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A Study on Impact of Financial Planning for Small Business Credit and Debit Management

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Abstract: This Article explains the crucial role of financial planning in managing credit and debit management for small businesses. This article provides information regarding challenges faced by small companies in maintaining cash flows, managing debts and insufficient resources. Financial planning is very important for minimizing risk, and achieving sustainable growth. It provides information for small businesses regarding setting rules for credit, and managing debts carefully. By following these practices small businesses can improve their financial health, reduce risk, and can gain growth in competitive market. From this article we can learn about credit and debit management of small business Karachi bakery by using financial management techniques.
Keywords: Financial planning, credit management, debit management, cash flow, profit margins, financial stability.

I. INTRODUCTION

Financial management is essential for the success of any business, especially small enterprises operating with limited funds. Due to improper management of credit and debit leads to sever cash flow problems, excessive debt, and it gives rise to business failure. In this article first we need to understand about credit management and debit management.

A. Credit Management

Credit management means handling everything related to giving, tracking, and collecting payments from customers. This includes setting up payment rules, deciding how much to offer, providing business loans, and making sure payments are collected on time.

B. Debit Management

Debit management is about handling debts like loans and supplier payments. A good financial plan helps small businesses make better decisions, forecast cash flow, and manage credit and debit effectively, ensuring long-term growth and stability. This is a way to take control of your debt by planning your finances and budgeting. The goal is to reduce your debt and eventually pay it off completely.

C. Introduction About Karachi Bakery

Karachi Bakery is a famous bakery in India known for its biscuits, cakes, and other treats. To continue growing and making money, it must manage its finances well.

Here is the information how financial management works for Karachi Bakery:

1) *Capital Investment and Funding:* The bakery needs money to grow, like opening new stores or upgrading equipment. It can get this money by borrowing, using profits, or finding investors.
2) *Cost Management:* The bakery must control costs, such as ingredients, employee wages, and utilities, to stay profitable.
3) *Revenue Management:* Karachi Bakery needs to make sure it earns enough by setting the right prices and increasing sales.
4) *Cash Flow Management:* The bakery needs enough cash to pay for daily expenses and plan for future investments.
5) *Profitability Analysis:* Regularly checking if the bakery is making enough profit by comparing costs and earnings helps keep the business efficient.
6) *Financial Reporting and Compliance:* The bakery must follow financial rules and report its finances accurately to stay transparent and avoid legal issues.

D. Objectives

1) To understand the debit and credit management practices among small businesses challenges and use effective strategies.

2) To evaluate the comprehensive financial planning which influences credit management decisions and debt obligations in small enterprises.
3) To identify key strategies that small businesses employ to enhance cash flow, optimize credit policies, and manage debts effectively.

II. REVIEW OF LITERATURE

1) Kauffman et al. (2018): According to Kauffman et.al suggests that checking if customers can pay back what they owe helps reduce the risk of not getting paid. This is especially important for small businesses that need balanced cash flow to run their daily operations. Having clear credit rules helps businesses set payment terms like when payments are due, or what interest rates to charge and decide how much credit they are willing to give to customers.
2) Guerin and Finkelstein (2017): They recommend that businesses send automated reminders and follow up quickly if payments are overdue. Having a system for getting paid on time helps businesses stay stable and reinvest in their growth. The importance of collecting payments efficiently is explained by Guerin and Finkelstein, who suggest that businesses should use automated reminders, establish firm collection practices, and follow up promptly on overdue accounts. By staying energetic in managing credit, businesses improve their liquidity and can reinvest into their growth. This, in turn, ensures that they can continue operations without significant interruptions.
3) Brown and Danziger (2020): They suggest that businesses should explore options like debt consolidation or refinancing to simplify their debt obligations. Merging smaller debts into one loan with a lower interest rate or extending the payment terms can help ease immediate cash flow pressures. This approach can also make it easier to track and manage debt.
4) Smith (2020): He advises that businesses should consider negotiating with creditors or suppliers to extend payment terms. This can provide temporary relief and reduce the strain on short-term cash flow. Some businesses, particularly those in seasonal industries, may benefit from negotiating terms that align better with their revenue cycles.
5) Gertler et al. (2021): He emphasize the importance of financial discipline in debt management. They suggest that small businesses should avoid taking on excessive debt, particularly high-interest loans, unless absolutely necessary. They recommend that businesses maintain a clear understanding of their debt-to-equity ratio and manage debt in a way that does not put their long-term solvency at risk.
6) Baker and Nagle (2018): They defined that businesses should adopt a risk management framework to deal with uncertainties. They emphasize that businesses must prepare for unexpected financial challenges by setting aside emergency funds and maintaining access to credit lines that can be used when needed.
7) Johnson and Miller (2022): They recommend that small businesses utilize scenario planning to create multiple forecasts based on different market conditions. This allows businesses to evaluate how potential changes in the economy, industry, or customer behaviour might impact cash flow, and make necessary adjustments to credit management or debt repayment strategies.

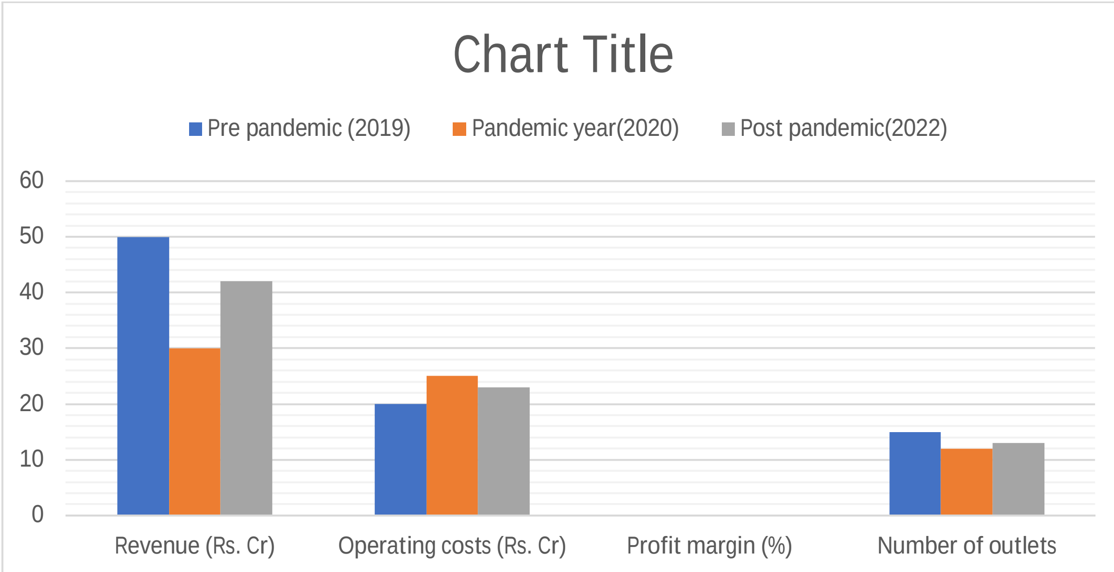
III. RESEARCH METHODOLOGY

The research methodology for financial planning involves identifying the problem and setting clear goals, like improving, budgeting, investments, or cash flow. Data is collected through journals, case studies, financial reports from different websites. Analysis is done using tools like spreadsheets to find pattern and predict trends, while this data provides insights into decision making. Ethical practices, such as confidentiality and consent, are followed. Findings are validated through expert reviews and presented in a clear report with practical recommendations for better financial planning.

A. Data Analysis And Interpretation From The Year 2019 To 2022

To analyse the impact of the COVID-19 pandemic on Karachi Bakery's financial management in Hyderabad. We require actual financial data such as revenue, profit margins, costs and operational expenses before and after the pandemic.

Category	Pre pandemic (2019)	Pandemic year(2020)	Post pandemic(2022)
Revenue (Rs. Cr)	50.0	30.0	42.0
Operating costs (Rs. Cr)	20.0	25.0	23.0
Profit margin (%)	15%	5%	10%
Number of outlets	15	12	13
Online sales (%)	10%	40%	25%
Employee count	500	400	450



Interpretation

1) *Revenue Analysis*
- The pandemic caused a significant decline in revenue (40%) in 2020 due to reduced foot traffic and lockdowns.
- Recovery began post-pandemic with a 40% increase in revenue, largely driven by the shift to online sales and gradual reopening of outlets.

2) *Cost Analysis*
- Costs increased during the pandemic due to safety measures, logistics for online deliveries, and fixed expenses like rent, despite lower revenue.
- Post-pandemic, cost management improved, reducing the cost-to-revenue ratio to 55%, although still higher than pre-pandemic levels.

3) *Profitability Analysis*
- The profit margin fell drastically in 2020 to 5% due to higher costs and lower revenue.
- It recovered to 10% in 2022, but Karachi Bakery was yet to reach pre-pandemic profitability levels.

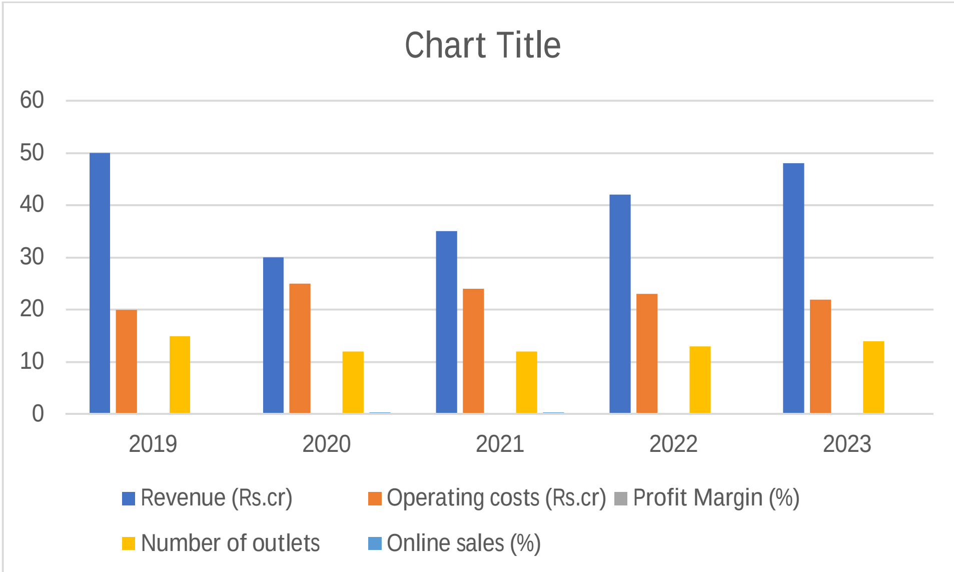
4) *Customer Behaviour Shift*
- During the pandemic, online sales surged to 40% of total revenue as customers preferred contactless shopping.
- Post-pandemic, online sales remained strong at 25%, indicating a permanent shift in customer behaviour, though foot traffic to physical outlets began to recover.

5) *Strategic Adjustments*
- Karachi Bakery adapted by investing in online platforms and packaging innovation during the pandemic. Post-pandemic, it focused on reopening profitable outlets and optimizing operations.

B. Data analysis and interpretation from the year 2019-2023

This data provides information regarding impact of financial management impact on Karachi bakery in Hyderabad from the year 2019 to 2023.This shows that how revenue, operating costs profit margins, and the proportion of online sales are increasing.

Year	Revenue (Rs.cr)	Operating costs (Rs.cr)	Profit Margin (%)	Number of outlets	Online sales (%)
2019	50.0	20.0	15%	15	10%
2020	30.0	25.0	5%	12	40%
2021	35.0	24.0	8%	12	35%
2022	42.0	23.0	10%	13	25%
2023	48.0	22.0	12%	14	20%



Interpretation

1) Revenue Trends

- 2019(Pre-pandemic): The bakery generated 2019 (Pre-Pandemic): The bakery generated strong revenue of Rs.50 Cr, driven by robust footfall at its 15 outlets.
- 2020 (Pandemic Year): Revenue fell by 40% (Rs.30 Cr) due to lockdowns and reduced foot traffic. This highlights the bakery's heavy reliance on in stores sales pre-pandemic.
- 2021-2023 (Recovery Phase): Gradual recovery is evident, with revenue increasing to Rs.48 Cr in 2023. The bakery used online sales and reopened outlets strategically in high demand areas.

2) Operating costs

- 2020 cost spike: Operating costs had arise to Rs.25 Cr in 2020, despite decreased revenue. This was due to increased investments in delivery infrastructure, safety arrangements, and maintain fixed costs.
- 2021-2023 Stabilization: Operating costs began to normalize in 2021 and further reduced to Rs.22 Cr by 2023.This suggests that improved costs management and operational efficiencies post-pandemic.

3) Profit Margins

- Profitability declines in 2020: Profit margins decreased to a low of 5% in 2020 due to high costs and decreased revenue.
- Steady Recovery: Margins improved to 12% by 2023, reflecting the bakery's ability to adapt, cut costs, and rebuild revenue streams.

4) Outlet Adjustments

- Outlet closures in 2020: Three outlets were shut down during the pandemic as they became unprofitable due to low footfall.
- Strategic Reopening's: By 2023, the bakery had reopened two outlets in high-demand areas, bringing the total of 14 outlets. This reflects a strategic shift to focus on profitable locations.

5) Shift to Online Sales

- Pandemic – drive surge: Online sales accounted for Online sales accounted for 40% of revenue in 2020, a significant increase from 10% in 2019.This was driven by consumer preference for contactless shopping.
- Sustained Contribution Post-Pandemic: Online sales declined to 20% Pandemic: Online sales declined to 20% by 2023 but remained higher than pre-pandemic levels, indicating a permanent behavioural shift among some customers.

IV. FINDINGS

1) We analyse that effective financial management, especially in credit and debit management, is crucial for the success of Karachi Bakery in Hyderabad.

2) We got to know that offering credit to customers can increase sales and build strong relationships, but poor credit management, like delayed collections, can lead to cash flow issues and bad debts.
3) From this study we analysed that on the debit side, timely payments to suppliers and negotiating favourable terms help maintain good relationships and avoid late fees.
4) We found that proper debit management can also lead to discounts, reducing costs and improving profitability.
5) From this we can analyse that due to higher costs, profit margin rate is decreased.

V. SUGGESTIONS

From this study some of the suggestions to the small business for financial management are:

1) Small business should ensure that there is balance between extending credit to customers and managing payments to suppliers so that cash flow stays healthy and there are no liquidity problems.
2) Regularly forecast cash flow to anticipate any issues and take corrective action, such as adjusting payment schedules or reducing expenses.
3) Invest in simple financial tools or software to track credit and debit, helping the bakery stay organized and avoid missing important payments or collections.
4) Regularly forecast cash flow and compare it with actual results to identify discrepancies and make necessary adjustments.
5) Manage inventory carefully to avoid overstocking, which ties up cash, and ensure products are always available without over-investing in supplies.

VI. CONCLUSION

In conclusion, the study highlights the critical role that effective financial management, particularly credit and debit management, plays in the success of Karachi Bakery in Hyderabad. By carefully managing credit, the bakery can boost sales and build strong customer relationships, but must also monitor payment timelines to avoid cash flow problems and bad debts. On the debit side, timely payments to suppliers and negotiating favourable terms help maintain smooth operations and good supplier relations, while also benefiting from potential discounts. The findings emphasize the need for a balanced approach to both credit and debit management to ensure healthy cash flow, reduce financial risks, and improve profitability. Overall, by implementing clear policies, regularly monitoring payments, and planning for cash flow, Karachi Bakery can enhance its financial stability, ensuring long-term sustainability and growth in a competitive market. All the businesses must maintain efficient financial management for reducing risks, ensuring stable growth and attaining profitability.

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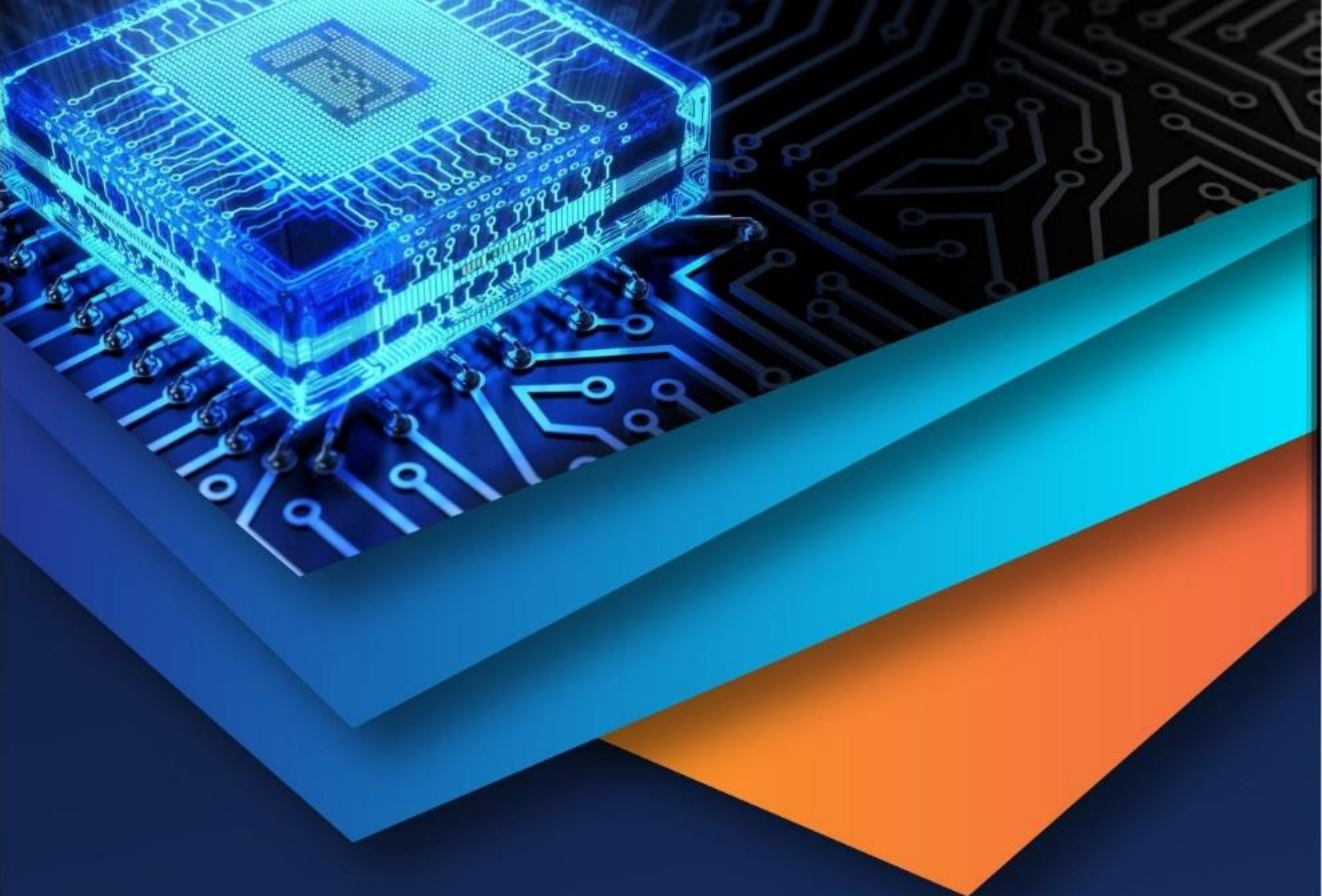

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