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The Bridgespan Group

Making Sense of Uncertainty: Nonprofit Scenario Planning

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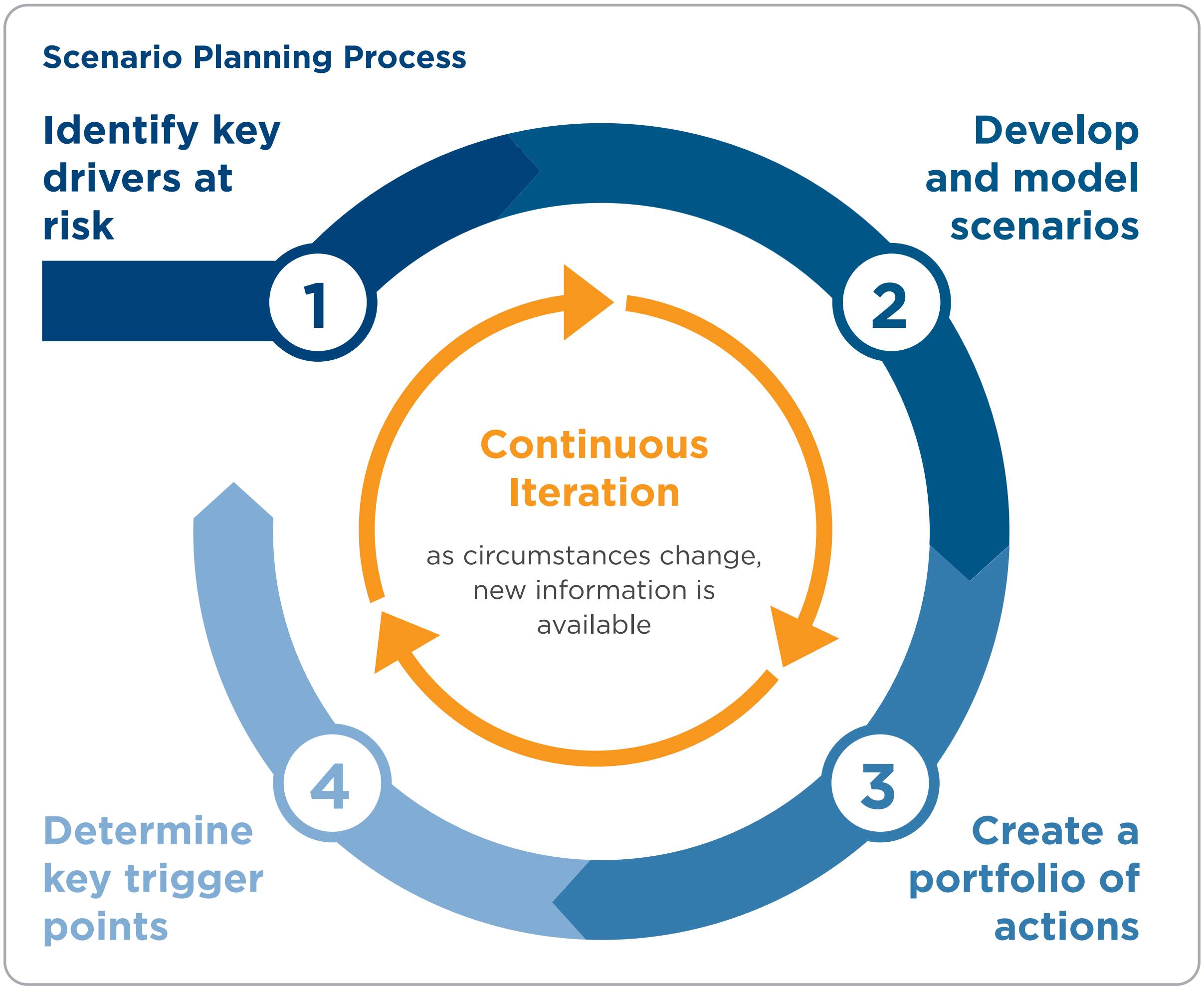
Nonprofits are demonstrating extraordinary resilience and flexibility amid a confluence of economic, public health, and humanitarian crises unfolding around the world. Since the start of the COVID-19 pandemic, they've been working to provide emergency relief, keep staff and constituents safe, and stabilize their financial health—all while staying on mission under extraordinary stress. Unfortunately, none of these stressors is behind us just yet, and they require nonprofits to respond in the short term while preparing for the long term. That's where scenario planning comes in.

Scenario planning helps organization leaders navigate uncertainty while providing structure around making key strategic decisions. This article, and the accompanying tool, can support you and your leadership team through a scenario planning process that could help preserve your organization's ability to pursue its goals for impact. We carefully adapted Bain & Company's coronavirus scenario planning guidance and strategy in uncertainty methodology, and worked with a number of nonprofit leaders to put this approach into practice.[1]

First comes some homework. Decision making under uncertainty starts with clarity on **guiding principles** for your organization. (See "A Compass for the Crisis: Nonprofit Decision Making in the COVID-19 Pandemic.") The principles reflect your organization's unique mission, values, and circumstances, and articulate how you will approach tough tradeoffs balancing your mission, finances, staff, equity, and other considerations. They'll also help you communicate the rationale behind tough decisions to key stakeholders.

1 We've worked extensively with this approach to scenario planning, and we acknowledge there are other ways of going about it. For example, the Nonprofit Finance Fund has assembled a collection of COVID-19 tools and resources for nonprofits, including scenario planning tools. Fiscal Management Associates offers a collection of tools to support nonprofits in managing their finances during this period of uncertainty, including a revenue scenario planning tool.

If you haven't already aligned on guiding principles in your initial crisis response, you'll want do to so before embarking on the four-step scenario planning process outlined below.



Step 1. Identify key drivers at risk

With guiding principles in hand, you'll start scenario planning by identifying the **drivers of your organization's economics and impact.** These are the elements or variables that animate your day, or keep you up at night, typically in three categories—programs, operations, and funding. Think client demand (e.g., student enrollment or patient volume), staff capacity, contract revenue, foundation grants, or others.

You may have a long list of drivers, so you'll want to prioritize them by level of importance and level of risk. In evaluating levels of risk, consider three questions:

1. What is the nature of the risk associated with the driver?
2. What is the likelihood that the risk plays itself out?
3. If the risk played out, how much of an impact would it have?

A risk with a high likelihood and high impact of course indicates a high level of risk. But so much is uncertain, so you'll have to rely on a combination of external sources (such as guidance from public health experts or economic data) and good judgement to make best guess assessments across all drivers and their risks.

The best way to describe these steps is through an example.[2] Let's look at a mentoring organization that works in public schools. The nonprofit identified a number of drivers of economics and impact—11 in all. These included the number of students served, the recruitment of mentors, and school contracts.

Step 1 Example: Identify key drivers at risk

Identify drivers of organization economics and impact			Level of importance*	Level of risk
Programs	List drivers of programmatic impact	• School contracts/partnerships	Low / Med / **High**	Low / Med / **High**
		• Students served per school	Low / Med / **High**	Low / **Med** / High
		• Mentor capacity	Low / Med / **High**	**Low** / Med / High
		• How services are delivered (i.e., in person)	Low / Med / **High**	Low / Med / **High**
Operations	List drivers of organization operations	• Mentor recruitment	Low / **Med** / High	Low / **Med** / High
		• Mentor training and support	Low / Med / **High**	Low / Med / **High**
		• Occupancy costs (office rent/utilities)	**Low** / Med / High	**Low** / Med / High
		• Central office support/administration	Low / **Med** / High	**Low** / Med / High
Funding	List drivers of organization revenue	• School contracts (60% of total revenue)	Low / Med / **High**	Low / Med / **High**
		• Corporate grants (30% of total revenue)	Low / Med / **High**	Low / Med / **High**
		• Foundation grants (10% of total revenue)	**Low** / Med / High	**Low** / Med / High

*Level of importance in this context refers to the driver's contribution to your organization's economics (e.g., percentage of revenue or expenses) and/or your mission (e.g., role in achieving target outcomes).

It then needed to decide which of the drivers mattered most. To use all 11 in the next steps of the scenario planning process would be too complicated; with scenario planning, clarity is more important than complexity. So the organization prioritized the five drivers it judged to have both high importance and high levels of risk associated with them. These became its **key drivers.**

For example, the organization relies on delivering its mentoring services in person. That model is of high importance to the organization's impact model—and very much high risk

2 All three examples in this article are based on actual US-based nonprofits we've talked to about scenario planning during this crisis, but we have taken liberties with the details to preserve confidentiality and simplify the example. All three involve some form of direct service, but the same steps apply to an advocacy or policy organization, or an intermediary.

because of the likelihood that social distancing practices become part of the norm. Notice, as well, that other drivers, like mentor capacity, are high importance but low risk and thus less critical to address in scenario planning. In this example, the organization realized that volunteer mentor capacity might actually increase in a down economy and therefore the risk of mentor capacity drying up is low.

For simplicity's sake, we've used an example with one main program. Organizations with multiple programs should begin by **focusing on the programs that are central to their missions and economics.**

Let's quickly consider two other examples where the organizations had to think about other kinds of drivers. A multisite nonprofit health center conducting this exercise decided to focus on three key drivers: patient volume, healthcare revenue, and patient mix. Like most health organizations, it's heavily dependent on third-party payers (whether public or private) for its revenue. The reason it also chose to focus on patient mix is because serving people of color and lower-income communities with less access to health services is key to its mission. If it chose only patient volume and healthcare revenue as key drivers, the planning process might end up focusing almost exclusively on economics at the expense of equity and mission—a particular problem in light of the disproportionate impact that the pandemic has had on historically marginalized communities. For mission-driven organizations, the most effective scenario planning process will consider both economics and impact.

Another example is a nonprofit cultural institution that relies on admissions for most of its revenue, and has high fixed costs to maintain its facility and cultural assets. Communities often have many such institutions—museums, zoos, historic houses, or other sites. In a time of social distancing, this particular institution selected admissions and special events as being both of high importance and at high risk, and focused on these two during its scenario planning process. While grant revenue and research are also significant elements of its operation, those drivers faced relatively low levels of risk and were therefore less critical to address in scenario planning.

Step 2. Develop and model scenarios

Develop best-, moderate-, and worst-case scenarios that reflect the full spectrum of possible outcomes for your organization. Your scenarios should anchor on the key drivers—the ones that are high importance and high risk—that you prioritized in Step 1. As you assessed the level of risk for each, you probably thought about external factors—for example, government social distancing rules, the pace of economic recovery, unemployment rates, school closures, and public attitudes about engaging in certain kinds of activities (like volunteering, seeking health services, or going to a cultural institution)—that are beyond your control. Now, it's time to build scenarios around those external factors, focusing on how the few that are most relevant to your organization play out in best, moderate, and worst cases.

Recall that for the mentoring organization, its five key drivers were: whether schools opt in or out of the mentoring program, how it delivers services to students, whether social distancing rules will make it harder to train and support mentors, and the potential for cuts in school contracts and corporate funding. For this step, the organization chose to focus on scenarios that depend on when, and whether, schools reopen. While many other external factors are important, this is a critical on/off switch for the organization. It affects how the organization delivers services to students and how it works with mentors. Of course, the organization is also keenly aware that its funding streams are dependent on the economic recovery, another external factor in its scenario analysis.

For each scenario, in the chart below, the mentoring organization estimated how its key drivers may be affected—focusing specifically on the impact on the organization's revenue streams. Understanding the potential financial impact of each scenario will help tee up an important conversation in Step 3 around options for action.

Step 2 Example: Develop and model scenarios

External factors that directly impact our organization	Best case	Moderate case	Worst case
Pace of economic recovery	• Sharp Q2 contraction, followed by quick economic recovery	• Repressed economic activity for up to a year, returning to normal levels in early 2021	• Prolonged recession through 2021 or beyond
School closures as mandated by government	• Schools reopen on time for 2020/21 school year	• Schools reopen in mid- 2020/21 school year	• Schools reopen for the 2021/22 school year

	Key drivers at risk from Step 1	Best case	Moderate case	Worst case
Programs	School contracts/ partnerships	• 1 of 10 school contracts/ partnerships terminated	• 3 of 10 school contracts/ partnerships terminated	• 4 of 10 school contracts/ partnerships terminated
Programs	Service delivery model		• Shift to virtual service delivery until schools reopen	
Operations	Mentor training and support		• Shift to virtual training and support until schools reopen	
Funding	School contracts	• School contract funding decreases 10%	• School contract funding decreases 30%	• School contract funding decreases 40%
Funding	Corporate grants	• Corporate funding decreases 15%	• Corporate funding decreases 25%	• Corporate funding decreases 35%

For the nonprofit health center, the most important external factors it decided to focus on—given the drivers of patient volume, healthcare revenue, and patient mix—were: the status of the shelter-in-place mandate (which affects whether patients can visit in person), unemployment rate (which significantly affects health insurance status and therefore reimbursement rates), and the continued viability of telehealth in terms of both patient acceptance and insurance reimbursement rates. It developed best-, moderate-, and worst-case scenarios for these external factors using the best available data—and mapped their potential impact on patient volume, healthcare revenue, and patient mix. Because the health center is working with three main external factors, it *could* have gotten complicated. But it kept things simple by grouping external factors to come up with overall best-, moderate-, and worst-case scenarios for which it could then plan.

The cultural institution also chose to focus on three external factors: when shelter-in-place restrictions will be lifted for its sector (which could conceivably come later than for other sectors of the economy), capacity constraints as a result of social distancing rules, and how willing the public will be to visit its site. Of course for another type of cultural institution—one much more dependent on grants or private donations than on admissions revenue—the key external factors might be different (perhaps more focused on economic conditions than COVID-19 control regulations or the public's willingness to visit).

Anchor your financial modeling in a time horizon that is relevant for your organization and budget cycle (e.g., six months). Some will find it helpful to consider multiple time horizons. But whatever your time horizon, remember two things:

- **Don't aim for precision.** The goal is to work with your management team to understand possible outcomes and plan accordingly.
- **Don't underestimate the worst case.** Your worst-case scenario should reflect possibilities that could have serious consequences for the organization.

Step 3. Create a portfolio of actions

Next, you want to develop a set of actions that would allow you to effectively manage against each scenario—or across all of them.

Actions typically fall into one of three main categories:

1. **Appropriate for any scenario:** These actions are likely to benefit the organization's ability to deliver impact and support its financial health under any future scenario.
2. **Smaller-scale and more flexible:** These actions can be executed quickly, and potentially reversed, if needed.
3. **Larger and more permanent:** These actions involve large-scale investments or cost-reduction measures and may be harder to reverse.

The actions will likely have some economic cost or benefit. Quantify the potential costs incurred or savings achieved for each action *individually*, over whatever time horizon the action would be implemented. Then, calculate the total estimated costs incurred or savings achieved by each set of actions for your best-, moderate-, and worst-case scenarios. And keep your guiding principles top of mind; they will serve as an invaluable compass to ensure your actions balance these financial costs and benefits with your mission, your staff, equity, and the other considerations that your leadership team agreed upon.

Here is how the mentoring organization approached Step 3. It focused on several actions it could take—drawing from reserves, reducing staff salaries, temporarily or permanently laying off staff, and so forth—and mapped them against its three scenarios. Sometimes a scenario required a new action—like closing an office—and sometimes it required more of what they were already doing even in the best scenario—drawing on reserves, cutting salaries.

Step 3 Example: Create a portfolio of actions

	Best case	Moderate case	Worst case
Appropriate for any scenario	• Reduce discretionary spending (e.g., travel expenses, office supplies, etc.) • Pause employer match retirement contributions • Launch funding appeal among key supporters • Shift mentor recruitment to virtual format		
Smaller-scale and more flexible	1 Reduce executive level salaries 15%	3 Reduce executive level salaries 30%	→
		4 Furlough nonessential central office and administrative staff	9 Reduce staff salaries 10%
Larger and more permanent	2 Draw 25% of org reserves to cover anticipated revenue shortfall	5 Draw 50% of org reserves to cover anticipated revenue shortfall	10 Draw 75% of org reserves to cover anticipated revenue shortfall
		6 Layoff program staff mapped to terminated school partnerships	→
		7 Close regional office(s) mapped to terminated school partnerships	→
		8 Invest in learning management system (LMS) for long-term virtual program delivery	→
			11 Layoff nonessential central office and administrative staff

Depending on the scenario, the multisite health center identified several potential actions, including: reducing or expanding hours of operation, changing the location of health center sites, temporarily or permanently laying off staff, and hiring additional staff with the capability to perform the highest demand services. One of its guiding principles is to ensure health equity by focusing its services on those populations most in need of critical care. Thus, the center is also considering how potential shifts in its patient mix, one of the key drivers it identified in Step 1, will motivate action. For example, it may increase telehealth offerings to reach a more diverse patient base or open new sites in low-income communities where demand for its services is increasing.

Likewise, the cultural institution specified a range of possible actions for each scenario, including: developing virtual programming, securing philanthropic support to accommodate a temporary shortfall in admissions, reducing staff, creating remote guided tours by videoconference, and changing the ways in which people move through the site to ensure social distancing.

Step 4. Determine key trigger points

So far in this process, you have prioritized key drivers of your organization's economics and impact facing high levels of risk; developed best-, moderate-, and worst-case scenarios; and crafted a portfolio of actions appropriate for each scenario. This last step involves identifying clear trigger points that will prompt decision making and action on the part of your leadership team. At what point would you have to let which staff go? When should you press pause on certain employee benefits? What will prompt you to shut down a program delivery site or open a new one where needs are increasing? These are tough questions requiring tough answers, but these trigger points—whether signaled by internal metrics or external events—can serve as guardrails for you and your leadership team through the crisis and its aftermath. They will also help speed up decision making down the road. You may want several trigger points, or one that is the best gauge for multiple actions.

Here, the mentoring organization lays out its potential actions by scenario, with a trigger point for each. The trigger points it identified take different forms—specific levels of revenue reduction, the opening or closing of the school system, and the termination of partnerships with particular schools.

Step 4 Example: Determine key trigger points

Actions	Scenarios: Best Case	Scenarios: Moderate Case	Scenarios: Worst Case	Key trigger points
1 Reduce executive level salaries by 15%	✓			Total projected organization revenue falls 10% below budget
2 Draw 25% of organization reserves to cover anticipated budget shortfall	✓			
3 Furlough nonessential central office/ administrative staff		✓		Total projected organization revenue falls 30% below budget
4 Draw 50% of organization reserves to cover anticipated budget shortfall		✓		
5 Reduce executive level salaries by 30%		✓	✓	
6 Layoff program staff mapped to terminated school partnerships		✓	✓	3rd school contract/ partnership termination
7 Close regional office(s) mapped to terminated school partnerships		✓	✓	
8 Invest in LMS for long-term virtual program delivery		✓	✓	School closures extend past midpoint of the 2020/21 school year
9 Draw 75% of organization reserves to cover anticipated budget shortfall			✓	Total projected organization revenue falls 40% below budget
10 Reduce staff salaries by 10%			✓	
11 Layoff nonessential central office/ administrative staff			✓	

The multisite health center has selected a lifting of shelter-in-place rules, a loss of a specific percentage of healthcare revenue, and a decrease of a specific percentage in patient volume as its trigger points for action. The cultural institution chose the lifting of shelter-in-place rules and a percentage drop in admissions revenue.

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Scenario planning—at a time when so much remains unknown—is both challenging and necessary for nonprofits, as they navigate these unprecedented circumstances and work to preserve their ability to deliver impact. Taken together, these four steps provide a way to think about the different scenarios you might need to adapt to in the coming months and how to think through the difficult choices you may need to make.

A scenario plan can provide a powerful structure for coping with risk and uncertainty, but it is not the kind of structure that ought to be set in stone. Rather, the best scenario plan is a living document—continually revised as new information flows in. If your best assumptions turn out to be wrong, make new ones and course correct. In this fast-changing environment, planning needs to be iterative—taking into account important new information as it becomes available. After all, you are not trying to predict the future, you are preparing a response for whatever future arrives so that you can focus on pursuing your mission.

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