rapid creation of new scenarios simply by varying the underlying assumptions and drivers.

For these reasons, organizations should use EPM systems rather than spreadsheets for this activity. Spreadsheets are the finance team’s usual fallback, but spreadsheets lack sufficient capabilities and flexibility to enable organizations to respond to the complexity of an uncertain economic environment that could last 12-18 months (or longer).

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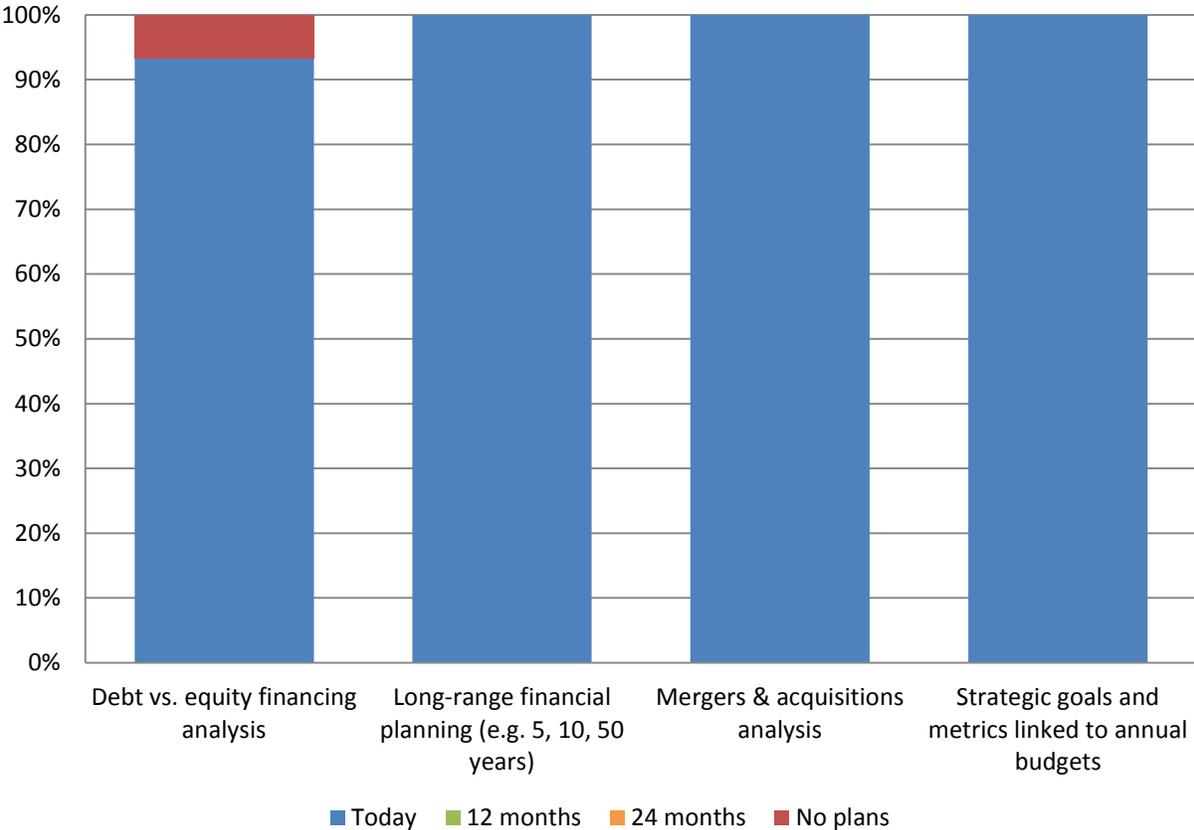
## Use Strategy Management Capabilities to Update Organizational Strategy

The budgeting and planning capabilities of EPM systems allow organizations to explore the short-term and longer-term financial impacts of the COVID-19 crisis.

The world will be different in the aftermath of this crisis. Many existing business models will fail or need significant revision, while new opportunities will emerge. Consequently, management teams will need to revise and update their organization’s strategic plans and objectives. EPM systems can provide support in this area.

The majority of vendors surveyed in the 2019 Enterprise Performance Management Market Study Report support the four capabilities that Dresner Advisory Services defines as “strategy management.” In particular, all vendors support long-range financial planning and linking strategic goals and metrics to annual budgets, which are the key areas of strategy management needed for effective response to this crisis.

### Strategy Management in EPM Systems



Source: Dresner Advisory Services 2019 Enterprise Performance Management Market Study Report

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Although our study respondents rated strategic planning as the sixth-highest rated EPM priority, based on anecdotal evidence, Dresner Advisory Services believes this capability is implemented less frequently in EPM deployments.

IT professionals supporting EPM deployments should ensure these capabilities are used to support recovery-planning activities. This may involve educating senior executives on the benefits of this approach. Consider asking the CFO and finance team to help with this, as linking revised financial plans and budgets to an updated strategic plan will deliver a holistic view for navigating the organization through this crisis.

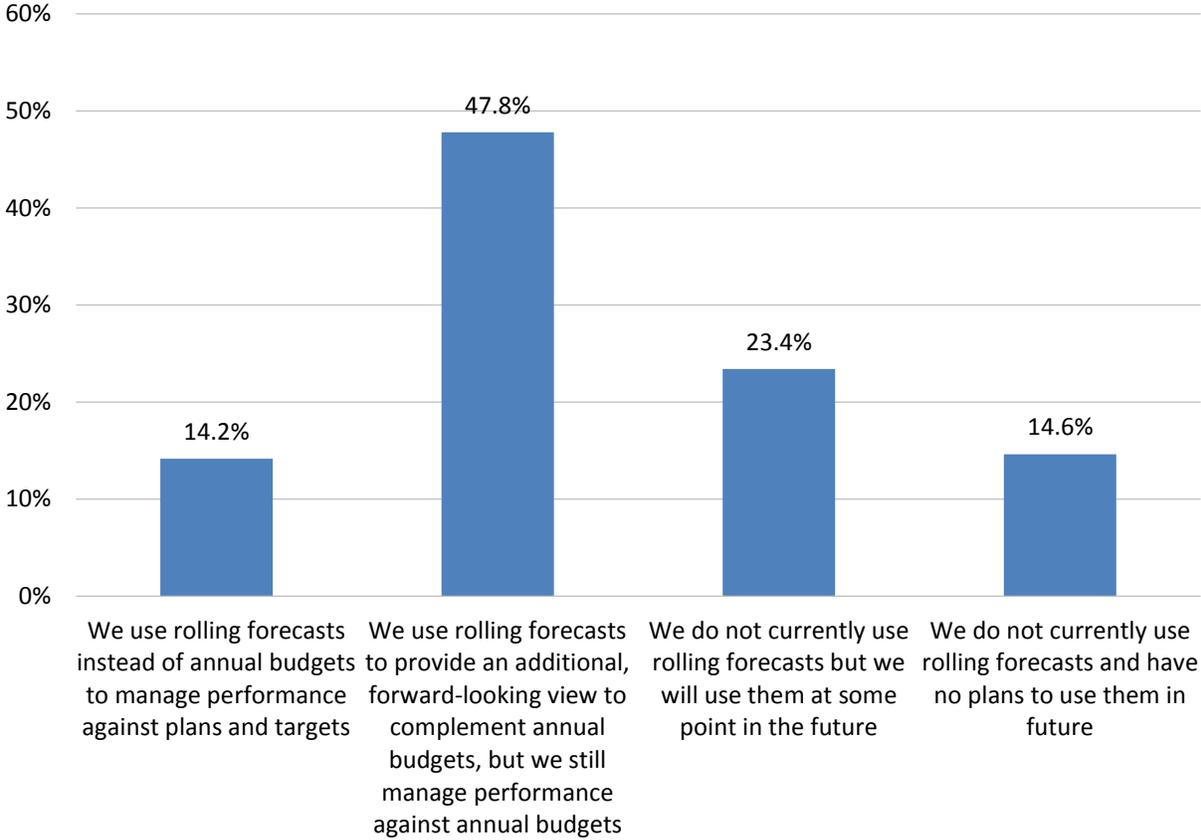
### **Maximize Use of Existing EPM Capabilities and Resources**

The urgency of this crisis means organizations do not have the time to evaluate and implement new EPM software. However, organizations can make more use of capabilities in whatever EPM software they deployed.

Most organizations tend to use EPM software for annual financial budgets. This crisis has rendered traditional annual budgets irrelevant. Instead, forecasting and scenario planning should be used to support finance and the management team in determining the best path forward. All EPM systems support these capabilities, and current budgeting and planning processes should be revised to leverage these more effectively.

Rolling forecasts represent another critically necessary EPM capability to leverage during this crisis. Rolling forecasts are a method of continuous planning that allows management to look forward over a specific time period (typically 12-18 months). One can revise a forecast every month or quarter, and provide a rolling forward view of predicted performance. Dresner Advisory Services believes that monthly rolling forecasts are the best way of managing business performance in an uncertain and rapidly changing business environment.

## Rolling Forecast Use



Source: Dresner Advisory Services 2019 Enterprise Performance Management Market Study Report

The 2019 Enterprise Performance Management Market Study Report shows that 38 percent of organizations do not use rolling forecasts. These organizations should immediately adopt rolling forecasts. The 48 percent of organizations that use rolling forecasts to complement annual financial budgets should immediately shift to rolling forecasts as their primary financial management control mechanism.

Many organizations may find leveraging underutilized EPM capabilities such as scenario planning, strategy management, and rolling forecasts challenging. Most finance teams lack the time and resources to deploy additional EPM capabilities. Those supporting EPM solutions should consider EPM vendors and systems integrators as additional resources that can help deploy these capabilities rapidly. Although this approach may require funding, Dresner Advisory Services believes it represents an excellent short-term investment, as these additional EPM capabilities will enable your organization to better navigate the challenges posed by the COVID-19 crisis.