



Consider these concepts when you're ready to plan and forecast for 2021. This is the first article in a series focused on helping businesses navigate the uncertainty associated with COVID-19.

Financial Planning in the Time of COVID-19

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Key insights

- Develop a financial plan so you can evaluate strategies, consider creative alternatives, work through different scenarios, and collaborate with your team.
- Reimagine your business and forge a new path forward in how you serve your customers.
- Utilize dynamic modeling to understand the financial impact of business decisions — and so you can adjust accordingly.
- Identify leading indicators and forecast stimulus packages and tax credits.

As you set your sights on 2021, it's probably hard to imagine how to create a financial plan among so much uncertainty. Is it even

Need help developing a financial plan?

worth spending the time to put together a 2021 plan?

Talk to Our Team

Yes, it absolutely is — but not for the reasons you might expect. Your plan will likely be wrong. But accuracy of a financial plan isn't the main objective; in fact, your plan is just a single output. The real value in budgeting and forecasting is found in the thought process and conversations that accompany the planning cycle.

In this next planning cycle, designate time with your leadership team to:

- Evaluate strategies.
- Consider creative alternatives.
- Develop best- and worst-case scenarios.
- Collaborate with the people who lead your organization.

This article and our forthcoming series of industry-specific planning articles are designed to help you embark on a different planning cycle from ones you've experienced in the past.

Get creative

While the upcoming planning cycle may be the most difficult one you've faced yet, it could also be the most crucial and inspirational.

Over the past few months, businesses have found innovative ways to adapt and reinvent. We've seen a client transform its shop floor from manufacturing home décor items to PPE products. We've worked with an employee rewards business focused on incenting sales that shifted to an employee wellness business focused on connecting teams. Even at CLA, we've reimagined how we can provide resources to help our clients navigate the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

View this planning cycle as an opportunity to find creative ways to transform your business. Ask yourself:

- How can I better connect with customers in a virtual world?
- Should I rethink my traditional marketing strategy to include digital campaigns?
- Can I implement a contactless delivery model that provides even more value to customers?

This planning cycle could be your opportunity to reimagine your business and forge a new path forward in how you serve your customers.

Use dynamic modeling

Traditional business may be in flux, and exploring new territory brings new levels of uncertainty. Support any plans you implement with dynamic modeling.

Build your financial plan to allow for quick adjustments to key assumptions that will flow through your model automatically. In a technical context, this means drawing on Excel skills by ensuring none of your formulas include hard-coded assumptions but rather reference these assumptions from an isolated input cell. Formulas should be manual inputs that the model's formulas reference versus hard-coded assumptions. A change to an input cell or assumption should dynamically flow throughout the whole model.

Examples of key assumptions built into models include:

- **Payroll** – Individual compensation, hire dates, and termination dates.
- **Sales quantity** – Quantity of sales phased by month.
- **Pricing** – Product pricing either as a single price or one that can be driven by changes in material costs.
- **Material costs** – Price and quantity assumptions for key inventory items.
- **Average Days Sales Outstanding (DSO) and Days Payable Outstanding (DPO)** – Days to collect AR or pay AP for cash flow modeling.
- **Funding** – Date when additional financing is expected.

With a dynamic model, you'll have the ability to understand the financial impact of business decisions, adjust accordingly, and easily create different versions for scenario planning.

Identify leading indicators

Key assumptions used to drive dynamic modeling are often leading indicators for your business. Keep in mind that leading indicators will be important for this planning cycle if your business has been heavily impacted by COVID-19. Past performance may be unreliable in this new environment.

Connect with leadership to align on leading indicators. Understand the behaviors of those indicators pre-COVID-19, especially compared to your expectations, and analyze how those behavioral changes will impact your financial future.

For example, a B2B company's pipeline volume and velocity are common leading indicators. Your pipeline volume may be the same as your pre-COVID-19 period, but you've identified that sales now take 90 days to close as opposed to 60. This will clearly have an impact on cash flow and should inform a strategy of how you might adjust sales and marketing techniques to reverse this trend.

During the planning process, ground yourself in your leading indicators and their current behavior, in order to identify changes in their behavior. These changes will help you predict shifts in your business and react accordingly.

Forecast stimulus packages and tax credits

While the planning cycle may bring uncertainty, new elements such as the various stimulus packages and tax credits made available to employers due to COVID-19 are highly predictable. Assess the programs from which you received funding, as well as the impact of tax relief and credits that may unfold in the future. Determine the timing and potential cash impacts of the following:

- PPP loan repayments (inclusive of interest for any unforgiven portion of the loan)
- EIDL payments
- Payback of deferred employer payroll taxes
- FMLA/Sick pay tax credits
- Retention credits
- Payback of any rent deferrals

How we can help

CLA is here to guide you as you enter the planning cycle in the COVID-19 environment. Stay tuned for more information to drill deeper into industry-specific considerations for planning. Our upcoming series will include information on how to:

- Budget for nonprofits

- Cut assumed fixed costs in construction
- Adjust for capacity and staffing levels in restaurants
- Consider key variables in agriculture

Our purpose is to know you and to help you. Please feel free to reach out to our team if you have additional questions or want more detail about COVID-19 impacts on a specific industry.

Contact Us



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