

Strategic Planning for the “New Normal”

Assumption Testing, Dynamic Scenario Planning and Forecasting

Intro

COVID-19 and the impending aftermath has created a need for companies to reconfigure their strategic planning and transform how they make decisions. This crisis, while unprecedented and unpredictable, has created an opportunity to proactively shift gears and ramp up decision making to thrive in the future as we move through various stages of this crisis. This document will help you transition from a long-term, balance-sheet outlook to a dynamic income statement scenario plan.

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From Surviving to Reviving

Moving from “what is” to “what if” to “what’s next”

There is an abundance of information published daily about the pandemic, filled with new statistics and buzz words. This tends to lead to many lingering questions, with so many unknown answers. The most prominent question being: how do you prepare for the future?

One of the most detrimental things you can do during this period of uncertainty is to get paralyzed in survival mode by only thinking about the now.

Focusing purely only on *surviving* the pandemic cripples your ability to proactively stay ahead of what is to come. Organizations must move through the *brainstorming* stage to understand the upcoming challenges, assumptions and implications. Next, its time to *map* out alternative strategies and solutions that will be profitable. Finally, shift the focus to think about “what’s next”. Although this pandemic could not have been predicted, now is the time to proactively shift gears and refine strategies because the decisions made and the actions taken today will define your ability to *revive* and thrive in the future as we move forward out of crisis mode. (Figure 1)

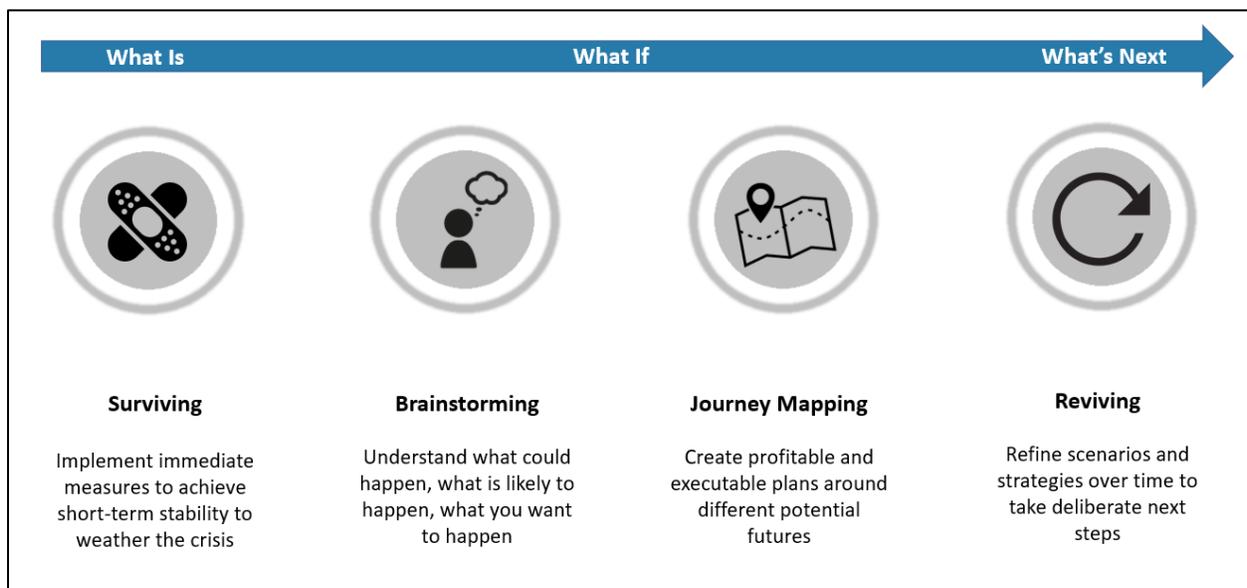


Figure 1: Surviving to Reviving

Plan-Ahead Team

Preparing for the future starts with putting together a plan-ahead team

The plan-ahead group is a small, nimble team with diverse perspectives, leveraging both internal resources across different functional areas like HR, Ops, Finance, and external consultants. This dedicated team understands the diverse needs of the business, while also understanding what the go-forward plan is. They meet daily to support the executives in short-term crisis management and quick decision making around

supply and demand, vendor relations, marketing, strategic planning, operations, org. structure and shifting government policies.

In such uncertain times, the goal is not to lay out a long-term plan with 100% precision but to question assumptions, and review and refine scenarios and strategies over time to take deliberate next steps.

This team will focus on setting the strategy that will satisfy customer and employee needs that are aligned with the new normal and consider how different scenarios may play out over time.

Planning Timeline

Shifting your thinking to shorter phases

Unlike a typical strategic plan that focuses on planning one, three and five years in advance, focus must now be on creating plans that are more granular and in shorter, more manageable time frames. These plans are living and dynamic and will likely change as circumstances change weekly or even daily. Adopting a flexible and agile mindset is critical in being able to pivot quickly and execute strategic plans accordingly.

Each “front” or cluster of activity, as represented by the horizontal blue bars in Figure 2 below, must therefore, be planned on multiple horizons, where integrated master plans are created for front-end, middle-end and future-forward time frames. The plan-ahead team must then think through the initial state and context for each period to determine future strategies.



Figure 2: Planning Timeline

Organizations need to consider what they know right now, what they can see as being a highly likely outcome in the next two weeks to a month, what is the plan over the next quarter, and what is the plan when the next phase to the “new normal” hits? Although this strategy may not be new, it must be done with more discipline and rigour than has been done in the past.

Planning starts with understanding ‘What is’

Understanding your current circumstances to improve in the future

While the crisis poses many challenges, it also presents a unique opportunity to learn and reflect on the current business model. Organizations must consider the weaknesses and risks that need to be mitigated, the strengths and opportunities that may have come to light, as well as the sustainability of those opportunities. To do so, one must think about the current strategic plan, how it could change in the next normal and its potential to successfully absorb future shocks. The bottom line is that various circumstances often come to light during a crisis like COVID-19, so it critical that organizations utilize the lessons learned to prepare for the next phase.

Understanding your current financial state is a critical starting point. As we look to the future, the focus will shift away from only protecting cash to now also protecting *profitability*. Understanding your financials and reflecting on the current state will strengthen your ability to make accurate assumptions, plan for various scenarios and forecast future profitability.

Assumption Canvas - What If?

Assumption planning starts by thinking about the ‘what if’

Many businesses have had to shift dramatically overnight. Even though we not could have predicted the pandemic, we now have the opportunity to start thinking through the assumptions for what is coming next and understand the various factors that may influence the outcomes (Figure 3).

Companies should consider asking questions on several factors to shape their assumptions:

- **Consumers** – have habits shifted permanently? How will reopening impact your demand? If you have increased demand, will this demand be sustainable?
- **Suppliers** – understand how resilient your supply chain is and if suppliers can meet fluctuating demands
- **Creditors** – what is your financial flexibility? Will creditors provide you with additional financing if required?
- **Competitors** - Understanding where you are in relation to competitors in the market
- **Government Intervention** – Policies are changing all the time. How will they impact your business?
- And very importantly your **Employees** – Are you over/under-staffed to reach your plan going forward? Do people work best remotely or on-site? Have you found an improved operating cadence and is it sustainable for the well-being of employees?

<p>Customers <i>During this time do your customers needs shift? How does it impact demand?</i></p> <p>Assumption:</p> <p>Likelihood of assumption occurring:</p> <p>Impact if you are wrong:</p>	<p>Suppliers <i>How are your suppliers handling the crisis? Do they have enough supply to meet demand? Are they financially stable?</i></p> <p>Assumption:</p> <p>Likelihood of assumption occurring:</p> <p>Impact if you are wrong:</p>	<p>Creditors <i>Do you need financial relief to execute your go-forward strategy?</i></p> <p>Assumption:</p> <p>Likelihood of assumption occurring:</p> <p>Impact if you are wrong:</p>	<p>Competition <i>How are your competitors handling the situation? Do you have a competitive advantage?</i></p> <p>Assumption:</p> <p>Likelihood of assumption occurring:</p> <p>Impact if you are wrong:</p>
<p>Government Intervention <i>How do new statements or changes in economic policies made by the government or other officials impact you?</i></p> <p>Assumption:</p> <p>Likelihood of assumption occurring:</p> <p>Impact if you are wrong:</p>		<p>Employees <i>Do you have the resources available to meet your needs? Are you over/under staffed for the current environment? How are you dedicating resourcing to ensure employees well-being?</i></p> <p>Assumption:</p> <p>Likelihood of assumption occurring:</p> <p>Impact if you are wrong:</p>	

Figure 3: Assumption Canvas

Your assumptions act as a gauge for how well your business is positioned and should account for what *could* happen, what is *likely* to happen, and what you *want* to happen. Assumption testing ensures that decisions are made based on how several factors react, and not on how we *think* they should react. However, in uncertain times, customers, suppliers, and creditors’ behaviours could change quickly, meaning new assumptions will need to be made constantly. Using outdated assumptions will give you inaccurate logic to base decisions on, so assumptions must be updated frequently as circumstances shift.

These assumptions are the backbone used to envision multiple different futures for how you might reshape your business post-crisis. Consider the likelihood of that assumption occurring and the impact if you are wrong. Knowing these variables beforehand will determine the flexibility and ability of your business to pivot if you go down that route.

Dynamic Scenario Planning in a VUCA world

Learn how to make quick decisions and act upon them amid an uncertain world

Dynamic scenario planning takes all of the assumptions and creates a plan for what to do with each of them going forward. It is not a fixed, one-dimensional plan, but rather a portfolio of options that can be acted upon as events change. Right now, dynamic scenario planning is needed because circumstances are constantly changing. We are entering into a new territory where we do not have a strong prediction of what will happen, so the ability to dynamically pivot decisions according to the current environment is critical to being nimble and avoiding getting stuck in a rigid plan.

We are currently operating in a VUCA world (Figure 4), where the term VUCA is a term first introduced by the US Army War College that stands for:

- **Volatility** – things are frequently changing, so we must adapt to new circumstances very quickly

- **Uncertainty** – we do not know what each day is going to bring
- **Complexity** – there are so many unknown factors
- **Ambiguity** – at the end of the day, we have not had a precedent that we can rely on

This term is used to describe the new norm of a chaotic and rapidly changing business environment. In a VUCA world, we need to depend on dynamic scenario planning, where we can create the storylines around different potential futures by using an *OODA* methodology: **observing** the environment, **orienting** strategic assumptions to map out alternative scenarios, **deciding** on next steps and **acting** with speed and agility.



Figure 4: VUCA to OODA Diagram

The key is not to get trapped in the vicious cycle of building a rigid plan that causes you to race to cut costs, lay off employees, and post-pone or secure financing. During periods of volatility, variables are much more dynamic, therefore the ability to pivot quickly and act is key for surviving volatility. Depending on the situation, these scenarios may need to be planned daily or weekly, giving you the ability to dynamically shift as inputs change.

The goal of dynamic scenario planning is not to improve the level of confidence that an assumption or situation will occur but rather to create profitable and executable plans around different potential futures. Instead of just pivoting around the ‘known’ factors, dynamic scenario planning accounts for the ‘knowns and the uncertainties’ so you can plan for, account for, and prepare for uncertainty and risk through and beyond the crisis.

The plan-ahead team can then anticipate shifts and review and revise scenarios based on the market and changing assumptions, monitoring real-time indicators into consumer expectations, supply chains, the talent pool, and other factors on the assumption canvas. Then, they can make decisions based on shifts in the environment and respond to them quickly.

Process of Dynamic Scenario Planning

Thinking through the logic and the story of various scenarios

The process of dynamic scenario planning (Figure 5) starts with a **focal issue** – this is not going to be the same for everyone as businesses are in different places. Next, think about the **key factors** relevant to your business. These factors will be drawn by your assumptions of consumers, suppliers, and employees, as described above. Then, consider **external forces** such as government intervention based on the public health situation resulting in lockdown measures, restrictions on sales, or economic shock. Next, think through **Critical Uncertainties and Risks**. This involves thinking through the unknowns about the scenario and determine the likelihood that the assumptions occur.

Based on the logic from the previous factors, start **creating the story**:

- **Scenario Logistics:** How does the scenario play out? is it profitable? Is it executable?
- **Implications and options:** What is your next response if this scenario occurs? Knowing the trajectory is unpredictable, how can you pivot from this scenario to an alternative?
- **Early Indicators:** How can you apply changing assumptions to your model? How does that change how the scenario plays out? Being able to see potential changes early on allows you to take regular, rapid, and decisive action

Using this process gives you the ability to plan out how each scenario will look going forward and plan your response accordingly.

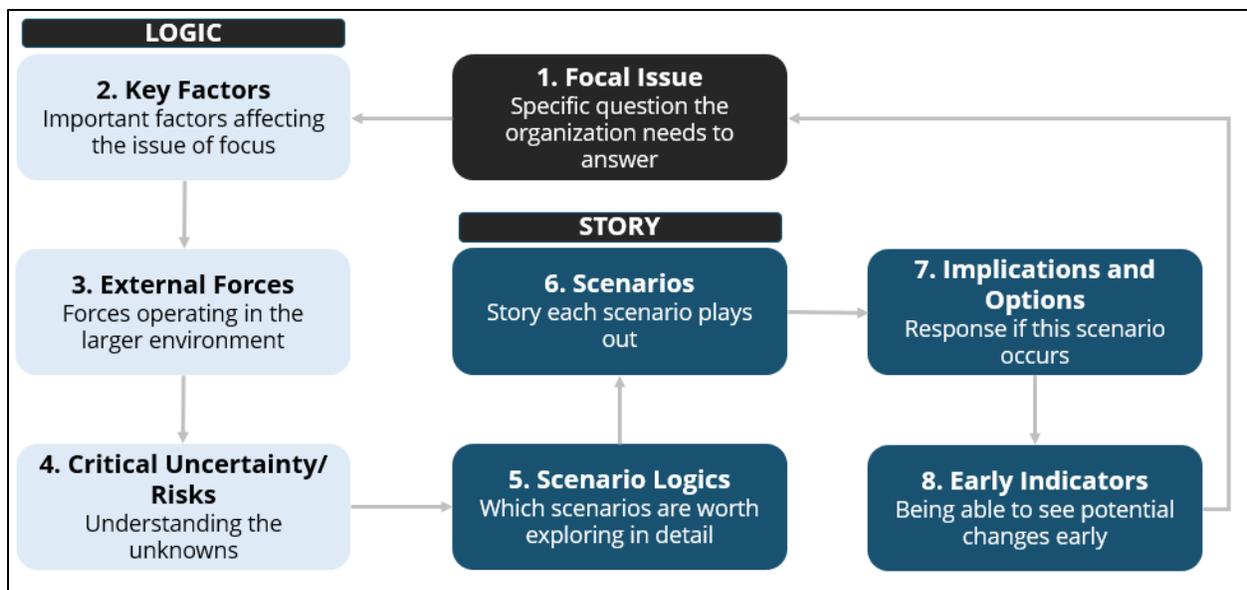


Figure 5: The Scenario Planning Process

Dynamic Forecasting

The final stage is forecasting based on your scenarios

Traditional forecasts predict what will happen in the future by relying mainly on data gathered from the past. However, in a pandemic, the future is largely unknown, and traditional forecasting cannot keep up with dynamic market conditions. Old ways of traditional forecasting will fail because new events do not reflect past statistics. Therefore, we need to use dynamic forecasting to account for both backward-looking and forward-looking factors.

Figure 6 below shows forecasted data based on the pre-crisis situation, and well as the actual data from the current situation. Backwards looking data accounts for the pre-crisis situation and highlights the key factors that have evolved during the crisis. Forward-looking data uses the early indicators from scenario planning to detect signals for changes in the environment such as consumer behaviour. These dotted lines represent several potential scenarios of changes in the environment.

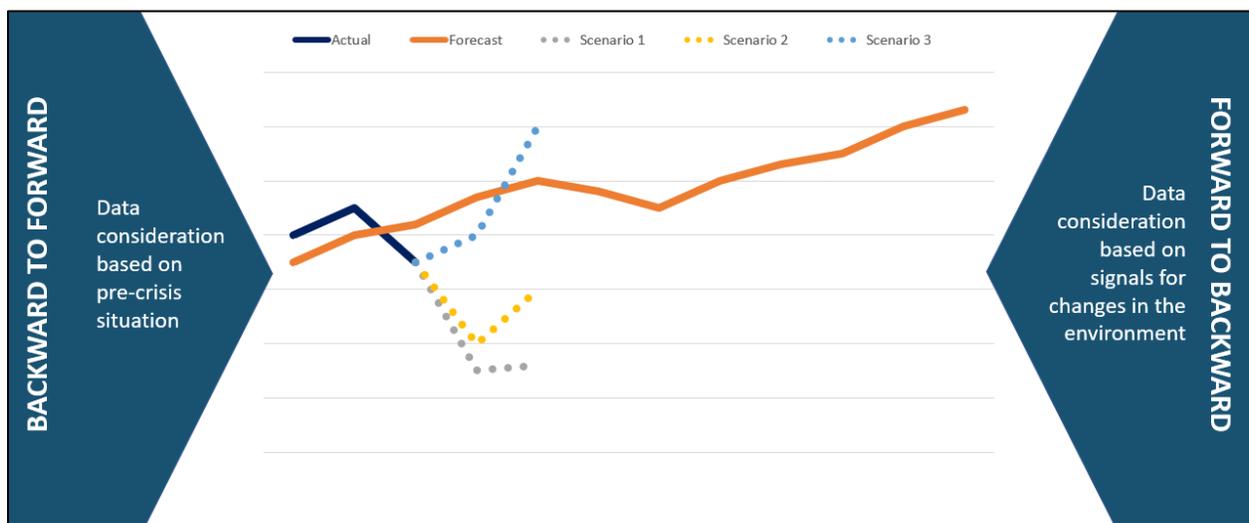


Figure 6: Forward and Backward-Thinking Dynamic Forecasting

As many organizations have come to realize, disruptions impact us all in different ways. Whether your organization is operating in survival mode, has pivoted the core of your business through to adapt to new circumstances, or is experiencing rapid growth, you will have to consider how various scenarios will transpire and impact your business as we move through various phases of the “new normal”.

Conclusion

Now more than ever, speed is of the utmost importance. We need to be able to pivot *quickly* from one scenario to another and deploy solutions rapidly. In an uncertain and volatile environment such as the world we are currently living in, we need more *optionality* in our business operations than we ever had in the past. That is, have access to, and plan for multiple options so that rapid decisions can be made and acted upon seamlessly. It’s not about *optimization*, it’s all about *optionality*.

Second, organizations that embrace trust and integrity in the corporate culture enjoy the foundational strengths that enable organizations to move quickly together and respond to dynamically changing environments. In the end, trust will be the key variable in driving high performance for your organization to make sure you stand out from your competition.

Lastly, one of the most important factors to remember is that recovery is not linear. We are in a changing environment and as we move into the new normal, speed and agility in decision making and taking action is critical. Your competitors will be planning out their assumptions and utilizing dynamic scenario planning and forecasting to make sure they are in a position where they can protect their business and recover stronger as they move into the future. Don't be left behind.

By planning ahead now and thinking through assumptions, scenario planning, and forecasting, you will protect your business and create the foundation to recover stronger as we move to the next normal.



At The Poirier Group, we remain open during the COVID-19 crisis and are committed to helping businesses navigate the "New/Next Normal". Leveraging our multi-industry experience, inspirational leadership, and uniquely collaborative approach, we will effectively adapt your business requirements to today's challenging times.

Further, our adaptive business model can be seamlessly applied virtually to ensure that we bring the same high-quality results and relationship-building to each project that our clients have come to expect from The Poirier Group.

During this time, we understand that businesses are struggling with the impact this pandemic has had on their operations, their employee and customer relationships, and their bottom-line. We can help with several solutions across strategy, supply chain, retail, IT, project management and human capital management.

For additional Scenario Planning, Assumption Testing and Dynamic Forecasting support, contact our dedicated team of professionals to learn more.

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