3.2 INTRODUCTION

We use the word 'plan' so often in our daily life. In our day to day life we arrange our activities according to some plan. We decide on what we have to do tomorrow or day after tomorrow or in the next three months or for the year. This is nothing but the plan according to which we perform our activities systematically. We have to be cautious so that no important activity is left out from this plan. Therefore, we all agree that planning is very important in our life.

Now, let us consider the case of a business organization. A business organization has to perform a number of activities ranging from production, marketing, financing etc. To perform these activities smoothly, it must arrange the activities properly. It means, it must have a plan to carry out these activities. Thus, just as in life, planning is also important for business organizations. At the same time, preparation of plan is not an easy task as the future is uncertain. The organization need to forecast the future. Therefore, forecasting and planning can not be separated and are important for the organization.

We are going to discuss planning in this unit. In our discussion we will take into account the concept of planning, its importance, steps involved in formulation of a plan etc. Besides, the concept and importance of forecasting will also be discussed in this unit.

This unit will help you in understanding the planning function of management. You will be able to prepare plans as we will discuss in the unit the steps involved in the preparation of plans.

3.3 CONCEPT OF BUSINESS FORECASTING

Perhaps you are aware that a business is surrounded by its environment and is continuously influenced by the elements of the environment like economics, political, socio-cultural, technological, international etc. An in-built feature of all these factors is that they changes frequently. Such ever changing environment possesses certain questions like,

how a manager will execute his/her functions?

How the manager will make business decisions?

How the manager will direct group's efforts ? etc.

The answer to such type of questions lies in the manager's ability to forecast the future events. Forecasting means the process of predicting the future. The manager's job is to forecast the likely changes that may occur in business environment. Business forecasting gives an indication of the opportunities that may present in future as well as the threats that may stand as a barrier for the business firm. Based on forecast, a manager can think ahead and synchronize all the activities and resources of the firm.



CHECK YOUR PROGRESS

Q 1: Define business forecasting

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3.4 RELATIONSHIP BETWEEN PLANNING AND FORECASTING

There is a close relationship between planning and forecasting. Planning is deciding in advance about the future. As future is uncertain, the planners need to make certain assumptions and these assumptions are based on forecast.

Therefore, planning done without forecasting, is useless. Forecasting is the precondition for successful planning. More the degree of accuracy of forecasting more will be the degree of effectiveness of planning and vice-versa.

However, it does not mean that forecasting will eliminate all future uncertainties and risks. Uncertainties and risks are inevitable and forecasting is the technique of foreseeing the likely changes that may occur in future. Planning indicates the readyness of the organisation to tap the opportunities that may come from these likely changes or to prepare the organisation to face the threats that may arise from the likely changes in future.

Thus, forecasting aids the managerial planning. To be specific, the following points may be put forwarded–

l Forecasting provide an insight in to future. It provides scope to develop ideas on the basis of the information generated through forecasting.

The chances of success of a plan increases when it is based on forecast. Forecasting provides a direction in the mids of uncertainties. It gives an edge to the organisation to develop new product (services) ideas to meet future demand.

Forecasting helps in identifying the strengths and weaknesses of an organisation in the light of the future and accordingly the organisation can take corrective steps, if required. The organisation gets an idea to streamline its resources and to make it an efficient organisation to face the future challenges.

Advantages of Forecasting

The advantages of forecasting are -

(1) Forecasting provides the basis for planning. Information gathered from forecasting helps the manager to formulate plans and to minimise the chances of failure of the organisation.

(2) Forecasting helps in coordinating the efforts of the staff and can direct the efforts towards the achievement of common goals.

(3) Forecasting identifies the strengths and weaknesses of the organisation and therefore remidial action can be taken ahead.

(4) Forecasting not only links the departments and individuals within the organisation but also with the outside world. The effect of external environmental forces can be assessed that can indicate future opportunities and challenges for the organisation.

(5) Forecasting provides competitive advantage to the organisation. Having an idea about future happening and how it will influence the organisation, gives the manager the input to face competition in the market.

Limitations of Forecasting

The limitations of forecasting are-

(1) Forecast is done for the future on the basis of past and present information. Unpredictable nature of future may put a question mark on the

correctness of forecast. If it proves wrong, the plan will face difficulty in achieving its stated objectives.

(2) Though forecast is essential for future planning, an organisation cannot rely on forecast as the events may not turned out as per forecast. Therefore, as a precautionary measure, the manager is required to continuously monitor the situation even though forecast is made prior to planning.



CHECK YOUR PROGRESS

Q 2: State two advantages of forecasting.

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3.5 METHODS OF FORECASTING

The forecast may be economic forecast, technological forecast, demand forecast etc. and the inherent nature of all forecast is to predict the future. In predicting the future the forecaster may adopt different types of forecasting methods. Let us have a look on these methods-

Broadly, the forecasting methods may be classified as qualitative and quantitative methods. Qualitative methods of forecasting are subjective in nature and based on judgement, opinion, experience etc. On the other hand, quantitative methods are objective in nature and based on mathematical calculations. Qualitative methods are applicable when there is no past records or insufficient information, e.g. the sale data of a newly lunched product, new sales territory etc. Quantitative methods are used when there is sufficient records which can be applied in a particular model to produce the results of forecast. Let us discuss some of the forecasting methods–

Qualitative methods of forecasting:

- **Executive opinion method:** In this method the opinion of top executives are collected to make the forecast.

- **Sales force opinion method:** In this method, opinion of the sales people who are intimately connected with company's products in their respective sales territories are gathered and analysed to forecast the future sales trends.
- **Delphi method:** In this method, sets of questionnaire are send to a panel of experts to collect their opinion on the basis of which forecast is made.

Quantitative methods of forecasting:

- **Time series models :** Time-series models predict future trends by using the past data.
- **Causual models:** Causual models make forecast by studying the relationship between the factor to be forecost and the other related factors.
- **Market survey:** In this method, a company may conduct a survey among the buyers in selected markets about their purchasing plans.



CHECK YOUR PROGRESS

Q 3: What is delphi method of forecasting?

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3.6 MEANING AND FEATURES OF PLANNING

Planning is the first management function. It is concerned with deciding in advance what has to be done in future. Therefore, it is the process of determining the objectives and deciding the strategies to achieve the objectives. It links up the ends and means, present and the future. Planning is the continuous process of analyzing the business environment, setting the objectives, deciding on the alternative courses of action and selecting the best alternative to achieve the pre- determined objectives.

Planning is mainly concerned with-

- What is to be done?
- How is it to be done?

- Who will do it?
- Where will it be done?
- At what time will it be done?

Features of planning

The main features of planning are-

- **Focus on Objectives:** A plan emphasises the achievement of objectives. The plan sets the objectives considering the prevailing conditions in the environment and considers the different alternative actions to achieve them and ultimately selecting the best alternative to achieve them.
- **Primacy of Planning:** Planning is the first management function on which the other functions of management are based. In the absence of planning, a manager cannot organize, direct and control the activities of the organization. Therefore, without planning an organization cannot achieve its objectives.
- **Pervasiveness of Planning:** We are aware that there are three levels of management- Top, Middle and Lower, as discussed in Unit1. The manager of each level has to perform the planning function. The top manager is concerned with the formulation of plans for the whole organization, the middle level manager is concerned with the formulation of plan for his department and the lower level manager formulates plans related to the day to day operations of the firm. The scope of the planning function differs from level to level but it extends throughout the organization.
- **Coordination:** Coordination means interrelating the different sub-systems or sub- functions into an integrated approach. In an organization, planning facilitates the coordination of all the activities which are necessary to achieve the organizational objectives. Planning helps the manager in directing and coordinating the activities of the organization.
- **Flexibility:** Planning is based on future expectation. Future is uncertain and full of risks. Under these situations, a plan must be flexible enough to adapt itself to any change which may occur in the

future and the manager may not have any prior information about this change. A rigid plan can not serve the real purpose of the organization for which it is being formulated.



CHECK YOUR PROGRESS

Q. 4: State two features of planning.

i) .....

ii) .....

3.7 IMPORTANCE OF PLANNING

In this section we will dealt with the importance of planning. Planning is important in all organisations be it small or large, private or public. The importance of planning may be discussed as under-

- **Primacy of planning:** Planning is the first managerial function. It involves determining the organizational objectives, selecting the best course of action to achieve these objectives, preparing departmental plans for coordinating all the activities etc. Hence, other managerial functions such as organizing, staffing, directing and controlling can be performed depending on the planning function. For example, if an organization sets its objective of increasing the sales volume from 10% to 15% in the coming six months, then it has to recruit additional sales force. This affects the staffing function and accordingly the new sales force has to be guided i.e. directing function.
- **Helps in achievement of objectives:** There can be no organization without objectives. Objectives are the end results which an organization wants to achieve like, increase in sales volume, expanding the business into new geographical areas etc. To achieve theses objectives, the organization has to move forward systematically i.e. the organization has to formulate plans.
- **Minimizing the impact of risks and uncertainties:** All business organizations face the problem of risks and uncertainties. The

business manager must forecast the future events that are likely to influence the business. Planning helps him in forecasting the future events and thereby to minimize the adverse effects on business.

- **Helps in coordination:** A business organization performs a number of activities. For the performance of these activities, large numbers of employees are appointed. Moreover, the activities performed by the individual employees have to be coordinated to achieve the organizational objectives. Coordination can be achieved only through effective planning.
- **Basis of control:** The controlling function of management is concerned with comparing the actual results against the standards i.e. the objectives stated at the planning stage. If there is any deviation, corrective action can be taken at the earliest. So planning provides the basis for controlling the activities of the organization.
- **Provides competitive advantage:** Planning is a systematic activity. It is prepared by taking into account the various internal and external factors of the organisation. Therefore, the organization gains an insight into the events that are likely to possess opportunities or threats for the organization. Therefore, the organization can take necessary steps to face the situation and acquire a competitive advantage over other organisations.



ACTIVITY 1

"Planning is not important for small organizations". Do you agree with the statement? Give reasons for your answer.

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3.8 TYPES OF PLANS

Depending on the organizational activities, time factor etc. there can be different types of planning. Let us discuss the different types of plans-

- **Corporate planning:** This type of planning is done by the top level of the organization. They formulate the plan for the whole organization considering all the relevant environmental as well as internal factors of the organisation. They forecast the likely changes in environmental factors that may influence the activities of the organization. They determine the long- term objectives of the organizations which may cover a period of 3 to 5 years.
- **Functional planning:** It is a plan for the major functions of the organization. It is formulated within the purview of corporate planning. It is undertaken at the middle level of the organization. For example, in case of a manufacturing organization undertaking various activities like production, marketing, finance, human resource etc., functional planning is undertaken for each of these activities and the corporate plan of the organisation will cover all these activities. Moreover, the functional planning can also be formulated by dividing the major organizational activities further. For example, marketing function can further be divided into sales, advertising, marketing research etc. and functional planning can be done for each individual activity within the marketing function. This type of planning covers short period of time ranging from 1 to 2 years.
- **Operational planning:** Operational planning is undertaken for the day to day functioning of the organization. Operational planning translates the functional planning into specific goals. It is undertaken at the lower level of the organization and covers a period of 12 months or less.

Let us go through the following table for understanding the differences among these three types of plans-