

# **BUDGETING AND BUSINESS PLANNING IN A TIME OF TUMULT**

While 2020 has been a year of strange firsts, the coming year is likely to be stranger still. Even as Europe's public corporations continue to grapple with the economic and health shock of COVID-19, the pandemic makes the business outlook for 2021 almost impossible to forecast with any certainty. Yet corporations and investors cannot operate without a sense of what lies ahead. That means corporate executives need to anchor their strategic and tactical decision-making in some approximation of the future, even if that's provisional and evolutionary.

The most effective leaders will seize this moment, recognizing it as an opportunity to renovate their forecasting, budgeting, and financial planning processes. Although the COVID-19 crisis affects each individual economic sector differently, continued uncertainty all around means every sector shares a need for greater responsiveness, cost control, and—above all—an exacting focus on cash. Now is the time to move beyond budgets based on rules of thumb and metrics focused on the past toward financial plans and investor guidance derived from predictive analytics and scenario modeling.

Traditional business planning and budgeting are usually linear processes, in which last year's numbers (and to a lesser extent, those of prior years) form the foundation of future extrapolations. This approach, though, is wholly unsuited to current conditions. Because 2019 was an exceptionally strong year for some businesses and 2020 is turning out to be an unprecedented anomaly, companies cannot use either year as the starting point for their planning—not if they want to be credible.

Conventional planning and budgeting also tend to have a strong internal focus. External forces and factors come under consideration but bear much less weight. This year, external forces will have an outsized impact on the outlook for 2021 and beyond. The most heavily weighted considerations, of course, concern COVID-19. Moves by various governments to address the pandemic—including vaccine development, restrictions on business and social activity, and financial support for businesses and households—will affect everything from demand and revenue forecasts to funding plans. Those moves will also make market developments harder to forecast and more subject to change than ever before. To compensate for the high level of uncertainty, well-prepared companies will update their forecasts more frequently than before, and, consequently, will leave room to add further detail as more information comes along.

There are a number of lessons learned from prior crises that we recommend bearing in mind when setting up 2021 budgets — even if the company is not in a restructuring situation.

- The worst case may become the real case — both in terms of top-line and cost assumptions, as “what can go wrong, will go wrong”.
- Action planning is often too optimistic, both in terms of speed and magnitude of the impact and the actions taken — instead, “plan for the worst and hope for the best”.
- A company's restructuring plan may not address the fundamental structural challenges — it often only focuses on the easy-to-achieve (operational) measures.
- Speed of restructuring/transformation is often not fast enough.
- No board has ever cut too deep, but too many companies would acknowledge that they have not cut deep enough.
- Financial restructuring is often addressed too late — limited financial leeway restricts both strategic and operational options and weakens competitive positioning.

# In light of this, companies must organize four key activities now to enhance their 2021 budgeting process

## SCENARIO PLANNING THROUGH ADVANCED DATA ANALYTICS

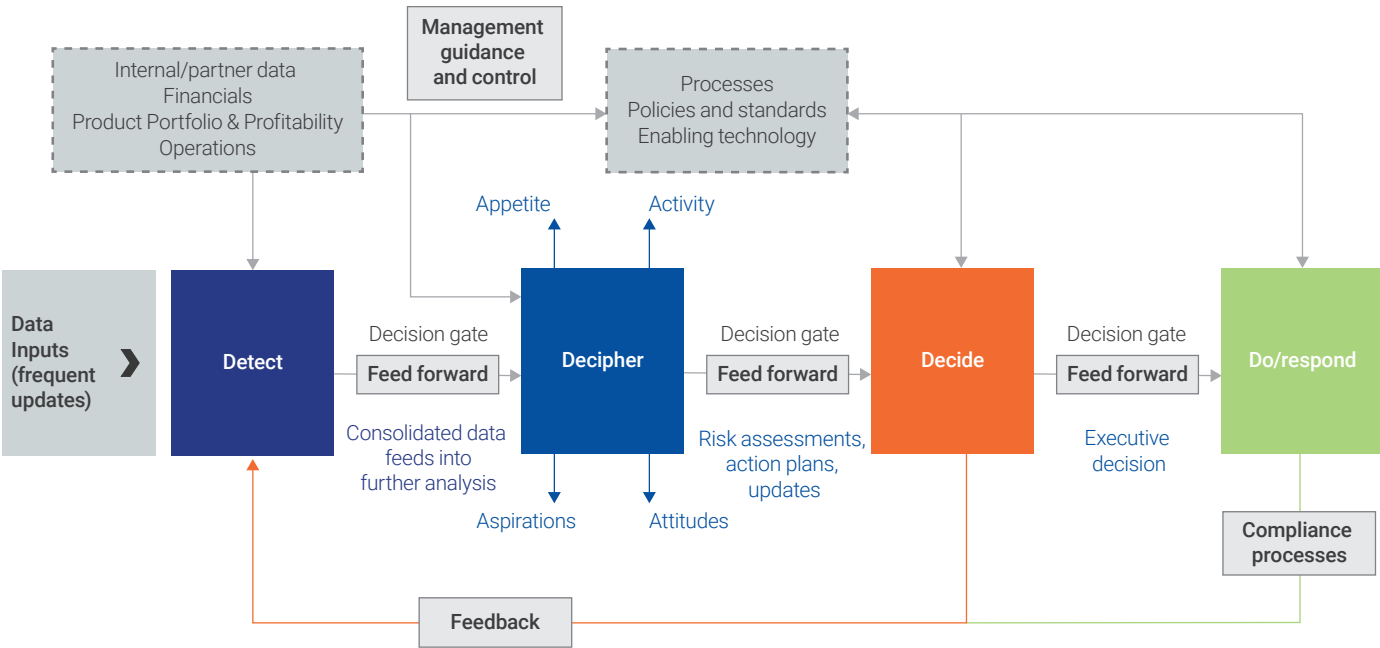
As finance teams prepare their 2021 outlooks, digital tools may ease some of the predictive burden. Advanced data analytics can, in many cases, provide a reliable means to assess the complex combinations of trends and events that could take shape in coming months and help to highlight interconnectedness across the value chain. These tools and techniques may enable the corporate planning processes to evolve from linear and static to holistic and dynamic and embed digital capability in a critical business function.

For years, companies have looked to data tracked by their finance and accounting departments primarily as a way to understand past performance. But quantum leaps in analytics and available data sources have made it possible for organizations to move far beyond historical analysis. Within a few weeks, companies can identify and prepare for trends that may not have surfaced using traditional planning processes by applying tools pragmatically. It is of utmost importance to ensure concerted interaction and communication throughout the business, the finance and control functions, and the data analytics team.

Companies deploying advanced analytics for business planning use inputs ranging from detailed sales figures to an extensive range of external data as well as changes in customer sentiment and the competitive landscape to detect patterns in historical business slowdowns or disruptions. These analytical engines automate much of the data collection and cleansing process, crunching large amounts of internal and external information to surface important trends and suggest how they may repeat and present it to users as a single source of truth. Some finance leaders in companies that use these types of predictive models in business planning have also started using patterns from early stages of the COVID-19 crisis and applying lessons learned from then to the 2021 budget process.

As the environment is dynamically changing, not only under COVID-19, planning and operations must also become dynamic, iterative, and self-improving. Figure 1 shows how data and analytics can be integrated into company processes by constantly feeding in new data and effects based on decisions and thus securing iterative and self-learning planning cycles.

**FIGURE 1: FOUR-STAGE PLANNING AND OPERATING CYCLE, UNDERPINNED BY ANALYTICS**



## TIGHT COST MANAGEMENT AND ZERO-BASED BUDGETING

Those responsible for preparing 2021 corporate budgets should start from zero when budgeting for certain line items such as travel and entertainment, which will not return soon, if ever, to pre-crisis levels. A structured framework with key zero-based optimization levers help to identify groundbreaking cost savings opportunities (figure 2). Zero-based budgeting not only enables a more precise understanding of the critical drivers of a business, it also clearly highlights necessary expenses for the next budgeting period. Be ready, however, to make allowances for contingencies.

Tight cost management is also essential to the development of measures, including restructuring, to reinforce the health of the core business. Those measures usually entail identifying noncore activities and relentlessly driving out their costs. The crisis thus offers the chance to jettison longstanding business deadweight; streamline overly complex structures; renew and tighten the focus on the cost of investment and other projects; and improve the operational efficiency of both core and support functions.

**FIGURE 2: ZERO-BASED BUDGET APPROACH: KEY OPTIMIZATION LEVERS**



## **KEEPING A CLOSE EYE ON CASH**

"Cash is royalty" is the business cliché du jour. But it's a cliché for a reason: the statement reflects the reality that in today's volatile environment, companies need to embed cash consciousness in their corporate DNA. It falls on senior management to lead the cultural evolution to cash consciousness by putting in place stringent governance structures and activities that optimize frequent, effective decision-making on issues such as future capital investment and working capital management.

The most capable companies already engage in partially automated, continuous business planning and forecasting linked directly to cash modeling. They monitor conditions in real time and have established sales and cash war rooms. The war rooms are where finance professionals, in collaboration with data scientists, prepare detailed revenue and cash plans for a range of business scenarios, which the company can deploy as conditions warrant. Many companies have pivoted to direct cash flow planning to gain full transparency on their liquidity levels and to identify further optimization measures throughout the cash conversion cycle, while fine-tuning working capital management. Many of those companies also make it a priority to review and renegotiate financing agreements to ensure that they have the resources to navigate today's volatile and uncertain business environment.

## **RETHINK COMMUNICATION TO EXTERNAL STAKEHOLDERS**

With the external environment in constant flux, investors expect near-continuous updates from companies. Analytics help companies step up the frequency of investor communications, allowing them to keep investors current on changes in business performance and the business outlook. Rather than conduct full-fledged investor calls, companies can deliver many updates via short briefing calls or over their website. Updates should be anchored in the multiple scenarios that companies have developed and demonstrate management's ability to adapt rapidly to changing conditions.

The COVID-19 crisis undoubtedly makes steering a business and planning for the future immensely more difficult and complex than ever before. But it also offers corporate leaders the opportunity to rethink strategy, structures, and processes. They have an opening now to implement long-needed changes in operating models, modernize the finance function, and update critical business processes. COVID-19 will not be the last crisis. An agile planning and budgeting process will be key not just to weathering the present moment but also to meeting the future with confidence in the business's efficiency, capabilities, and resilience.

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These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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