Leveraging Financial Models to Manage the Impact of COVID-19

Maintaining Business Continuity at all Stages

In addition to the public health danger posed by the spread of the coronavirus (COVID-19), the social and economic impacts present a significant threat to the mission and financial stability of higher education and non-profits. As the disease advances, the impact to revenue and the demand for services will continue to limit the ability of organizations to implement their strategic initiatives, while effectively managing their cash flow.

To mitigate the financial impact, organizations should create a team to manage the response to COVID-19, identify the support made available through federal and state legislation, and update business and continuity plans for the next three to 18 months by leveraging their financial modeling tools as a crucial element for planning.

If organizations' current financial modeling tools do not provide appropriate visibility into scenario modeling and cash flow, the tools should be updated to better assist in planning for the future. Though this may seem like a luxury in today's environment, organizations that cannot effectively manage liquidity and talent retention in the short- to medium-term will find it challenging to survive and adapt in the long-term.

Identifying Scenarios

To harness the greatest benefit from financial modeling tools, organizations must first ensure they are reviewing the appropriate scenarios. Typically, organizations leverage its enterprise risk management and business planning frameworks to identify a group of scenarios that are likely, and supplement them with unlikely or disruptive events that will have an outsized impact on the its mission.

Organizations should also identify the probability of each scenario. As noted by Attain for Strategic Financial Planning expert, Ron Salluzzo, and his colleagues in *Strategic Financial Analysis for Higher Education*, "while one cannot guard against every low probability event, the manager can and should articulate the limitations and assumptions embedded in the risk-management model.[1]" Those situations or events that are most likely to occur or have the greatest potential effect should be modeled and addressed via business or continuity planning to mitigate the financial impact.

As it relates to COVID-19, financial modeling scenarios should typically address the question of when social isolation can be eased via a short-term (3 – 6 months), medium-term (6 – 12 months), or long-term (12 – 18 months) timeline. The drivers behind these simulations relate to the identification of a treatment, development of a vaccine, and more aggressive testing and case tracking.

Buried within each timeline are specific elements that affect the mission of higher education and non-profits. When needed, organizations should move beyond the short-, medium-, and long-term models to create specific simulations that help quantify factors that have the greatest impact to their financial health.

[1] *P. 25. Tahey, Salluzzo, Prager, Mezzina, and Cowen. "Strategic Financial Analysis for Higher Education." Prager, Sealy, and Co., LLC. 2010.*

Essential Traits of Effective Financial Modeling Tools

In the short-term, organizations should review their financial modeling tools to ensure they meet the essential traits listed below, and can support effective mitigation of the impacts of COVID-19. To maximize value, organizations should leverage these tools as part of a larger business planning, business continuity and enterprise risk management suite following the steps shown below.

Reveal Impacts of Financial Health on Strategic Goals

Beneficial financial modeling tools provide meaningful insights into an organization's ability to achieve their mission. These insights position leadership to develop and implement plans that enable an organization to adapt and thrive in a variety of scenarios.

Support Effective Continuity and Business Planning

Financial modeling simulations support business and continuity plans that mitigate the impact of factors such as COVID-19. Specifically, the planning team should review models to determine how to adjust activities to align with changes to revenue in projected scenarios. This may include changes to employee count, accounts payable, and services. Organizations that proactively identify tactics to support talent retention will be better positioned to thrive in the face of challenges and to emerge rapidly from periods of change and hardship.

Model Scenarios Rapidly

The most valuable financial modeling tools quickly produce new simulations for differing scenarios. This can include updates for discrete factors such as real or anticipated fluctuations in demand for services (e.g., student enrollment, attendance at live performances, and emergency food access, housing, etc.), or multiple factors associated with broader scenarios, such as the COVID-19 examples listed above.

Forecast Cash Flow

Current cash flow has quickly become a major concern across higher education and non-profits. While some organizations may include additional financial or quantitative metrics, all modeling tools should include a cash flow forecast. Once cash flow needs are identified for each simulation, organizations can then assess and develop plans for their liquidity as part of their business and continuity planning efforts.