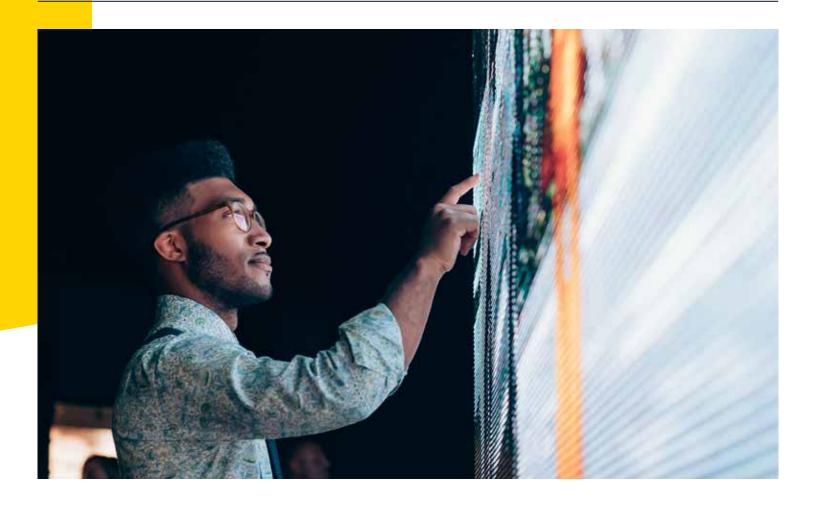


Predicting a single outcome in a crisis is hard enough, so how do you maintain multiple scenarios to steer your organization through turbulent times and identify opportunities?

Once again, as we're all aware, recent events have thrown the business world into the realm of the unknown and the unplanned. This unforeseen event came quickly and without warning, and almost overnight led to a "gross domestic product stall," with many businesses slowing down or operations stopping; suppliers worrying about payment; and employees wondering whether they will stay employed.

This sudden event also forced companies to quickly assess liquidity and the ability to ride out the turmoil intact. While CFOs and their finance teams clearly have a role in addressing these challenges, many struggle with practical ideas on exactly how that will work and what can be done in the short term.



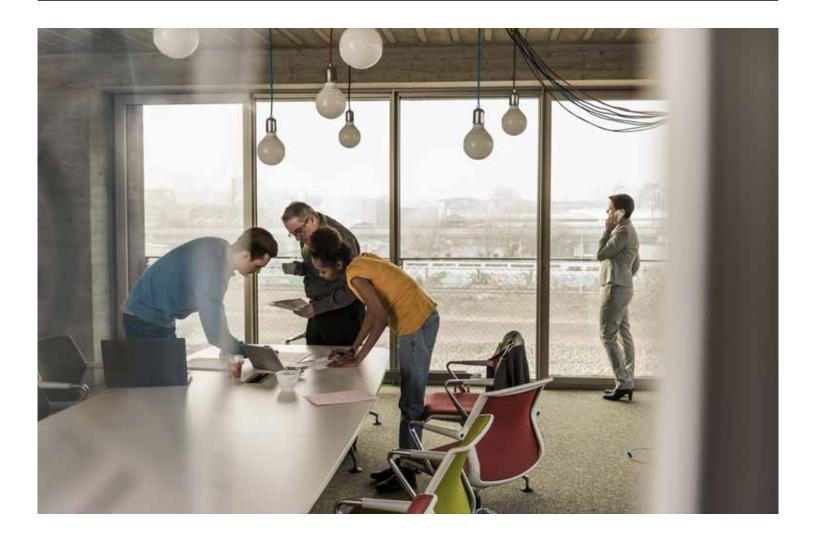
What are most finance organizations doing today?

Everyone is working long hours, trying to assess the shortand medium-term impacts caused by the current economic situation. The assumptions behind all aspects of the income statement and balance sheet are changing frequently (in many cases, daily). The financial planning and analysis (FP&A) teams are coordinating the inputs from all areas of the organization and trying to manage all the permutations in spreadsheets and other systems. These are not designed to accommodate multiple scenarios at the same time, nor the multitude of assumptions that must be made when handling a crisis.

In short, meaningful outputs are hard to come by, and actions to close emerging gaps are proving elusive to many businesses. This, in turn, will have a negative impact on the CFO's discussion with the business on strategy.

Severe macroeconomic events often require significant intervention in operations and dramatic course corrections to business strategy in an environment of great uncertainty.

CEOs need to understand the impacts and formulate new targets, while updating business plans with some hope that these modified plans and objectives are achievable. As FP&A teams respond to the challenge, they are often sent into a tailspin without the tools or access to instant insight to advise executives. This is very different from established stress-testing processes. Normally, significant re-planning can take weeks, if not months, of intense effort, and multiple iterations and handoffs. This is the norm today for many corporations that do not have agile scenario planning and strategic modeling capabilities. It is no criticism of the caliber or the effort of the FP&A teams; they are generally just not equipped with the tools for this type of job when it needs to be done quickly in a time of crisis, as the current situation dictates.



So it is no surprise that a stressful reaction is often the answer to a stressful situation.

Can we reduce the stress in times of crisis? Should we be better equipped for "off-thecuff" and ad-hoc scenario analysis? Does it add any value if we're only partially correct in our analysis? Uncertainty will always be with us – but should we attempt to quantify it? Can we? Do we need the insight behind the uncertainty to quantify the impacts of each probability and understand the associated corrective actions? When faced with this range of questions, the simple options are:

- 1. Do nothing
- 2. Plan for the worst, while hoping for the best
- Consider all the probable permutations and make better decisions, based on understanding the outcome for whichever path prevails



Is doing nothing an option? No, a "wait-and-see" approach is often the worst approach in a crisis.

There's too much at stake, and the potential short-, mediumand long-term impacts in a time of crisis are often too severe to not consider as early as possible. This means that we must look at what's happening today and over the next 30 days, and do the best we can with the information we have. A wait-and-see approach closes the door on potentially critical liquidity actions and other short-term moves that will pay off in the longer term.



Is planning for the worst the safest bet?

Many consider doomsday planning as the ultimate protective shield, planning actions around this worst-case scenario and hoping for an upside. While this approach can be appealing, especially in risk-averse companies, this conservatism may lead to draconian measures, which could prevent the organization from being competitive when the market upside commences and, hence, could contribute to the exact opposite of survival. Developing a worst-case scenario and stress testing the company's liquidity and other key performance indicators against that worst case is one situation that should be considered, but it certainly should not be the only one that is acted upon. The tunnel vision associated with focusing on a single worst-case scenario is ultimately not a good answer organizations should have learnt that from spending years and billions on stress testing – preparing for just one catastrophic outcome is not the most likely outcome.

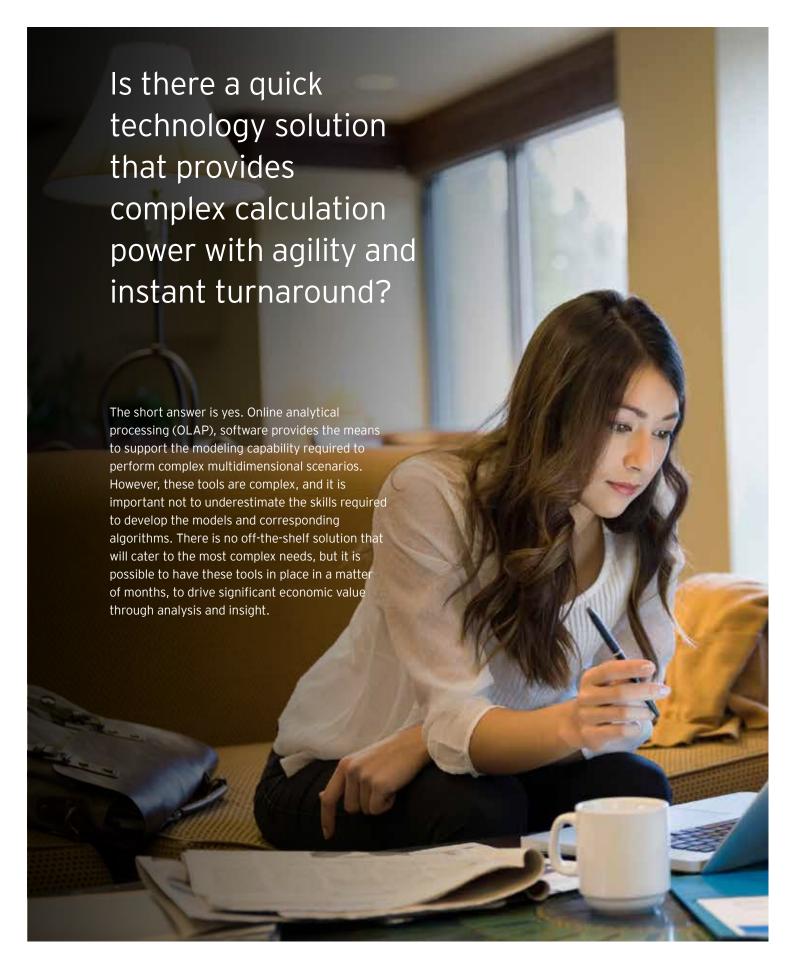


If planning for the unknown is hard, can you really think about planning for multiple versions of the unknown?

Trying to predict a single answer on what is going to happen is almost impossible. Finance needs to deal in data points and not crystal balls, so what do we do? The only thing we can say with certainty is that we cannot predict the single outcome of any situation, let alone crisis situations such as the 9/11 terrorist attacks, the 2008 financial crisis or the COVID-19 pandemic. Therefore, we need to be able to run and maintain multiple complex scenarios at the same time, so that we understand the impacts and can plan actions for many given scenarios. It is arguably easier to build assumptions for multiple scenarios; as not everyone has to agree on all the assumptions, we can run variations. But to do this, we need well-configured, multidimensional, instant calculation power and a platform that brings this all together. That is not a simple ask.

So yes, we should be better equipped to deal with these challenges, and it is unfortunate that many times this isn't fully appreciated until a crisis occurs. Finance should strive to move from reporting to analysis to truly providing insight and impact to stay relevant and drive economic value. While this should always be the case, it is particularly pertinent in times of crisis.

If it was easy, most organizations would have the tools and processes in place already. However, most do not. It is normally not possible to manage and maintain numerous complex scenarios for products and geographies in multidimensionality without the right tools, and without investing in these tools, it is hard to accomplish much in the way of driving value from insights. These challenges are way beyond the capabilities of spreadsheets and more detailed transactional tools that take hours to update each time changes occur. There are many better options available now.



Some simple rules for success:

Recognize that agility is not a luxury but a necessity, in good times and bad.

Do not let the quest for perfection get in the way of delivering something that is extremely valuable.

Do not make this a discussion about software selection; rather, think about what value can materialize, how quickly can that be achieved and what the inherent risks may be.

Leverage tools and models that are already tried and tested. Learn from others.

Recognize that you can build capability in layers, each adding more value.

Do not feel the pressure to "boil the ocean" in one go.

Involve people who understand their business drivers – numbers mean nothing without drivers.

Understand that it is not just a finance exercise.
Involve treasury, risk, investor relations and, of course, the businesses and support functions.

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Be brave – don't be afraid to take chances or try out new ideas. This is the core of innovation.



Can anything be done in the next 30 days?

To run complex models, OLAP technology is required. Products such as Anaplan, Hyperion Planning, SAP Analytics Cloud and TM1 are examples of the types of tools companies are using. If these platforms are in-house today, there are ways to leverage them in a crisis. EY teams provide many of our clients with a tool called **Foundational Scenario Analyzer** that helps them move beyond spreadsheets and leverage the power of in-house OLAP tools. Some basic customization is required, but that can often be accomplished in a matter of days, which can still be timely even in crisis.

For clients without OLAP technologies in-house, EY teams provide analytics as a managed service, running jointly developed models on our OLAP tools in our cloud platform, with client access provided. This second approach often requires attention to data security issues and controls, but is often an option for clients who find themselves in a difficult situation, which still requires immediate results.

What does the EY Foundational Scenario Analyzer provide?

The Foundational Scenario Analyzer is a pre-built multidimensional, multiple scenario model. Its features include those shown below and can be demonstrated remotely for interested clients:

- Maintains multiple concurrent scenarios
- Runs projections for all areas of the business daily
- Maintains multiple views and "what-if" scenarios to compare permutations and outcomes
- Automates profit and loss (P&L), cash flow and balance sheet reporting and dashboards
- Allows multiple users to input scenario assumptions
- Surpasses the capabilities of Excel, without errors and with instant results
- Uses input assumptions via smart buttons and dials for dynamic boardroom

Good scenario analyzers provide easy "buttons and dials" to modify input assumptions, based on changing behaviors and dates for sales, expenses, borrowing, liquidity, geographies and products. Dynamic assumptions about the future can be considered in the boardroom with the model immediately showing potential outcomes that can support fast decision-making. This type of functionality is not fully achievable using spreadsheet-based models with complex business parameters and multiple scenarios.

In some cases, EY teams can have clients up and running in less than 30 days with basic functionality, so the speed to value here is a key advantage of this approach.

What can be achieved in three months and beyond?



For sustained opportunity optimization, more complex models with customization are required to deliver industrial strength capability, and a longer period is often required, normally three months to a year, to implement. Leveraging a team that understands your business, technology and modeling needs, makes it is possible to identify P&L enhancements and insights even in the most complex organizations. The typical approach is to deploy capability in three-month sprints, so our clients show benefits after just one quarter and then we layer on more complexity to continue the process.

Typical features of our advanced models include:

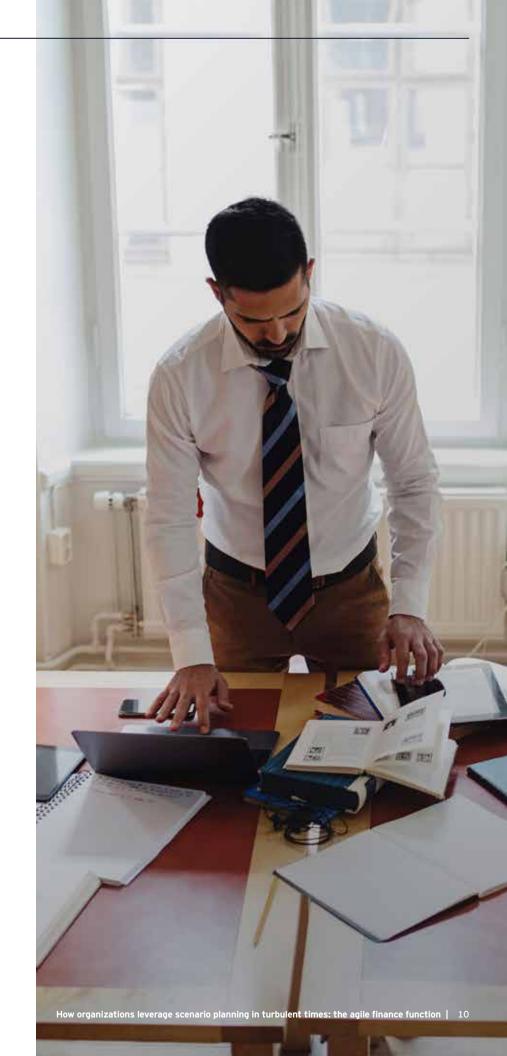
- Integration across planning and decision-making processes, covering all balance sheets and P&L statements
- Strategic modeling for top of house, lines of business and goal seeking
- Balance sheet optimization
- Enhanced results (i.e., hundreds of millions) with smarter business decisions on pricing, volumes, saturation and efficiency
- Identification of margin opportunities
- Control of operating costs and investments with driver-based and zerobased models

- Optimization of capital allocation and returns
- Incorporation of business operating considerations and constraints
- Improved funding decisions and buffers
- Reduced effort by up to 75%
- Improved speed
- Increased transparency and control

With insight into business drivers under multiple scenarios, insight comes quickly and with confidence.

Transparency into the drivers behind scenarios will provide the organization, customers, suppliers and investors with more confidence. It is also important to maintain confidence in the multiple scenarios developed and have an action plan for each path that the current crisis may present.

At some point, patterns and insights emerge from the scenario analysis. The ability to make "big-bet" types of decisions with some level of confidence will translate to significant competitive advantage as the crisis moves into the past and business returns to some state of normalcy.



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