CHAPTER-II

PLANNING FUNCTION
In the dynamic small business, the planning function is given very little consideration, yet it may be the most important function that the manager performs. There are several reasons little or no attention is given to this activity. First, very few small business-owners are planning oriented; that is, the owner-manager is so involved with day-to-day activities that he or she never "learns" the fundamentals of planning. Another reason owner-managers do not effectively manage is their lack of interest in this particular type of activity. Many managers of small businesses achieve their position as a direct result of their technical knowledge. This is particularly true of high-technology firms. In many cases the owner-managers have been educated as engineers, chemists, or physicists or some other technical field. They generally go directly from college into the production or research and development phase of some large firm. After serving effectively for several years, they decide to form their own businesses. Rather than joining with someone with administrative ability, they usually go into business with another technically trained individual, and, as a result, the new firms overloaded with technical talent and short of management types. Since the managers have been trained and experienced only in the technical areas, they have little or no interest in the planning and control phases of the business. If they are lucky, they will learn the importance of these functions and either direct their attention to them or hire someone who is trained in these areas. Unfortunately, many firms fail before this lesson is learned.

While it is true that planning may be different for small and large companies, it certainly is not less important. If anything, it is more important. For example, small businesses have less funds; therefore, they must be used effectively. Second, managers of small businesses usually do not have an adequate staff; therefore, they must make every move count, and the only way this can be done is to have carefully designed goals, strategies, policies, and procedures. Finally, the same theories apply to small and large companies alike; the only difference is in their application. This being true, small business persons must plan, organize, control, and replan the business functions if they are to use their resources effectively.¹
BUSINESS FUNCTIONS

The business organisation, regardless of size, is created and allowed to exist by the society in which it operates. In our society the ideal organisation is one that produces and distributes economic values effectively and efficiently; in fact, if values are not created and distributed, the chances of survival are greatly reduced. This concept holds true for all forms of organisations.

Economic theory tells us that value takes the shape of either form or place utility and is created through the production and distribution functions. That is, all firms that produce value directly must perform either the production or distribution function or both. For example, a manufacturing firm performs both production and distribution functions, while a retail firm performs primarily the distribution function. For these functions to be performed effectively and efficiently, the firm must have the correct amount of debt and equity capital. These functions – production, distribution, and finance – may be referred to as value- or utility- creating functions since the first two create value directly and the latter creates value indirectly. While these are not the only functions that are performed, they are vital if the firm is to meet its primary goal of creating utility or value.

MANAGERIAL FUNCTIONS

If each of the business functions is to be discharged efficiently and effectively, managers must carry out the following functions: planning, organising, control, and replanning. Regardless of the size of the firm each member of the management team must fulfill to some degree all of these functions; however, in the large companies certain managers will be responsible for performing only one or even a part of one of these functions. In the smaller firm the manager is generally called upon to perform all of these functions. Obviously, not only does this mean that he must be more of a generalist than his counterpart in the large firm but also that he must work longer hours if the firm is to operate effectively.

The primary managerial function is planning. Generally authorities have agreed that planning is deciding in advance what will be done in both the short and long term. If this is true, then planning, in our way of thinking, must include the following processes.
(1) establishing the objectives of the firm, (2) formulating strategies, (3) determining operating policies, and (4) creating procedures. It should be emphasized that these steps or phases of planning are not done in isolation; rather, each is dependent on the other.

(a) Objectives

In developing the firm’s financial objective, the manager of the small firm should remember that unless all firms create more goods and services than they employ, society will experience a net loss. If such a condition continues, either the government or the people who make up the society will demand changes designed to correct the situation. The manager should also remember that unless the individual company creates and distributes value there is a high probability that it will lose its competitive position and experience partial or complete loss. To assure that the firm will create and distribute values to the society in which it operates, the manager should establish goals for each business function. The long-run goal of the finance function is to assure management that it has the correct amount of each type of funds so that all other factors of production will produce at their optimum over the long run. This objective not only deals with the amount of capital employed but also the type and maturity of each kind of debt.

(b) Strategies

The second phase of planning is the formation of the strategy that serves as the basis for the firm’s policies. Strategy here means the process by which or the way in which the firm’s goals are achieved. For example, the financial goal of the firm is to optimize its use of capital both in amount and type. These factors are determined by the level of risk the firm should take for example, if the level of business risk can be reduced, the firm will be in a position to reduce the total amount of capital required and increase the proportion of debt capital.

The characteristics of small firms support the conclusion that they incur more business and financial risk than larger firms and are thus more susceptible to “incorrect” investment decisions. To offset these risks, smaller firms should use different strategies. For example, large firms usually follow the strategy of accepting projects with (1) the highest expected value and (2) the smallest relative dispersion of net operating income.
The logic behind this is that the market value of a firm's stock is adversely affected when earnings fluctuate. On the other hand, the strategy of the small firm should be different from that of a larger firm in that the primary criterion of an investment should not be expected value and risk associated with dispersion but rather avoiding risk of insolvency. It should be remembered that the stock of a small firm is usually not traded in the market place and the price of the stock is unaffected by variations in earning. However, a small firm, unlike the larger firm is extremely sensitive to losses.

(c) Policies

The third phase of the planning process is the determination of policies that make it possible for the firm to achieve its objectives. Policies generally fall into several general classification: (1) Capital structure policies; (2) Capital procurement policies; (3) Income distribution policies; (4) Capital synchronization policies, and (5) Asset mix policies. These classifications tend to overlap; for example, income distribution policies may also be classified as capital procurement policies. Therefore, it is necessary to identify the specific policies that the small business person should be familiar with so he or she can formulate and promulgate only those policies that will fulfill the firm's strategies and goals. The following policies are vital to the welfare of the firm, and each small business should specifically define each: 4

1. Policies determining volume of fixed capital.
2. Policies determining sources of funds.
5. Policies determining debt mix.
7. Policies determining credit and collection policies.

Each business regardless of size should have a formal policy manual. In this manual not only should the policies be specifically detailed but the firm's goals and strategies identified. The principal purpose of this is to have a guide in operating the business as well as a basis for replanning when and if it is needed.
ORGANIZATION

It was mentioned that the owner-manager is responsible for the efficient use of capital resources. To fulfill the responsibility, he or she must see that in addition to being planned the financial activities are coordinated. Coordination requires that each function and sub-function be performed at the proper time; the achievement of this requires the functions to be organised. Organization in all firms regardless of size includes two primary phases: (1) Organising all activities into identifiable functions and (2) delegating adequate authority to the individuals who have been assigned the responsibility for their performance.

The organization structure of the business enterprise is nothing more than the hierarchy of its functions. The size and nature of the structure is dependent on the size and nature of the various functions; that is, as a general rule, each function increases in size as it increases in complexity. To minimize waste and inefficiency, the management of large firms subdivide each function into various sub-functions and assign them to specialists, thereby creating a system.

The organization of a closely held company also has a system; however, the organization differs from that of a larger company; in fact, it changes at various stages of growth. The dynamic small firm goes through three distinct stages. The first stage begins when the entrepreneur invests his/her funds in an idea and lasts until the firm has gained a foothold in the market-place. This is the most dangerous stage since it is the time when the firm is faced with the greatest risk, such as inadequate capital and markets. The second period is characterized by success and growth in the same market determined at the beginning of the business. Many small businesses remain in this stage and only emerge from it when they move into the third phase, which often is to merge with another firm. The third stage is described as that stage in which the firm operates in several markets.

The organization of firms in the first category is very simple in that the entrepreneurs usually make all the decisions regarding strategies and policies. The second stage has many risks, but the managers do not have so many conflicts as are generally found in the primary stage. That is, exploiters generally leave the firm during
the early part of the second phase, thus reducing the possibility of conflict. This period is commonly characterized by expanding functions as well as adding specialists. That is, as the firm grows, there is a greater need for specialists and more funds to hire them. It is specially important for the owner-manager to create an organizational system that will define in absolute terms the duties and responsibilities of each manager.

**CONTROL**

Financial control consists of two steps: developing standards of performance and comparing activities with these standards. The former, although difficult to determine, are especially significant since they serve as a basis for the replanning process. Previously, standards were derived primarily from past experience, but with improved knowledge in the area of statistics and mathematics, it is becoming easier for managers to look into the future and develop standards that directly relate to future activities. Moreover, with the use of computers it is easier for management to maintain accurate and up-to-date records of activities. As a result, it is possible for the owner to compare today’s activities with predetermined standards.

The most difficult task in the control process is the establishment of standards. This is particularly true in small firms because many are operated for personal rather than depersonalized goals. The latter are largely financial in nature, but personal goals take many forms and are nearly impossible to define. We wish to emphasize that owners should state their goals in terms that can be measured in financial units since they are the easiest to identify and measure.

**REPLANNING**

The replanning is the last step in the planning process performed by the owners of the small firm, like each of the other functions, is vital to the ultimate success of the business process. If the evaluation of performance reveals that the end results of the firms activities will not meet predetermined standards, it may be assumed that either the firm’s policies or personnel are not effective. If it is the former, management must, first, ascertain whether it is the strategy or the policies that are ineffective and, second, make changes in either or both. This process is called replanning.
B)  FINANCIAL PLANNING

Financial planning involves an analysis of possible future events and how these events might impact the firm. The planning process enables management to consider options for responding to the anticipated events. The financial plan thus involves forecasting the possible states of nature, evaluating the effect of these states on the firm, and analysing the options and strategies to be considered by management in response to the forecasted states.

Financial planning is subdivided into two types – short-term and long range. Short-term financial planning is concerned with plans over the next twelve months. Long range planning generally covers a span of about five years, although some companies do long range planning over a greater period, and a few use a shorter period.

MISCONCEPTIONS ABOUT FINANCIAL PLANNING

Managers, particularly those within small firms, often have certain misunderstandings about financial planning. Frequently, financial planning is perceived only in terms of highly sophisticated quantitative models. The executives of a small firm frequently believe they lack personal expertise and organizational sophistication and even question the need for financial planning within the firm. They fail to realize that a decision not to consider possible future changes, both externally and internally, is planning, simply in its most naïve form. They are making the basic assumption, and planning accordingly, that the future will not differ significantly from the past and present.

NEED FOR FINANCIAL PLANNING

Batty observes, “An adequate balance and flow of cash is essential. At all times a business must be able to meet its commitments. More than this, a business cannot afford to stand still. In any competitive field it will be essential to affect improvements to introduce new products, and to expand. Experience has shown that a business does not remain static; there is a tendency to go forward or backward, but not to stagnate. If expansion is to take place, then there must be adequate financial resources”. The need for financial planning arises to ensure the following:
1. To make available of sufficient cash for meeting expenditures, emergencies and fluctuations in the level of working capital.
2. To maintain liquidity throughout the year.
3. To indicate when funds will be needed and where.
4. To indicate the surplus resources available for expansion or external investments.
5. To provide ahead for any more funds needed.
6. To increase the confidence of the suppliers of finance by suitable financial policies.

Besides the above, the following reasons also give sufficient ground for the preparation of financial plans.

(a) **Dynamic Economy:** The economy in which modern firms operate is marked by cut throat competition and consequently on narrow margin of profit. Therefore, it is necessary to make a clear forecast of future trends.

(b) The conservation of capital is very difficult particularly when we are on the threshold of the "space age". A large part of the assets which are called "modern" today is likely to become obsolete in the near future. The present expanding economy, therefore, demands planning ahead for the replacement of existing assets and the acquisition of new assets to meet the growing needs of the future.

(c) Financial planning leads to elimination of waste of operations by providing closer co-ordination of different operative functions.

(d) The price level is constantly rising due to inflationary pressure and so the cost of replacement will generally be higher than the amount of original investment. It is, therefore, very necessary to provide in financial plans not only for the maintenance of assets but also for their replacement in future.

(e) The finance function deeply affects the success or failure of the entire production and distribution function. It is necessary that each financial activity is carefully planned.

**OBJECTS OF FINANCIAL PLAN**

The soundness of a financial plan is judged by its impact on the present and future profitability of the firm. An overall financial plan should aim at the following:
The financial plan must be simple.

It must be flexible.

It must maintain proper balance between costs and risks so as to protect owners from loss of control or loss of business.

It must provide adequate funds up to the point where sales cover the costs plus a small marginal profit.

It must minimise cost of funds obtained.

A good financial plan must satisfy all the above objects as each of these has its own significance in the scheme of financial planning.

FACTORS TO BE CONSIDERED WHEN FRAMING THE FINANCIAL PLANS

It is difficult to give a perfect financial plan which can be readily adopted by every firm. In fact, a financial plan has to suit the specific circumstances in which a firm is operating. However, in devising a suitable financial plan the following factors are given proper consideration:

1. The nature of the industry as shown by the structure of assets, stability of earnings, return on capital employed, return on sales, stage of development of the firm, extent of competition, risk and business practices followed in similarly situated concerns.

2. Alternative sources of finance available.

3. The firm’s status. It will be determined by the age of the firm, its credit rating, management reputation, market area, its size, etc.

4. Expansions plans of the firms. Firms expect to grow large in size as they grow old. So, while undertaking current financial decisions, the factor of future growth should be suitably weighed.

5. Management policies regarding trading on equity and gearing ratio.

6. Government policies. The monetary and fiscal policies will affect the level of interest rate – the most crucial factor in financial decisions.

Limitations of Financial Planning

All financial plans have certain limitations. Among them are:
1. Financial plans are based on forecasts. Since it is difficult to predict the future, forecasts, especially long-term ones, may be incorrect. If forecasts go wrong, financial planning fails.

2. Indecision and lack of co-ordination on the part of responsible officials of a firm may result in poor implementation of financial plans.

3. Often, in practice, the financial management adopts an attitude of rigidity towards financial planning.

The Benefits of Financial Planning

The need for more formal and comprehensive financial planning has come to be recognized by many larger organizations as representing an essential element for contributing to the continued growth of the firm. However, a number of benefits of financial planning may be cited, irrespective of the asset size or the number of departments within the company.

1. **Systematic Decision-making:** A financial plan affords a readily available criterion for decision making. By providing meaningful direction, a decision is no longer an isolated event.

2. **Communication tool:** A second benefit of financial planning for the firm is its merits as a communication link between the company’s owner-manager echelon and the employees. The financial plan, if administered correctly, facilitates the flow of information within the small organization in systematic manner, which should further improve the firm’s probability of reaching its financial goals.

3. **Motivation:** Related to the need for internal communications, the plan should also be of assistance as a motivational factor for the company’s personnel. Only if the employees are effectively challenged and have a measurable goal against which their performance may be measured will the maximum contribution be achieved.

4. **Risk Reduction:** Another benefit that might be given for the importance of planning is the increased competitiveness experienced by all forms in recent times. Businesses, for the most part, are increasingly subjected to competitive
pressures. The larger organization has greater opportunity to reduce the risk of competition through diversification of investments or by operating in an industry respond to increase competition by being sharper in its existing operations. If so, the financial plan becomes an invaluable tool in consummating the firm’s objectives.

5. **Control:** The lack of control has been a critical problem within many small growth businesses. Maintaining effective control within a growth environment is difficult, and has been the downfall of a significant number of new firms. Planning serves as the basis for budgeting. In turn budgeting serves as a mechanism to control expenditures and evaluate performance. To believe that budgeting and control are more important for a large business than a small firm is an illusion that should be avoided by the owner of a small business.

**DEVELOPING THE FINANCIAL PLAN**

The financial planning process can be approached in different ways; however, the basic ingredients include forecasting, developing courses of actions, and generating the projected financial statement associated with a given set of forecasts and actions. The steps in constructing financial plans are presented graphically in Figure 2.1 and may be enumerated as follows:

1. Use historical financial data as the departure point for the plan.
2. Develop assumptions and compile relevant facts about the external environmental conditions.
3. Develop a set of internal company assumptions and/or goals and set forth corporate policies to be considered.
4. Select and construct the appropriate forecasting models and techniques.
5. Generate the desired proforma financial statements.
6. Modify the prescribed assumptions and policies if desired and generate revised financial statements.
7. Continue new iterations until all relevant assumptions and policies have been considered.
The term profit planning has come to represent a host of activities, extending from the preparation of a budget to an in-depth forecasting of the company's long-term future earnings. Profit planning may also be used in either a passive or an active sense in that the plan may comprise a summary of what management merely expects to occur or an indication on the part of the firm's owners as to their profit goals. In the first sense, the
plan is basically an indication of management's perception as to what will occur in a future time period. At the conclusion of the period, the plan simply represents an historical comparison of what actually occurred relative to prior anticipations. Management does little to react to the developing circumstances to ensure that the expectations become reality. In the latter instance, the profit plan sets forth the necessary ingredients for achieving, what should happen. Accordingly, the company's owner are particularly interested in periodic feedback as the planning period unfolds, with the hope of being able to react to any negative deviations.

The profit plan comprises: (1) the firm's objectives as set forth by the owners, (2) the avenues for achieving these objectives, and (3) a system for providing continuous feedback as to the organization's progress in reaching these objectives. The operating plan provides an explanation of the actions to be taken during the planning horizon in an effort to reach the company's goals. In turn, the financial plan reflects the company-wide expected profits resulting from the operating plan. The management information system simply includes, "progress report" required in assessing the actual results at interim points in time relative to the profit goals.

How a Small Firm can and should Develop a Profit Plan?

A General Framework

In actually developing the profit plan, two issues have to be resolved: (1) who is to be given the responsibility of formulating the plan and (2) what should the content of the plan entail? For the large firm, the response to the first question generally takes one of two forms. A permanent planning staff is formed, with the complete efforts of these individuals being restricted to corporate planning. Alternatively, an adhoc planning group made up of personnel and management normally concentrating upon other functions may be designated. The first alternative is typically infeasible for the small company. The limited staff within the small business simply precludes the allocation of key personnel on a full-time basis to company planning. The later process, either formally or informally, is more compatible with the small-business setting. The nature of planning group depends largely on the organisational structure and the size of the firm. For extremely small companies having only a minimal number of employees, the group
make-up will include all key employees. If the company has several departments, the group would include the respective department heads.

With respect to the elements of the profit plan, the specifics and extent of detail will be somewhat dependent on the length of the planning horizon. However, the general content should be similar whether the perspective of the plan is short-term or long-term. The plan is initiated by establishing the firm's statement of objectives. The time periods could be quarterly if the profit plan is applicable for the forthcoming year or annual for a long term profit plan. The outline is deceptively easy. In reality, extensive time and effort are required in developing the profit goals.

Having identified the profit objectives, management should explicitly provide the definitions and explanations necessary for establishing the parameters of the planning process. For instance, is the profit plan only to apply operating income, excluding interest received from securities. Is the asset base used in calculating return on investment to be measured on a replacement value or at book value? What types of constraints are to be imposed to prevent an increase in profits in the current year by excessively sacrificing larger income in later periods? Only by predetermining these factors may the profit planning process flow smoothly.

Developing the Plan

There are two key elements in predicting a company's profitability: Sales and the related costs and expenses. The actual approach to be taken depends upon the firm's size and structure. However, there are some basic guidelines and techniques that should prove universally beneficial to small business in this endeavor.

(a) Forecasting Sales

The estimation of sales for the planning period is the single most important variable in developing the financial plan. It is the basis of almost all other projections; thus, the reliability of the profit plan, as well as other financial plans, is largely dependent upon the accuracy of the sales forecast. Also, in addition to accuracy being desirable, it is achievable. In an empirical study by Pan, Nichols, and Joy, almost all the firms sampled aimed for accuracy within 10 per cent, with approximately two-thirds of the companies
achieving this goal. While the firms were large, it is still significant to know that a reasonable degree of accuracy is achievable.  

Within large firms, the financial manager is generally not responsible for developing the sales forecast. Instead, it is more often than not prepared by the marketing department or by a planning staff. Consequently, in the traditional finance text, sales forecasts are typically assumed to be a given. However, such a distinct separation of functions is not feasible for the small firm. The owners and managers within the small company must intricately involved in forecasting sales to ensure the greatest possible chance of a carefully prepared forecast.

Sales Forecasting Approaches: There are two basic approaches to forecasting sales: the judgement-based method and the use of quantitative models, namely, trend analysis and casual models. The approaches should not be considered to be mutually exclusive; rather, both approaches should be used as a way of verifying the reasonableness of the results. It is especially important to mesh managerial judgement with the quantitative approaches.

Judgement-Based Method: The judgement based method relies totally upon management's opinion where the firm's owners and/or management develop estimates, either individually or by consensus of group opinion. The process depends somewhat on the size of the firm, where for the smallest business, the owner and/or management would need to develop the forecast and make it available to the firm's employees (i.e., a top-down process). As the firm increases in size and has more employees capable of participating in the forecast, a bottom-up approach may be beneficial. Here we are able to gain the perspective of the employee closest to each segment of the operations. Even so, the president should have the ultimate say in the final set of projections. A subjective forecast is more visionary than scientific, calling on imagination and insight about the firm's products and the market. The chief executive officer as the leader must provide such vision.

In using the judgment or subjective approach, we should remember that historical sales data, combined with the assumptions about the external and internal environment, serve as the foundation. Sound judgments cannot be made without understanding the influences that may come to bear.
Quantitative Models: A variety of quantitative forecasting techniques are available to the firm, and the appropriate choice is a function of the nature of the problem. For predicting sales, there are two types that best fit the objective: time series analysis and casual models.

Time Series Analysis: In its simplest form, time series analysis is an extrapolation of past data into the future; that is, a trend line is developed from the firm’s sales history in an effort to forecast future sales. It may be done graphically or mathematically. A graphic presentation, often called a scatter diagram, involves plotting the data over time, say, for the past four or five years and tying to “read the trend line”.

Adjusting for seasonality: Time series data may be decomposed into four components: trend, seasonal, cyclical, and irregular. We will restrict our interest to trend and seasonal because cyclical and irregular elements cannot be estimated for the future. Also, we use a multiplicative decomposition method, which implies that the magnitude of the seasonal variation is proportional to the average level of the trend line.

Adjusting for seasonality requires that we estimates a seasonal factor for each quarter. This task is accomplished by calculating a moving average that will remove the seasonal variation from the time series and provide us the desired seasonal factors.

Other Methods for Forecasting Sales

The trend line approach, particularly if it is seasonally adjusted, represents a viable technique for the small firm. It requires minimum data input, the sophistication level is reasonable, and it can be easily performed with a microcomputer. More extensive techniques might be useful if the owner of the small business has a propensity for such analysis. These quantitative models include multiple regression, exponential smoothing, Box-Jenkins and econometrics. ¹⁰

(b) Forecasting Expenses

Once the firm’s sales have been forecasted, the next step is to estimate the amount of costs and expenses, that will be incurred during the planning period. This projection
first requires that we understand the basic nature of the firm’s expenses. Expenses may be classified in terms of fixed and variable, or some combination of both.

Fixed costs or expenses are related to the passage of time rather than to the firm’s activity level. They tend to remain constant within relevant ranges of production and/or sales. Examples include rent, administrative expense, and depreciation. Fixed costs should also be viewed from the perspective of committed versus discretionary items. Committed costs include items that cannot be changed in the short term, but can only be altered over the long-term horizon. Depreciation is a prime example of a committed expense. In contrast, discretionary costs, while fixed relative to the activity level, may be changed at management’s discretion. Examples include advertising, public relations, and charitable contributions. Although discretionary expenses may be changed by management, it should not be concluded that doing so will not have indirect consequences beyond management’s control. For example, decreasing the advertising budget, which may be done at management’s discretion, will likely reduce the firm’s sales and have an impact on profitability. The difficulty comes in knowing the net impact of such a decision on the firm’s profits.

Variable Expenses move directly with the firm’s activity level. We most often think of variable expenses changing in a constant proportion with sales, the key indicator of a company’s activity level. For many expenses, this is true. However, there are other types of activity levels that may be the primary driving force of certain cost. These activity levels include units sold, units produced, direct labour hours, and machine usage. The success of predicting variable expenses is largely dependent upon selecting the appropriate activity level and the accuracy in projecting the actual level of the underlying activity.

Semi variable expenses contain both fixed and variable elements, so that even if the activity level approached zero, there would still be a fixed amount of expenses to be incurred. In projecting these particular expenses for the firm, we need to define the basic relationships.

In addition to operating expenses, we must also project the firm’s financing costs, that is, interest expense and preferred dividend payments. These expenses are obviously
a function of the amount of debt and preferred stock outstanding and the interest and dividend rates.

The projection of expenses, along with sales forecasts, draws significantly on management's understanding of the firm's sales and cost relationships, which translate into expected profits and the uncertainty or variability of these profits. Break-even analysis is a key and valuable technique in gaining such insights.

**Break-even Analysis**

Break-even analysis represents an important tool in profit planning. Basically, the benefit comes from affording the decision maker a means for structuring the key relationships. This technique is readily adoptable to the small firm in that the data requirements and the computational procedures are within reach of small firms. In other words, if the management of the small company has developed an effective accounting system and has a thorough grasp of the cost structure within the firm, break-even analysis should be an avenue for better understanding the cost-volume-profit relationships prevailing within the firm.¹¹

The narrower interpretation of the term break-even analysis tells us that it is a system of determination of that level of activity where total cost equals total selling price. The broader interpretation refers to that system of analysis which determines the probable profit at any level of activity. The relationship among cost of production, volume of production, the profit and the sales value is established by break-even analysis.

**Break-even Point:** The point which breaks the total cost and the selling price evenly to show the level of output or sales at which there shall be neither profit nor loss, regarded as break-even point. At this point, the income of the business exactly equals its expenditure. If production is enhanced beyond this level, profit shall accrue to the business, and if it is decreased from this level, loss shall be suffered by the business.

**Uses of Break-even Analysis:** The potential applications of break-even analysis are both far reaching and diverse. However in the profit planning context, three primary uses are easily recognizable: ¹²
1. Measurement of the Responsiveness of Operating Profits to Sales Changes

The basic concept being examined in this type of investigation is the business risk of the firm in total or with respect to an individual product. Business risk is defined as the variability of the company's return on assets and is quantitatively measured by the degree of operating leverage. Break-even analysis affords valuable information regarding the firm's level of business risk. Such data are particularly meaningful for the small firm relative to the large organization.

2. Evaluation of new Product Decisions

Break-even analysis in this frame of reference seeks to facilitate the investigation of a new product by two means: (a) identifying relationships that enhance the business executive's ability to estimate the revenues and expenses relating to the project and (b) determining, subject to the inherent approximations, the level of sales required for reaching the profitability break-even point.

3. Examination of the Impact of a General Expansion on Company Operations

For the small growth firm, the feasibility of an expansion is a never-ending question. In this regard, the requirement for computing the break-even point in terms of sales rupees rather than units should be apparent. Essentially, the break-even analysis may be constructed in terms of unit only for a single product evaluation. For multiple products, the volume measurement must be expressed in units that are additive, which requires relying upon rupees sales.

Assessing the Important Expenses: With a basic understanding of sales and cost-volume relationships within the firm, we are able not only to project expected expenses, but also the range of likely outcomes. As we mentioned in making sales projections, the manager should at least consider worst case and best case conditions. The variability of expenses is a function of the firm's activity levels in sales and production, fixed expenses (both discretionary and committed), and variable expenses. However, none of the relationship is totally constant. Fixed expenses are subject to some degree of uncertainty, particularly as new investments are made. Variable expenses relative to sales may not maintain the same proportions in future periods. These uncertainties should be
recognized. We are not suggesting that manager of the small firm should commit heavy resources of time and money to develop extensive models for analysing risk. But we do believe that questioning the impact of changing activity levels on expenses is absolutely essential. Also, there is a definite need to identify the changes in expenses that would most impact profitability and to question the likelihood that these changes might occur. In summary, we are most interested in expense relationships that have the greatest chance of changing, but only if those changes would have a material impact on profitability.

GENERAL PLANNING IN SMALL-SCALE INDUSTRIES

Planning, organising, control and replanning are the functions which managers must carry out effectively and efficiently. The primary function is planning. Planning is deciding in advance what will be done in both short and long term. If this is true, then planning, in our way of thinking, must include the following processes: (1) establishing the objectives of the firm, (2) formulation strategies, (3) determining operating policies, and (4) creating procedures. In the dynamic small business, the planning function is given less consideration, yet it may be the most important function that the manager performs.

Table 2.1
GENERAL PLANNING IN SMALL-SCALE INDUSTRIES IN HARYANA

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</tr>
<tr>
<td>1. Garments</td>
<td>34</td>
<td>42.5</td>
<td>42</td>
<td>52.5</td>
<td>76</td>
<td>95.0</td>
<td>4</td>
<td>5.0</td>
<td>80</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>10</td>
<td>25.0</td>
<td>30</td>
<td>75.0</td>
<td>40</td>
<td>100.0</td>
<td></td>
<td></td>
<td>40</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>28</td>
<td>46.7</td>
<td>25</td>
<td>41.6</td>
<td>53</td>
<td>88.3</td>
<td>7</td>
<td>11.7</td>
<td>60</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>42</td>
<td>53.8</td>
<td>06</td>
<td>7.7</td>
<td>48</td>
<td>61.5</td>
<td>30</td>
<td>38.5</td>
<td>78</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>26</td>
<td>46.4</td>
<td>18</td>
<td>32.1</td>
<td>44</td>
<td>78.5</td>
<td>12</td>
<td>21.5</td>
<td>56</td>
</tr>
<tr>
<td>6. Others</td>
<td>31</td>
<td>36.0</td>
<td>36</td>
<td>41.9</td>
<td>67</td>
<td>77.9</td>
<td>19</td>
<td>22.1</td>
<td>86</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>171</td>
<td>42.7</td>
<td>157</td>
<td>39.3</td>
<td>328</td>
<td>82.0</td>
<td>72</td>
<td>18.0</td>
<td>400</td>
</tr>
</tbody>
</table>

It is clear from the Table 2.1 which shows that in small-scale industries just 39.3 per cent industries are properly making plans in writing, for the future. On the other hand
42.7 per cent industries are formulating the plans in unwritten form without determining operating policies and formulating strategies. This shows the casual approach of the managers of the small firms towards important function of planning. Small units, instead of adopting a long-term and well formulated planning usually adopt an ad-hoc approach. Planning is often made for short duration and not in the written form. In large units of the small-scale industries, however, do emphasis the planning. The findings show that planning undertaken by such units are well thought and properly written.

The Auto-parts industry due to their comparatively large size of units cannot do without proper planning. The study shows that in 75 per cent of such units proper planning is made. Proper planning is necessitated in these units owing to their outlet network. The products are to be supplied to the retail outlet and Auto industries, which cannot be managed without proper and prior planning. Such conditions are not applied to other small units such as Metal Products units who do not have any retail outlet normally. But themselves function as production units as well as outlets. The table shows that only 7.7 per cent of Metal Products units, surveyed are making the general planning properly. 53.8 per cent of units in this industry make plans in unwritten form which shows their casual approach. But in Metal Products industry only 7.7 percent units are making proper plans for the future and 53.8 per cent units make plans casually because in this industry majority of units are of very small size. In Garments industry 52.5 per cent, in Others industry 41.9 per cent, in Electronics industry 41.6 per cent, and in Rubber and Plastics industry 32.1 per cent units are making plans in writing. In small-scale industries very small units are found not making plans for the future at all. Such units, constitute 18 per cent of the total industries surveyed and are mostly managed by sole proprietor. In this category the major component is formed by the Metal Products industry (38.5 per cent). This is followed by Others industry with a share of 22.1 per cent, Rubber and Plastics industry 21.5 per cent; Electronics industry 11.7 per cent and Garments industry holds the share of 5 per cent units. In Auto-parts industry 100 per units are involved in planning either in written or unwritten form. The size of the units and cut throat competition can be cited as the reasons for the above mentioned planning in Auto-parts industry.

There are several reasons for little attention paid to the planning as an important function in small-scale industries. Firstly, very few small business-owners are planning
oriented; secondly, the owner-managers lack interest and knowledge in the area of business administration. Hence, they fail to manage their affairs properly.

RESPONSIBILITY OF PLANNING IN SMALL-SCALE INDUSTRIES

In small scale industries the function of planning is performed in more than 94 per cent industries by the owner-managers. The main reason for this is that most of the small industries cannot afford the services of experts for making plan for the future. On the other hand some business owners do not know the importance of planning. If we analyse the information collected through questionnaire regarding 'who prepares plan for the future?'. We see that only 10 per cent in Auto-parts industry followed by 5 per cent in Garments industry, 4 per cent in Rubber and Plastics and Others industries, 3 per cent in Electronics industry and just 2 per cent in Metal Products industry are taking help of experts for planning.

The study shows that in Auto-parts industry maximum number of units are making plans with the help of experts. The main reason for this is intense competition faced by Auto-parts industry. Competition in Auto-parts industry, in comparison with other industries, is much more intensive owing to the decisive role played by certain Auto-manufacturers. For example Maruti Udyog Ltd. which purchases the spare parts from these small Auto-parts units fixes the rate and quality of the products to be supplied. The unit which quote lowest rate in comparison to pre-fixed rate of the same quality product gets the order. In such a situation owner-manager can not ignore the effective planning. To supply parts at the lowest rate without compromising the quality of the product, it becomes necessary to make proper planning with the help of experts. In Garments industry the units which are engaged in export of their products, are mainly taking help of experts for planning.

ORGANISATION CHART IN SMALL-SCALE INDUSTRIES

Scarcity of funds in small-scale industries increases the responsibility of owner-manager to use the capital resources efficiently. To fulfill this responsibility, the owner must see that in addition to planning the financial activities are properly coordinated. Coordination requires each function and sub-function to be performed at the proper time.
The achievement of this requires the functions to be properly organised. Organisation in all firms, regardless of size, includes two primary phases: (1) organising all activities into identifiable functions and (2) delegating adequate authority to the individuals who have been assigned the responsibility for their performance.

In small business units only largest units are having organisation chart. In this category mostly those units are there which are registered under the companies Act as Pvt. Ltd., or Public Ltd., company. As the study shows only 5 per cent units in Auto-parts industry followed by 4 per cent units in Garments and Others industries, 3 per cent units in Electronics industry and just 2 per cent units in Rubber & Plastics industry are preparing organisation chart. In Metal Products industry no one is using organisation chart. The main reason for not having organisation chart in 97 per cent of the industries is that the authority, in such units, rests only in the hands of owner. All important decisions are taken by the owner/s-manager/s.

PERIOD OF PLAN IN SMALL-SCALE INDUSTRIES

Table 2.2

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Garments</td>
<td>27</td>
<td>35.5</td>
<td>30</td>
<td>39.5</td>
<td>19</td>
<td>25.0</td>
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<td>2. Auto-parts</td>
<td>24</td>
<td>60.0</td>
<td>11</td>
<td>27.5</td>
<td>5</td>
<td>12.5</td>
<td>40</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>30</td>
<td>56.6</td>
<td>15</td>
<td>28.3</td>
<td>8</td>
<td>15.1</td>
<td>53</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>35</td>
<td>72.9</td>
<td>10</td>
<td>20.8</td>
<td>3</td>
<td>6.3</td>
<td>48</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>28</td>
<td>63.6</td>
<td>11</td>
<td>25.0</td>
<td>5</td>
<td>11.4</td>
<td>44</td>
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<td>6. Others</td>
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<td>40.3</td>
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<td>67</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>177</strong></td>
<td><strong>54.0</strong></td>
<td><strong>104</strong></td>
<td><strong>31.7</strong></td>
<td><strong>47</strong></td>
<td><strong>14.3</strong></td>
<td><strong>328</strong></td>
</tr>
</tbody>
</table>

As explained earlier out of total 400 units under study only 82 per cent are making plan whether written or unwritten for the future. Monthly planning is more popular in small-scale industries. It is clear from the Table 2.2 that in 54 per cent of the total industries which make plan for the future do monthly planning. In this category the percentage of Metal Products industry is maximum 72.9 per cent. In remaining industries, except Garments industry, 50 to 60 per cent industries are making monthly
plans. In the Garments industry only 35.5 per cent units are making monthly plans which is the least. Its main reason is the Garments units make plan according to the period of the order to be fulfilled. On the other hand in Metal Products industry, job work, most of the time, is completed within a month. Hence, they can opt for monthly planning. Six months plans are made by 31.7 per cent industries. The maximum percentage, in this category, is of Garments and Others industries where approximately 40 per cent of the total units are making plan for six months. While in the Auto-parts, Electronics, Metal Products and in Rubber and Plastics industries 20 to 28 per cent units are making plans for six months. The third category consists of those units which make plan for a year. Due to the nature of small-scale industries the percentage of such units is very low (14.3%). In this category the percentage of Garments industry is maximum (25%) and the percentage of Metal Products industry is minimum just 6.3 per cent. In case of remaining industries 10 to 15 per cent units are making yearly plans.

POLICIES IN SMALL-SCALE INDUSTRIES

Determination of policies is the third phase of planning which make it possible for the firm to achieve its objectives. There may be various policies used in business. So, the small business persons should be familiar with only those policies that will achieve the firm's strategies and goals. Each business, regardless of size, should have a formal policy manual. The answer to the question asked from owners/managers during survey, “Do you make policies for achieving the objectives set in Plan?”, was given in ‘yes’ by all of them who do planning whether in written or unwritten form. But when asked “Do you have a formal policy manual?” the answer of approximately 95 per cent industry owners was in negative. So, we can say that only 5 per cent industries particularly largest units in the small sector make policy manual.

FIXATION OF STANDARDS IN SMALL-SCALE INDUSTRIES

Fixation of standards is a specialised technique under which standards are predetermined and compared with actual performance. The variation between the two are noted and analysed as to their causes so that corrective measures may be taken to control the factors leading to unfavourable variations. Thus, the system of standard fixation involves various steps from the setting up of standards to finally exercising control of
various activities of the business. In the Garments and Auto-parts industries, 95 per cent units are using this technique whereas in Electronics industry 90 per cent units followed by Metal Products, Rubber and Plastics and Others industries 80 to 85 per cent units are using this technique.

FINANCIAL PLANNING IN SMALL-SCALE INDUSTRIES

Financial planning is the process of determining the objectives, policies and procedures relating to the financial activities of an organisation. It involves the preparation of plans for the procurement, investment and administration of funds. It consists of the following activities:

(i) Developing the financial objectives of the enterprise on the basis of its overall objectives.
(ii) Estimating the amount of capital required for different needs of the enterprise.
(iii) Designing the capital structure i.e. the form and proportion among securities.
(iv) Formulating policies relating to borrowing, cash control, administration of funds, etc.

In the small-scale industries on an average 80 per cent owner-managers gave answer in 'yes' to the question regarding making financial plan. In Auto-parts industry 93 per cent units followed by Electronics industry 90 per cent, Garments industry 89 per cent, Others industry 75 per cent, Rubber and Plastics industry 72 per cent, and in Metal Products industry 67 per cent units are found to be making financial plans. The Auto-parts industry, due to large size of units and intense competition is compelled to undertake financial planning. On the other hand in Metal Products industry, due to maximum smaller units in the industry, financial planning is done by a small percentage of units. Regarding financial planning in small-scale industries, the researcher observed that the percentage of industries doing proper financial planning is much less than that is mentioned above. Most of the units are making financial planning in an unwritten and informal manner. In small-scale industries 85 per cent units are making financial plans without taking the help of experts. In these units financial plans are prepared by owner/management.
TIME AND MONEY SPENT ON PLANNING IN SMALL-SCALE INDUSTRIES

Table 2.3
TIME SPENT ON PLANNING IN SMALL-SCALE INDUSTRIES IN HARYANA

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Less than a week</th>
<th>7-15 days</th>
<th>15-30 days</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>1. Garments</td>
<td>57</td>
<td>75.0</td>
<td>19</td>
<td>25.0</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>37</td>
<td>92.5</td>
<td>3</td>
<td>7.5</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>42</td>
<td>79.2</td>
<td>11</td>
<td>20.8</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>48</td>
<td>100.0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>42</td>
<td>35.5</td>
<td>2</td>
<td>4.5</td>
</tr>
<tr>
<td>6. Others</td>
<td>53</td>
<td>79.1</td>
<td>9</td>
<td>13.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>279</strong></td>
<td><strong>85.1</strong></td>
<td><strong>44</strong></td>
<td><strong>13.4</strong></td>
</tr>
</tbody>
</table>

In small businesses not much time is spent on planning. As explained earlier 39.3 per cent industries are doing planning in writing and 42.7 per cent are making plan in unwritten form. Out of them 54 per cent industries are making plan for a month and 31.7 per cent industries for six months (as shown earlier in Table 2.2). That is why, 85.1 per cent industries are spending less than a week on planning as shown in Table 2.3. Only 13.4 per cent units which make plan for the future devote 7 to 15 days in a year on planning. In Others industry only 7.5 per cent units spend 15 to 30 days on planning which is just 1.5 per cent of the total industries. As far as industry-wise analysis is concerned in Metal Products Industry 100 per cent, in Rubber and Plastics industry 95.5 per cent followed by Auto-parts industry 92.5 per cent. Electronics industry 79.2 per cent, Others Industry 79.1 per cent, and in Garments industry 75 per cent units are spending less than a week on planning.

In Garments industry 25 per cent followed by Electronics industry 20.8 per cent, Others industry 13.4 per cent, Auto-parts industry 7.5 per cent and in Rubber & Plastics Industry 4.5 per cent units are spending 7 to 15 days on planning.

It is clear from the above analysis that Garments and Electronics industries are spending comparatively more time on planning. In the Metal Products industry due to the nature of work and small size of units all of them are spending less than a week on planning. No specific amount is spend by 95 per cent industries for planning purpose.
Only remaining 5 per cent industries, which take services of experts for planning, spent Rs. 10,000 to Rs. 20,000 on planning. But no industry has a separate department or full time person for planning.

PROFIT PLANNING IN SMALL-SCALE INDUSTRIES

In simple terms profit planning means forecasting the long-term future earnings of the company. So, the profit plan is basically an indication on the part of the firm’s owners as to their profit goals. In other words, the plan is basically an indication of management’s perception as to what will occur in a future time period. In an active sense, the profit plan sets forth the necessary ingredients for achieving what should happen.

With respect to the elements of the profit plan, the specifics and extent of detail will be somewhat dependent on the length of the planning horizon. However, the general content should be similar what the perspective of the plan is short-term or long-term. In reality, extensive time and effort are required in developing the profit goals.

Table 2.4

PROFIT PLANNING IN SMALL-SCALE INDUSTRIES IN HARYANA

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Yes</th>
<th>%</th>
<th>No</th>
<th>%</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Garments</td>
<td>52</td>
<td>65.0</td>
<td>28</td>
<td>35.0</td>
<td>80</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>30</td>
<td>75.0</td>
<td>10</td>
<td>25.0</td>
<td>40</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>40</td>
<td>66.7</td>
<td>20</td>
<td>33.3</td>
<td>60</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>30</td>
<td>38.5</td>
<td>48</td>
<td>61.5</td>
<td>78</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>36</td>
<td>64.3</td>
<td>20</td>
<td>35.7</td>
<td>56</td>
</tr>
<tr>
<td>6. Others</td>
<td>56</td>
<td>65.1</td>
<td>30</td>
<td>34.9</td>
<td>86</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>244</strong></td>
<td><strong>61.0</strong></td>
<td><strong>156</strong></td>
<td><strong>39.0</strong></td>
<td><strong>400</strong></td>
</tr>
</tbody>
</table>

In small-scale industries as shown in Table 2.4, 61 per cent industries are making profit plans. In the Auto-parts industry, the percentage of units making profit plans is maximum (75%). Whereas in Metal Products industry just 38.5 per cent units are making plan for the future profits. The smaller nature of units in Metal Products industry, in comparison to Auto-parts industry, can be shown as an important reason for such a small percentage of Metal Products industry for making plans for the future profits. Smaller
units can not hire the services of experts required for profit planning. In Electronics industry 66.7 per cent units followed by Others industry 65.1 per cent units, Garments industry 65 per cent units and in Rubber & Plastics industry 64.3 per cent units are planning for future profits.

On the other hand 39 per cent industries are not making profit planning. 61.5 per cent units in the Metal Products industry are not making profit plans whereas the percentage of such units in remaining industries is 25 to 35 per cent. Within these percentages the maximum share is of smaller units. These small units cannot hire the services of experts required for profit planning.

USE OF BREAK-EVEN ANALYSIS TOOL IN PROFIT PLANNING IN SMALL-SCALE INDUSTRIES

Break-even analysis represents an important tool in profit planning. The narrow interpretation of the term break-even analysis tells us that it is a system of determination of that level of activity where total cost equals total selling price. The broader interpretation refers to that system of analysis which determines the probable profit at any level of activity. The relationship among cost of production, volume of production, the profit and the sales value is established by break-even analysis.

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Yes No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Garments</td>
<td>9</td>
<td>17.3</td>
<td>43</td>
<td>82.7</td>
<td>52</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>8</td>
<td>26.7</td>
<td>22</td>
<td>73.3</td>
<td>30</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>7</td>
<td>17.5</td>
<td>33</td>
<td>82.5</td>
<td>40</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>4</td>
<td>13.3</td>
<td>26</td>
<td>86.7</td>
<td>30</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>6</td>
<td>16.7</td>
<td>30</td>
<td>83.3</td>
<td>36</td>
</tr>
<tr>
<td>6. Others</td>
<td>12</td>
<td>21.4</td>
<td>44</td>
<td>78.6</td>
<td>56</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>46</td>
<td>18.8</td>
<td>198</td>
<td>81.2</td>
<td>244</td>
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</tbody>
</table>
Table 2.5 shows that out of the total units which are making profit plan only 18.8 per cent units are using Break-even analysis tool in planning their profits. Even there, the Auto-parts industry is the leading one with 26.7 per cent units, using this technique to plan their profits followed by Others industry 21.4 per cent, Electronics industry 17.5 per cent, Garments industry 17.3 per cent, Rubber and Plastics industry 16.7 per cent, and in Metal Products industry 13.3 per cent.

Table 2.5 also shows that in small-scale industries 81.2 per cent industries are making profit plans without establishing a relationship between cost, volume, the profit and the sales value. In this category, there are 86.7 per cent units in Metal Products industry followed by 83.3 per cent units in Rubber & Plastics industry, 82.7 per cent units in Garments industry, 82.5 per cent units in Electronics industry, 78.6 per cent units in Other industry and 73.3 per cent units in Auto-parts industry.

SALES FORECASTING IN SMALL-SCALE INDUSTRIES

The reliability of the profit plan as well as other financial plans is largely dependent upon the accuracy of the sales forecast. In the large firms, sales forecasts are prepared by the marketing department or by a planning staff. But a small-scale industry normally cannot afford to have a separate department for sales forecast. In small firms, owners and or managers estimates the sales.

Table 2.6

SALES FORECASTING IN SMALL-SCALE INDUSTRIES IN HARYANA

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garments</td>
<td>54</td>
<td>26</td>
<td>80</td>
</tr>
<tr>
<td>Auto-parts</td>
<td>30</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>Electronics</td>
<td>42</td>
<td>18</td>
<td>60</td>
</tr>
<tr>
<td>Metal Products</td>
<td>50</td>
<td>28</td>
<td>78</td>
</tr>
<tr>
<td>Rubber &amp; Plastics</td>
<td>38</td>
<td>18</td>
<td>56</td>
</tr>
<tr>
<td>Others</td>
<td>57</td>
<td>29</td>
<td>86</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>271</strong></td>
<td><strong>129</strong></td>
<td><strong>400</strong></td>
</tr>
</tbody>
</table>
Table 2.6 shows that in small-scale industries 67.7 per cent industries prepare sales forecast. In Auto-parts Industry maximum number of units with 75 per cent units followed by in Electronics industry 70 per cent units, in Rubber and Plastics industry 67.9 per cent units, in Garments industry 67.5 per cent units, in Others industry 66.3 per cent units, and in Metal Products industry 64.1 per cent units estimate sales of the future in advance.

Table 2.6 also shows the percentages of industries in different field which are not forecasting sales. On an average one industry out of three in every field is not forecasting sales. This category includes either the smallest units or units which do not have a stable market.

TECHNIQUES OF SALES FORECASTING USED IN SMALL-SCALE INDUSTRIES

The various approaches of forecasting sales can be divided into three categories: (a) the Judgment based method; (b) quantitative models, and (c) other methods. For better results Judgment based and Quantitative models both these approaches should be used as a way of verifying the reasonableness of forecasting.

In the first approach firm’s owners and/or management forecast sales purely on the basis of their opinion. The process depends somewhat on the size of the firm. In the smallest business, the owner and/or management would need to develop the forecast and make it available to the firm’s employees (i.e. a top down process). As the firm increases in size and has more employees capable of participating in the forecast, a bottom approach may be beneficial. In using the judgment or subjective approach, we should remember that historical sales data, combined with the assumptions about the external and internal environment, serve as the foundation.

In quantitative forecasting technique, a variety of mathematical models/techniques are available. The appropriate choice is a function of the nature of the problem. For predicting sales, there are two types that best fit the objectives: Time series analysis and Casual models.
Table 2.7

TECHNIQUES OF SALES FORECASTING USED IN SMALL-SCALE INDUSTRIES IN HARYANA

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Judgment based</th>
<th>Quantitative Models</th>
<th>Other Methods</th>
<th>No.</th>
<th>Total</th>
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<td></td>
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<td>%</td>
<td>No.</td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>1. Garments</td>
<td>50</td>
<td>92.6</td>
<td>4</td>
<td>7.4</td>
<td>–</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>30</td>
<td>100</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>42</td>
<td>100</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>44</td>
<td>88</td>
<td>–</td>
<td>–</td>
<td>6</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>36</td>
<td>94.7</td>
<td>–</td>
<td>–</td>
<td>2</td>
</tr>
<tr>
<td>6. Others</td>
<td>52</td>
<td>91.2</td>
<td>2</td>
<td>3.5</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>254</td>
<td>93.7</td>
<td>6</td>
<td>2.2</td>
<td>11</td>
</tr>
</tbody>
</table>

Here, we have also classified the various methods of predicting sales, used by small-scale industries into above mentioned three categories. Table 2.7 shows that out of 67.7 per cent small industries, which are forecasting sales (as shown earlier in Table 2.6), 93.7 per cent industries are using judgment based method for sales forecasting. The reason of such a high percentage of industries using this technique is simplicity of this method. It can be used easily by owner and/or management without taking the help of experts. In this method on the basis of past experience, by keeping in mind, the expected changes in future, sales of the future can be forecasted. This method is used for sales forecasting by 100 per cent units in Auto-parts and Electronics industries followed by 94.7 per cent units in Rubber & Plastics industry, 92.6 per cent units in Garments industry, 91.2 per cent units in Others industry, and 88 per cent units in Metal Products industry.

Quantitative Models are used by just 2.2 per cent industries. This method is used for sale forecasting by 7.4 per cent and 3.5 per cent units in Garments and Others industries respectively. The reason of using such a low per cent of industries, this method in sales forecasting is mathematical technique which requires services of experts.

Other methods of sales forecasting are also not very popular in small industries. As shown by Table 2.7 only 4.1 per cent industries are using other methods for sales.
forecasting. Metal Products, Rubber & Plastics and Others industries are using other methods and their percentages are 12 per cent, 5.3 per cent, and 5.3 per cent respectively.

**EXPENSES FORECAST IN SMALL-SCALE INDUSTRIES**

For profit planning the two key elements are sales and the related costs and expenses. Once the firm's sales have been forecasted, the next is to estimate the amount of costs and expenses that will be incurred during the planning period. To estimate the expenses, first the basic nature of the firm's expenses shall be understood. Expenses may be estimated by classifying them in the category of fixed, variable and semi-variable. In addition to operating expenses, a firm must also project the financing costs, that is, interest expenses and preferred dividend payments (if any).

In small-scale industries under study only 60 per cent industries are forecasting expenses. In Auto-parts industry 70 per cent units followed by Electronics industry 66 per cent units, Others industry 64 per cent units, Garments industry 62 per cent units, Rubber and Plastics industry 60 per cent units, and in Metal Products industry 38 per cent units are forecasting expenses.

**Summing Up**

In small-scale industries most of the units are not making proper plans for the future. Only in large units of small sector planning is done properly. Most of small firms' owners/managers do not know the proper meaning of financial planning. And very few of them are taking help of experts for financial planning. As far as profit planning is concerned, in small firms, majority of them plan for the profits. But, the important tool of profit planning (break-even Analysis) is used only by very few large units. Profit plans are prepared just on the basis of past experience by small industries. In small sector, two-third industries forecast their sales for the future. The main basis for sales forecasting in this sector is judgement. Mathematical techniques and Quantitative models are used only by large units, but their number is negligible. Expenses are also forecast by majority of units on the basis of past experience.
REFERENCES


