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Business Case – Scenario Analysis

Let's talk about scenario analysis in our business case.

We've got all of the revenue, expenses in and we've done our MPV, project calculations and we've got the payback period working. What we want to do now is some scenario analysis. The inputs that we put in there were 2.5% for our take up rate and 10% for the churn. We are going to do a very simple best case/base case/worst case scenario analysis on our model. We are going to tweak our inputs up and down just a little bit.

This is the process that we do every single time we build a financial model. We finish the model and get all of the calculations working correctly and then we go into our assumptions and change the inputs. I have seen a lot of people when they create a scenario analysis, they finish the model and then they save it as the best case. They change all the numbers and then they save it as the worst case and so on. That's okay but it does mean that every time you want to make a change, you need to go through that process every time. We are going to do a much better practice way of doing it.

We have finished with our business case and we are going to take the table that you can see here and recreate that onto our assumptions page and link this through to our formula and calculations. You will see that it's quite a straight forward process because of the way that we've built this model.

Go to your business case, in the Assumptions tab and put in a scenario table. Put in best case, base case and worse case. The take up rate for the best case that we've been doing was 2.5% and 10%. These are going to be input variables. Go to the home tab and change these to input variables. That is going to be the input for my scenario analysis. This is what

we are going to use for our input variables instead of what we have here. At the moment we have a hard-coded take up rate of 2.5% and churn rate of 10%. What we are going to do now is to make these hard coded inputs for our scenarios and these are going to change depending on what scenario has been selected. Go to the P&L page. We are going to create a drop down here in cell 3 for select scenario. Go to data validation, allow a list and then we'll say equals, go to your assumptions and use best case, base case and worst case and okay. So the drop down will say best case, base case and worst case. I haven't linked anything to this yet so nothing changes as I change through the dropdown. I am going to name this range, as scenario. Now what I am going to do is to make it so that your inputs will change if the scenario that has been selected is best case, the take up will be 3%. If it's base case it will be 2.5% and if it's worst case, it will be 2%. Have a go and see if you can get that working and then we will work through it together.

I'm going to use a VLOOKUP formula for this one. These numbers here (take up rate and churn) are not going to be hard coded numbers anymore; not an input variable so I am going to change the background to no fill, and that is going to contain a formula. You could use an IF statement if you like, a SUMIF would work as well or a VLOOUP or INDEX MATCH if you know how to do that. There is a number of different formulas that you could use. The VLOOKUP value is scenario. The table array is this range here and column index number for the take up rate is at 2 and then it's going to be a zero for an exact match. Then I can do the exact same thing with the churn. I can reuse the same formula and then I can change the column index number to 3 instead.

Now when I change my drop down the inputs will automatically change and because of the way that I've built this model everything is linking through to my assumptions. It should be a very simple process. Go to P&L and change the drop down to best case, all the numbers change. I can see that the take up rate has changed to 3% and the churn is 5%. My MPV is 2.5 million. What if I change it to worst case? It changes quite a lot doesn't it. Go back to Assumptions and you can see that the take up rate goes down to 2% and churn rate goes up to 15% which does make quite a bit impact to my numbers. Have a play around and make sure you can see your numbers changing and make sure your numbers are the same as

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mine. Base case is $304,000, 2.5 million for best case and negative 1.7 million for your worst case.

That is all your scenarios.

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