

# How to Consider the “What-ifs” in Times of Uncertainty

6 min read

The word “uncertainty” immediately invokes feelings of anxiety and fear. This is not unusual, as it’s a natural human reaction to prefer the comfort of predictability over the vagueness of uncertainty. It’s in our nature to plan our day, week, and year on the data available to us. Businesses and finance professionals are no different. When the future is uncertain, this increases the risk to businesses and anxiety escalates around how to tackle the situation quickly.

Uncertain times are just that, uncertain. They make predicting the future much harder at the precise time you need to plan for it the most. Like people, businesses need to change with the times as well. Plans are no longer set in stone and need to be revisited more than twice or thrice in a year.

The need for [active forecasting](#) based on real data is paramount to making well-informed decisions about the future. In uncertain times, it’s all about becoming agile. Think about how the United States went from one COVID-19 case in Jan. 2020 to over 140,000<sup>1</sup> by the end of Mar. 2020. Whether your organization operates in [healthcare](#) or hospitality, your plans need to adapt quickly because new decisions need to be made. Project management has already started moving from [waterfall methodologies to agile](#) for more frequent output. Ask yourself, has this sort of innovation happened in FP&A? It’s high-time finance teams are equipped with the right tools to “shift from generating data to producing insights<sup>2</sup>” that drive superior decisions.

[Get access to our short 20-minute webinar on how your business can better react to and prepare for market volatility with CPM software.](#)

## The World of CPM

Welcome to the world of CPM – [Corporate Performance Management](#) – a tool that transforms your finance department by making processes more efficient, agile, and automated, so that you can leverage your data to improve planning, [reporting](#), security, workflows, and [consolidations](#), all while reducing human error. Ultimately, CPM lets your organization be proactive, forward-thinking, and enables finance leaders to better guide the organization during uncertain times.

## Agile Scenario Planning

An especially important application in these uncertain times is [scenario planning](#) (see Fig.1 for contextual and transactional environmental factors involved in scenario planning). What realities is your business facing? What happens if consumer spending falls by 25%? Or if product revenue falls by 15%? Or customers need to renegotiate payment terms? Whether sales are booming or declining, finance leaders need to go back and revisit their forecasts to assess the impact to cash flow and profitability and set correcting strategies. Having a centralized CPM tool like Prophix can make your life easier because it allows you to easily run scenarios on-the-fly.

In using the Oxford scenario planning approach, it is important to distinguish between immediate actors one does business with (located in the smaller brown oval) and the diverse factors in the larger contextual environment. The contextual factors are beyond the influence of the organization.

Scenario planning is about exploring how larger contextual factors might affect an organization. Scenarios are developed by combining contextual factors (particularly ones that are less well-known and more uncertain). Each scenario will be based on a unique combination of contextual factors.



Fig. 1: The Role of the Contextual Environment in Scenario Planning | <https://sloanreview.mit.edu/article/using-scenario-planning-to-reshape-strategy/> Powerful tools let you transform your data and allow you to better model your operations, especially in regard to “what-if” scenario planning. Positioning your company for success involves tough modeling to ensure business continuity.

Some industries are experiencing tremendous growth like healthcare, pharmaceuticals, and groceries. Concurrently, there are those that are being hit hard financially such as hospitality, aviation, and [retail](#). [Cash flow planning](#) becomes critical during uncertain times. With a robust CPM tool, you can easily model changes to your plans and move forward. It's all about enabling you to plan smartly.

Your finance department probably spends long nights doing month-end and operational tasks. If they're already spending 80% of their time on transactional tasks, it can be hard to shift focus to complex planning. Is your team equipped and ready to model endless scenarios in price adjustments, changes in capital spending, and fluctuating labour needs? Now, try to imagine a world where you already had a plan and solution in place to successfully steer you out of uncertainty...

[Unsure how to move forward in uncertain times? Listen to our webinar on the benefits of proactive scenario planning.](#)

## **Planning for Uncertainty**

So, how do you plan for uncertainty (see Fig. 2 for some tips on scenario planning)? Well, it depends on many factors, but it starts with having a tool that can effectively and centrally manage your data, so that all your users can view and interpret the same information.

To prepare for uncertainty, you need to set the baseline financial plan and the appropriate objectives/strategic goals. Next, prepare for different outcomes by involving more people in your planning process and consider best- and worst-case scenarios. CPM software lets you do this seamlessly through [workflow project management capabilities](#).

Once your data is centralized, it's easy to assess your performance against planned objectives. As you understand your variances, you can measure performance, visualize the future, and adapt accordingly with agility. Once everyone agrees, you can [automate report distribution](#), buying you more time for value creation and generating insights.

[Get your guide to corporate financial planning during the pandemic – watch the webinar.](#)

<p><b>1</b></p> <p>Fight the urge to make decisions based on what you already know</p>	<p><b>2</b></p> <p>Beware giving too much weight to unlikely events</p>	<p><b>3</b></p> <p>Don't assume the future will look like the past</p>	<p><b>4</b></p> <p>Combat overconfidence and excessive optimism</p>	<p><b>5</b></p> <p>Encourage free and open debate</p>
<p><b>What to do</b></p> <p>Review all trends likely to affect your company's business, especially interconnections between issues and markets</p>	<p><b>What to do</b></p> <p>Evaluate and prioritize trends using first qualitative, then quantitative approaches</p>	<p><b>What to do</b></p> <p>Build scenarios around critical uncertainties, engaging top executives through experiential techniques</p>	<p><b>What to do</b></p> <p>Assess the impact of each scenario and develop strategic alternatives for each</p>	<p><b>What to do</b></p> <p>Instill the discipline of scenario-based thinking with systems, processes, and capabilities that sustain it</p>
<p><b>What to avoid</b></p> <p>Relying on readily accessible information or evaluating trends only within the same geography or industry context</p> <p><i>Availability bias</i></p>	<p><b>What to avoid</b></p> <p>Focusing on numerical precision early in the process</p> <p><i>Probability neglect</i></p>	<p><b>What to avoid</b></p> <p>Outsourcing or delegating the creation of scenarios to junior team members</p> <p><i>Stability bias</i></p>	<p><b>What to avoid</b></p> <p>Planning for a scenario deemed most likely, to the exclusion of all others</p> <p><i>Optimism, over-confidence biases</i></p>	<p><b>What to avoid</b></p> <p>Using scenario planning as a one-off exercise or ignoring social dynamics such as groupthink</p> <p><i>Social biases</i></p>
<p>McKinsey&amp;Company</p>				

Fig. 2: The DOs and DON'Ts of Scenario Planning | <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/overcoming-obstacles-to-effective-scenario-planning>

As you can see, scenario planning is closely linked with both [budgeting](#) and forecasting. Things change, uncertainty arises, and plans evolve. In finance, scenarios act as guiding frameworks about events that may or may not take place in the future.

As finance leaders, we must proactively plan for the unknown and incorporate it into our forecasts. We must assess more frequently whether we are meeting our objectives, and if these objectives need to be changed. Scenario planning helps mitigate variances by focusing on the realities of the business. It helps finance leaders manage resources and improve decision-making by considering opportunities and risks.

In summary, strategy is all about envisioning and implementing ideas and goals that let you compete and win in the marketplace. Don't let old habits of the past slow down your organization and its predisposition to change. CPM tools like Prophix provide you with the technological solutions that help innovate the Office of Finance in a rapidly evolving environment to give you a competitive edge in a world of big data and increasing complexity.