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Covid-19

Scenario Planning

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Almost every 2020 business plan was rendered irrelevant in the first quarter of this year due to the spread of the coronavirus pandemic and its effects. These same business plans are now being re-written against a backdrop of uncertainty and while theories regarding recovery and relapse play out in the background.

Businesses and business plans anticipate risk – they are not only comfortable with it but rely on it: “risk needs to be managed, but not eliminated – because risk is also where competitive performance is created.”¹

Businesses are comfortable with risk, they are less comfortable with uncertainty. Risk can be managed and evaluated but it can also be miscalculated as Craig Mawdsley, Joint Strategy Officer at AMV BBDO explains:

“If you think you can predict the consequences, then have a look at a few company annual reports from 2019. They all have a section on “risk” ... None of them mentions a devastating global pandemic and the biggest drop in financial markets in history. It feels like they were written in a parallel universe.”²

Indeed, uncertainty is an entirely different ball game: “We don’t even know the possible outcomes in advance, let alone their probabilities. Genuine uncertainty occurs in complex systems, where lots of actors interact over time – the economy, for example.”³

Although uncertainty can’t be managed and evaluated in the same way that risk can, it can be planned around by way of scenario planning. In order to scenario plan, different outcomes must be imagined and outlined. One thing is certain, we all need to be more comfortable and adept at scenario planning.

Although commentators are unanimous that there will be a recession, there is less certainty about what shape it will take and what the subsequent path to growth will look

¹ How strategy turns uncertainty into risk, Faris Yakob on WARC

² Craig Mawdsley, Joint Chief Strategy Officer, AMV BBDO [Link](#)

³ Business Insider, [Link](#)

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like. A 'V' shape; a 'U' shape; an 'L' shape; or a 'w' shape. There is no one size fits all answer or approach as scenarios will play out differently in every market.

Scenario planning is obviously calculated by weighing up different factors. In this case, the key factors are: epidemiology (success in treating and preventing the virus, and the length of time before either of these are possible); policy (length of lockdowns, scale and effectiveness of policy responses - furlough schemes, loans to SMEs, industry bailouts, central banks and interest rates/QE); economy (the scale of financial distress and the ability of financial markets - and companies/consumers - to access credit); and consumer (spending and confidence).

Every consultancy and organization is currently developing their own point of view on the different scenarios and how many we should consider. This article outlines three possible scenarios - the central scenario, the downside scenario, and the upside scenario - as outlined by Oxford Economics and our partners at Foresight Factory:

THE CENTRAL SCENARIO

This scenario is what our analysts consider to be the most likely. It assumes a gradual and successful easing of the lockdowns introduced across the world, and a much deeper recession than the last one but a shorter one: it's 'U' shaped, which means that the period of time spent at the 'bottom' is short. On these grounds, there would be a return to growth in Q3 & Q4 of this year, and a gradual re-starting of the economy supported by policy. However, this depends upon the crisis predominantly impacting supply, and not consumer demand. No global economy will escape and it's predicted that global GDP will contract by 4.8%. World Trade will contract for the second time since the mid 1980's. As a result, employment will take a hit. Oil prices will continue their decline and inflation will fall.

If this scenario occurs then the biggest shifts in consumer behaviour will be increased social cohesion, digital acceleration with permanent behaviour shifts online (e.g. e-commerce) and hygiene and overall preparedness will remain on people's agendas.

A continued sense of uncertainty about the future will remain, as will an increased sense of self-reliance amongst individuals, households, communities and nations - having survived through the crisis in isolation. Meanwhile, creativity will be on the rise as people seek to take control of the challenging circumstances.

In terms of behavioural shifts, there will be delaying and careful spend planning, and a demand for flexibility. Treats and little luxuries will be essential. Local living will be on the

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rise, due to an increased sense of connectedness to the local community. There will also be retained self-sufficiency (cooking, beauty, learning etc), greater empowerment to stick to better habits and change ways of living etc. As distancing measures and economic challenges persist, creativity will explode. People and businesses show resilience by coming up with creative solutions and new ways of living in crisis.

THE DOWNSIDE SCENARIO

As the name suggests, this is a more pessimistic outcome than the 'central scenario' and the second most likely. It assumes lockdowns needing to be reinstated regularly, as a result of the virus not being controlled or suppressed successfully. The recession and recovery curve would likely resemble an 'L' or 'tick' shape meaning a longer lasting recession and a much slower recovery.

This outcome is likely to occur if policies are ineffective in preventing further spread of the virus, which leads to third and fourth waves of infections, which in turn reduce mobility due to localised lockdowns. This scenario is also more likely to occur if central banks and governments fail to instil confidence in industries and employers. It predicts that unemployment would peak at 10% globally, and policy makers would be unable to shield the economy. As a result, there would be sharper falls in GDP and the global economy would contract by 8%.

In this scenario, broad shifts will be that digital is further embedded in people's lives, as more people become comfortable with online activities and centralised surveillance becomes more common. In terms of mindset: protective mindset and so-called siege mentality will persist or reappear for those who will be impacted further down the line; there will be greater self-reliance among individuals, households, communities and nations turning to prolonged isolation; and online living will become the norm.

Behavioural shifts will include: a focus on meeting basic needs and the immediate term; disengagement from longer term plans and big purchases; bargain hunting and trading down and off; a demand for treats; the home continues being the reduced physical universe people inhabit; local living because there is no other choice; demand for escapism; and remote becomes the only way for many areas of life, which leads to more sophisticated solutions to meet demand.

THE UPSIDE SCENARIO

This scenario is the least likely of the three. It is anticipated to occur if there are medical breakthroughs faster than expected (i.e. effective treatments and a vaccination created and distributed more quickly than the expected 12-18 months) which will mean a relatively

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faster return to 'normal'. There exists a possibility that digital acceleration would lead to a faster than expected rebound in consumer spending, as online spending quickly compensates for the losses during the lockdowns. This scenario would also rely on government intervention proving very effective and helping firms survive the economic blow which would mean lower than predicted unemployment levels.

Top-level shifts will be increased social cohesion, digital acceleration, and increased respect for public institutions and local governments. Scenario mindsets will be less extreme than those predicted for the other two scenarios, with people retaining a focus on being prepared "just in case" for the longer term, having moved on from immediate worry, fear and panic. More people will also be more comfortable online.

Key behavioural shifts will be ensuring provisions, financial planning and savings, maintaining well-being and self-care, seeking hygiene-related features and reassurances in products and experiences, "in person" no longer the default way of doing things, and remote solutions for everything become an expectation.

WHAT THIS MEANS

While the volatility of the external context is unprecedented, businesses should do their best to plan where they can: "We cannot predict the future. But we can seek to understand what the future might hold, and what that means for nations, industry sectors, and individual companies. We need scenarios to bound the uncertainty, to help us understand the underlying drivers of outcomes, and for some understanding of how we can shape those outcomes."⁴

Understanding economic scenarios is the first step that provides a context for the possible environments in which our clients will operate. The next step involves scenario planning for a particular business, the impact on its customers and appropriate brand response. BBDO Knows have developed a framework for performing scenario planning for our clients - please get in touch with the team at bbdo@bbdoknows.com to learn more.

⁴ COVID-19: Win the Fight, Win the Future, BCG, [Link](#)

ABOUT BBDO KNOWS

BBDO KNOWS is a planning resource for the BBDO network.

BBDO KNOWS offers thinking, strategy, insights and inspiration on key categories, key themes and consumer segments.

If you are interested in learning more about the way BBDO thinks please contact

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