

THE PATH TO MODERN PLANNING

What-if scenario planning:

be ready for what's next.





Seeing the bigger picture.

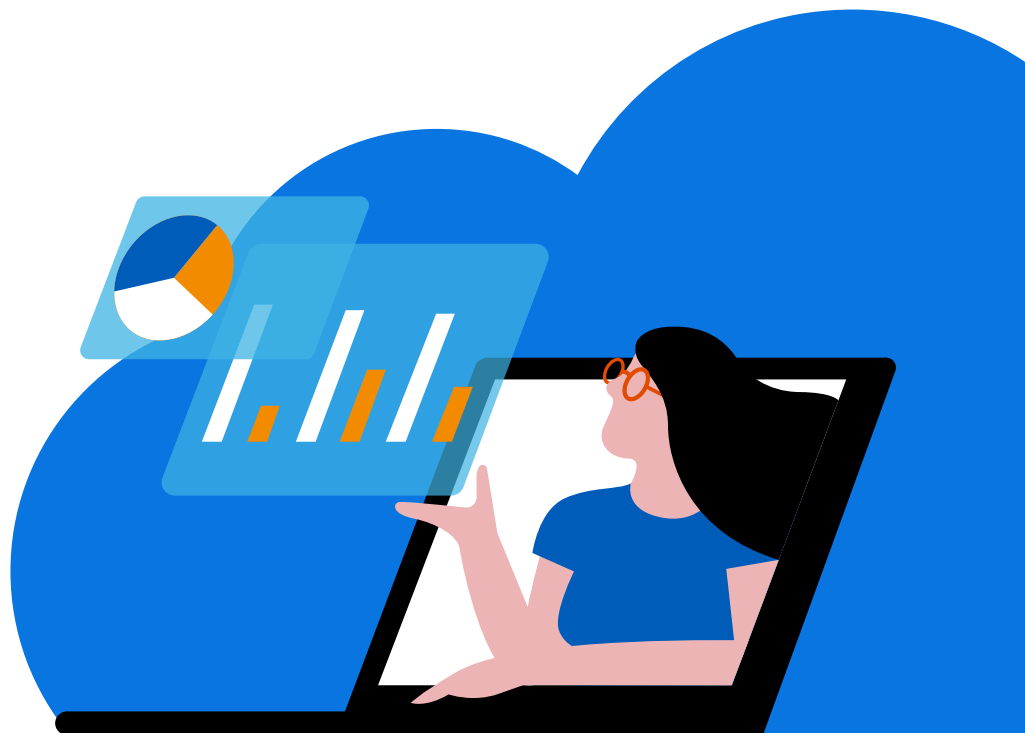
Like many things in life, scenario planning benefits from wider context. Let's start with today's business landscape. Just as volatile conditions have become the norm, so has the need for continuous planning and results monitoring.

In a world of continuous change, there's only one thing more powerful than business agility: continuous foresight. The ability to accurately discern your best, worst, and most likely potential outcomes in a turbulent environment provides a significant competitive advantage.

Scenario planning doesn't predict the future—it enables you to analyze and prepare for several possible futures. And it's playing a key role in a wider paradigm shift.

Businesses are changing the way they plan, budget, and forecast. They've transitioned from traditional planning—a closed, static, infrequent process that provides limited, backward-looking snapshots of expected performance versus reality—to modern planning, which enables an ongoing, open-ended, and forward-looking process.

This new era of planning continually reprioritizes strategic activity in line with changing events.



Modern planning has three major elements: it's company-wide, continuous, and cloud-based.

Today's business leaders are likely continuous planners. Their visionary FP&A teams lead the organization to holistic visibility, business agility, and better planning outcomes. And to do this, these teams use new techniques, technologies, and processes. Scenario planning features heavily in their toolbox.

This eBook explores what scenario planning is and why it's so effective, as well as best practices for putting it to use and its benefits across your organization.

Let's get started.

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Modern planning platforms facilitate best practices by easing, if not eliminating, the time-sucking manual tasks of data collection and validation. This frees up time for value-driving activities such as modeling and what-if scenario analysis. By envisioning and preparing for what's ahead, organizations can be far more agile, proactive, and successful.

Doug Henschen

VP and Principal Analyst, Constellation Research,
“Modern Planning Platforms Drive Business Agility
and Better Outcomes”; January 2021.



The rise of scenario planning.

So, just how has the relationship between planning and business operations changed? Certain things, such as high-pressure decision-making and unexpected events, will always be factors in business. But a look back in time offers clues to scenario planning's evolution.

Up until the 2000s, teams placed huge trust in their “Plan A.” Limited technology meant fixed projections—made at the beginning of the financial year—that dominated plans and dictated reality.

FP&A teams recognized uncertainty, but there wasn't much they could reliably do about it. For one thing, they lacked insight and resources.

And in contrast to now, there was less competitive pressure to assess multiple, multifaceted future scenarios.

Today, the picture is very different. A cocktail of hyper-competition, reams of data, and endless real-time decisions means single-scenario planning is no longer credible.

Business agility has shot to the top of the agenda. The need to anticipate—and course-correct—in an accelerated landscape has given rise to a new era of scenario planning.



The great pandemic accelerator.

A stable business is a healthy business. And if the last year of disruption has shown us anything, it's that the healthiest businesses create their own stability. As mass uncertainty entered the spotlight, businesses responded by changing the way they plan.

Before the pandemic, just 57% of organizations ran forecasts daily, weekly, or monthly. By 2020 onward, this had jumped to 80%. And data insights—or the lack of them—became a critical concern. By the middle of the pandemic, organizations cited information uncertainty as the number one threat to their success.

Frequency of Forecasts in 2019, 2020, and 2021

(% of Organizations Responding Frequency of Forecast)

2019



2020, 2021 Expected



	1970s	1980s	1990s	2000s	2010s	2020/Post COVID-19
Environment	<ul style="list-style-type: none"> Stable to Disruptive Domestic Focus 	<ul style="list-style-type: none"> Financial Crisis International Competition 	<ul style="list-style-type: none"> Global Economy Tech Bubble 	<ul style="list-style-type: none"> Financial Crisis Terrorism 	<ul style="list-style-type: none"> Slow Growth Geo-Political Uncertainty Unprecedented Change 	<ul style="list-style-type: none"> COVID-19 “The Great Accelerator” An Acute Awareness of Uncertainty
Technology	<ul style="list-style-type: none"> Mainframe Paper 	<ul style="list-style-type: none"> Personal Computers Visi-CALC/Lotus ERP 	<ul style="list-style-type: none"> Excel PowerPoint Internet 	<ul style="list-style-type: none"> Digital Acceleration 	<ul style="list-style-type: none"> FP&A Software Analytics 	?
Information Sources	<ul style="list-style-type: none"> Newspaper Library 		<ul style="list-style-type: none"> Internet 	<ul style="list-style-type: none"> Exceptional Growth in Internet Information Content 	<ul style="list-style-type: none"> Infinite and Instant Accessibility 	<ul style="list-style-type: none"> Infinite and Instant Accessibility
FP&A Process	<ul style="list-style-type: none"> Budget Variance Analysis 	<ul style="list-style-type: none"> Rolling Forecasts 	<ul style="list-style-type: none"> KPIs 	<ul style="list-style-type: none"> Business Outlooks on Demand PM: Dashboards 	<ul style="list-style-type: none"> Analytics Business Orientation 	?
Finance Focus	<ul style="list-style-type: none"> Internal Cost Model 		<ul style="list-style-type: none"> Leading-Edge Companies Add External View 		<ul style="list-style-type: none"> External View Required 	?
Evolution of Scenario Planning	<ul style="list-style-type: none"> Reactionary Crisis Driven 	<ul style="list-style-type: none"> Proactive Contingency Planning Sensitivity Analysis: What If Sales Decreased by 10%? 	<ul style="list-style-type: none"> Leading-Edge Companies Adopt Formal Scenario Analysis 	<ul style="list-style-type: none"> Low Utilization of Comprehensive Scenario Planning 	<ul style="list-style-type: none"> Low Utilization of Scenario Planning 	<ul style="list-style-type: none"> COVID-19 Crisis Incorporate SP into All Routine Business Planning and Projections

Ramping up forecasts provides some comfort. On the flip side, it propagates assumptions within existing models. Information uncertainty created a new condition—something the Association for Financial Planners summarizes as VUCA:

Volatility: What is happening? The situation changes quickly in unexpected ways, and historical norms are less predictive of the future.

Uncertainty: What will happen next? Unsure of the present, unsure of what to do next indicates a wider range or lower confidence in forecasts.

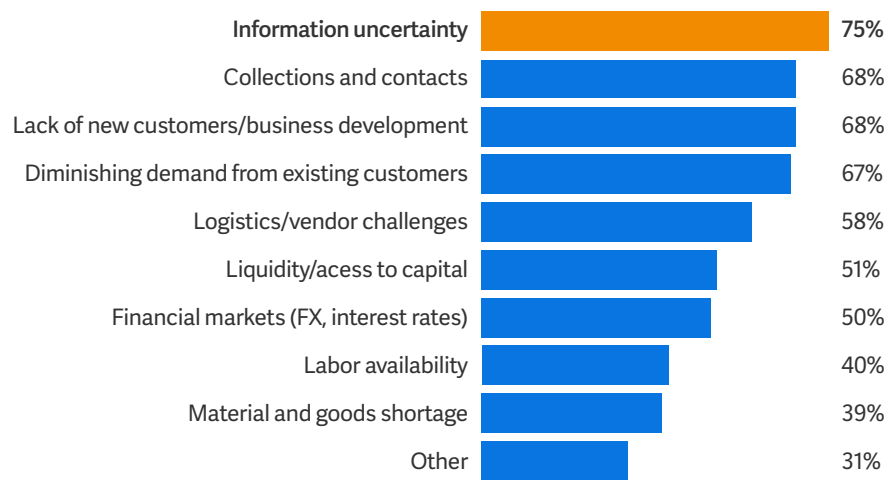
Complexity: Why is this happening? The confounding of issues, no cause-and-effect chain is evident. Our ability to model the outcome based on known variables diminishes.

Ambiguity: What does this mean? Cause-effect relations are unclear, making interpretation and extrapolation difficult.

While the best FP&A teams function as strategic consultants to the organization, the nature of VUCA's dynamics create significant obstacles. So teams need methods to wrangle clarity from information uncertainty. Not only is it important to assimilate new information quickly, but it must also be used as leverage for assessing multiple future outcomes.



What is having the greatest impact on your organization? (Results from COVID-19 FP&A Survey)



Association for Financial Professionals, [AFP Guide to Scenario Planning](#), 2020

COVID-19 may not be permanent, but the onus on preparation is here to stay. And multiple and rapid scenario planning provides the antidote.

How multiple scenario planning works.

In a world of uncertainty, reliance on classic forecasting only goes so far. Scenario planning acts as its supercharged extension. FP&A teams use it to visualize and explore multiple (potential) eventualities in detail instead of making financial commitments based on estimations or assumptions.

Finance dials multiple elements of financial performance up and down, then cross-examines the impact of various dimensions against each other. Having determined what works in each scenario, finance can select the approach most beneficial to the business.

Economic recessions are a decent use case for scenario planning. Tough financial circumstances can impact pricing, new business, costs, employee turnover, and more. This is where simulation comes in. By adjusting performance through the lens of your business drivers, you can model the impact of economic expansion and contraction on your operations, and model how your responses to those initial conditions change the outcome.

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We're able to easily look at making changes across different teams, entities, across different countries, and get the full view of what that means for the business and profitability on the whole.

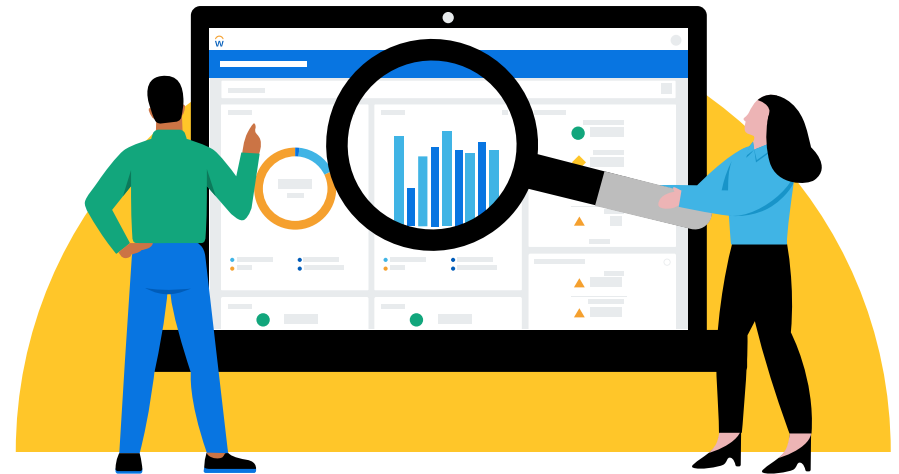
Director

Financial Planning & Analysis,
Tenable, Inc.

Sensitivity Planning

Some businesses try to plan for scenarios using “sensitivity analysis.” But this is a softer, less comprehensive alternative. This model shows how sensitive elements such as net income and cash flow are to change in a specific variable.

By contrast, scenario planning connects multiple points of sensitivity. Planning leaders can thus anticipate the interconnected change that occurs in their environment.



How scenario planning supercharges business agility.

Business agility can be viewed in three parts. Here's how scenario planning underscores each:

1. Vision.

Readiness in an uncertain landscape demands 360-degree vision; successful FP&A teams recognize this by staying vigilant and monitoring potential change.

Scenario planning helps by embracing uncertainty. The companies best prepared for turbulence are those that actively play out possible eventualities in high fidelity, using the full weight of established mechanisms such as business intelligence, cross-functional performance, competitive monitoring, and more.

2. Recognition.

Recognizing potential events allows FP&A teams to interpret the best response. This is where scenario planning shines because its users have the chance to interpret what they're seeing and consider all potential impacts. When you've run scenario planning as part of a robust process, you've already thought about the pattern of events that could lead to various outcomes.

3. Response.

Looking out for and recognizing events is a useful tool for FP&A teams. But they also need to orchestrate a preventive or mitigating reaction. Scenario planning helps anticipate and prepare for ranges of potential outcomes.

As a result, you can shorten the time it takes to implement a response.

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With all that is going on with the COVID-19 situation, we are in weekly forecasting mode. The positive side is that with Workday Adaptive Planning, we have been able to put scenarios together in no time and the flexibility has been a game changer. Based on the data we put together, the team made high-level adjustments to top-line revenue, came up with a plan on how to manage expenses, and got real-time visibility into how these changes impacted EBITDA.

Controller

Finance Transformation,
RATP Dev USA



How and with whom should you plan?

Effective FP&A teams don't exist in a vacuum. They form proactive partnerships across the organization and lead the business toward more effective planning.

Scenario planning amplifies this imperative. After all, there's little point in modeling scenarios that don't reflect a reality recognized by functional teams. In a practical sense, this means liaising with wider stakeholders. Meeting operational business leaders allows finance to gather perspectives and expose its own blind spots.

For example, sales often has a more granular understanding of market risks than of forecasts. Demand-planning leaders may trump other teams in their understanding of how disruptive events impact supply chains. HR often has the best knowledge of how scenarios impact workforce requirements.

Crucially, increasing the frequency of scenario planning helps improve decision-making. FP&A teams at larger enterprises may run several scenarios in one go, multiple times a year. For SMEs, it's often sufficient to run a few scenarios throughout the year—whether to inform annual planning or build contingency into rolling forecasts.



Boston Scientific retools its budgeting and planning process.

Boston Scientific was challenged by having to rely on IT support to make updates to business rules, calculations, and conditions within an on-premise software system.

Challenges

- Reliant on IT to manage budget system
- Lack of visibility into budget model assumptions
- Difficulty making changes to systems as business operations change

Results

By switching its focus to scenario planning and analyzing business impact, Boston Scientific brought both budget and reporting control into the hands of its key contributors.

This allowed the company to keep the business running at maximum productivity. By moving its planning processes to the cloud, Boston Scientific managed to:

- Eliminate significant time previously spent verifying calculations and tracing activity
- Improve collaboration and greater sense of joint ownership over budgets and forecasts between finance and other department leaders
- Achieve an annual ROI of 300% compared to total cost of ownership of on-premise enterprise software

What makes scenario planning effective?

Scenario planning is a powerful way to explore multiple possibilities. But the companies that squeeze the most value from it don't just follow steps—they adjust their approach based on the core principles they are trying to follow.

Effective scenario planning should meet the following criteria:

It should demand a broad business perspective. You can't successfully commit to scenario planning with departmental tunnel vision. For maximum impact, planners should move away from their traditional accounting and finance focus and toward a view of the wider business.

This goes beyond reconciling different points of view across the business. Teams should consider the external view too—including any market, competitive, or customer-driven events that might have an impact.

It must be multidisciplinary. Collaborative decision-making should be encouraged. Not only should senior management be involved when thinking about potential scenarios, they should also be the ones defining the actions and responses.

It should follow a robust projections model. It's not economical to replicate the annual budgeting process for every potential scenario you want to run. Instead, explicitly identify critical assumptions and drivers-based planning. This means identifying the things that are most variable and most significant—and focus 80% of your attention on them.

Focus should expand beyond just finance. Most budgeting tools are designed to be financially oriented, whether ledger-based or otherwise. Importantly, they don't incorporate critical assumptions that lead to change in financial accounts.

Addressing this means spotting those critical assumptions. Once this has been done, it pays to monitor them throughout the year. Only then can you see which scenario path you're heading toward and update as needed. Putting assumptions into dashboards will help track the KPIs they embody.

Faster scenario modeling provides actionable insights for Tenable Network.

Tenable is a fast-growing cybersecurity systems company. It knew it needed to access and analyze its data metrics more quickly in order to understand critical trends that enhanced its decision-making.

Challenges

- How to analyze financial data and metrics in new ways to gain insights to support global growth
- How to incorporate data from multiple systems to improve planning and forecasting
- Better financial modeling to improve executive decision-making

Results

Its FP&A teams chose a flexible, integrated driver-based model to accommodate quick what-if scenarios. This unlocked more-accurate forecasts under varying scenarios.

- Integrate accurate data from a variety of sources to create a robust model of business operations
- Easily perform scenario and what-if analyses to identify projected outcomes of short- and long-term decisions
- Quickly develop accurate forecasts to improve decision-making on headcount plans, marketing investments, and sales operations

Embrace the unknown to create competitive advantage.

We operate in a hyper-competitive landscape. Companies have less time—and face more pressure—to make the right decisions, fast. That's why shifting away from static, traditional planning to this new model helps increase your competitive edge. Continuous planning effectively buys decision-makers time by gaming out multiple decisions and increasing the number of pathways for the enterprise.

We've seen that scenario planning is immensely scalable. Businesses that embrace it don't just gain a powerful tool for exploring the future—they also benefit from orchestrated thinking across the organization for greater business agility.

It's time to embrace an easy way to achieve a competitive advantage.

Learn how to build interactive dashboards, run multiple what-if scenarios, and more. See how Workday Adaptive Planning supports scenario planning.

[Watch demo now.](#)

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We're able to easily look at making changes across different teams, entities, and countries, and get the full view of what that means for the business and profitability on the whole.

Director of Financial Planning and Analysis,
Tenable Software





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