

Scenario Planning

Scenario planning is defined as a strategic planning method that organizations use to make flexible long-term plans based on generating a number of “what if” situations and then options on how they might respond to the situation. Nonprofit organizations for years have generated “what if” budgets using a best case – worst case projections for fundraising. Scenario takes this exercise a step further by reviewing the external environment and determining how an organization might need to respond to critical changes.

Scenarios planning starts by dividing our knowledge into two broad domains: (1) things we believe we know something about and (2) elements we consider uncertain or unknowable. The first category refers to trends occurring that may have an impact on our organization – such as a recession that results in a decrease in corporate gifts, high unemployment and increased lines at food shelves are examples of trends that are occurring. We need to be aware of these trends in order to consider adjustments for organization plans and goals. Understanding the specific trends helps us be smart in making decisions for the organization.

The second category refers to uncertainties in our world such as the election of a new president and changes as a result of their administration, future stock market fluctuations on giving and endowments, and increased unemployment at unparalleled rates leading to more home foreclosures and homelessness. Decreasing tax revenues and the potential impact on future state and local government funding would be another example.

“The art of scenario planning is the in blending of the known and the unknown into a limited number of internally consistent views of the future that span a very wide range of possibilities.”¹ We call these Scenario Options – another step in the process. Options are your “what if” responses or impacts on your organization that you must anticipate and prepare on how to respond.

Another step in the process is to create budgets and cashflow projections to reflect the scenario options that you have generated. This step can be made easier if you have a program based budget and financial statements organized by programs. Worksheets exist to help with this step. It is important to have your financial information ready and organized for comparisons and careful scrutiny.

Scenario planning can be done with a team or small group of individuals. It can be done by the entire staff or with a few outside volunteers or advisors. At the base of scenario planning is the assumption of change. Groups often hire a consultant to facilitate their discussions since change can cause reactions from panic and fear to glee and opportunity. It is wise for any group engaged in scenario planning to pay attention to their organizational culture and the way people process change.

¹ www.wikipedia.org

Planning Steps

- 1. Assemble your scenario planning team**
 - a. This may be a committee of the board and staff; it can be an internal committee of the staff or a mixture of board, volunteers and staff. The team should include three to five people. (Larger organizations may have several teams on different programs or topics working on scenario planning.
 - b. Provide a definition and list of expectations to the team.

- 2. Conduct an environmental scan**
 - a. It is important to review what is happening in your industry, field or sector. What are the major trends and how do you expect these trends to impact your organization – both positively and negatively. (See Worksheet A)
 - b. Interview any key stakeholders regarding how they view the situation and seek out options for how an organization might address these trends or situations.
 - c. Make a list of the warning signs that your organization needs to follow and stay abreast of in order to manage your future. (See Worksheet B)

- 3. Develop a list of possible worst case and best case options for how the organization might be impacted. Ask the “what if” question.**
 - a. Ask your team the following types of questions:
 - i. Will we experience a loss of funding resulting in fewer staff, increased demand for service, budget revisions due to funding uncertainty, preparation for government budget cuts, and/or change in funding trends regarding your service area or other items? (See Worksheet C.)
 - ii. Items to review include loss of revenue and resulting impact on expenses, increased expenses and impact on revenue projections. (What if health insurance as a benefit goes up 25% or what if our event raises 50% less than last year)
 - b. Select two or three “what if” or most likely scenarios. Determine the income and expense impact of those scenarios.

- 4. Using a program based budget – create a budget based on the “what if” options that you determined in step three. This should include a list of your revenue and expense assumptions.**
 - a. Run the numbers and keep a different spreadsheet for each set of numbers or “what if” scenario.

- 5. Using the cashflow tool create cashflow projections.**
 - a. Develop a corresponding cashflow projection for the most likely scenario if the impact is a loss of revenue or an increase in expenses.

- 6. Begin organizational dialogue with the board leadership, your management team and staff.**
 - a. Develop a process to communicate with your board chair and board leadership, management staff, all staff as well as key funders. The communication process has to begin with sharing some of the information around the scenario planning and the impact on the organization. Framing the communication is important so that you are presenting “what if” options, seeking opinions in the process, and providing some type of timeline for decisions.
 - b. It takes time for people to adapt to scenario options especially if they involve reorganization, change and/or budget cuts.
 - c. Change is difficult for many people. Allow for an adequate amount of time for discussion. Often there are strong feelings so allowing for time to process difficult ideas is important. It can be a stressful time for all if the change is significant.

- 7. Develop Action Plan for Implementation**
 - a. Develop the action plan for implementation of the options that seem most likely. It is important to develop a set of action steps so that you are prepared to implement a scenario. This action planning makes it possible for you to move forward and implement whatever measure is needed. (See Worksheet D)
 - i. At this point the organization may revise or add to the “what if” scenarios as the discussion continues. It is not unusual for some combination of various scenarios to be combined as they are discussed and considered by the key individuals in the organization.
 - ii. Update and review the action plans as the situations change. Continuing to monitor trends, maintaining accurate financial information, and preparing revised scenarios are important in changing economic times.

Worksheet B – Organizational Warning Signs

Make a list of the warning signs that your organization might experience that could significantly impact or change the organization. For example:

- **Has there been a significant change or could there be a significant change in client demand for services or community needs? Are your client numbers up or down from last year, last quarter?**
 - **Any significant change in community need or your numbers may require scenario planning.**
- **What is happening to your key or major funders (defined as funding over 30% of budget)? Are they cutting or projecting cuts in the near future. What does the current year and the next year look like in terms of continued funding? How are your individual donations, events, or other contributions compared to last year and the year before?**
 - **Any significant loss of funding (10% or more) would require scenario planning to adjust the organization's budget.**
- **What are the current and future economic forecasts? Any significant trends? Is there a potential for loss of funds or some type of looming economic crisis that will change the landscape for what you do, how you deliver services, or how you are funded?**
 - **Any significant job lay-offs in your community could mean a reordering of services and funding priorities. The economic crisis of 2008-09 means most nonprofits are scenario planning.**
- **What is the current financial situation of your organization? Did you have a deficit last year? What is your cashflow both current and projected? Is every program providing the revenue to cover its expenses?**
 - **A deficit last year and a projected deficit this year mean you need to start scenario planning early in the year. Adjustments only become more difficult the longer an organization waits to react.**
- **Individual donations and events may need to be reconsidered and revised. Fundraising trends should be reviewed and analyzed.**
 - **If your organization relies on one large fundraising event per year to fund a significant portion of your expenses, it might be time to do some scenario planning for other ways to fund your organization.**

Organizational Warning Signs

Please make your list:

- Community

- Client driven

- Major funding sources

- Economic Issues

- Financial Health of the Organization

- Fundraising Patterns/Expectations

Worksheet C – “What If” and Impact-Options

On the left side make a list of the “what ifs” that might happen to your organization. Ideas include reduction in funding by X% or loss of major contract or 30% increase in demand for service, etc.

On the right side, make a list of how the “what if” situation might impact your organization. For example, loss of funding, reduce two FTEs or increase demand in service, need more program supplies or waiting list created.

“What Ifs”

Options

Worksheet D – Action Plan

Create an action plan with a list that consists of how you would implement the most likely scenario. An Action Plan should have a major result or outcome that you are trying to achieve so as to focus everyone during the planning.

Next define the Objectives – what you plan to accomplish.

1. Tasks are activities or steps for implementation of each objective
2. Timeline is the date to complete the task.
3. Resources needed are the dollars, people, and/or equipment required to accomplish the task.
4. Responsible person is the staff, board or committee identified as responsible for the task.

Action Plan Outline

Result (s) or Outcome to be achieved:

Objectives:

Tasks per objective

- Timeline
- Resources Needed
- Responsible Person

Budget Impact

Resources:

The Keeley Group – consulting and coaching
www.thekeeleygrp.com

Signpost Strategies – other tools for nonprofits and small businesses
www.signpoststrategies.com

Minnesota Nonprofit Assistance Fund
www.nonprofitsassistancefund.org

Managing in the Downturn: Financial tools
<https://www.signup4.net/Public/ap.aspx?EID=PROG88E>