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Effect of Financial Planning in the Automobile Industry

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Abstract: Financial planning, an integral part of financial management, deals with managing funds for a company to maximize profits and shareholder wealth. Financial planning serves three purposes: It helps determine where the firm has been, its current position, and its future. It also helps to determine the probability of a variation from the best outcome. Finance is the study of the challenges connected with the procurement and management of funds by a business. Financial planning includes analyzing the financial flow of a company, forecasting the results of various investments, financing, dividend decisions, weighting the effect of various options. Financial planning is the foundation of financial management. It assists management in avoiding waste by providing policies that make it possible to better coordinate the functions of the business.

Key words: Financial Planning, Automobile Industry, Financial Management, Automobile business

Introduction

Financial planning is about analyzing the financial flow of a company as a whole, forecasting its consequences, making financing and dividend decisions, and weighing the effects of all options. Financial planning is the foundation of financial management. Due to the complication of the business, executives should put greater prominence on financial planning. They need to be able to secure and utilize capital resources in a proportion that will increase the efficiency and productivity of all remaining factors. It is vital to plan financially in both dynamic and stable economic conditions. In addition, it assists management in avoiding waste by providing policies that make it possible to coordinate the various functions within the business.

The major activity of the automotive industry is to sell and distribute motor vehicles. Pauwels et al(2018, p.287) said that there are many motor car dealers across the entire world. The largest being Toyota (East Africa), Cooper Motor Corporations General Motors, General Motors Simba Colt, General Motors, DT Dobie Kenya, and Toyota (East Africa). Three vehicle assembly plants exist in the country. They specialize in assembly pick-ups, heavy commercial vehicles, and automobile vehicle assemblers. Dealers who are well-established face fierce competition from importers of second-hand vehicles from Japan and the United Arab Emirates. These imports now represent 70% of the market. In the past decade, there has been a noticeable decrease in new vehicle sales in the country. Although there has been some improvement in the last four years, it is still below the number of vehicles sold a decade back. The largest motor vehicle companies had a total of 9,979 units sold in 2004. While this figure is 27% smaller than the previous, it is still well below the early 1990s.

According to Pauwels et al(2018, p.287) the Kenya Motor Industry Association has been lobbying hard for a halt to this trend. These measures helped recover the industry from its low point of 2000 when only 5,869 units had been sold. They have also been more inventive in responding to customer requirements. KMI is urging the implementation of strict criteria regarding the importation of second-hand vehicles, encouragement of local assembling and export incentives to encourage car companies to expand operations within the region.

Scope of financial planning for the auto industry

These purposes of financial planning in the automotive industry are.

- Better use and better management of assets, resources (tangible and immaterial) and responsibilities at all stages of government to deliver them with the essential properties and possessions.
- To generate openings for the evaluation of investment attractiveness in specific areas of economic activities
- Increase the validity of financial resources provided to certain areas of activity.
- Increased financial discipline, focusing on increasing the responsibility of managers at different levels
- of management and stimulating a better combination of structural elements in the interests of the whole organization
- Control of changes in the financial status of the company.

Uncertainty is a substantial factor in the explanation of organizational decision making. Therefore, it is essential to be concerned about the positive and negative influences of environmental factors.

Financial planning has many benefits for the automotive industry

Carmakers, like other manufacturers of vehicles, are not strangers to efficiency. With complex production lines that require precise metrics and rapid execution, carmakers and others have no problem with efficiency. Each station, division, and department deal with vast amounts of data. It is difficult to see the whole business' data with large amounts of data stored within ERP software. According to Lévay et al(2017, p.524) there are three main benefits to financial planning in the automotive industry.

- Easy to understand operational activities can impact the financial situation, allowing users to identify the relationship between these two areas and plan R&D projects precisely, on budget, with the right skillsets, and with the right resources.
- The process of working out the results is simplified vehicle production costs in real dollars. This software automatically pulls together data from multiple sources and calculates the prices per country. It also determines the profitability of each product.

- Allows for standardization of budgeting through workflow processes. Transparency is possible across all divisions, allowing for control and transparency.
- Rough-Cut Capacity Planning approach: The system provides visibility to factors such as machine availability and labor utilization to regulate the capacity and resources necessary for new vehicle production.

Conclusion

The rapid pace of change in the business world makes it difficult for automotive firms to adjust to rapid changes. Financial planners are capable of delivering economic knowledge about these firms. They can also project the future so that directors can identify key points and spot areas that need amplification, retraction, or revision. Finally, they will be capable of requesting the essential questions to ensure the continuation of the business at healthy levels. Unfortunately, there are still historical flaws in the forecasting and budgeting processes, which limits the value of the financial planning process.

The process continues to be slow, iterative, inaccurate, and time-consuming. CEOs, chief financial officers, and business unit leaders now call for improvements to the financial planning process. Prioritizing other finance and business initiatives over them is a priority. Leading factors that lead to planning variability and poor performance are business changes and uncertainty. An important trend was that companies that utilize external indicators and business leaders in financial planning are more likely to harness uncertainty and provide prospective insights with greater accuracy and confidence. Business driver planning allows for a better understanding of, analysis, and proactive impact on business performance.

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