

Winter 2025

Business Planning in an Era of Uncertainty

This past November, I led a session in the Annual Controller's Workshop for the Cleveland East chapter of the Institute of Management Accountants. My session focused on valuing businesses in an era of economic and policy uncertainty. Certain sections of my presentation focused on business planning during periods of uncertainty. While uncertainty has always been an issue for people in business, I believe that it has greatly affected the past 15-20 years.

The biggest driver of uncertainty has been the Great Recession (2007-2009), which had a lasting impact on our economy. A combination of the sharp shock to our financial system, highly unusual policies enacted by the Federal Reserve Bank to stabilize financial markets over a lengthy time, and fundamental changes in market behaviors as a result, have made it much more difficult to read / predict economic trends.

Throw in the COVID lockdowns, several large stimulus packages, subsequent supply chain disruptions, emergence of high inflation, brief banking crisis, several hotly contested national elections characterized in make-or-break terms, and numerous conflicts around the world. What results is a deeply uncertain environment.

What Can We Do About Uncertainty?

Businesses cannot change the economic and policy uncertainty that affects us all, but they can take steps to better prepare for it. The steps businesses can take fall into two broad categories, operational/financial and planning.

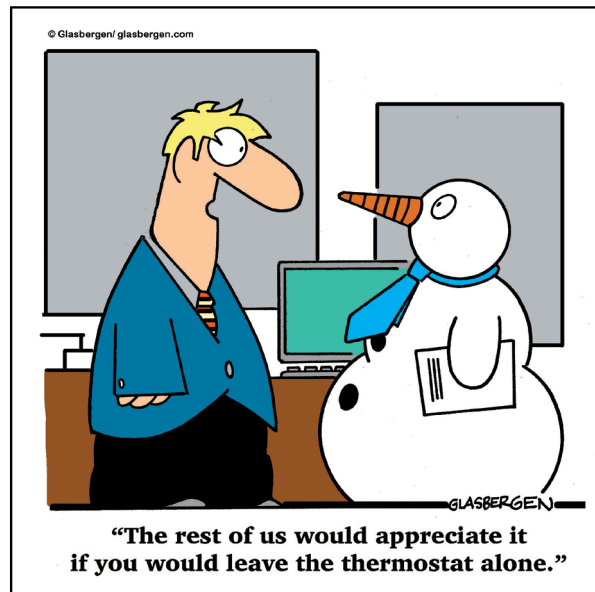
Operational/financial responses relate to matters such as:

- Holding more cash in bank accounts.
- Being more careful about taking on debt.
- Arranging for back-up financing (e.g. Boeing).
- Challenging capital expenditures.
- Enacting more disciplined customer credit policies.
- Being more disciplined about inventory management.
- Managing supply chains more closely.
- Putting workforce contingency planning in place (e.g. Southwest).

Many of my clients have used the above, or other, operational/financial steps on a regular basis. For many companies, these steps are just good business regardless of the economic environment. But when times are uncertain these operational/financial steps become more important.

Planning responses relate to matters including:

- Making budgets more timely / responsive (such as preparing rolling budgets and using dashboards).
- Updating forecasts more frequently (which is better than shortening the planning horizon).
- Emphasizing scenario planning with budgets and forecasts.
- Updating cost of capital assumptions more often.
- Using a 90-day cash flow forecast for better cash-flow management.
- Applying continuous improvement principles to the budgeting and forecasting processes (Plan, Do, Check, Act).





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Scenario Planning is Important

Scenario planning deserves special attention during periods of greater uncertainty. In business valuation classes I teach I have long stressed that the future should be viewed as a series of different potential outcomes, NOT as a single most likely outcome. When management teams look at the future as a series of different potential outcomes, it broadens their planning horizon and better prepares them for what may come. If management teams focus only on the most likely outcome, it often becomes the central gauge for measuring performance and bonuses which can hinder their response when conditions change unexpectedly.

Scenario planning can also help to remove bias from management's forecast and budget processes. By specifically

considering other versions of the future, management teams can dig into their underlying assumptions to spot bias and remove it. Scenario planning can also provide a framework for management teams to develop contingency plans for different scenarios that may occur.

In business the only certainty is that things will change in the future. The key questions are how widely can the changes swing from our expectations, and what can management teams do to better plan for any changes? A well-prepared management team can put a business in a much better position to deal with uncertainty. The suggestions in this newsletter may help.

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Please contact Ronald DiMattia at Corporate Value Partners at (216) 741-1330 or ron@corporatevaluepartners.com with any questions or if you need help with a valuation or corporate finance matter.

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