World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 2 August-September 2021,
ISSN: 2749-3628

SCENARIO BASED ANALYSIS USING DRIVER BASED BUDGETING

Rajeev Menon,
SCMS School of Business, Kochi, India
Sandra Thomas,
SCMS School of Business, Kochi, India
August 2021

Article history:

Received: July, 7th 2021
Accepted: August 11th 2021
Published: September 11th 2021

Abstract:

Scenario analysis is a technique that entails calculating various reinvestment rates for predicted returns that are reinvested within the investment horizon. Scenario analysis, which is based on mathematical and statistical concepts, is a method for estimating changes in the value of a portfolio depending on the occurrence of various scenarios, or "what if" scenarios, using the principles of "what if" analysis, or sensitivity analysis. Sensitivity analysis is the process of determining how different values of an independent variable impact a dependent variable under specific circumstances. These evaluations can be used to measure the level of risk in a specific investment in relation to a number of hypothetical occurrences, ranging from highly likely to highly improbable. An investor can assess whether the level of risk involved is within his comfort zone based on the research' findings. Scenario analysis is the process of evaluating a portfolio's expected value once a change in the values of critical elements occurs. The sales department kicks off the budgeting process. They'll have to enter the products, quantities, and prices they expect to see in the future. They'll have to consider how they'll make money as well. Following that, the sales forecast will be utilised to plan operations. They'll figure out how much money they'll need in terms of labour and equipment to deliver this budget, and they'll document everything in a set of guidelines.

Keywords: Budgeting, Driver-Based, Prediction, Time series.

INTRODUCTION

In many aspects, this technique is similar to traditional planning and budgeting, but it is distinguished by the fact that it is related to physical resources and real people. The sales department kicks off the budgeting process. They'll have to enter the products, quantities, and prices they expect to see in the future. They'll have to consider how they'll make money as well. Following that, the sales forecast will be utilised to plan operations. They'll figure out how much money they'll need in terms of labour and equipment to deliver this budget, and they'll document everything in a set of guidelines. In other words, if the contents of the sales forecast change in the future, the operational requirements can be quickly altered to match the new forecast.

Driver-based planning can be used to generate rolling estimates and more exact financial predictions for the coming fiscal year. Instead of having managers estimate or anticipate each line item in their cost centre budgets, the focus is on modifying major elements that drive other line items through calculations. In most cases, a data warehouse is located on your premises. You purchase the hardware, build up the server rooms, and recruit the staff to run it. In most cases, a data warehouse is located on your premises. You purchase the hardware, build up the server rooms, and recruit the staff to run it.

On-premises data warehouses, on-prem data warehouses, and (grammatically incorrect) on-premise data warehouses are other names for them. Cloud data warehouses are a new concept that is continually changing. To grasp the essential concepts of the key cloud data warehousing systems, it is required to examine them. Three of the most popular cloud data warehouse alternatives are Amazon Redshift, Google BigQuery, and Panoply. We've split down the major parts from each of these services to give you a rough picture of how modern data warehouses work.

Scenario analysis can be approached in a variety of ways. The portfolio value is computed if each investment delivers returns that are two or three standard deviations above and below the average return. The relative success or failure of a new product launch, or a mix of elements, such as the product launch's results paired with potential changes in competitor businesses' actions. The purpose is to design an investing strategy by analysing the consequences of the most severe events. The same method for assessing probable investment scenarios can be used to examine

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 2 August-September 2021,
ISSN: 2749-3628

value movements based on speculative scenarios in a variety of other financial situations.

On the consumer side, scenario analysis can be used to compare the financial outcomes of purchasing an item on credit vs saving money for a cash purchase. When determining whether or not to accept a new job offer, a person can also consider the numerous financial changes that may occur. Businesses can use scenario analysis to assess the financial implications of various options, such as choosing between two locations or storefronts from which to operate. This could include things like rent, electricity costs, and insurance, as well as any benefits that may be available in one area but not the other.

The fundamental downside of scenario analysis is that it might lead to models that are considerably off the mark, or "garbage in, trash out." Scenario analysis is also subject to the user's biases and is significantly reliant on historical data. As previously said, scenario analysis entails a careful examination of a wide range of possible outcomes, including those that are negative. Scenario analysis can be used to help with practically any managerial decision, especially ones that have to do with competitive strategy. To put it another way, scenario analysis allows managers to put strategic plans to the test for example, whether or not to acquire a smaller competitor and see how they will fare under various scenarios. Scenario analysis examines a wide range of possible outcomes while also examining the impact of simultaneously modifying all variables.

Sensitivity analysis, on the other hand, evaluates the impact of changing just one variable at a time. Scenario analysis is the technique of calculating a portfolio's expected value by modifying a number of important factors. Both investment strategy and corporate finance can benefit from the method. While scenario analysis is a useful tool for investors and managers, it is only as good as the user's assumptions and inputs.

DRIVER BASED BUDGETING

In many aspects, this technique is similar to traditional planning and budgeting, but it is distinguished by the fact that it is related to physical resources and real people. The sales department kicks off the budgeting process. They'll have to enter the products, quantities, and prices they expect to see in the future. They'll have to consider how they'll make money as well. Following that, the sales forecast will be utilised to plan operations. They'll figure out how much money they'll need in terms of labour and equipment to deliver this budget, and they'll document everything in a set of guidelines. In other words, if the contents of the sales forecast change in the future, the operational requirements can be quickly altered to match the new forecast. Driver-based planning can be used to generate rolling estimates and more exact financial predictions for the coming fiscal year. Instead of having managers estimate or anticipate each line item in their cost centre budgets, the focus is on modifying major elements that drive other line items through calculations. In most cases, a data warehouse is located on your premises. You purchase the hardware, build up the server rooms, and recruit the staff to run it. In most cases, a data warehouse is located on your premises. You purchase the hardware, build up the server rooms, and recruit the staff to run it. On-premise data warehouses, on-prem data warehouses, and (grammatically incorrect) on-premise data warehouses are other names for them. Cloud data warehouses are a new concept that is continually changing. To grasp the essential concepts of the key cloud data warehousing systems, it is required to examine them. Three of the most popular cloud data warehouse alternatives are Amazon Redshift, Google BigQuery, and Panoply. We've split down the major parts from each of these services to give you a rough picture of how modern data warehouses work.

This technique is comparable to traditional planning and budgeting in many ways, but it differs in that it is linked to physical resources and real people. The budgeting process begins with the sales department. They must enter the products, quantities, and pricing they anticipate seeing in the future. They'll also have to think about how they'll make money. The sales projection will be used to plan operations after that. They'll calculate how much money they'll need to deliver this budget, both in terms of manpower and equipment, and document everything in a set of guidelines. That is, if the contents of the sales prediction change in the future, the operational requirements can be adjusted promptly to reflect the new projection. For the coming fiscal year, driver-based planning can be utilised to produce rolling estimates and more precise financial forecasting. Rather than having managers estimate or forecast each line item in their cost centre budgets, the focus is on changing important factors that drive other line items through computations.

SCENARIO BASED ANALYSIS

Scenario analysis is a technique that entails calculating various reinvestment rates for predicted returns that are reinvested within the investment horizon. Scenario analysis, which is based on mathematical and statistical concepts, is a method for estimating changes in the value of a portfolio depending on the occurrence of various scenarios, or "what if"

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 2 August-September 2021,
ISSN: 2749-3628

scenarios, using the principles of "what if" analysis, or sensitivity analysis. Sensitivity analysis is the process of determining how different values of an independent variable impact a dependent variable under specific circumstances. These evaluations can be used to measure the level of risk in a specific investment in relation to a number of hypothetical occurrences, ranging from highly likely to highly improbable.

An investor can assess whether the level of risk involved is within his comfort zone based on the research' findings. Scenario analysis is the process of evaluating a portfolio's expected value once a change in the values of critical elements occurs. This method can be used to test both likely possibilities and unlikely worst-case scenarios, and it frequently relies on computer simulations. Scenario analysis can be used in both investing and corporate finance. Stress testing is a sort of scenario analysis that focuses on worst-case situations. Stress testing, which uses a computer simulation technique, is frequently used to assess the resilience of institutions and investment portfolios in the face of potential future catastrophic scenarios. The financial industry commonly uses this type of testing to assess investment risk and asset adequacy. Internal processes and controls are also evaluated via stress testing. Regulators have also compelled financial institutions to conduct stress tests in recent years to ensure that their capital and other assets are adequate.

Scenario analysis can be approached in a variety of ways. The portfolio value is computed if each investment delivers returns that are two or three standard deviations above and below the average return. The relative success or failure of a new product launch, or a mix of elements, such as the product launch's results paired with potential changes in competitor businesses' actions. The purpose is to design an investing strategy by analysing the consequences of the most severe events.

The same method for assessing probable investment scenarios can be used to examine value movements based on speculative scenarios in a variety of other financial situations. On the consumer side, scenario analysis can be used to compare the financial outcomes of purchasing an item on credit vs saving money for a cash purchase. When determining whether or not to accept a new job offer, a person can also consider the numerous financial changes that may occur. Businesses can use scenario analysis to assess the financial implications of various options, such as choosing between two locations or storefronts from which to operate. This could include things like rent, electricity costs, and insurance, as well as any benefits that may be available in one area but not the other.

ADVANTAGES

The most significant benefit of scenario analysis is that it allows for a comprehensive study of all conceivable scenarios. As a result, managers can put their decisions to the test, understand the possible impact of specific variables, and spot potential dangers.

CONCLUSION

On the consumer side, scenario analysis can be used to compare the financial outcomes of purchasing an item on credit vs saving money for a cash purchase. When determining whether or not to accept a new job offer, a person can also consider the numerous financial changes that may occur. Businesses can use scenario analysis to assess the financial implications of various options, such as choosing between two locations or storefronts from which to operate. This could include things like rent, electricity costs, and insurance, as well as any benefits that may be available in one area but not the other. The most significant benefit of scenario analysis is that it allows for a comprehensive study of all conceivable scenarios. As a result, managers can put their decisions to the test, understand the possible impact of specific variables, and spot potential dangers.

REFERENCES

1. F. Bartes, "Action Plan—Basis of Competitive Intelligence Activities," Economics and Management, Vol. 16, 2011, pp. 664-669.
2. E. Keogh, S. Chu, D. Hart & M. Pazzani, Segmenting time series: a survey and novel approach. In M. Last, A. Kandel, & H. Bunke (Eds.)
3. T. Malkovich, "Death Knell for Fixed Budgets," Charter, Vol. 82, No. 3, 2011, pp. 40-43.
4. So, M. K. P. and R. S. W. Chung. Dynamic seasonality in time series. Computational Statistics and Data Analysis, 70(0), 2014. p
5. Noble, W. S. 2006. "What Is a Support Vector Machine?" Nature Biotechnology. https://www.nature.com/articles/nbt1206-1565.
6. Parker, Robert J., and Larissa Kyj. 2006. "Vertical Information Sharing in the Budgeting Process." Accounting, Organizations and Society 31 (1): 27–45.
7. Rickards, Robert C. 2006. "Beyond Budgeting: Boon or Boondoggle?" Investment Management and Financial Innovations, no. 3, Iss. 2: 62–76.