Scenario Modeling for Clubs

This guide, from our Budgeting XLerator series, contains information to help clubs decide which approach to scenario modeling is right for their needs.

WHAT IS SCENARIO MODELING?

The purpose of scenario modeling is to create multiple different budgeting or forecasting possibilities based on internal or economic factors. These various assumptions of financial outlook can then be used to help predict contingency needs, resource requirements, prioritize spending, and plan for the future.

What kinds of factors or assumptions might call for scenario modeling?

- **Changes in revenue:** membership numbers and dues, initiation fees, cart fees,
- **Shifts in staffing:** seasonal workforce, hourly rate changes, staff for events, benefits
- Planning for **new programs**, launching new services, facilities upgrades

Scenario modeling enables management teams to test potential assumptions and see the impact down to the detailed account or department level. These scenarios can be made available to the budget holders for revising their budgets or leadership can have internal versions created just for their purposes depending on the organization's approach or philosophy.

## SO, WHAT SHOULD YOU CONSIDER IN YOUR SCENARIO MODELING PROCESS?

⟫⟩ PHILOSOPHY

Scenario Modeling using your budget or forecast can be as controlled or flexible as needed – and in alignment with your strategic objectives. The needs of your organization – *as well as the level of detailed information that will be shared* (e.g., revenue, salary, bonus or benefit information) – determine who is involved with each of the models, and this can change for each model, and throughout the year.

- **Bottoms-up Approach:** when you want budget holders or approval managers to have detailed input into assumptions. Budget holders, the experts in their department, can provide valuable information to Finance regarding cost savings, new hire needs, and possibilities for new projects and revenue such as new courses, events or products.
- **Top-down:** when you want finance to control all the variables into the assumptions of the planning process. This might include the allocated number of new positions or a targeted cost savings, as well as all of the underlying or associated variables (salary increases, benefit percentages, sources of revenue, etc.)
- **Hybrid:** in this approach you can have some scenarios (or just some assumptions in the scenario) open to input, and other scenarios used as targets or completely hidden from the budget holders.

⟫⟩ FREQUENCY

Budget or forecast scenarios can be created monthly, quarterly, semi- annually, or as needed. As discussed above, your organization will have specific driving forces that will inform how each scenario is constructed. These levers (headcount levels, salary increases, additional compensation, benefit requirements, detailed expense estimates, components of revenue projections, etc.) may vary dramatically throughout the year. As more current data is available, these levers can be updated and new scenarios constructed. More frequent scenarios provide up-to-date insights into the financial outlook and reliability against plan.
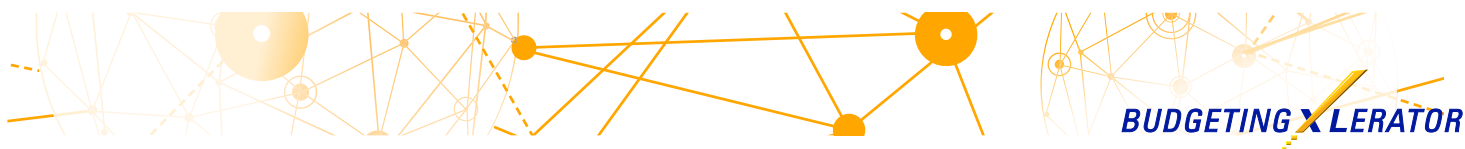
SOFTWARE FEATURES FOR SCENARIO MODELING – WHAT SHOULD YOU LOOK FOR?

〉〉〉 A STEP-BY-STEP GUIDE

The system should step the user through the process of creating a scenario including the ability to create and choose specific sets of calculated values, driver values, employees, or account defaults and a description to explain the purpose of each scenario. The system should also allow for the ability to easily copy scenarios. This way multiple scenarios can be created – each with slightly different assumptions. The system should also enable the user to change assumptions for different scenarios without impacting the data in any other scenario.

〉〉〉 FLEXIBLE DATA COMBINATIONS

How you choose to start each scenario (and the data that goes into the model) should be flexible and controlled by finance. The system should provide the ability to start each scenario model from scratch for a zero-based budgeting approach or from pre-determined defaults for a baseline or incremental approach. This might include a default assumption of an overall spending reduction of 5%, or just a reduction for specific accounts. Additionally, the system should allow you to create multiple baseline versions built with different sets of variables, i.e. employee, calculations, drivers, and account defaults.

〉〉〉 LEVEL OF DETAIL

Organizations should be able to create scenarios that are pre-calculated down to the account and department level and require no user involvement. The system should also enable easy access to details such as individual employee information, benefit costs by type, numbers of anticipated new hires, line item details, the ability to account for differences in spending driven by expected monthly variances – as well as the ability to capture or reference notes and documentation.

〉〉〉 DEPARTMENTAL DATA TRANSPARENCY

Regardless of the number of departments involved in the modeling process, an organization should be able to view budget or forecast scenarios on a department level. When a scenario model is created, it should automatically be created at the account and department level, so that either finance or the budget holder for that department can adjust the data as needed. The system should also offer the ability to easily control who has access to view or make changes to the data – e.g., exclusively by finance or leadership, or made available to the budget holders as read-only versions used for comparison or targets.

〉〉〉 APPROVAL PROCESS

If an organization has decided to involve their department heads or budget holders, the scenario needs to have an approval process, and the managers need to know what they are responsible for working on at a given time. For full accountability, managers should be required to review and sign-off on the portion of the budget or forecast scenario they are responsible for.

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ABOUT XLERANT

XLerant provides a cloud-based, budgeting, forecasting and reporting solution designed with an easy to use interface that makes a complex process accessible for all users. It was created by finance and IT executives who had first-hand experience with the time-consuming frustrations of budgeting and forecasting with Excel-based templates and recognized that the industry needed a solution that worked for the finance team as well as the end user. We believe your time is better spent on analysis, not the process, and delivering strategic guidance instead of consolidating spreadsheets or fixing formulas. Ultimately, the budget needs to be a numerical expression of the strategic plan and that requires engagement, communication, and collaboration.

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