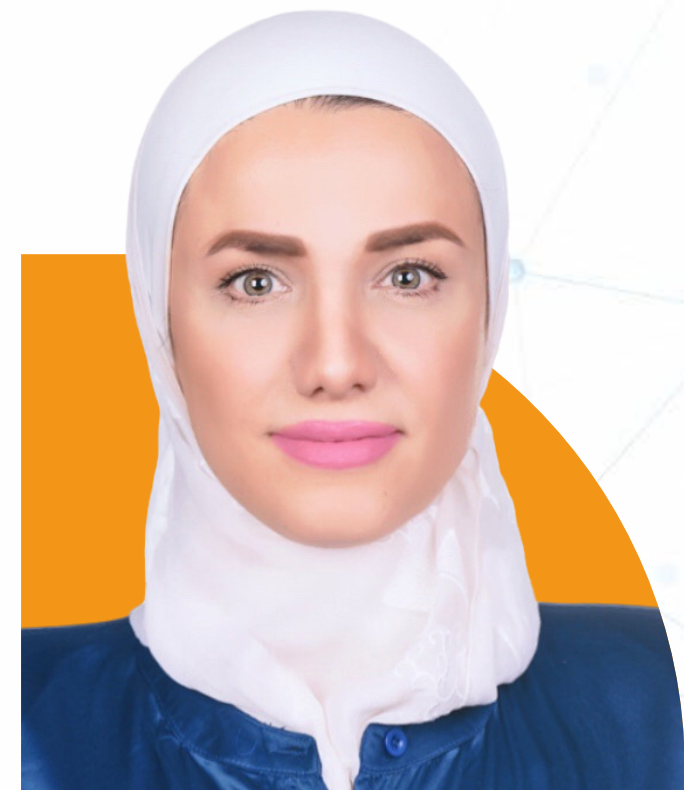


7 Proven Steps for
Scenario planning
For effective FP&A

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Holistic Introduction

Understanding Scenario Planning in FP&A

Scenario planning is crucial for effective financial planning and analysis. It allows organizations to prepare for various future possibilities by analyzing different scenarios and their potential impacts. This holistic approach enhances decision-making and ensures resilience in the face of uncertainty.



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01 *Identify Key Drivers*

Identifying Key Drivers of Change



To begin scenario planning, it's essential to identify the key drivers that can influence your organization's future.

- **Economic trends:** Impacting financial stability
- **Market changes:** Shifting consumer demands
- **Technological advancements:** Driving innovation
- **Regulatory changes:** Affecting compliance
- **Internal factors:** Influencing company performance

By understanding these drivers, you can better anticipate changes and prepare accordingly.

Statistical Fact

The Impact of Scenario Planning

According to Gartner, companies that utilize scenario planning are **30%** more likely to handle uncertainties effectively.

[Source](<https://www.gartner.com/en/newsroom/press-releases/2022-07-21-gartner-says-companies-using-scenario-planning>)



02 *Develop Scenarios*

Developing Diverse Scenarios



Creating multiple scenarios helps in exploring different future possibilities and their impacts.

- **Best-case scenario:** Optimistic outlook
- **Worst-case scenario:** Preparing for challenges
- **Base-case scenario:** Most likely outcome
- **Alternative scenarios:** Exploring other possibilities

These scenarios provide a comprehensive view of potential futures, aiding strategic planning.

Curiosity-Driven Slide

What Happens When Scenarios Meet Reality?

- Discover how real companies adapted their strategies using scenario planning. Stay tuned!

03 *Analyze Impacts*

Analyzing Potential Impacts



Evaluating the impacts of each scenario on your organization helps in understanding potential outcomes.

- **Financial impact:** Assessing revenue changes
- **Operational impact:** Understanding process alterations
- **Market impact:** Evaluating market position
- **Strategic impact:** Aligning with business goals

By analyzing these impacts, you can prioritize actions and mitigate risks.

04 *Formulate Responses*

Formulating Strategic Responses



Developing responses to each scenario ensures your organization is prepared for any future.

- **Contingency plans:** Ready for uncertainties
- **Strategic initiatives:** Driving growth
- **Risk mitigation:** Reducing vulnerabilities
- **Resource allocation:** Efficient utilization

These responses enable quick adaptation to hanging circumstances.



Statistical Fact

Success Rate of Scenario Planning

Organizations that implement scenario planning see a **25%** increase in strategic success.

[Source](<https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights>)

05 *Monitor and Update*

Monitoring and Updating Scenarios



Regularly reviewing and updating scenarios ensures they remain relevant.

- **Ongoing monitoring:** Keeping track of changes
- **Data analysis:** Using real-time data
- **Scenario adjustment:** Modifying as needed
- **Stakeholder engagement:** Ensuring alignment

Continuous monitoring helps in adapting to new information and maintaining preparedness.



06 *Integrate with the Overall FP&A Process*

Integrating Scenario Planning with FP&A

Combining scenario planning with FP&A enhances overall strategic planning.

- **Aligning objectives:** Syncing goals and plans
- **Financial modeling:** Creating robust models
- **Performance tracking:** Monitoring key metrics
- **Strategic alignment:** Ensuring cohesive strategies

Integration ensures comprehensive financial planning and strategic alignment.

Curiosity-Driven Slide

How Does Scenario Planning Drive Success?

Uncover the secrets to successful implementation of scenario planning. Keep reading!

07 *Communicate and Implement*

Communicating and Implementing Plans



Effective communication and implementation of plans are critical for success.

- Clear communication:** Ensuring understanding
- Stakeholder involvement:** Engaging key players
- Action plans:** Defining steps for execution
- Regular updates:** Keeping everyone informed

Strong communication and execution lead to successful outcomes.

Statistical Fact



ROI of Scenario Planning

Companies with scenario planning report a **20%** higher ROI on strategic initiatives.

[Source](<https://www.bcg.com/en-us/insights>)



Free Cash Flow (FCF) and Scenario Planning

Businesses must work in adapting to the changes in market conditions, with a strong focus on **Free Cash Flow (FCF)** as the cornerstone of financial health and resilience.

–Key insights include:

1. Importance of Free Cash Flow (FCF):

–**Operators:** Enables strategic decisions without financial constraints.

–**Investors:** Forms the foundation of valuation models like DCF.

–**Employees and Customers:** Builds trust and ensures long-term stability.



2. Revenue-to-FCF Conversion: Effective management of operating levers—such as product design, pricing, and cost structures—ensures the efficient transformation of revenue into FCF.

3. Risk Management:

- “Risk On” Markets: Prioritize growth through venture funding and marketing.
- “Risk Off” Markets: Shift focus to profitability, innovation, and customer-driven revenue.

4. Scenario Planning: Develop realistic revenue scenarios and align cost structures to sustain financial independence. Aim for a minimum of 36 months of runway to navigate economic uncertainties.

5. Customer-Centric Strategy: Assess customer willingness and ability to pay, while benchmarking against historical downturns to optimize strategies.

By adopting these principles, businesses can align their operations for **long-term market leadership** and adaptability in evolving economic landscapes.



Why Scenario Planning of **Free Cashflow (FCF)** Matters:

- Anticipate market shifts and prepare for uncertainties.
 - Align your strategies with financial goals like generating **Free Cash Flow (FCF)**.
 - Build resilience by adapting to "Risk-On" (growth) or "Risk-Off" (profitability) markets.
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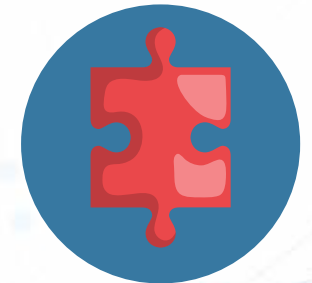


Key Steps to Success:

Revenue Scenarios: Create realistic projections—what happens if revenue drops **25%** or more?

Cost Adjustments: Align your spending with revenue trends to ensure financial stability.

Path to FCF: Start at the customer level, scale to operations, and target company-wide profitability.



Pro Tip:

Plan for at least **36 months of financial runway** to weather economic fluctuations and secure long-term growth.

By blending strategic forecasting with adaptable planning, you can pivot with confidence, ensuring your business thrives in any economic climate.

Recap

Recap: Mastering Scenario Planning in FP&A

We've covered essential steps and case studies to help you master scenario planning in FP&A.

- **Identified key drivers:** Economic, market, tech trends
- **Developed scenarios:** Best, worst, base cases
- **Analyzed impacts:** Financial, operational, market
- **Formulated responses:** Contingency plans, strategies
- **Monitored and updated:** Regular reviews, data analysis
- Integrated with FP&A: Aligning objectives, financial modeling
- **Communicated and implemented:** Clear plans, stakeholder engagement

By following these steps, you can enhance your FP&A processes and ensure your organization is prepared for any future.

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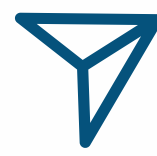
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