FINANCIAL PLANNING IN THE CURRENT SCENARIO OF 2017

Dr. Naveen Srivastava²

²Assistant Professor, Department of Management, Lala Lajpat Rai Institute of Management, Haji Ali, Mahalaxmi, Mumbai.

ABSTRACT

BACKGROUND

The current times are very challenging. On one hand, the country is undergoing various reforms under the BJP led Narendra Modi government; on the other hand, we have a host of problems surmounting in India like failing political environment, demonetisation drive and the underperforming industries. As such, the financial planning in such times becomes all the more difficult. A beacon is needed for all individuals and industrial sectors to guide them of the latest trends and what initiatives need to be taken to combat these trying times. This article which refers to the sound knowledge of the finance and marketing domains coupled with practical insights of the present Indian economic environment attempts to look after these effects, trends and solutions.

KEYWORDS


BACKGROUND

The present times are very challenging. On one hand, there is growth in some industrial sectors while some sectors are showing a lagging trail in business. At the same time, the political and business environment in many of the countries has taken a downturn. As such, the business scenario is showing a lot of hiccups in keeping pace with the demands of the market in one hand and the unfavourable business environment on the other hand. Business decisions are generally taken in a stable business environment when the environment supports enterprise and the market shows promise.

With reference to India there is a lot of uncertainty in the business climate. The political environment is unstable in the wake of the demonetisation issue and the market is not confident of spending much. As such, a lot needs to be done in financial planning of the business and the individuals.

According to research by Ambit Capital, which is a renowned Mumbai-based equity research firm, the projections for GDP growth after demonetisation will be down by 0.5% in the second half of financial year 2016-17.

It has also projected that there could be a negative growth in GDP from Oct.-Dec. quarter of 2016. It had projected that an organised formal economy will ensue through 2017 until 2019 and because of this disruption GDP growth in 2017-18 could come down to 5.8% from their earlier estimate of 7.3%.

That’s perhaps the case for the prosecution. The disruption to the economy will be such that there will be, possibly, not just no growth in the last quarter of the previous financial year but actually a shrinking of the economy.

According to Ambit economists, “The demonetisation-driven cash crunch that is playing out in India will paralyse economic activity in the short term. We expect a strong ‘formalisation effect’ to play out as nearly half of the non-tax paying businesses in the informal sector (40% share in GDP) will become unviable and cede market share to their organised sector counterparts. We expect this dynamic to crimp GDP growth in India in FY18 as well and hence we have cut our FY18 GDP growth estimate to 5.8 percent YoY (from 7.3 percent).

Many economists from HSBC had predicted that India’s economic growth would fall by up to 1 percentage of points over the next 12 months in the wake of demonetisation, while if reforms are administered there would be long term gains.

They had also predicted that there would be ‘some benefits, some losses’.

What they had predicted was that demonetisation is a good move but needs proper implementation till the end to show adequate and fruitful results.

Some of the Key Steps which could be taken in this Scenario are as follows-

For Businesses-

1. Tap the Current Existing Market

Whenever there is a current market for any product, it should not be lost by the businesses. Lot of businesses have a constant market for their products and business houses see repeat customers. These should not be lost by the businesses. Efforts should be taken to retain the existing markets.

2. Offer more Marketing Schemes to Suit the Cash Flow Ability of the Customers

In the wake of the demonetisation initiative, the customers have limited money in their hands. As such, their purchasing power is restricted. Efforts should be taken to help these customers to get rid of these limited ability of the product and offer more value for money in their products.

3. Offer more Discount Schemes and Promotional Fares to the Customers

Businesses need to offer more freebies, promotional schemes for the customers and organise more events, conferences, exhibitions and such plethora of activities where they reach a wide variety of customers to show what they offer and at what prices. This will instil confidence in the customers and help boost trade.

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Corresponding Author:
Dr. Naveen Srivastava,
B-405, Building No. 65,
Tilak Nagar, Chembur,
Mumbai-400089.
E-mail: srivastava_naveen1970@rediffmail.com
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4. Encourage More E-Commerce
In the wake of the demonetisation initiative by the government, there should be more stress on paperless transactions. As such, payment for merchandise by credit and debit cards and other such online modes should be encouraged rather than cash payments. Similarly, encourage to pay more by cheques and less by cash as cash in hand in the hands of the customers is restricted.

5. Reach Far Stationed Remote Customers
The companies should try to reach far and remote customers located in the remote areas. This will facilitate the customers to buy products closer to their doorsteps. This will also facilitate convenience and faith in the company's products.

For Individuals

1. Adopt a Conservative Approach to Spending
In the wake of this demonetisation initiative, individuals would do well if they adopt a conservative approach till banks are freed with the responsibility of accepting black money in old currency notes. Then, when the banking becomes regular, individuals may increase their spending.

2. Rely more on Cashless Transactions
Individuals could do well by using more of banking facilities and paying with debit and credit cards more. Also more steps should be taken to do online bank transfers and payment by cheques. This will make the transactions more credible and would control the problem of black money stashing.

3. Look for Less Risky Modes of Investments
Individuals could do well by relying more on less risky modes of investments. They could go in for bank FDs, Treasury Bonds and better performing mutual funds. This will build wealth in the current scenario which will not be very risky for the individuals.

4. Spend on those Purchases which Offer More Value for Money
In this scenario, with the corporates offering more value-for-money merchandise, individuals would do well to evaluate these offers and purchase that merchandise which offers more value for money. This will entail the wellbeing of both the individuals and the marketers.

5. Keep Abreast of all that is happening in the Market by Media Information
The media, the print and the audio-visuals are working overtime to make the people aware of all the new events, promotions, discount offers and other such integrated offers between a single company or a group of companies for the individuals. The individuals should keep track of the media and go through them regularly.

6. Bring any Income in the Mainstream Economy
One might have any amount of income, the individual should do well by investing it in banks and other such avenues and pay whatever taxed are accrued on this income. The corpus which the individual owns after paying the taxes will still be a sizeable amount. Also this clears the individual of all future governmental ad taxation hassles.

If these measures are followed, the corporates and the individuals will be able to tide over the financial crisis in the long run. Also it would contribute to the growth of GDP of the country and improved finances for the individuals.

Perspective of Demonetisation
Lot of changes have come in the economy post demonetisation. The banks have taken new responsibilities and the public is trying to come to terms with the realities and demands of demonetisation. The businesses are also trying to adjust to the circumstances of the economy.

As such, whether it is a business or an individual, one has to keep abreast of all the happenings in the marketplace. The market has to be viewed with the right perspective. This is true for all the sectors of the industry.

Effects on Certain Industrial Sectors

(a) Effect on Gold/Jewellery Industry
This industry will see a rise in the sales as people will rush to invest in Gold/Silver and other such precious commodities. But initially the quantum of investments will be limited till the markets stabilise. Later on, if the govt. does not impose more regulations/restrictions on this industry, people will invest in these materials. Indians as such are fond of buying gold/silver and other such jewellery items.

(b) Effect on Real Estate Sector
The real estate sector is the second sector which will be affected post-demonetisation. In India the majority of the people are poor or are in middle class; they invest in modest homes in Tier two and Tier three cities. In the Tier one cities, the metro people invest in property many of which are exorbitantly priced and are often out of reach of even the rich segment. Transactions in this sector are about 40% of the amount done in cash which will see a downbeat in the aftermath of complete demonetisation of high currency notes. The developments of new projects will also see a down beat as builders and real estate people will have to bear the high cost of financing from some allowed, specific financiers. The prices of real estate projects will come down leading to erosion of value for the people who have already invested and also the new buyers might be attracted owing to low prices.

(c) Effect on Infrastructure industries.
The projects in this industry will mainly be taken over by the public sectors and governmental bodies as per the allowed norms, but the amount of money required is very high for these projects to get completed, like roadways, flyovers, railways, fertilisers, shipping, electricity and power projects. The projects in these sectors will be completed in public private partnerships with the private partners shying away from these projects with imposed additional restrictions. New modes of financing will have to be devised which will suit the purpose and the requirements of the government.
(d) Effect on Pharma Industry
As other industries are affected, the Pharma Sector will also get affected. This is a crucial sector where the medicines and drugs which are being made by the companies, many of which require longterm research and experiments, would be affected due to shortage of cash. New patents need to be brought by the companies which might go cashless. However, majority of the initiatives in this sector can be completed by getting rid of cash transaction in good faith for the industry. The end prices of the drugs and medicines could go up making them out of reach for the customers. The industry will have to look at innovative mechanisms of funding and investments to meet both ends of the government and customers.

(e) Effect on the unorganised sector
The unorganised sector which operates mainly on goodwill finances and which is exposed less to organised financing might face trying times in the wake of the demonetisation initiative. Due to this, they may be short of cash and may not find the means to run the day-to-day business. Approaching and getting customers might be a tough task.

CONCLUSION
Thus, we see that the demonetisation initiative has affected all the industrial sectors and the normal life of the individuals and no matter, as stated, the GDP of the country will decrease by a couple of points till it takes enough time to gain the previous tempo even in these changed scenarios. Till then, we all can only wait and watch and hope that this is for the best of all.

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