

# BUSINESS FINANCE

## SCENARIO PLANNING FOR SMALL BUSINESSES: A CFO TOOL YOU CAN'T AFFORD TO IGNORE

In the fast-moving world of small business, yesterday's assumptions become today's crises before you even see them coming. Early in my career, I joined a company that operated without an annual budget—there was no target for anyone to pursue. Without direction, managers and employees alike lacked focus, and predictably the business drifted into stagnation. In contrast, I once advised a client whose board approved a budget based on little more than wishful thinking. Expense forecasts bore no relation to reality, sales targets were out of reach, and they closed the year deep in the red. Both experiences taught me one simple truth: whether you have no plan or an unachievable one, you lose the foresight you need to navigate uncertainty.

Uncertainty is inevitable—it waits around every corner, whether it shows up once or becomes part of your day-to-day reality. We have all faced surprises: a supplier halt, a sudden cost spike, or a customer delay.

When those shocks arrive, your reaction is only as good as the plan you built before the crisis. That is where scenario planning changes the game. By sketching a base case, an upside case, and a downside case, you not only see what might happen—you create a decision tree that guides your exact response, without scrambling in real time.

Scenario planning begins with a base case—typically last year's results carried forward or this year's most likely targets. From there, define two alternatives:

- **Upside case:** What if sales, pricing, or margins improve by a realistic amount?
- **Downside case:** What if revenue dips or costs spike?

Limiting yourself to these three (base, upside, and downside) thoughtfully defined scenarios keeps the process focused and free of analysis paralysis.

The real value emerges when you link each

scenario to clear, predefined actions.

For every downside trigger—say, revenue falling below a certain level—you map a path on your decision tree: pause non-essential spending, accelerate collections, or renegotiate supplier terms. When that threshold is reached, you move directly into execution instead of reacting under



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pressure. Likewise, for each upside trigger—perhaps hitting a higher-than-expected sales milestone—you know in advance which resources to deploy, whether it is boosting your marketing spend, staffing up, or launching a pilot program.

You do not need advanced software to get started. Use your existing financial reports and projections to estimate how each scenario affects cash on hand, expense coverage, and profit. Translate those estimates into trigger points on your tree. Then gather your leadership team long enough to agree on the scenarios and corresponding actions. Document each path in a simple one-page chart so it is always within reach.

To embed scenario planning into your rhythm, include a “scenario snapshot” in every monthly financial review or quarterly board update. Present your three cases side by side—base, upside, and downside—and highlight the decision-tree steps tied to each trigger. Assign clear ownership: “If sales drop by X percent, Finance will notify Operations and suspend discretionary projects.” This keeps everyone aligned and ensures you execute your plan, rather than firefighting when uncertainty hits.

Scenario planning is not just for large corporations—it is a practical discipline that every small business can and should embrace. This week, carve out time to pinpoint your three most critical drivers—whether that is sales volume, profit margin, or customer-payment

timing. Then define what “business as usual,” “what if things go better,” and “what if things go worse” really mean in dollars and days. Translate each scenario into clear action steps on your decision tree, so everyone knows exactly what to do when a trigger is hit.

Finally, gather your leadership team, review the playbook together, and confirm each commitment. When a surprise setback or unforeseen opportunity arrives, you will not be scrambling—you will be executing with confidence, pivoting quickly to protect cash or seize growth exactly when it matters most.

Which “what-if” keeps you up at night? Model it today and watch how it transforms your next strategic conversation.

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