Strategic Financial Management

CIA-2

"Write up on Strategic Financial Planning"

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Strategic Financial Planning

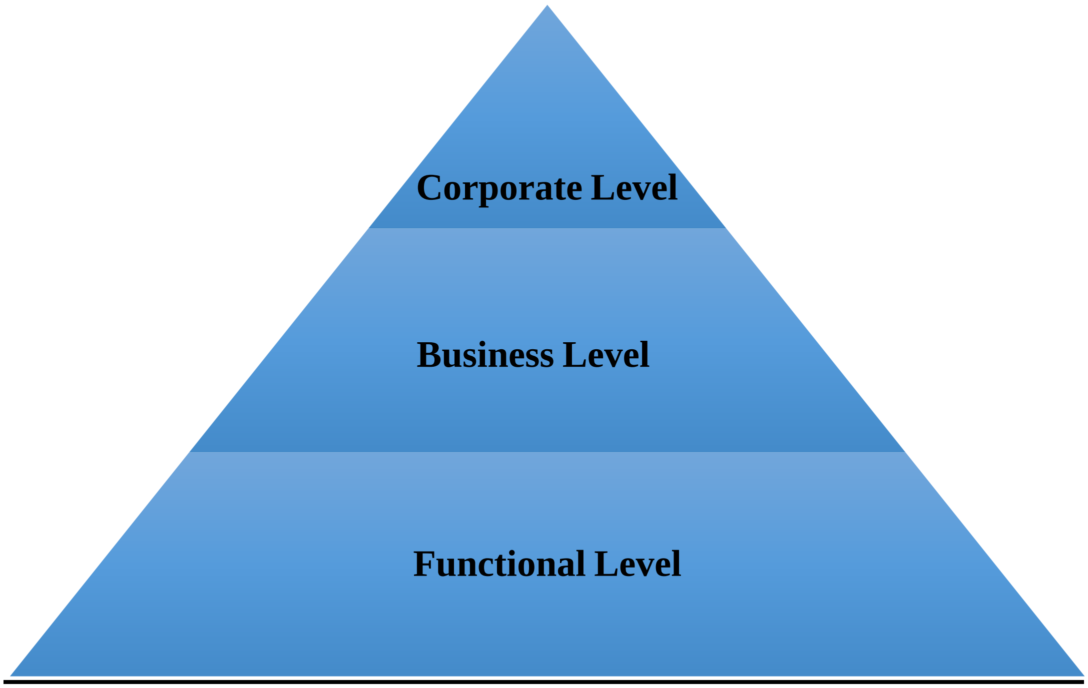
Financial planning is the task of determining how a business will afford to achieve its strategic goals and objectives. Usually, a company creates a financial plan immediately after the vision and objectives have been set. The financial plan describes each of the activities, resources, equipment and materials that are needed to achieve these objectives, as well as the timeframes involved. The financial planning activity involves the following tasks:-

- Assess the business environment
- Confirm the business vision and objectives
- Identify the types of resources needed to achieve these objectives
- Quantify the amount of resource (labor, equipment, materials)
- Calculate the total cost of each type of resource
- Summarize the costs to create a budget
- Identify any risks and issues with the budget set

Performing financial Planning is critical to the success of any organization. It provides the business plan with rigor, by confirming that the objectives set are achievable from a financial point of view. It also helps the CEO to set financial targets for the organization, and reward the staff for meeting objectives within the budget set.

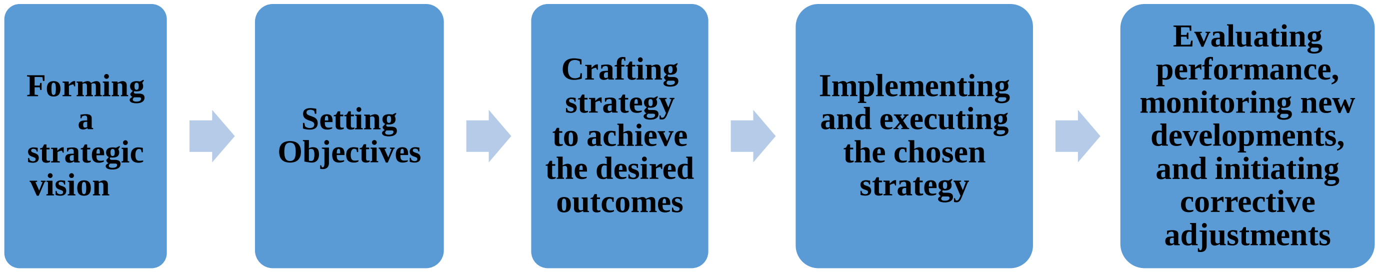
Strategy-A company’s strategy consists of the competitive moves, internal operating approaches, and action plans devised by management to produce successful performance. It is management’s “game plan” for running the business. Managers need strategies to guide HOW the organization’s business will be conducted and HOW performance targets will be achieved.

Levels of Strategic Financial Planning



1. **Corporate –Level Strategy-**The Set of strategic alternatives that an organization from as it manages its operations simultaneously across several industries and several markets.
2. **Business-Level Strategy-**How the organization conducts business in a particular industry.
3. **Functional-Level Strategy-**Strategy developed for specific functional areas such as marketing, finance, and so forth.

The financial planning process is generally divided into Five Steps:-



1. **Forming a strategic vision**-“what is the vision of the company, where should the company be headed, what should its future technology-product-customer focus be, what kind of enterprise do a company want to become, what industry standing do the company want to achieve in five years.

2. **Setting Objectives**-The purpose of setting objectives is to convert managerial statements of strategic vision and business mission into specific performance targets-results and outcomes the organization wants to achieve. Setting objectives and then measuring whether they are achieved or not help managers track an organization’s process.

3. **Crafting Strategy**-A company’s strategy represents management’s answers to such fundamental business questions as:-
   - whether to concentrate on a single business or build a diversified group of business
   - whether to cater to a broad range of customers or focus on a particular market niche
   - whether to develop a wide or narrow product line
   - how to respond to changing buyer preferences
   - how to react to newly emerging market and competitive conditions
   - how to grow the enterprise over the long term

4. **Strategy Implementation and Execution**-Strategy implementation concerns exercise of putting a freshly chosen strategy into place. Strategy execution deals with the managerial exercise of supervising the ongoing pursuit of strategy, making it work, and showing measurable progress in achieving the targeted results.

5. **Strategy Evaluation and Monitoring**-It is management's duty to stay on top of the company's situation, deciding whether things are going well internally, and monitoring outside developments closely. Marginal performance or too little progress, as well as important new external circumstances, will require corrective actions and adjustments.

Factors effecting the choice of the Strategy

External Factors

- Economic, societal, political, and governmental regulations
- Competitive conditions and industry attractiveness
- Company opportunity and threat

Internal Factors

- Company strengths and weaknesses, competencies and capabilities
- Personal ambitions and business philosophies of key executives
- Shared values and company culture

Objectives of Strategic Financial Planning

The traditional goals of the Strategic Financial Planning are:-

- Develop and implement a strategic plan that supports the organizations' mission, vision, and values
- Creates organizational and business unit plans
- Identify and evaluating new business opportunities
- Provide training and education related to planning\
- Perform market assessments and forecasts
- Reconcile the plan with capital and operational budgets, as well as with human resource and facility planning
- Monitor plan implementation and measure results

Focus of Strategic Financial Planning

The focus of SFM is on seven areas:-

1. **Retirement and financial planning-**Much of the burden and risk of planning for retirement has shifted from employers to employees. Also the availability of funds under our social security system is subject to change. A review of your expected retirement needs, along with assets currently available, the amount of the savings, and the length of time to the desired date of retirement should be considered.
2. **Integrating tax and financial planning-**Careful consideration of income tax implications is necessary for decisions made during the financial planning process. Coordinating income tax planning concepts and issues with the financial planning goals and objectives should be implemented on an ongoing basis.
3. **Estate Planning-**Estate planning is also an important part of one's financial plan to assure care of loved ones as well as for the managing, administering and distributing of the assets. An up to date will is essential, along with the possible use of a living trust, and a durable power of attorney. Part of this process should include a review a how the assets are titled, since the best estate and financial plans can be thwarted by improper titling of assets
4. **Risk management and insurance needs-**Risk management and insurance planning calls for obtaining the appropriate amount of health, life auto, homeowners, general liability, and long term care insurance. The goal is to allocate premium dollars to reduce significant risk and exposures. This includes using the appropriate deductibles and in some cases, deciding not to insure against a potential loss. However, one should never risk a large loss to save a small premium.
5. **-Cash management, budgeting and debt management-**Current expenditures can be reviewed and a budget prepared that would document modifications based on ones' goals. Included would be a review of the items. Of all outstanding debt to investigate opportunities to refinance at more favorable terms. This can be accomplished with additional savings and/or a home equity line of credit.
6. **Education planning and income splitting-**Education costs continue to increase at a higher rate than the rate of inflation. A review of the progress toward funding education should be completed along with investing potential sources of financial aid.

7. **<u>Investment planning and asset Allocation</u>-**An appropriate investment strategy can only be made after considering the other components to one's financial plan. In this fast changing world of investing, there are many opportunities available today not previously available. A good example is the increased popularity of online investing. Keep in mind, however. That studies indicate that a proper and wise allocation of investments is the largest determine of investment success.