# LEARNING GUIDE

Week No.: 8

## TOPICS: LONG RANGE PLANNING AND FORECASTING

## EXPECTED COMPETENCIES

At the end of the lesson, you must have

1. described the concept of basic strategic planning
2. explained the creation of strategic plan •
3. illustrate the strategy of team development and business plans
4. enumerated and explainedthe principles of forecasting
5. identified the various methods of demand patterns
6. analyzed the criteria for selecting a forecasting method
7. described the crucial role of forecasting methods in business profitability
8. described measuring forecast errors.

## TECHNICAL CONTENTS

### 8.1. Introduction

Managers of any department, warehouse, or supply chain want to be successful in any organisation. The manager has to employ an effective inventory management strategy to guarantee success in the organisation. The most successful retail, warehouse, and supply chain managers are those who are fully aware of the state of their stocked inventory at any time and have a system that helps keeping up which allows them to easily index and monitor the coming and going of product within that inventory.

Implementing an inventory management plan begins with the specific items that one has and the type of storage location in which the product is kept. A strategy may involve careful planning for spatial needs, especially if you must maintain a number of items in a minimal amount of space. An appropriate plan at this point would be to create a diagram of your warehousing or storage environment and map out the locations of stocked items that will best organize the materials with no wasted space. The success of tracking and managing your inventory can be accomplished with electronic tools or simply by hand.

The next order of business is where the managers are mapping out the strategy to maximize the profit. Many times, the items in the inventory may remain there without moving for long periods of time due to lack of demand. This is not only a wasted expense but also takes up valuable room in the warehouse or supply room that could be filled with a faster selling item which would draw more profit. The inventory management strategy should definitely include some form of tracking system to identify quick selling products, as well as those with the highest profit margin. Such systems will report what items should be maintain at high levels within the inventory to meet demand and maximize profit.

Any business inventory management strategy would not be complete without a well-equipped software system that allows the manager to keep track of every item that comes in and out of his warehouse. This means that, when inventory checks are completed, the manager will be able to identify errors, thefts, losses, and any other discrepancies much more readily. It will also assist in ordering process, since the electronic tracking will give information on exact quantities of inventory without having to run out and count everything by hand. When the manager sees that the stock of a particular item is low, he can prepare to reorder.

The final implementation of an effective inventory management strategy is to make sure that all items are properly labelled. Wrong or incomplete labelling can lead to several problems, including wrong identification by the software, misplacement when restocking the inventory, loss of the item, or inability to find it for shipment or shelving later

## 8.2. Basics of Strategic Planning

As a manager of a small or medium sized firm having a strategy plan is the most important and intimidating activity. Organizations of any size which effectively utilize a strategic plan enjoy a much greater chance of long-term success, whether measured in key financial performance indicators, longevity, or cultural stability. A concise working definition of “Strategy” can be provided as “what a company does, or does not do to fulfil its vision in a competitive marketplace”.

The high-impact strategic plan can be presented effectively on one page. Its elements can be expressed in a few well-chosen words, clauses or sentences. The strategic plan and operations or business plan are not the same. The latter two are compliant to the strategic plan and are shorter in timeframe, and far more detailed. One great feature is that it is powerful enough to guide the daily activities of dozens, hundreds, and even thousands of employees.

Within the strategic plan, senior management sets the dominant logic and the moral compass of the organisation. It is an opportunity to unambiguously document ethics for leadership continuity. It forces introspection and situational analysis. Primarily through articulation of core values, it provides a directional beacon especially in hard times.

## 8.3. Creation of Strategic Plan

The creation of a strategic plan is a five-step process which could be listed as follows:

Figure 8.1. Step Process of Strategic Plan

### Vision

Having a vision is an inspirational call to action. In a few short words, the Chief executive officer or senior manager uses the Vision, to point at the way to the company’s future. It should include emotions and should be designed to last for many years. We could take an illustration of Google’s vision statement which is “To develop a perfect search engine.”

### Core Values

The downfalls of countless corporations each year are due to ethical problems therefore, preparing a statement of core values becomes vitally important. Choosing five or six words or short phrases which define the values must be basic to the working culture. Examples of such words might include “integrity”, “transparency”, or “honesty”. Core values will guide the organisation in making hard choices in very difficult times which should not be compromised. Hiring people who define core values will help the organisation in strategic planning.

**The Mission**

An effective mission statement is one which tells about the company story and ideals in less than 30 seconds. Now a days , companies have mission statements comprised of three or four short sentences, it is more detailed than the Vision, and is often written in the present tense. It defines your company's customers, products, and how your company contributes unique value for its customers.

**Strategic Objectives**

Strategic objectives should be specific, measurable, possible, relevant, and time-framed (SMART). Three to five objectives should suffice, and they should be attainable within one to three years. For reasons of confidentiality, strategic objectives are rarely published outside the company, but they must be effectively communicated to all employees.

**SWOT Analysis**

This acronym stands for Strengths, Weaknesses, Opportunities, and Threats. An honest, fact-based discussion between senior management and key advisors needs to take place. Documenting strengths and weaknesses tends to involve serious introspection, while opportunity and threat analysis tend to require external environmental scanning. Since it establishes the firm's current position relative to its competitive environment, the SWOT can be very useful in establishing objectives and even the mission. It is therefore frequently performed early in the planning process.

The strategic plan is a living document which must be must be communicated effectively and constantly with the employees of the firm. Successful businesses frequently fit in the plan into the annual employee performance review process, ensuring that individual and departmental goals and objectives are going hand in hand with the strategic plan. The strategic plan should be reviewed at least annually, noting any SWOT changes that might require modifying strategic objectives. Acomplete renewal of the strategic plan should be undertaken every three years. A good plan will also discourage spending on projects that are not associated with strategic goals and helping to prevent deliberate conflicts between operational departments.

There are several ways in which a manager can simplify your system of product inventory management. Choosing the methods and procedures that suits the firm is very important so that the manager can follow the guidelines set up initially. If the manager thinks of a procedure that is felt not important or vital to the system, then it will be difficult for them to follow it. This is equally difficult to keep sticking to the policy as the same is expected by the staff. Following are few suggestions to get proper product inventory management strategies for the departments in any organisation.

**Organization**

Organizing the stock within the space provided has to be determined by the managers. Several methods could assist the managers in making this decision simpler. The most popular products to be the most easily accessible as their use are frequent. Mapping out the space which is available and a look at the size of items that has to be stocked. How much quantity to keep is also an idea any manager should get. Chalking it out on paper and scratching out where each item would best be located to maintain organisation while still making efficient use of the room is a great product inventory management strategy.

**Analysis**

All items that, a firm has in stock when any manager takes over the product inventory management process is necessary. A look at sales records and stock that hasn't moved for several months so, the only option left is to get rid of that product entirely. It is better to determine the course of action when the kind of product arrives, product quantity in stock, and the number of other items for which more storage space will be needed, is to simply write it off. They are offered at reduced prices for quick sale to help cut the firms losses, but it is best to remove it and make way for items that bring in revenue. Budget The concept here would be that the firm has space for more stock, so that there is no need to just fill it. Sometimes these spaces help in future in case there is a need for the stock to be kept. For example, you have a product that goes on sale and the demand soars. This space can be used to store temporary additional stock of that item. It is better to have open space than to overextend the budget by ordering too many items. Also, having too much inventory on hand detracts from the value of the company.

**Tools**

Make use of software and other tools that the firm has for product inventory management. Most of the software packages available will give the manager an analysis reports that can help him make better decisions in the future and help him track the goods in the warehouse, taking a lot of stress and strain off his shoulders .Motivating their team to maintain a free flowing inventory process with the help of the software tools.

## 8.4. Strategy of Team Development and Business Plans

Creating a business plan for a small business is like laying a path to success, building it brick by brick. The toughest part is starting from scratch and having a well laid plan. But once started, each brick, strategically placed, takes you one step further with great thought and determination. This is the most important tool for a small business owner. It is a manager's guide, or roadmap, to success because it should scrutinize every aspect of the business.

The main areas this document should contain are Management and Operations Plans, Market Analysis, Services and Pricing, Sales Strategy and Financial Analysis. The biggest mistake entrepreneurs make is placing the business plan on a shelf and never reviewing it again. The business plan provides guidelines, projections and suppositions. It does not provide certainty or absolutes. Therefore, it must continue to be continuously revised. This document is a living, breathing document that helps the owner see what works, what doesn't, what has changed and what needs to change.

Three key components that should be analyzed closely are the Sales and Service, Market Analysis and Pricing. When starting a business, research on the projected market can only provide a best guess. As the business grows, the entrepreneur will find variations that should be included into the business plan without fail. When reviewing the business's client base, the manager might discover a need to adjust his assumptions. After scrutinizing his findings and make changes to his business plan accordingly. The Sales strategy might also change for example, the plan might have called for print advertising and direct mail, but suddenly discovered that networking and referrals turned out to be the best way to secure sales. The advertising budget will adjust positively with this scenario, but there may be a need of an additional part-time employee to cover the time where manager is attending networking meetings.

Let's consider a cleaning service, established to do weekly cleaning to the Boomer market. The advertising was directed at the Boomers, and it is noticed that it reached the consumers it targeted exactly. The ones calling to hire a cleaning service for their parents who are old. The aging seniors would most likely need less frequency (monthly or quarterly), which could create a cash flow issue. Therefore, there might be a need for a different pricing structure. More refining to the plan will make it a better path to success. A business plan will help to see where the business is and where it can go. It will help to determine if the business is stayingon track or there is a need to focus again. Just like a brick path that needs constant care, the same is true for a business plan. The manager must secure loose ones, replace broken ones, pull weeds, and often widen and lengthen the entire path to handle additional traffic (customers, products, services).This vital document will make the journey more enjoyable and more successful, but only if it is visited and revised often rather than sitting on a shelf collecting dust.

**8.5. Concepts of Business Planning**

Businesses often have a considerable part of their investment tied up in inventory. At the end of the year, only the cost of those goods that are sold can be deducted as a business expense on the taxes paid, the unsold portion is considered part of the company's assets. In order to make a reasonable profit, the inventory must be managed in most effective way to provide enough products for good customer service, but notso much asto cause financial difficulties. There are different ways of accomplishing this balance. All require good management skills and decision making.

First of all, precise recordkeeping is vital. Inventory records can be kept manually or by using more sophisticated computer programs. While the type of system and kinds of records may vary from business to business, all require accuracy and timeliness to be effective. At the end of the year you will need to physically take inventory.

Successful inventory management requires a balance between the costs and benefits of inventory. Costs include not only the money tied up in the inventory, but also storage, insurance, taxes, etc. The benefits of inventory include having adequate stock on hand, a wide assortment, low cost volume purchases, etc. It is difficult to maintain the correct balance but the following considerations should be kept in mind:

• High inventories increase financial risk.

• Maintain a wide assortment but keep an adequate supply of those items with quick turnover.

• Increase turnover but don't sacrifice service level.

• Make volume purchases for lower prices, but don't end up with slow moving inventory.

• Have plenty of inventories on hand, but don't get stuck with obsolete items.

Many industries rely on a ratio which measures inventory turnover rate. Inventory Turnover Rate can be calculated in various ways, providing a rough guideline by which managers can set goals and measure performance. 2.6 Forecasting Techniques There are various forecasting techniques in inventory management that helps in the organizations profitability. We will first understand the meaning of forecasting, planning and goals.

(Lifted from http://jnujprdistance.com/assets/lms/LMS%20JNU/MBA/MBA%2%20Material%20Management/Sem%20IV/Inventory%20Management/Inventory%20Management%20.pdf).

**SUPPORT MATERIALS/REFERENCES:**

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**Recommended Reading**

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