

FINANCIAL PLANNING

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Definition of Financial Planning

Financial Planning is the process of estimating the capital required and determining its competition. It is the process of framing financial policies in relation to procurement, investment and administration of funds of an enterprise.

Objectives of Financial Planning

Financial Planning has got many objectives to look forward to:

- Determining capital requirements- This will depend upon factors like cost of current and fixed assets, promotional expenses and long- range planning. Capital requirements have to be looked with both aspects: short- term and long- term requirements.
- Determining capital structure- The capital structure is the composition of capital, i.e., the relative kind and proportion of capital required in the business. This includes decisions of debt- equity ratio- both short-term and long- term.
- Framing financial policies with regards to cash control, lending, borrowings, etc.
- A finance manager ensures that the scarce financial resources are maximally utilized in the best possible manner at least cost in order to get maximum returns on investment.

Importance of Financial Planning

Financial Planning is process of framing objectives, policies, procedures, programmes and budgets regarding the financial activities of a concern. This ensures effective and adequate financial and investment policies. The importance can be outlined as-

- Adequate funds must be ensured.
- Financial Planning helps in ensuring a reasonable balance between outflow and inflow of funds so that stability is maintained.
- Financial Planning ensures that the suppliers of funds are easily investing in companies which exercise financial planning.
- Financial Planning helps in making growth and expansion programmes which helps in long-run survival of the company.
- Financial Planning reduces uncertainties with regards to changing market trends which can be faced easily through enough funds.
- Financial Planning helps in reducing the uncertainties which can be a hindrance to growth of the company. This helps in ensuring stability and profitability in concern.

Importance Of Financial Planning

Whether it is an organization or a person, financial planning is critical to ensure that all expenses are taken care of, and the future is secure. For a company, this is of utmost importance as many people depend on it for their livelihoods. It cannot afford to find itself unable to continue operations. Having a clear idea about how a firm will spend money is crucial for reaching its goals. Let us see how this financial planning process benefits organizations.

1. Have Clear Business Goals

The main advantage of financial planning is that it allows a company to have clear business goals. When there is a good understanding of what money is available and how much can be expected, it is easy to set goals for different periods. Companies can plan for three, six, or nine months. It can also set goals for a year and beyond that period. Though everything may not happen as planned, it is good to have an idea and prepare for risks. With sound financial planning, organizations can achieve most of these goals.

2. Manage Cash Flow

Various steps in financial planning help to manage cash flow efficiently. It will allow companies to know how much revenue they will earn in a particular period. There will also be a concrete plan of how they will use this cash. Budgeting is part of the process, and it will help make sure that you can pay regular expenses that are part of a company's operations. It is also possible to meet unexpected costs when there is good cash management. It helps to continue development works as planned.

3. Better Allocation

Financial planning allows companies to allocate funds in a better manner. Money is required for various activities that a firm must perform as part of its routine. When there is good planning based on information from multiple departments, it is easy to provide money for various purposes in a more rational manner. Every business unit of the company will also find it an excellent exercise to prioritize their projects and complete them successfully.

4. Cost Reduction

Cost reduction is a part of the process of financial management. Every company is looking at ways to reduce costs. Analysing past spending and their returns is an excellent method of finding a possibility for reducing costs. This must be part of financial planning if an organization must benefit from this exercise. Lowering costs is vital for growth and

development. Regular review of spending is an excellent way to find avenues for cost reduction.

5. Risk Management

Every company must prepare itself for unexpected events. Though everything cannot be predicted accurately, modern methods like analytics are helping to forecast various incidents correctly. Using this information, organizations must look at preparing themselves for future threats. Financial planning is an excellent opportunity to investigate these and make provisions to overcome such risks. As all risks cannot be avoided, it is sensible to prepare for losses resulting from such events.

6. Crisis Management

Crisis management is different from risk management. Crises are not expected, and companies suddenly face a situation they must manage but are unprepared for. When these circumstances last a long time, it is essential to keep changing financial plans frequently as the pandemic situation. Those having a robust plan in place will find it easier to manage instead of those who must start from scratch.

7. Raise Funds Easily

The process of financial planning helps considerably when a company needs funds. It can be a new company looking for investors or a company that needs more funds for expansion. All of them will need to approach lenders with a concrete plan about what they will do with the money. Those lending money will more trust a firm with a financial plan because they know that such a company will spend wisely. They can be sure of getting good returns on their investment.

8. Transparency

Making a financial plan is a way to ensure transparency in a company. It is a new thought that employees must also know how a company is spending money. Many CEOs have started disclosing their salaries openly. A financial plan is an excellent way to tell employees how firms are spending money. This plan will give assurance to workers that their firm is going on the right path. They will not worry about their future.

It is pretty clear that financial planning has many advantages, and all companies must perform this exercise to ensure better use of money. It is worth knowing the components this plan must include.

Things To Include In Financial Plan

Financial plans may differ with companies, but certain items do appear in all financial goals.

Sales Projection

The sale of goods is what will bring revenue. So this needs to be included. Companies must mention their growth plans for the near future and how much they will cost. They must give cost details with a separate breakdown for individual products.

Expenses

Company spending will include various types of expenses. There will be fixed and variable costs. Companies with lesser fixed costs are at a lower risk. It is necessary to have all prices, including that of resources needed additionally for sales growth.

Cash Flow Statement

A cash flow statement is a vital part of financial planning that will help cut expenses. This will be a statement that shows how the money will come in and how companies will spend it. Firms must give these details for the period for which they do financial planning.

Assets & Liabilities

Firms will include all startup costs in this. Assets at hand and those that they will purchase for new expansion will find a mention in this statement.

We have seen the importance of financial planning and what documents will appear in this. It is time to explain financial planning and its various stages.

Six Steps In Financial Planning

Whether your finance personnel does it or a Certified Financial Planner does it, the financial planning process should be done using the following 6 steps of financial planning.

Establish goals and define client-planner relationships

The first step in a financial planning process is establishing goals and defining the investors, management, employees, stakeholders relationship. This lays the foundation for the financial planning process and provides clarity about the company's financial destination. To this end, the financial planner should ask open-ended questions about needs, goals, dreams, objectives, risk appetite, experience, financial strengths, weaknesses, etc. The financial planner defines the role, authorities, responsibilities, and the obligations in this process. Once they reach an agreement about goals and relationships, the process moves ahead.

Gather relevant data

For formulating a sound financial plan, relevant data about financial information about the client, the collection of necessary documents, and structured questioning. The planner must document all the information to visualize data and provide prudent recommendations.

Gathering data is not as easy a job as it sounds. Good financial planners will look at what data will be most helpful for this purpose. When gathering information, one must take adequate care to eliminate those that are not pertinent and cause wrong judgment.

Analyse and evaluate data

The financial and other data gathered are analysed and evaluated by the financial planner to understand the situation concerning the needs, goals, and objectives and determine the gap between the two and the path that must be followed. Based on the services requested, the financial planner will customize assessments and analyses. Analysing data can provide valuable insights into a company's spending patterns and the returns received from various expenses.

Develop the Financial Plan with recommendations and alternatives

Based on the analysis and evaluation of the customer data and needs, the financial planner develops alternatives and recommendations to meet goals and objectives and presents them to the management. Management, employees, investors and other stakeholders' feedback is taken and reviewed. Financial planners address concerns and revise plans. They incorporate relevant recommendations and revisions to develop a financial plan.

Implement the plan

Implementation is the most challenging step because one can develop robust and sophisticated plans and revise them, but it is still a document on paper. It is one of the most complex financial planning steps when being done for an organization. It requires immense focus and discipline to implement the plans and stay with them. It will need everyone's

cooperation to act as per plans. It is also the financial planner's job to convince all concerned to stick to this plan.

Monitor the progress of the plan

Plans need to be dynamic and must evolve with the need of the hour. So, monitoring and reviewing the plan's progress regularly and systematically is an essential step in the financial planning process. While looking at how they implement, it is necessary to see why there is a deviation and find ways to reverse it. Sometimes, plans need to be revised as market conditions and other situations change. Financial position is constantly evolving, and procedures must remain flexible to include these changes.