



Scenario Planning: A Roadmap for Business Agility



If you lead a business, you know the landscape shifts fast. Research shows organizations that run regular scenarios rebound about twice as quickly after major shocks. Scenario planning is how you stay one step ahead, by preparing for several plausible futures instead of betting on a single prediction.

In this document, we will walk you through five practical steps you can apply immediately to pressure-test your plan, protect margins, and move faster when conditions change.

1) Test the assumptions you already rely on

Your current budget is built on beliefs - steady revenue, flat costs, stable staffing. The first task is to challenge those beliefs. Imagine inflation running at five percent instead of two and a half. Picture demand slipping because a new competitor enters the market, or consider how leveraging new AI tools might shave ten percent off your labor expense. Exploring plausible shifts like these is not about alarm; it simply reveals where you may be exposed long before the real pressure arrives.

2) Identify three to five high-impact, high-uncertainty drivers

The next step is to focus on the variables that genuinely move the needle. Good drivers meet two tests: their future path is uncertain, and their movement can materially change results. Think of commodity prices when materials make up forty percent of your cost of goods sold, increasing wages in a tight labor market, interest-rate swings that reshape financing costs, or regulations and climate events that could disrupt your supply chain. Resist the urge to catalogue every line item. Just zero in on the few levers that truly dictate revenue, cost structure, or operational stability.



3) Build a tight set of memorable scenarios

With your drivers in hand, craft three or four distinct narratives - a base case plus clear upside and downside versions are usually enough. You might label one scenario “Cost Crunch,” where commodity prices jump fifteen percent, wages climb six percent, and demand falls ten percent. Another scenario, “Demand Surge,” could feature a twenty-percent jump in orders while input prices ease. A “Steady State” case preserves current trends. For each narrative, run your profit-and-loss, balance sheet, and cash-flow statements to see where strain appears or where new opportunities surface.

4) Link every scenario to pre-approved actions

Scenarios add real value only when they translate into specific decisions. Decide in advance how pricing, hiring, or discretionary spending would shift if a given scenario begins to unfold. Establish capital-allocation rules, such as pausing an expansion whenever EBITDA margins dip below twelve percent. Clarify who signs off on each move and how quickly the change will take effect. Thinking through these responses ahead of time eliminates the reactive debate that can paralyze teams under pressure.

5) Track early warning indicators

Finally, a scenario is useless if you fail to spot its early signals. Choose leading metrics, set trigger points, and assign someone to monitor these. For example, a twenty-percent drop in web traffic over sixty days could launch an immediate retention campaign, a ten-percent rise in pricing for a key input across four weeks might activate hedging, and overtime hours consistently above fifteen percent of total labor could fast-track hiring or automation. Review these indicators at least monthly so action becomes habit rather than hindsight.



Next Step

Commit to building your first few scenarios this quarter.

Future-proofing your business starts now.

If you'd like help and guidance on defining drivers, modeling scenarios, or developing contingency plans, please contact our office. Our team is ready to help with your unique situation.



About Pugh CPAs

We got our start in Knoxville, Tennessee in 1969 and have grown into a regional firm with global connections. We've been in business a LONG time and that means we've worked with a diverse group of industries and clients. Of course, we do tax planning, compliance, auditing, and accounting but our passion is collaborating with our clients to ensure that your business and financial goals are met. It's critical for your business advisors to understand how your business operates within your industry—we get that! Our longevity is connected to the relationships we build with our clients and that's how we build trust. You can be confident that Pugh CPAs has the knowledge, skills and abilities to help you achieve your goals. Brilliant people with servant hearts work here.



Pugh CPAs
315 N Cedar Bluff Rd
Suite 200
Knoxville, TN 37923-4548



(865) 769-0660



info@pughcpas.com



www.pughcpas.com

