

# Planning for uncertainty

Georgia Fiscal Management Council

October 3, 2022



CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company  
is strictly prohibited

# CFOs spend most of their time around five key topics

X% Share of total time spent on individual topics<sup>1</sup>



1. Based on CFO survey 2021, n = 351

## To begin, let's answer a few questions

---



Is your agency  
using **scenarios**  
to plan for the  
future?

Are you holding  
back any of your  
budget for  
**contingencies**?

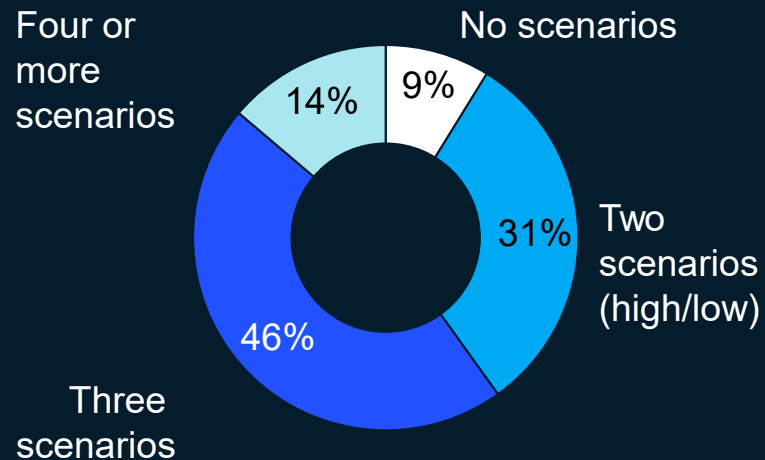
How are you  
planning to  
change your  
**forecasting**?

# Planning, budgeting and forecasting in uncertain times: What CFOs across industries and sectors are doing....

CFO pulse survey, n=473, % of respondents

## Planning

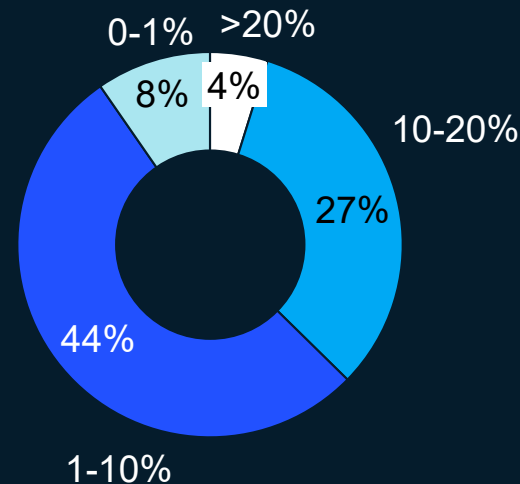
How many **scenarios** is your organization building?



**91% plan  
with scenarios**

## Budgeting

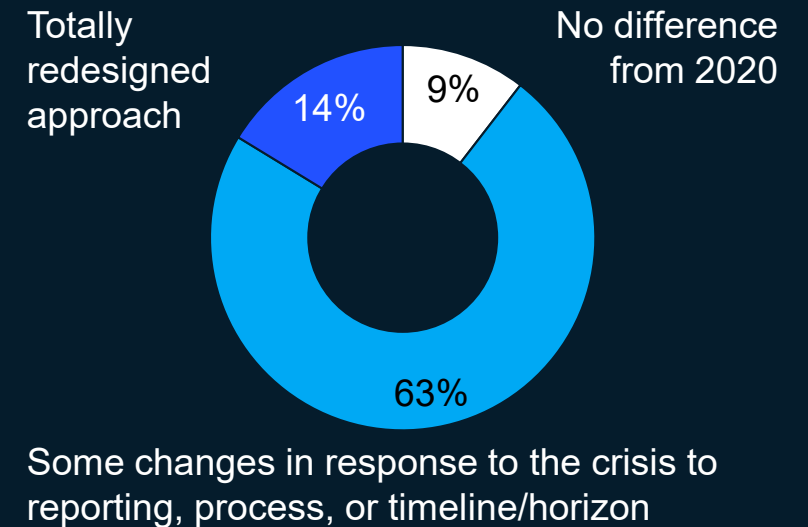
How much of your organization's budget are you planning to hold back for **contingencies**?



**92% will  
plan budget contingencies**

## Forecasting

How different will your organization's monthly **forecasting** look?



**91% will  
change process**

# Scenario planning – From “ivory tower exercise” to real steering for your agency’s priorities

---

## The basic idea is still the same...

“Scenarios are **stories about the future**, but their purpose is to **make better decisions** in the **present**”

Definition of **trends**, **identifications**, and **prioritization of key drivers**

---

## but in the light of recent disruptions some things have changed...

Modelling macro impact in specific **near-term scenarios** with very tangible “**trigger points**” (e.g., inflation rate) and with a link to budget (contingent budgeting)

Leveraging more and more **digital tools** – to drive efficient and targeted discussions

# Scenarios can be integrated into the strategic planning process in 3 different ways

Scenario development is conducted ...			
	<b>A</b> Continuously	<b>B</b> Ad hoc / event based	<b>C</b> Annually in a regular process
<b>Strategy discussions</b>	<ul style="list-style-type: none"> <li>Enables <b>strategy discussions</b> and strategic <b>actions independent of process</b> and long-term planning</li> </ul>	<ul style="list-style-type: none"> <li>Discussions on an ad hoc basis, <b>not during regular process</b></li> <li><b>Isolated assessment</b> of an ad hoc scenario</li> </ul>	<ul style="list-style-type: none"> <li>Take place <b>at different points in time</b> in the regular process, with <b>economic impact assessment at a different level of detail</b></li> </ul>
<b>Long-term planning</b>	<ul style="list-style-type: none"> <li>Long-term planning is <b>aligned to changes</b> in the set of strategic assumptions <b>on an ongoing basis</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Long-term planning</b> is only updated <b>in the regular process</b></li> </ul>	<ul style="list-style-type: none"> <li>Long-term planning <b>updated only in the regular process</b></li> </ul>
<b>Advantages</b>	<ul style="list-style-type: none"> <li><b>Strategy discussions</b> are possible <b>at any time</b></li> <li><b>Enables agility; actions</b> can be <b>implemented independent of the process</b></li> </ul>	<ul style="list-style-type: none"> <li>Enables discussions of current scenario worlds with <b>more limited resource requirements</b></li> <li><b>High flexibility</b> since triggered by requirements</li> </ul>	<ul style="list-style-type: none"> <li><b>Scenario planning</b> is <b>routine</b>, thus direction-setting for strategic decisions</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li><b>Inefficient</b> due to <b>high resource requirements</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Scenario</b> development is <b>not routine</b>, thus frequently <b>not direction-setting</b> for strategic decisions</li> </ul>	<ul style="list-style-type: none"> <li>Only <b>at certain times</b> are <b>strategy discussions</b> conducted</li> </ul>

# Scenarios in strategic planning: What you want to develop

---

## Tangible picture

Generate a **plausible**, concrete, and direction-setting **picture**

## Manageable picture

Reduce the **complex interrelationships** by **focusing** on key elements

## Pragmatic picture

Conduct **quantitative assessment** of the impact from selected external drivers on budget



## Deriving **strategic options**

Conducting **stress test** for current strategic planning

---

# Backup



# Best practices: Content- and process-based criteria for successful strategic planning

## Content

- **Holistic approach:** Develop scenarios openly and honestly from a stakeholder rather than business unit perspective
- **Few, discrete scenarios:** Select a few, independent, and action-oriented scenarios
- **Few key drivers per scenario:** A specific scenario should have a limited number of underlying drivers
- **Assessing scenario and driver impact:** Focus on impact of drivers and scenarios compared to status quo (“delta logic”)
- **Financial assessment:** Assess financial implications (top- and bottom-line of each scenario)
- **No sensitivity analysis:** Ensure scenarios encompass different worlds rather than providing granular sensitivity analysis

## Process

- **Top management involvement:** Ensure top management is involved in scenario development and discussions
- **Clear strategic direction:** Clearly separate scenario discussions from granular financial (short-term) planning
- **Strategic responses:** Establish the basis for strategic decisions, develop action areas, and contingency planning if alternative scenarios occur
- **Embedded in regular process:** Ensure regular scenario discussions serve as the basis for strategic decisions (familiarization process)
- **Keep tracking during the year:** When external scenarios change, ensure strategy decisions are reached immediately based on prior discussion (no “ad hoc” reaction)

## Illustrative comparable companies

Johnson & Johnson

SIEMENS

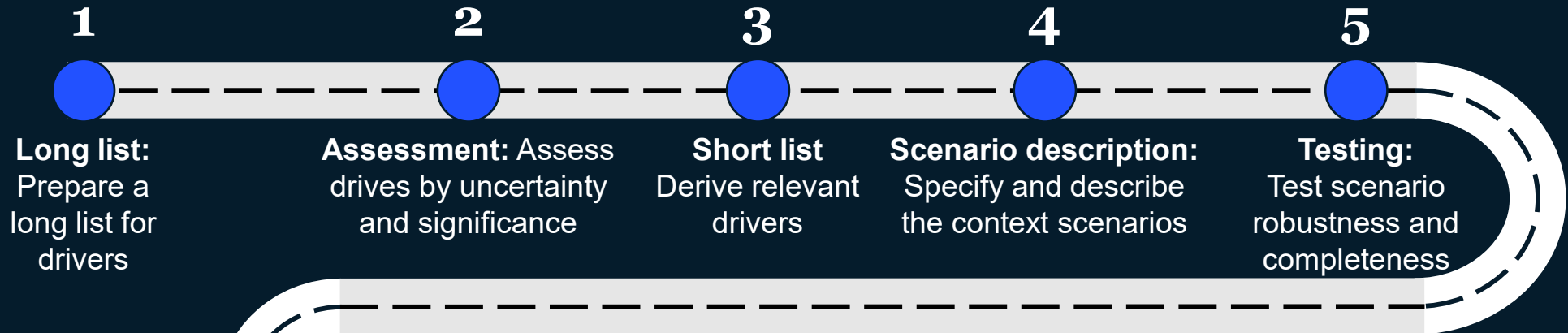


## Some best practices we observe across industries

- 1 Sizing the impact of inflation**  
Rapid assessment of overall impact on cost and revenue baseline
- 2 Driver based planning**  
to understanding impact (financial and operational) of changes in uncontrollable drivers on your performance
- 3 Event-based updates and scenario planning**  
vs. single static view of the world and initiate corrective actions ahead of time
- 4 Contingent budgeting**  
Setting aside contingent funds (to take advantage of ad hoc opportunities and to address major shortfalls)
- 5 Agile budgeting**  
Changing the budgeting and target setting cycle
- 6 Rebalancing targets**  
Updating targets and incentives
- 7 Talent to value**  
Assign finance talent to the highest priority areas or topics

# Scenario development: A process view

**Context scenarios:  
Develop and describe**



**Discuss context scenario within the scope of strategic and financial planning**

