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Ways to Optimize Scenario Planning in a Volatile Economy

How to navigate a world of uncertainty from inflation to supply chain disruptions with scenario planning

Scenario Planning in a World of Uncertainty

Planning during today's economic climate is extraordinarily difficult. COVID turned the world on its side, and almost two years into the pandemic, companies are still struggling to find their footing in increasing uncertainty.

But the pandemic isn't the only threat to consider. Business leaders must now also be well versed in and prepared for the impacts of inflation, labor market imbalance, and supply chain disruption. Never before have there been four massive economic situations happening at once. These tumultuous, atypical times demand a new approach to business planning and forecasting. Companies are in uncharted territory, and planning will continue to be unprecedented.

A new framework is needed for companies to plan—and re-plan—within the context of a constantly changing environment with a host of new external factors impacting business performance. Scenario planning provides this framework to guide companies through whatever's next.

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Enrich Scenario Plans with External Data

Strategic companies look beyond the four walls of their business when forecasting, and external factors are more important than ever. Internal data alone is not sufficient for business planning and will leave companies in a position to be blindsided by market changes and external impacts.

Scenario planning is most effective when created with a wide range of macroeconomic, industry, consumer, and COVID shock factors. While there is no specific number of data sets a company must include in scenario planning models, a holistic approach is critical. This means looking beyond industry-specific data to other sources that businesses might not always expect, including consumer behavior, mobility data, and global economic conditions. In addition, sometimes, the most unexpected external indicator can reveal the most critical information about a company's performance.

A well-balanced approach draws on both hard and soft data. For example, consumer sentiment data can help companies understand how the ongoing impact of inflation may affect consumer spending in the holiday shopping season. In contrast, hard data, like retail sales, show real results over time.

With the proper external data, scenario planning can help companies mitigate risk from unexpected shocks in volatile times or even unveil openings of unique opportunities.

Build Alternative Economic Scenarios With Econometric Modeling

Several long-standing studies have shown econometric modeling to be the most method of building scenario plans. In times of volatility, such as now, the forecast accuracy of econometric-based models is far greater than trend-based forecasts. In addition, econometric modeling can leverage a world of external data and update in near real-time so businesses can understand how events such as current supply chain disruption or inflation may be impacting their business performance.

Econometrics offers a proven technique for predicting business performance based on economic factors. For economic scenario planning, custom econometric models predict company outcomes under different macroeconomic cases. It takes some sophisticated software to make econometrics work, though. An AI-based analytics engine can rapidly build thousands of custom, driver-based models that project business outcomes under different macroeconomic scenarios.



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Iterate Quickly

Now is the time to get started with scenario planning, and the quicker, the better. Uncertainty and volatility are at an all-time high with no end in sight. Companies that leverage scenario planning today will find themselves better positioned to strategically plan into 2022.

Scenario planning is an ongoing process that requires quick iteration and planning weekly or even daily. The process only works if stakeholders can rapidly update scenarios in a repeatable way that enables them to stay on top of constant changes.

An AI-powered econometric modeling engine can build and test 1,000s of models in minutes, while machine learning improves models over time. A platform with this capability allows companies to adopt and iterate scenario planning quickly, easily, and broadly across the business.

Companies need to start building scenario plans now to deliver actionable insights and ensure they don't fall behind in the current fast-paced, always-changing economic environment.

Augment Scenario Plans with Economic Context

Economic context matters. The current climate is nothing like past years, or even past months. Given the constant state of market flux, scenario planning needs to be augmented with economic expertise to create the most detailed and robust insights. An experienced economist can add color to scenario plans and help financial leaders interpret complex, shifting signals. From this dynamic, financial managers gain new economic insights they can apply to their plans and forecasts.

Experienced economists help companies maximize their understanding and use of scenario planning. They can explain how different macroeconomic scenarios will impact business performance and be an objective sounding board for planning hypotheses. Economists also play a key role in monitoring the course of the pandemic and its economic fallout. Their professional expertise ensures the validity of the underlying macroeconomic scenarios.

Ultimately, success depends on operationalizing scenario planning across the business. Various business units, geographic regions, and product groups can put scenario planning to work in their own forecasting and planning efforts. By embedding scenario planning in the business, the organization prepares itself for a range of hard-to-see eventualities.



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Benefits of Scenario Planning

Companies can improve planning, forecasting, and risk management with a clearer view of future performance under different economic scenarios. Scenario outlooks can inform the plans and actions that improve business outcomes during a time of tremendous uncertainty and upheaval.

Scenario planning projects future business outcomes for three plausible macroeconomic scenarios under COVID-19. Scenario outlooks are based on our unique combination of economic data, AI-powered econometric modeling, and economist expertise. Companies use our economic insights to sharpen plans and forecasts, improve shareholder guidance, and better prepare for an uncertain future.

Advantages of economic scenario planning include:

Planning Accuracy: Scenario outlooks provide valuable guardrails and can help sharpen strategic, financial, and operational plans.

Enterprise Resilience: The ability to quickly refresh scenario models allows companies to stay alert to—and capitalize on—changing market dynamics

Risk Mitigation: Economic scenario planning helps companies foresee downward pressure from the current sources of uncertainty and volatility

Shareholder Guidance: Economic scenario planning helps companies give more informed forward-looking guidance to shareholders and the board.

Companies planning in 2022 are in uncharted waters.

From increased inflation and labor market shortages to supply chain challenges and ongoing COVID, the question on every business leader's mind is, "how will we navigate these ongoing sources of uncertainty?"

Our scenario planning solution was built using Prevedere's AI Engine, which can be integrated into any data lake or data warehouse or imported into most BI and analytics tools, including Microsoft PowerBI, Tableau, SAS, Excel, and many others.

Contact us to learn more about improving planning, forecasting, and risk management with a clearer view of future performance under different economic scenarios.

For more information, please contact
(888) 686-7746 or inquiries@prevedere.com

**Economic Scenario
Planning helps
companies plan
for what's next.**