International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

# Business Forecasting and Planning: Keys for Effective Management

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**ABSTRACT**

The purpose of forecasts is to develop better strategies and project plans using available, relevant data from the past and present to secure business's future. Good business forecasting allows organizations to gain unique, proprietary insights into likely future events, leverage their resources and become market leaders. It goes together with another management function of forecasting. It involves deciding in advance what to do, how to do it, when to do it and who is to do it. Consequently, planning has to do with the conscious choice of patters of influence on the manager in its attempt to make decision. For planning to be effective, there must be the establishment of objective. The usefulness of forecasting in management process cannot be overstressed. In practice, forecasting and planning goes hand in hand together. The features of planning and necessary steps a manager needs to follow to draw an effective plan are defining the problems, collecting relevant data, analyzing the data to separate the grains from the chaff and then building viable solutions. Forecasting and planning in practice can become one since they cannot be separated.

**Key words: forecasting, planning, management and manager**

## INTRODUCTION

Forecasting is a management function that reduces areas of uncertainty that surrounds decision. Such decisions can be on sales, costing, profit, and manpower among others. Forecasting is aimed at calculating or predicting what is likely going to happen in the future, that is, the events or conditions are predicted in advance. By so doing, forecasting gives management the basis for expecting the desired outcomes arising from management decisions (Ebunu, 1998)

Forecasting also gives management an understanding of alternatives courses of actions. This means that a manager does not rely on a course of action; if the action fails, the manager is helpless. Through forecasting, a manager has alternatives. Out of the alternatives he selects the one that can maximize his objectives. As a result, manager has explicit method of taking decision based on rational assumptions and calculations (Richardson and Richardson, 1992)

Forecasting refers to the practice of predicting what will happen in the future by taking into consideration events in the past and present. Basically, it is a decision-making tool that helps businesses cope with the impact of the future's uncertainty by examining historical data and trends. It is a planning tool that enables businesses to chart their next moves and create budgets that will hopefully cover whatever uncertainties may occur (French, 2017)

This business practice helps determine how to allocate resources and plan strategically for upcoming projects, activities, and costs. Forecasting enables organizations to manage resources, align their goals with present trends, and increase their chances of surviving and staying competitive (Ebunu, 1998)

The purpose of forecasts is to develop better strategies and project plans using available, relevant data from the past and present to secure your business's future. Good business forecasting allows organizations to gain unique, proprietary insights into likely future events, leverage their resources and become market leaders. Managers conduct careful and detailed business forecasts to guarantee sound decision-making based on data and logic, not emotions or gut feelings (Richardson and Richardson, 1992).

There's really no downside to being prepared! Building a strong forecast prepares businesses for potential issues and identifies areas for profitable growth. Even if your predictions end up being inaccurate, you'll have all the necessary data and information to get closer to the final forecast. Some companies utilize predictive analytics software to collect and analyze the data necessary to make an accurate business forecast (Weihrich and Koontz 1993). Predictive analytics solutions give you the tools to store data, organize information into comprehensive datasets, and develop predictive models to forecast business opportunities, adapt datasets to data changes, and allow import/export from other data channels (Kesten et. al., 2007)

## QUANTITATIVE BUSINESS FORECASTING

Use quantitative forecasting when there is accurate past data available to analyze patterns and predict the probability of future events in your business or industry. Quantitative forecasting extracts trends from existing data to determine the more probable results. It connects and analyzes different variables to establish cause and effect between events, elements, and outcomes. An example of data used in quantitative forecasting is past sales numbers. Quantitative models work with data, numbers, and formulas. There is little human interference in quantitative analysis (Peter, 2022)

Examples of quantitative models in business forecasting include:

- **The indicator approach**: This approach depends on the relationship between specific indicators being stable over time, e.g., GDP and the unemployment rate. By following the relationship between these two factors, forecasters can estimate a business's performance.
- **The average approach**: This approach infers that the predictions of future values are equal to the average of the past data. It is best to use this approach only when assuming that the future will resemble the past.
- **Econometric modeling**: Econometric modeling is a mathematically rigorous approach to forecasting. Forecasters assume the relationships between indicators stay the same and test the consistency and strength of the relationship between datasets.
- **Time-series methods**: Time-series methods use historical data to predict future outcomes. By tracking what happened in the past, forecasters expect to get a near-accurate view of the future.

## QUALITATIVE FORECASTING

Qualitative business forecasting is predictions and projections based on experts' and customers' opinions. This method is best when there is insufficient past data to analyze to reach a quantitative forecast. In these cases, industry experts and forecasters piece together available data to make qualitative predictions. Qualitative models are most successful with short-term projections. They are expert-driven, bringing up contrasting opinions and reliance on judgment over calculable data (Peter, 2022). Examples of qualitative models in business forecasting include:

- **Market research**: This involves polling people – experts, customers, employees – to get their preferences, opinions, and feedback on a product or service.
- **Delphi method**: The Delphi method relies on asking a panel of experts for their opinions and recommendations and compiling them into a forecast.

## INTEGRAL ELEMENTS OF BUSINESS FORECASTING

While there are different forecasting techniques and methods, all forecasts follow the same process on a conceptual level (Akanni, 1998). Standard elements of business forecasting include:

- **Prepare the stage**: Before you begin, develop a system to investigate the current state of business.
- **Choose a data point**: An example for any business could be "What is our sales projection for next quarter?"
- **Choose indicators and data sets**: Identify the relevant indicators and data sets you need and decide how to collect the data.
- **Make initial assumptions**: To kick start the forecasting process, forecasters may make some assumptions to measure against variables and indicators.
- **Select forecasting technique**: Pick the technique that fits your forecast best.
- **Analyze data**: Analyze available data using your selected forecasting technique.
- **Estimate forecasts**: Estimate future conditions based on data you've gathered to reach data-backed estimates.
- **Verify forecasts**: Compare your forecast to the eventual results. This helps you identify any problems, tweak errant variables, correct deviations, and continue to improve your forecasting technique.
- **Review forecasting process**: Review any deviations between your forecasts and actual performance data.

## HOW TO DO BUSINESS FORECASTING

Successful business forecasting begins with collaboration between the manager and forecaster (Ebunu, 1998). They work together to answer the following questions:

1. What is the purpose of the forecast? How will it be used?
2. What are the components and dynamics of the system the forecast is focused on?
3. How relevant is past data in estimating the future?

Once these answers are clear, choose the best forecasting methods based on the stage of the product or business life cycle, availability of past data, and skills of the forecasters and managers leading the project.

With the right forecasting method, you can develop your process using the integral elements of business forecasting

## PLANNING

Planning is another management function which is futuristic. It goes together with another management function of forecasting. It involves deciding in advance what to do, how to do it, when to do it and who is to do it. Consequently, planning has to do with the conscious choice of patters of influence on the manager in is attempt to make decision. For planning to be effective, there must be the establishment of objective (Ebunu, 1998)

Planning is defined as the design of a desired future and of effective and efficient way of bringing it about. We can also look at planning as examining the future and drawing up a plan of action (Richardson and Richardson, 1992)

## FEATURES OF PLANNING

Planning involves design. Remembering to design is to create which one of the skill of management. This means that before any other management function can take place, there must be first of all planning. Consequently, planning precedes action in respect of other management functions (Owen, 1997)

Planning attempts to bring necessary actions and fit them together to something we want to make sense of before it happens. This means that before we realize an objective, there must be series of actions which must be well fitted together in a logical sequence

Arising from the above, planning is focused on the need to achieve stated and well defined objectives. This means that the end product of planning is the realization of organizational objectives. Planning is also a conscious deliberate response to the negative belief that unless something is done, a desired future state will not occur, and to the optimistic belief that we can do something to improve our chances of achieving the desired state (Owen, 1997).

## MERITS OF PLANNING

The merits of planning focuses on objectives which is very important as not to commit the limited resources of the organization into unprofitable degree of certainty. It offsets uncertainties by ensuring the manager develops confidence which would enable him in decision making with degrees of certainties (Harvey, 1999). Planning minimizes waste before careful analysis would have been made as regard the critical activities that need performance in order to realize the objectives to a given problem. Planning ensures proper control through measurement and feedbacks which is important so as to avoid unnecessary expenditure of resources (Anderson et. al., 2005)

There are many reasons why it makes sense to create a business plan. Consider the following advantages of doing so. Perhaps the single most essential advantage of a business plan is using it to convince you whether the prospective business is actually a good idea (Pløger, 2001). The plan is a good place to test assumptions about what business conditions will be needed to make the entity a success. Realistic modeling with the plan is good way to decide whether there is a reasonable chance of success, or whether it makes more sense to try some other business idea (Trust, 2022)

**Set Priorities**

The process of creating a business plan is useful for identifying which priorities are most critical for ensuring that the goals set forth in the plan will be accomplished. This is useful for allocating money and other resources to the right activities.

**Align Tactics with Strategy**

The activities stated in the business plan should represent the best possible tactics to support the firm’s strategy. By laying out tactics within the business plan, one can evaluate whether there are any areas requiring more or different tactics. This format also makes it easy to decide whether there are any mismatches between the firm’s strategy and its tactics (Yiftachel, 2005)

**Set Milestones**

A business plan should contain milestones, noting that goals that are expected to be completed by specific dates. For example, a new product should be released by March 15, or orders should be received from five new customers by June 30, or the western sales region should be opened up by September 1.

**Assign Responsibility**

With a business plan in hand, it is easier to work through the list of activities that must be completed, and assign responsibility for them. This is essential for figuring out which employees are effective and which are not.

**Identify Cash Flow Issues**

A business plan contains a cash flow analysis, which is useful for determining when the business is expected to have cash flow problems. Having this information available makes it easier to plan for fund raising activities to ensure that the business is always properly funded.

**Impress Outsiders**

Since a new company does not have any financial statements yet, many lenders and creditors will want to see a business plan instead. This will give them some comfort regarding how realistic the firm's prospects for success may be. This is especially important when trying to attract new investors, who want as much detail as possible before they will be willing to invest any money.

**Analyze Variances**

With a business plan in place, it is easier to spot instances in which actual performance is better or worse than expected performance. Depending on how the plan is structured, it may be possible to identify variances each month, allowing for ongoing changes to the business to bring its results into closer alignment with the plan.

**Create Metrics**

A business plan may include a set of performance metrics that represent how well the organization is expected to do during the planning period. These metrics should be targeted at just those performance issues that really matter, such as the percentage of visitors to the company online store that complete a purchase, or the proportion of goods sold that are returned by customers (Gunder, 2003)

**Parting Thoughts**

It is worth returning to the "make a go/no go decision" that we listed as the first advantage of a business plan. This concept is worth considering on an ongoing basis as a business starts up, in order to evaluate how it is doing. For example, if several months have passed and there is still no immediate prospect of generating a profit, it might be worthwhile to compare this outcome to the expectations outlined in the plan, to see if there are any options available for turning the situation around. If not, it may be time to shut down the business, rather than running out of cash further in the future and then closing it down (Gunder, 2003)

## DEMERITS OF PLANNING

The effectiveness of planning depends on the quality of data gathered and the assumptions made from them. If the quality is poor and assumptions not correct, they can adversely affect the future of results. Planning being expensive involves considering the amount of time and money needed. It delays actions since planned execution can only takes place only when the plan is completed (Richardson and Richardson, 1992)

## CONCLUSION

The usefulness of forecasting in management process cannot be overstressed. In practice, forecasting and planning goes hand in hand together. The features of planning and necessary steps a manager needs to follow to draw an effective plan are defining the problems, collecting relevant data, analyzing the data to separate the grains from the chaff and then building viable solutions. Forecasting and planning in practice can become one since they cannot be separated.

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