KPMG

COVID-19 and the CFO

Business planning and forecasting

April 2020

Predicting where the business is headed has seldom been more challenging—or more important.

Business forecasting has always been challenging. Amid the fallout from COVID-19, it has become even more difficult—and critical. To set strategy and retain the support of shareholders and other stakeholders, CFOs must be able to see through the fog, determine where their business is heading, and chart a plausible path through the current economic situation.

Already, many finance executives are finding their existing tools, processes, and capabilities inadequate for the task—too slow, too cumbersome, and too inward focused. They simply aren't set up to rapidly account for the many new external factors and data points that must be factored into their forecasts—variables that didn't exist at the start of this year but have suddenly become indispensable for determining what COVID-19, and its massive slowing of the global economy, will mean for their organization in the weeks and months ahead.

There is a clear way forward. It begins with solving for the immediate need. That means upgrading capabilities to reforecast for the balance of this year and provide guidance to the business and the company's stakeholders, ideally leveraging machine learning and other artificial intelligence techniques to speed and sharpen the effort. Next, integrate this revised forecast into the organization's strategic plan. When that's done, continue to update forecasts by layering in additional internal and external signals that will have become available by that time. Finally, use what's been learned to more fully automate the forecasting process so that it is fast and agile enough to meet the demands of the next crisis, whatever form it may take.

> ***"COVID-19 has shattered all forecasting models. No one is going to be able to create perfect forecasts right now. But companies that incorporate external signals into their modeling and harness the power of artificial intelligence will definitely come out ahead."***
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> – Sanjay Sehgal, U.S. Commercial Line of Business Consulting Leader, KPMG LLP

Updating the year-to-go forecast

Updating the year-to-go forecast will require supplementing current data inputs with a much wider range of external data now available from public and private sources, including third-party data aggregators. Finance teams will need to determine which inputs are significant drivers for their particular business and how they are reshaping the landscape.

In addition to traditional business and economic data, finance will need to collect and assess data specific to COVID-19 and how it is spreading around the world, including trends in caseloads and deaths. Also important: how governments and their citizens are reacting, and what it all means for customer demand. Companies will want to look particularly close at countries where COVID-19 struck first for insights into how it might play out in other markets where they do business or source goods, materials, or services.

With data in hand, CFOs will have to oversee a rapid deployment of financial modeling to forecast what the impact will be on their company's business—broken down as narrowly as possible by business unit, product line, client or client type, and geography—to help inform staffing, funding and cash management decisions across the enterprise, and ultimately external guidance. For organizations that already have data scientists and AI capabilities in house, bringing those resources to bear on this undertaking will enable deeper and richer scenario modeling and help yield more reliable results.

Expand and update the forecasting models

By the time the year-to-go forecast is complete, the face of COVID-19 and what we know about it will have shifted. More—and more accurate—data points will be available to update the forecast. As finance teams become more confident about which of those signals are most highly correlated to their business outcomes, they can begin to develop a process for continually feeding them into their financial forecast. Then, they can start to leverage their models across the enterprise to facilitate cross-functional teaming on integrated business planning.

Refine, automate, and institutionalize improvements to the forecasting process

CFOs and their teams will learn much about their forecasting processes amid the rush to respond to COVID-19, and their capabilities will have broadened and improved. As the situation begins to abate, CFOs should institutionalize what has been learned and permanently incorporate the improvements into their planning and forecasting processes. High on the agenda will be taking advantage of technology to automate as much of the operation as possible, not only to respond faster to future changes in the economic environment but also to free finance teams to spend less time collecting data and more time responding to what it is telling them. This will also be the time to integrate newly piloted forecasting models into the company's enterprise performance management system, and, if AI has not been used in the past, to apply it now to the forecasting process.

Get going in a virtual environment

CFOs can take many steps to facilitate the changes outlined above and help their teams service internal customers even when most of the workforce is deployed remotely. In the very near term, they can bring business stakeholders together via recurring online meetings using phone or video conferencing, adhere to a planning cycle with clearly defined timelines and checkpoints, formalize a reporting schedule, and implement as quickly as possible additional self-service and mobile reporting capabilities.

Over time, migrating to cloud-based planning solutions will help make future changes to the forecasting process, and automation of many of its steps, faster and easier. AI will make the entire process more accurate. The ultimate goal: the ability to do smart, rapid reforecasting virtually on demand.

COVID-19 has handed CFOs and the companies they help lead unprecedented challenges. By quantifying how the pandemic and associated economic fallout are impacting their businesses, CFOs can help them manage through this difficult period and position them for a rebound once it has passed.

KPMG has the experience, skills, and resources to assist in these efforts now.

Contact us

If you would like more information on how KPMG can assist your organization, please contact:

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