

# Three steps to adapt your forecasting and scenario planning for recovery

Using new forecasting methods  
and data can help meet changing  
customer demands and plan for  
long-term capital allocation.

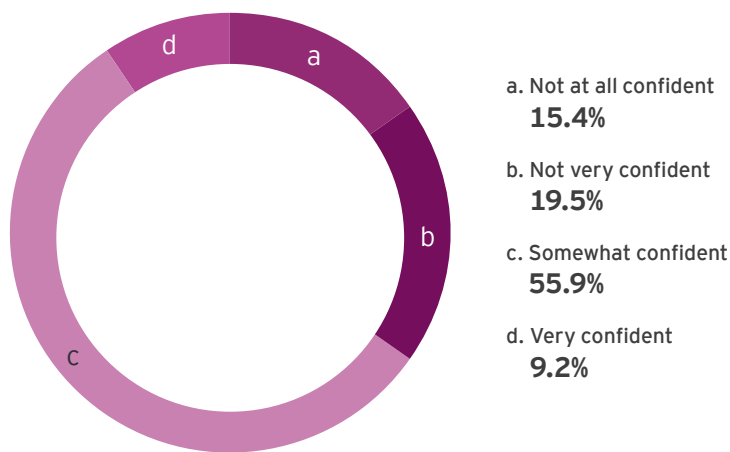


Building a better  
working world

Companies are moving to the next phase of COVID-19 planning, with one eye on the recovery period and the other on what their business and industry will look like as they emerge from and go beyond the crisis. But the future is a blind spot for many companies. Prior forecasting methods, based on past customer demand, no longer suffice. Prior assumptions must be challenged and, in some cases, deemed invalid.

For companies that do not change their forecasting methods to meet changing demand, scenario planning for both near-term operations and long-term capital allocation will be fatally flawed.

**Figure 1. In the current environment, how confident are you with your company's ability to forecast demand for products or services?**



During a recent EY webcast on forecasting for recovery scenarios\*, only 9% of participants said they were “very confident” in their company’s ability to forecast demand for products or services. In fact, 35% said they were either “not at all confident” or “not very confident,” as shown in Figure 1.

\*Source: EY webcast, How companies can develop, manage and evaluate forecasts for recovery scenarios, 12 May 2020.

## The recovery will be driven by medically defined phases

The lack of confidence is justified. Unlike past downturns, the current crisis is both an economic and a medical one. The recovery from the COVID-19 pandemic will move through medically defined phases; a three-year plan could change in three days, based on when the spread of the virus slows (now), when companies can ramp up reopening, especially as testing and tracking protocols can be put in place (next) and, eventually, when there is immunity, either through vaccines or herd immunity (beyond). Even beyond the medical recovery, human movement and interactions may return, but in completely different patterns and ways that shift entire industries to new models.

The challenge is that the intensity and length of each phase is still unclear, and we will see changes in customer demand across each phase. To prepare for these changes, forecasting must become a core competency, with an emphasis on analyzing data from multiple and sometimes novel sources to understand not only your customers’ plans, but also the potential change in who your customers are and how you deliver value to them. This means that waiting for the market to return to normal conditions as if it will be a V-, U-, L- or W-shaped return to the demand curves can miss the bigger changes happening in the market.



Companies can take several steps to change how they forecast.

## Change how you look at your customer

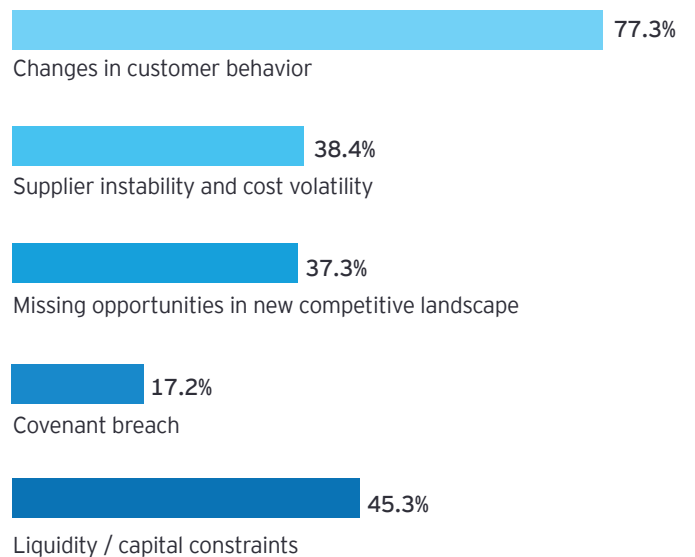
Customer behavior and spending potential are changing dynamically across many industries. The key question is which of those changes will become permanent and how long the temporary changes will last. When will consumers be willing to travel by air, enjoy a sit-down restaurant meal or gather in a movie theater? Will businesses be able to pay rent, and will companies cut down on office space long term? Will patients be willing to go to a hospital for elective surgery?

In the EY webcast poll, 77% said that changes in customer behavior were the key risk for their company when it comes to forecasting, significantly more than those who identified liquidity and capital restraints (the next most frequent answer), as shown in Figure 2.

Knowing their customers have become even more important as their circumstances and behavior have massively changed, how should companies adapt?



Figure 2. When it comes to forecasting, what are the key risk areas for your company?

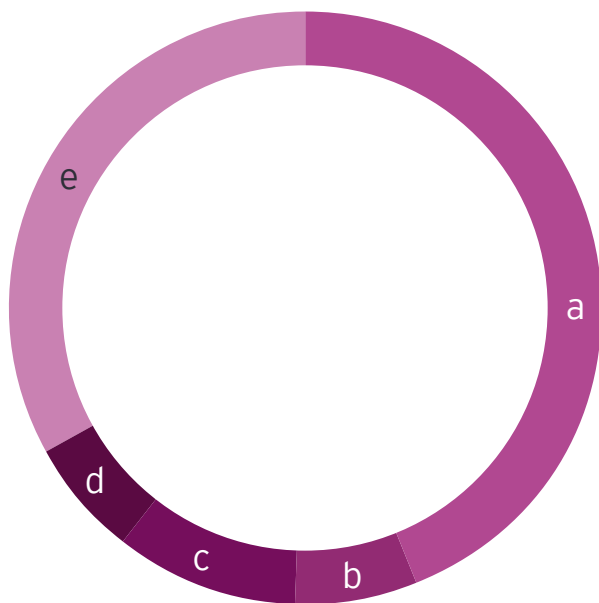


# 1 Change your data

The information used in the past may have become too static, too imprecise or no longer predictive. For example, low gas prices would normally correlate with increased restaurant traffic, but that relationship has obviously broken down.

In some businesses, social media analysis can be used to augment other data. Outside data on pandemic hot spots, weather data, government regulations, mobility data, consumer sentiment and other measures can be run through regression or more advanced artificial intelligence (AI) neural network models to see what can best be used to augment and inform company forecasts.

One consumer company we worked with brainstormed to decide which data they needed to augment their typical syndicated sales data and other inputs to develop a more accurate, timely forecast. Among the inputs they chose were weather data, cell phone tower data, social media mentions of their products and ZIP-code level unemployment data. Their finance team then performed a regression analysis to see which metrics would show causation. The result was more accurate forecasts that are now updated in hours, rather than weeks.



**Figure 3. Given the current environment, what are your biggest impediment(s) to timely and accurate forecasting?**

- a. Access to meaningful and quality data **44.1%**
- b. Inadequate in-house analytical capabilities **6.6%**
- c. Over-emphasis on reporting and compliance **9.9%**
- d. Limitations on analytical toolset (i.e., Excel) **6.6%**
- e. All of the above **32.8%**

# 2 Identify where the data sits and “free” it

During the EY webcast, 44% of participants said access to meaningful and quality data was one of their biggest impediments to timely and accurate forecasting, as shown in Figure 3. When those that answered “all of the above” are included, more than three-quarters of participants saw access to meaningful and quality data as a significant issue.

In some cases, as mentioned above, the reason is likely that the data they have relied on in the past is not sufficient for the future. But we also know that in some cases, data is difficult to access because it is created and stored in business units, geographies and organizational functions and often outside of the corporation’s systems.

Companies need to establish a culture of quickly sharing data across the organization and put the systems such as centralized dashboards and alerting systems in place. These systems can regularly update the data for the finance and strategic forecasting teams, identify when foundational assumptions may have become questionable, and enable key decision makers to make informed choices more quickly.



# 3 Always be forecasting

Companies have typically spent 80% of their time on financial planning and 20% on analysis. That needs to flip in the current environment.

Once a company has defined the necessary data inputs and ways to free that data from organizational silos, they can:

- ▶ **Establish a team solely focused on forecasting.**

A cross-functional team can establish a process for continuous updating of data and ongoing evaluation of demand and supply shocks. Using a collaborative team approach helps deliver robust, scenario-enabled modeling that is fact-based and supports real-time decision-making.

- ▶ **Evolve data systems so that data can be refreshed automatically.**

Initially, pulling in all the necessary data will require a daily or weekly refresh. As companies free up capital to upgrade to different technology solutions, they can move to rapid automation and enhanced insight.

- ▶ **Don't forget the long term.**

Scenario planning needs to be aligned to capital allocation strategy. Forecasting should look at the balance sheet, as well as the P&L, in an integrated fashion. In addition to monitoring liquidity, there are capital allocation decisions that will help companies thrive after a crisis. Will capital need to be reallocated amongst business units under various recovery scenarios? Will the company have the capital to invest in new technologies or bolt-on acquisitions, while also maintaining or increasing a dividend or share repurchases?





Ernst & Young LLP is working with a global life sciences company to reimagine the industry, expecting that regardless of the current trends and forecasts, the post-COVID-19 market will be on an entirely new growth path in terms of consumer behavior, spending levels, segments, and product and service innovation. New models for remote medicine and in-home care necessitated by the pandemic are expected to persist in models that are more efficient, convenient and effective for patients and care providers.

Forecasted scenarios using a future-back approach (looking at future expectations for the state of the business and then working backward) are now being used to identify and challenge assumptions where post-COVID-19 revenue models are likely to differ from the past. These scenarios are used to make revised capital allocation and investment decisions today.

Blending the deeper forecasts for today with a future-back approach provides a more complete view of scenarios, helping a company to better set expectations with investors and business operations for planning and risk management.

A robust forecasting program should help you answer these stakeholder and board questions:

- ▶ How much of your demand do you expect to come back and when?
- ▶ How will customer behavior change?
- ▶ When can you bring back furloughed workers?
- ▶ Are there immediate needs for short-term liquidity?
- ▶ How many weeks of cash should you have on hand?
- ▶ Are any of your suppliers at risk of bankruptcy?
- ▶ What are you doing to make sure you have stability in your supply chain?
- ▶ Should you maintain more inventory?
- ▶ Will you need to raise longer-term capital?

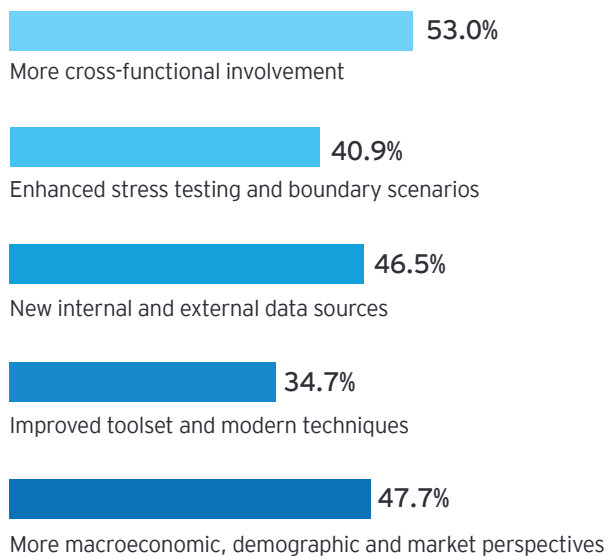




## The time to act is now

Fortunately, the EY webcast poll also shows companies are planning a variety of steps to enhance their forecasting process, including enabling more cross-functional involvement, utilizing new internal and external data sources, and enhancing stress testing and boundary scenarios (Figure 4).

**Figure 4. How do you plan to enhance your current forecasting process?**



## Conclusion

Those companies that act now to improve their forecasting and scenario planning process will be best positioned to understand and take advantage of opportunities to change or enhance their core business in the face of the current crises. They will position themselves to be ahead of market disruptions and innovation breakthroughs that are being incubated at this moment.



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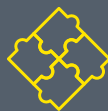
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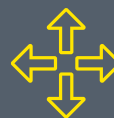
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## Contacts



### Loren Garruto

EY Americas Corporate Finance Leader  
[loren.garruto@ey.com](mailto:loren.garruto@ey.com)



### Mike Kanazawa

EY Global Innovation Realized Leader and EY Americas Advisory Growth Strategy Leader  
[michael.kanazawa@ey.com](mailto:michael.kanazawa@ey.com)



### Jim Hsu

EY-Parthenon Americas Leader  
[jim.hsu@parthenon.ey.com](mailto:jim.hsu@parthenon.ey.com)



### Bob Nannini

Principal, Corporate Finance, Ernst & Young LLP  
[bob.nannini@ey.com](mailto:bob.nannini@ey.com)