

- **Strategic Planning** Company's strategy establishes an effective and efficient match between its resources, opportunities and risks. It provides a mechanism of integrating goals of multiple stakeholders.
- **Financial Planning** of a company has close links with strategic planning. Financial plan should be developed within the overall context of the strategic planning. It is a process of identifying a firm's investments and financing needs, given its growth objectives. It involves trade-off between various investment and financing options. A financial plan may be prepared for a period of three or five years.
- **Steps in Financial Planning:**
 - **Past performance** Analysis of the firm's past performance to ascertain the relationships between financial variables, and the firm's financial strengths and weaknesses.
 - **Operating characteristics** Analysis of the firm's operating characteristics—product, market, competition, production and marketing policies, control systems, operating risk etc. to decide about its growth objective.

- Corporate strategy and investment needs Determining the firm's investment needs and choices, given its growth objective and overall strategy.
 - Cash flow from operations Forecasting the firm's revenues and expenses and need for funds based on its investment and dividend policies.
 - Financing alternatives Analysing financial alternatives within its financial policy and deciding the appropriate means of raising funds.
 - Consequences of financial plans Analysing the consequences of its financial plans for the long-term health and survival to firm.
 - Consistency Evaluating the consistency of financial policies with each other and with the corporate strategy.
- **Financial Forecasting** is an integral part of financial planning. Forecasting uses past data to estimate the future financial requirements. A simple approach to financial forecasting is to relate the items of profit and loss account and balance sheet to sales.
- **Financial Modelling** facilitates financial forecasting. It makes forecasting easy. A financial model has three components: input — current financial statement and growth forecasts; model — a system of equations based on the

relations between financial variables; output — projected financial statements. Financial models a large company can be very complicated when more details are considered. In practice, companies focus on the most crucial decisions and variables and keep the model simple.

- **Sustainable Growth** Sometimes companies will like to achieve growth that their current financial policies could sustain. Sustainable growth is the annual percentage growth in sales that is consistent with the firm's financial policies (assuming no issue of fresh equity).
- **Sustainable Growth Models**

$$\text{Sustainable growth} = \frac{\text{Net margin} \times \text{retention} \times \text{leverage}}{\text{Assets-to-sales} - (\text{net margin} \times \text{retention} \times \text{leverage})}$$

$$\text{Sustainable growth} = \text{Asset turnover} \times \text{Profit margin} \times \text{Leverage factor} \times \text{Retention ratio} (1 + D/E)$$

$$g_s = \frac{S}{NA} \times \frac{\text{PBIT}}{S} \times \frac{\text{PAT}}{\text{PBIT}} \times \frac{\text{RE}}{\text{PAT}} (1 + D/E)$$

$$g_s = b[(r + (r - i)D/E)(1 - T)]$$