How to Conduct *"What If?"* Scenario Planning

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If you own or run a mid-sized business, then you are probably used to working in an environment of uncertainty. Things are constantly changing in the world of business — whether it's customer preferences, government laws and regulations, raw material prices or competitors' offerings. Successful owners and entrepreneurs can adapt to these and other changes by being nimble and quick on their feet.

However, it seems like things are more uncertain today than they have ever been before. From the political rancor that we see playing out in the news every day to the rash of recent natural disasters to the specter of an unstable nation-state threatening nuclear war, tremendous uncertainty and even anxiety are now the rule, rather than the exception

Asking *"What If?"* Helps Business Planning

As a business owner or CEO, you must make the best decisions you can despite the uncertainty that's swirling around at all times. One exercise that can help is running various *"what if?"* scenarios that gauge the potential impact of various uncertain outcomes on your business. By planning in advance how different outcomes could affect your business and how you will respond, you can be better prepared in the face of ongoing uncertainty.

Following are four areas of uncertainty that many businesses are currently facing and how *"what if?"* scenario planning could help you prepare for different possible outcomes:

Tax reform — President Trump and the GOP finally unveiled a broad framework for tax reform last month. At the center of the plan is a reduction of the top corporate tax rate from 35%, which is the highest in the industrialized world, to 20%, which would be below the industrialized world's average rate of 22.5%. Perhaps even more important, the top rate for owners of pass-through entities like S corporations would drop from 39.6% to 25%.

On the individual side, the plan reduces the current seven different tax brackets to just three: 12%, 25% and 35%. It would double the standard deduction to $24,000 for married couples and repeal the Alternative Minimum Tax (AMT) and the estate tax. Of course, this plan is just the opening salvo of what will surely be lots of back and forth negotiations. So, plan to sit tight and see what (if anything) emerges from Congress before the end of the year.

Interest rates — The Federal Reserve Board has raised interest rates by 0.25% twice so far this year, most recently in June, bringing the Federal Funds rate up to a range of between 1.0% and 1.25%. It's widely expected that the Federal Open Market Committee (FOMC) will hike rates again in December by another 0.25%. In another noteworthy development, the Fed announced last month that it will begin unwinding the over $4 trillion in bonds it purchased after the financial crisis, a campaign known as quantitative easing, or QE. This may also raise borrowing costs for businesses.

While the pace of rate hikes isn't known, we can be fairly certain that interest rates and borrowing costs will rise in the future from their near-historic lows right now. In your *"what if?"* scenario planning, you should plan your borrowing and capital acquisition strategies accordingly.

Healthcare costs — There is a little less uncertainty surrounding healthcare now that it has become apparent that Republicans won't be able to repeal and replace the Affordable Care Act (ACA) this year. With this off the table, insurers can now finalize their rates for 2018 with a little more certainty.

But we're far from the end of the healthcare debate. No one is pretending that the ACA doesn't have major problems or that healthcare hasn't become unaffordable for many American citizens and businesses. Healthcare costs only move in one direction — higher. So, your *"what if?"* scenario planning should factor in the impact of higher healthcare costs in the future.

Stock market — The stock market's bull run, which began after the financial crisis, is now the second-longest bull run in history, stretching more than eight years. During this time, the S&P 500 has risen by more than 260%. While the bull started during President Obama's administration, it has really kicked into gear since the election of President Trump. The S&P 500 has increased in value by an astonishing $2 trillion since the 2016 presidential election.

What's next? The stock market ranks among the greatest of all uncertainties. As always, there are pundits who predict a market crash and those who predict that the bull is just getting warmed up. After all, the longest bull market on record ran from 1987 to 2000, so an eight-year bull run isn't unprecedented. But it's worth noting that the main reasons for much of the investor enthusiasm since the election — deregulation and tax cuts — still haven't been implemented in full (see tax reform discussed above).

Concluding Thoughts

Things are constantly changing in the world of business, so you must make the best decisions you can despite the uncertainty that's always swirling around. One exercise that can help is running various *"what if?"* scenarios that gauge the potential impact of various uncertain outcomes on your business. By planning in advance how different outcomes could affect your business, you can be better prepared in the face of ongoing uncertainty. A CFO services provider can help you conduct *"what if?"* scenario planning exercises for your business.

About CFO Edge

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