SPPU Syllabus Unit I (2018-19)

Name of subject: Planning and Forecasting

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1.1 PLANNING

INTRODUCTION:

Planning is setting the direction for something awesome system and then guiding the system to follow the direction. There are various kinds of planning in the organization of which business plan is the starting point, while starting a new business or expanding existence ones.

Business plan is like a road map to long term success. Business plan is to achieve objectives of the organization. These business plan need to include evidences of the market potential supporting the projected sales of the business.

Business plan is written document which states all the important facts of the business, its history, current positions, objectives and activities to be undertaken.
DEFINITION:

Dr. Steven Covey: in his 7 habits of highly effective people “We must plan for the future, because people who stay in the present will remain in the past”

Abraham Lincoln: Failing to plan is planning to fail.

OBJECTIVES:

1. Planning create roadmap
2. It reduce risk
3. It bring cooperation and coordination
4. Cost effective
5. Create awareness to reduce competition.

CHARACTERISTICS OF PLANNING

1. **First and foremost managerial function**: Planning provides the base for other functions of the management, i.e. organising, staffing, directing and controlling, as they are performed within the periphery of the plans made.
2. **Goal oriented**: It focuses on defining the goals of the organization, identifying alternative courses of action and deciding the appropriate action plan, which is to be undertaken for reaching the goals.
3. **Pervasive**: It is pervasive in the sense that it is present in all the segments and is required at all the levels of the organization. Although the scope of planning varies at different levels and departments.
4. **Continuous Process**: Plans are made for a specific term, say for a month, quarter, year and so on. Once that period is over, new plans are drawn, considering organization’s present and future requirements and conditions. Therefore, it is an ongoing process, as the plans are framed, executed and followed by another plan.
5. **Intellectual Process**: It is a mental exercise at it involves the application of mind, to think, forecast, imagine intelligently and innovate etc.
6. **Futuristic**: In the process of planning we take a sneak peek of future. It encompasses looking into future, to analyse and predict it, so that the organization can face the future challenges effectively.
7. **Decision making**: Decisions are made regarding the choice of alternative courses of action that can be undertaken to reach the goal. The alternative chosen should be best among all, with least number of negative and highest numbers of positive outcomes.

Planning is concerned with setting objectives, targets, and formulating plans to accomplish them. The activity helps managers **analyse the present condition to identify the ways of attaining the desired position in future**. It is both, the need of the organization and the responsibility of managers.

**IMPORTANCE OF PLANNING**
- It helps managers to **improve future performance**, by establishing objectives and selecting a course of action, for the benefit of the organization.

- It **minimizes risk and uncertainty**, by looking ahead into future.

- It **facilitates coordination of activities**. Thus, reduces overlapping among activities and eliminates unproductive work.

- It states in advance, what should be done in future, so it provides **direction for action**.

- It uncovers and identifies **future opportunities and threats**.

- It **sets out standards for controlling**. It compares actual performance with the standard performance and efforts are made to correct the same.

Planning is present in all types of organizations, households, sectors, economies, etc. We need to plan because future is highly uncertain and no one can predict future with 100% accuracy, as the conditions can change anytime. Hence, planning is the basic requirement of any organization for the survival, growth and success.

### 1.3 Steps involved in Planning

![Planning Steps Diagram]

By planning process, an organization not only gets the insights of future, but it also helps the organization to shape its future. Effective planning involves simplicity of the plan, i.e. the **plan should be clearly stated and easy to understand**, because if the plan is too much complicated it will create chaos among the members of the organization. Further, the **plan should fulfil all the requirements of the organization**.
1.2 ADVANTAGES AND LIMITATIONS OF PLANNING

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<td>Focus on critical issues</td>
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1.5 ESSENTIALS of GOOD PLANNING:

**Information Gathering**
The foundation of an effective plan is the small-business owner having a thorough understanding of the business environment his company operates in. To gain this understanding, he needs a system in place to gather information about the economy and his industry on a regular basis. His plan will be more accurate if he has obtained forecasts of how the general economy is expected to perform, including key statistics such as consumer spending, interest rates and fuel prices. He will use the forecast of industry growth as a basis to test how reasonable his projected growth for his own company might be.

**Understanding Competitors**
A small-business owner needs to study what her chief competitors are doing well -- and where they are performing below customers’ expectations -- as she develops her own strategies to acquire customers. She can gather this competitive intelligence by visiting competitors’ websites, having staff members visit the competitors’ places of business and observing their customer traffic and by talking with customer prospects about their experiences with these competitors. This information helps the small-business owner decide how to position her company in the
minds of customers -- what she will emphasize in the message she delivers through advertising, a company website and other promotional means.

**Anticipating Customer Needs**
Successful small-business owners can anticipate how customer needs and tastes are changing and develop products and services to meet those needs well in advance of their competitors. Companies grow by expanding out of their existing target markets into new, emerging ones. The business owner first identifies trends that his company could take advantage of. Next he determines the resources his company needs to have available -- product development, technology, distribution capability or management skills -- to successfully enter these new markets. Business owners who are most effective at planning have this capacity to envision the future and the organizational skills to make the vision a reality.

**Strategic Thinking**
Strategic thinking is the ability an effective planner has to position her company in the marketplace where there is greatest opportunity -- an unmet need or a customer group that is not being adequately served. Strategic thinking also means being able to quickly adjust strategies in response to strategic moves made by competitors.

**Financial Modeling Capability**
Business owners don't typically enjoy doing financial projections, but being able to convert business strategy into numerical form -- showing the likely results of the operational and strategic decisions the small-business owner has made in the plan -- makes the plan a much more effective management tool. The business owner can clearly see the effect on projected sales and profits when, for example, he changes his product mix or allocates more funds to advertising.

1. Simple and straightforward
2. Avoid unnecessary disturbance
3. Proper communication
4. Linked to long term objective

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<tr>
<th>OBSTACLES IN PLANNING</th>
<th>ORGANIZATIONAL LEVEL</th>
<th>INDIVIDUAL LEVEL</th>
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<td>COSTLY</td>
<td>Laziness</td>
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<td>FUTURE UNCERTAINTY</td>
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<td>Time consuming</td>
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1.4 METHODS OF PLANNING: There are three types of planning

PLANNING PREMISES:

Planning premises are certain assumptions about the future on the basis of which the plan will be ultimately formulated. Planning premises are vital to the success of planning as they supply pertinent facts and information relating to the future such as population trends, the general economic conditions, production costs and prices, probable competitive behavior, capital and material availability, governmental control and so on.

**Classification of Planning Premises**

Planning premises can be classified as under:

(a) Internal and external premises.

(b) Tangible and intangible premises.

(c) Controllable and non-controllable premises.

(a) **Internal and external premises.** Premises may exist within and without the company. Important internal premises include forecasts, policies and programmes of organization, capital investment in plant and equipment, competence of management; skill of the labour force; other resources and abilities of the organization in the form of machines, money and methods, and beliefs, behavior and values of the owners and employees of the organization. External premises may be classified into three groups: (a) business environment, (b) factors which influence the
demand for the products of the enterprise and (c) factors which affect the resources available to
the enterprise. These external premises may include the following:

(i) General business and economic environment.

(ii) Technological changes.

(iii) Government policies and regulations.

(iv) Population growth.

(v) Political stability.

(vi) Sociological factors.

(vii) Demand for industry's product.

(b) Tangible and intangible premises. Some of the planning premises may be tangible while
some others may be intangible. Tangible premises are those which can be quantitatively
measured while intangible premises are those which being qualitative in character cannot be so
measured. Population growth, industry demand, capital and resources invested in the
organization are all tangible premises whose quantitative measurement is possible. On the other
hand, political stability, sociological factors, business and economic environment, attitude,
philosophies and behaviour of the owners of the organization are all intangible premises whose
quantitative measurement is not possible. (good will of the company, loyalty of the employees,
public relations, employees morals and motivation.)

(c) Controllable and non-controllable premises. While some of the planning premises are
controllable, some others are non-controllable. Because of the presence of uncontrollable factors,
there is need for the organization to revise the plans periodically in accordance with current
developments. Some of the examples of uncontrollable factors are strikes, wars, natural
calamities, emergency, legislation, etc. Controllable factors are those which can be controllable
and normally cannot upset the well-thought out calculation of the organization regarding the
plan. Some of the examples of controllable factors are: the company's advertising policy,
competence of management members, skill of the labour force, availability of resources in
terms of capital and labour, attitude and behavior of the owners of the organization, etc.

1.7 PLAN AND PLANNING, BUSINESS PLANNING

PLAN is a set of actions that have been defined to achieve future goals.

Planning is a process of determining objectives and outlining the future actions that are needed to
achieve future objectives. Planning is one of the functions of management that involves setting
objectives and determining a course of action for achieving those objectives.
**What is a Business Plan?**

A business plan is a document that describes a new business, its products or services, how it will earn money, leadership and staffing, financing, operations model, and other details that are essential to both operation and success. Entrepreneurs create them as part of the startup process while existing businesses often write them when changing direction or strategy. Most business plans cover the company’s first three to five years.

While a business plan is required by anyone seeking funding, whether from financial institutions or investors, it is recommended for all start-ups because it serves as the business roadmap. The business-plan-writing-process can also help an entrepreneur uncover concept weaknesses, market misperceptions, or other specifics that might cause a shift in how the business is positioned or built.

**Business Plan Purpose**

The goal of a business plan is to provide the company’s founder or leadership with as much information as possible about what’s needed to reach its goals. It helps the owner determine, among other things:

- The amount of funding needed to start the business
- The equipment or facilities needed for operation
- Optimum location
- Whether it needs employees and if so, what they will do
- Existing competition
- The company’s competitive advantage and how to leverage it

A well-researched and thorough business plan guides and informs nearly everything the new organization does.

**Business Plan Elements**

The document’s formality depends on whether it will be shared with outsiders or used only internally with founders and employees. When it will be seen by potential funders, investors, collaborators, or partners, it needs to be professionally presented using the conventional format. (Online searches will reveal sample templates to use.)

Regardless of the use, standard plan elements include:

- Executive summary
- Business description
- Product or service description
• Mission statement
• Leadership
• Market analysis
• SWOT analysis (strengths, weaknesses, opportunities, strengths)
• Marketing plan
• Financial projections
• Cash flow analysis
• Staffing
• Operations

**Business Plan Dos and Don’ts**

Because so many new businesses fail, it makes sense to temper optimism and be conservative with income and growth projections. Many owners test the product or concept before a full launch. In addition, because organizations grow and markets change, business owners should re-visit their business plan regularly and make any necessary adjustments, taking note of lessons learned. While a business plan is a guide, it is a fluid one that can change as experiences give the company’s leadership new knowledge and direction.

An executive summary is the brief introduction to a business plan. It should describe your business, the problem that it solves, your target market, and financial highlights.

• **What you offer and the problem your business solves.** Include a brief description of the product or service you offer and why it’s necessary. Your business doesn’t need to serve a larger social problem, but it should address a need or opportunity in the market.

• **Your target market.** Sometimes the product itself defines the market, such as “Peoria’s best Thai food,” or “Mini Cooper dashboard accessory.” If not, then a brief description of the target market.
• **Business plan purpose.** Say whether you’re seeking investment or trying to secure a bank loan. An executive summary is only really necessary when you are sharing your business plan with outsiders.

• **Size or scale.** For example, with an existing company, that information might be as simple as adding recent annual sales or number of employees to the basic company information in the first bullet here. For a startup, it might be a brief description of aspirations, such as a sales goal for the next year or three years from now. I often recommend a simple highlights chart, a bar chart with sales and gross margin for the next three years.

• **Critical details.** Mention any defining details that would matter to the person that will ultimately read the summary—like that the founders are all MBA students at the local university, or that your business has been awarded a prestigious development grant.

  Remember, some readers will only look at the summary of your business plan.

• **Does every business plan need an executive summary?**

  **Not all plans need summaries.** Before we continue, let’s get this straight. The executive summary is essential in plans that are being written for outsiders. With business plans for internal use and Lean Plans, nobody expects one. It takes some effort to do a good summary.

**BUSINESS DESCRIPTION**

• The company description section of your business plan is typically the second section, coming after the executive summary. The company description outlines vital details
about your company, such as where you are located, how large the company is, what you do and what you hope to accomplish.

• The company description of your business plan describes the vision and direction of the company so potential lenders and partners can develop an accurate impression about who you are.

The exact elements included in your company description can vary, but here is a list of some of the most important parts to consider:

• **Company name** – The official name of your business as registered in the state where you do business.
• **Type of business structure** – Sole proprietorship, LLC, partnership or corporation.
• **Ownership/management team** – Names of the key people behind the company.
• **Location** – Where is the company headquartered?
• **Company history** – When was the business started, what inspired you to start the business, what need does your company fulfill?
• **Mission statement** – A clear statement that represents the purpose of your company.

• **Products/services and target market** – A brief overview of what you plan to sell and to whom.
• **Objectives** - An outline of what you want to accomplish in the immediate future based on the data in the rest of the business plan as well future growth goals.
• **Vision statement** – A statement about how you envision the future of the company.

*A market analysis is the process of learning the following:*

• Who are my potential customers?

• What are their buying and shopping habits?

• How many of them are there?

• How much will they pay?

• Who is my competition?

• What have their challenges and successes been?

**Business SWOT Analysis**
What makes SWOT particularly powerful is that, with a little thought, it can help you uncover opportunities that you are well-placed to exploit. And by understanding the weaknesses of your business, you can manage and eliminate threats that would otherwise catch you unawares.

More than this, by looking at yourself and your competitors using the SWOT framework, you can start to craft a strategy that helps you distinguish yourself from your competitors, so that you can compete successfully in your market.

**How to Do a SWOT Analysis**

You can use it in two ways – as a simple icebreaker helping people get together to "kick off" strategy formulation, or in a more sophisticated way as a serious strategy tool.

**Strengths**

- What advantages does your organization have?
- What do you do better than anyone else?
- What unique or lowest-cost resources can you draw upon that others can't?
- What do people in your market see as your strengths?
- What factors mean that you "get the sale"?
- What is your organization's Unique Selling Proposition (USP)?

Consider your strengths from both an internal perspective, and from the point of view of your customers and people in your market.

Also, if you're having any difficulty identifying strengths, try writing down a list of your organization's characteristics. Some of these will hopefully be strengths!

When looking at your strengths, think about them in relation to your competitors. For example, if all of your competitors provide high quality products, then a high quality production process is not strength in your organization's market, it's a necessity.

**Weaknesses**

- What could you improve?
- What should you avoid?
- What are people in your market likely to see as weaknesses?
- What factors lose you sales?
Again, consider this from an internal and external perspective: do other people seem to perceive weaknesses that you don't see? Are your competitors doing any better than you?

It's best to be realistic now, and face any unpleasant truths as soon as possible.

**Opportunities**

- What good opportunities can you spot?
- What interesting trends are you aware of?
  - Useful opportunities can come from such things as:
    - Changes in technology and markets on both a broad and narrow scale.
    - Changes in government policy related to your field.
    - Changes in social patterns, population profiles, lifestyle changes, and so on.
    - Local events.

**Tip:**

A useful approach when looking at opportunities is to look at your strengths and ask yourself whether these open up any opportunities. Alternatively, look at your weaknesses and ask yourself whether you could open up opportunities by eliminating them.

**Threats**

- What obstacles do you face?
- What are your competitors doing?
- Are quality standards or specifications for your job, products or services changing?
- Is changing technology threatening your position?
- Do you have bad debt or cash-flow problems?
- Could any of your weaknesses seriously threaten your business?

**MARKETING PLAN**

- A marketing plan is a business document outlining your marketing strategy and tactics. It's often focused on a specific period of time (i.e. over the next 12 months) and covers a variety of marketing-related details, such as costs, goals, and action steps.

**Financial projects**
- Project finance is the process of financing a specific economic unit that the sponsors create, in which creditors share much of the venture’s business risk and funding is obtained strictly for the project itself.

**Meaning of Forecasting:**
Since planning is “a systematic economic and rational way of making decisions today that will affect tomorrow”, then forecasting becomes an integral part of the planning process, specially, strategic planning which is long-range in nature.

Lyndall Unrwick defined forecasting as; it is involved to some extent in every conceivable business decision. The man who starts a business is making an assessment of a future demand of its products.

The man who determines a production programme for the next six months or twelve months is usually also basing it on some calculation of future demand. The man, who engages staff, and particularly Young staff, usually has an eye to future organizational requirements. Louis Allen defines forecasting, as “a systematic attempt to probe the future by inference from known facts.”

Netter and Wasserman have defined forecasting as:
“Business forecasting refers to the statistical analysis of the past and current movement in the given time series so as to obtain clues about the future pattern of those movements.”

Based on the above definitions the following features are explained below:

1. **Involvement of Future Events:**
Forecasting relates to future events. Forecasting is the essence of planning because planning also aims at deciding what is to be done in the future.

2. **Depends upon Past and Present Event:**
Actually, forecasting is made by analyzing the past and present relevant data. It takes all the factors into account, which affect the functioning of the enterprise.

3. **Happening of Future Events:**
Forecasting defines the probability of happening of future events. Therefore, happening of future events can be precise only to a certain extent.

4. **Makes use of forecasting Techniques:**
various qualitative and quantitative forecasting techniques.
Elements of the Forecasting Process:
1. Prepare the groundwork.

2. Establishing future business.

3. Comparing actual with estimated results.

4. Refining the forecasts.

1. Prepare the Groundwork:
The group work preparation requires a thorough study, investigation and analysis of the company, its products, its market share, its organizational structure and the industry. The investigation will involve the past performance of all these factors, their growth over a period of time and the extent of their inter-relationships and inter-dependence. The aim is to build a foundation on which future estimates can be based.

2. Establishing Future Business:
The future expectancy of the business can be reasonably computed from the past data as well as the input from the key executives of the organization, sales personnel and other specialists.

This forecast is developed with the participation of the key personnel and is officially communicated to all. Thus all these people assume responsibility for meeting these forecasts and accountability for any deviations from this forecast.

3. Comparing Actual with Estimated Results:
The forecast estimates over the future years provide benchmarks against which the actual growth and results can be measured and compared. If there are significant variations between the two, one way or another, the reasons for such deviations can be investigated and analysed.

4. Refining the Forecasts:
In the light of any deviations found, the forecast can be refined to be more realistic. If some conditions have changed during the periodic evaluation, then the new values of the variables can be incorporated in the estimates.

Thus, these constant revisions and refinements and improvements would add to the experience and skill in forecasting, since proficiency in forecasting can only be gained through practice and experience.
The above elements indicate a systematic approach to the problem of forecasting. As a materiality, these elements are found in any research procedure.

**Techniques of Forecasting:**

Forecasting technique can be classified into two major categories:

1. Qualitative forecasting technique.
2. Quantitative forecasting technique.

**1. Qualitative Techniques:**

i. Jury or executive opinion (Delphi technique)

ii. Sales force estimates.

iii. Customer expectations.

**i. Jury or Executive Opinion:**

The jury of expert opinion sometimes referred to as the Dolphi technique; involves soliciting opinions or estimates from a panel of “experts” who are knowledgeable about the variable being forecasted.

In addition to being useful in the creation of a sales or demand forecast this approach is used to predict future technological developments. This method is fast less expensive and does not depend upon any elaborate statistics and brings in specialized viewpoints.

**ii. Sales Force Estimates:**

This approach involves the opinion of the sales force and these opinions are primarily taken into consideration for forecasting future sales. The sales people, being closer to consumers, can estimate future sales in their own territories more accurately. Based on these and the opinions of sales managers, a reasonable trend of the future sales can be calculated.

These forecasts are good for short range planning since sales people are not sufficiently sophisticated to predict long-term trends. This method known as the “grass roots” approach ends itself to easy breakdowns of product, territory, customer etc., which makes forecasting more elaborate and comprehensive.

**iii. Customer Expectations:**
This type of forecasting technique is to go outside the company and seek subjective opinions from customers about their future purchasing plans. Sales representatives may poll their customers or potential customers about the future needs for the goods and services the company supplies.

Direct mail questionnaires or telephone surveys may be used to obtain the opinions of existing or potential customers. This is also known as the “survey method” or the “marketing research method” where information is obtained concerning.

Customer buying preferences, advertising effectiveness and is especially useful where the target market is small such as buyers of industrial products, and where the customers are co-operative.

2. Quantitative Techniques:
Quantitative techniques are based on the analysis of past data and its trends. These techniques use statistical analysis and other mathematical models to predict future events.

Some of these techniques are:

i. Time series analysis.

ii. Economic models.

iii. Regression analysis.

i. Time Series Analysis:
Time series analysis involves decomposition of historical series into its various components, viz., trend, seasonal variations, cyclical variations and random variations. Time series analysis uses index numbers but it is different from barometric technique. In barometric technique, the future is predicted from the indicating series, which serve barometers of economic change.

In time series analysis, the future is taken as some sort of an extension of the past. When the various components of a time series are separated, the variations of a particular phenomenon, the subject under study stay say price, can be known over the period of time and projection can be made about future.

A trend can be known over the period of time, which may be true for future also. However, time series analysis should be used as a basis for forecasting when data are available for a long period of time and tendencies disclosed by the trend and seasonal factors are fairly clear and stable.
ii. Economic Models:
Utilize a system of interdependent regression equations that relate certain economic indicators of the firm’s sales, profits etc. Data center or external economic factors and internal business factors interpreted with statistical methods. Often companies use the results of national or regional econometric models as a major portion of a corporate econometric model.

While such models are useful in forecasting, their major use tends to be in answering “what if”? Questions. These models allow management to investigate and in major segments of the company’s business on the performance and sales of the company.

iii. Regression Analysis:
Regression Analysis are statistical equations designed to estimate some variables such as sales volume, on the basis of one or more ‘independent’ variables believed to have some association with it.

Advantages of Forecasting:
Forecasting plays a vital role in the process of modern management. It is an important and necessary aid to planning and planning is backbone of effective operations.

Thus the importance or advantages of forecasting are stated below:
1. It enables a company to commit its resources with greatest assurance to profit over the long term.
2. It facilitates development of new products, by helping to identify future demand patterns.
3. Forecasting by promoting participation of the entire organization in this process provides opportunities for teamwork and brings about unity and co-ordination.
4. The making of forecasts and their review by managers, compel thinking ahead, looking to the future and providing for it.
5. Forecasting is an essential ingredient of planning and supplies vital facts and crucial information.
6. Forecasting provides the way for effective coordination and control. Forecasting requires information about various external and internal factors. The information is collected from various internal sources. Thus, almost all units of the organization are involved in this process,
which provides interactive opportunities for better unity and coordination in the planning process.

Similarly, forecasting can provide relevant information for exercising control. The managers can know their weakness in forecasting process and they can take suitable action to overcome these.

7. A systematic attempt to probe the future by inference from known facts helps integrate all management planning so that unified overall plans can be developed into which divisional and departmental plans can be meshed.

8. The uncertainty of future events can be identified and overcome by an effective forecasting. Therefore, it will lead to success in organization.

**Limitations of Forecasting:**

**The following limitations of forecasting are listed below:**

1. **Basis of Forecasting:**
   The most serious limitations of forecasting arise out of the basis used for making forecasts. Top executives should always bear in mind that the bases of forecasting are assumptions, approximations, and average conditions. Management may become so concerned with the mechanism of the forecasting system that it fails to question its logic.

   This critical examination is not to discourage attempts at forecasting, but to sound caution about the practice of forecasting and its inherent limitations.

2. **Reliability of Past Data:**
   The forecasting is made on the basis of past data and the current events. Although past events/data are analyzed as a guide to the future, a question is raised as to the accuracy as well as the usefulness of these recorded events.

3. **Time and Cost Factor:**
   Time and cost factor is also an important aspect of forecasting. They suggest the degree to which an organization will go for formal forecasting. The information and data required for forecast may be in highly disorganized form; some may be in qualitative form.

   The collection of information and conversion of qualitative data into quantitative ones involves lot of time and money. Therefore, managers have to tradeoff between the cost involved in
forecasting and resultant benefits. So forecasting should be made by eliminating above limitations.

Question bank (Assignment I)

1. What do you understand by the term business planning? Explain in detail the business planning process?
2. What is forecasting describe with types and mention its importance?