CHPTER - I
INTRODUCTION

1.1 General Background of Nepalese Economy

Nepal is situated in the east of the globe and south of Asia continent. It is a landlocked country surround by two largest countries of the world, china to the North and India to the remaining three directions. Therefore, the nearest sea port is locked at Bay of Bengal, 1127 KM far from the country through India, which has greatly hindered foreign trade of the country. Nepal is the steepest country in the world descends from the height of Mount Everest (8848m) to the lowest point of Nepal i.e., Musharina of Dhanusa District (59m) and the deepest valley of the world, Arun valley. It has total area 147181 sq.km (56827 sq.ml) extended from East to west with a length 885 km and with an average of 193 km from North to South. Total area of Nepal is about 0.3 percent of Asia and 0.03 percent of the world. Nepal is divided into three regions on the basis of physical features, namely Himalayan Regions covering 15% area of the country with 6.77% population and Hilly region covering 68% of total area with 43.11% population and Teri region with 17% area with 50.15% population. However, population of Himalayas and Hilly region is in decreasing trend and Teri region is in increasing trend, due to internal conflict and security, lack of physical infrastructure, education, transportation, market as well as scarcity of agricultural land. 17% of total population stays in urban area and remaining at remote area. Literacy rate is about 64% in Nepal. Most of the people on average 79.91% population engaged in agricultural and 20.09% population engaged in industrial and service sector.

Nepal is gifted by natural beauties but it is one of the developing countries of the world. According to CBS report 2012, per capita income is US$642 only, which is very low in comparison to other south Asia countries. Nepal has an agro-based economy; most of the people are engaged in agriculture. This sector contributes about 33% of GDP and remaining from non-agriculture. The main reason for its agro-based economy is attributed to its geographical sitting where a major portion of the country is composed of hills and Teri (plain land) very suitable for agriculture. The other reason is due to its low literacy rate, which has restricted people to primitive and traditional form of occupation. About 32% of total population lives below absolute poverty line. Since per capita income, saving and capital formation is very low; the living standard of people is in decreasing trend.

The real agriculture GDP, one of the key sectors for Nepali economy is expected to record a growth of 65 for 2011/12. The growth in real agricultural GDP was 0.7% in 2011/12 according to the current macroeconomic situation . The agriculture growth could push the GDP to 4%. Based on the performance of agricultural inch trial tourism and other service sector, the overall real GDP is expected to lower about 4% in 2011/12. The real GDP growth was 4% in 2011/12.

How the characteristics of Nepalese economy can be summed up as follows;

- Mass poverty.
- Dependence on agriculture.
- Under utilization of natural resource.
- Unfavorable foreign trade.
- Dual economy.
- Unemployment and disguised unemployment.
- Low level of saving and investment.
- Dependence in foreign aid.
- Mixed economy.
- High population growth.
- Land locked country.
- So no culture.

- Lack of technical.
- Lack of entrepreneurship.

Nepal's economy is characterized by heavy dependence on foreign aid, a narrow range of exports, increasing economic disparity between the mountain areas and the more developed Tarāi region, excessive governmental control and regulation, and inefficient public enterprises and administration. In addition, the economy has not kept pace with the country's high population growth. In particular, the slow growth of agriculture has resulted in food shortages and malnutrition for some of Nepal's people.

Agriculture and Manufacturing

Agriculture dominates Nepal's economy. It provides a livelihood for 79 percent of the population and contributes 34 percent of GDP. The Tarai is the main farming region of the country. Rice and corn are major food crops; potato, oilseed, sugarcane, jute, and tobacco are major cash crops. Nepal's industrial base is limited. Most industries are based on agricultural raw materials or dependent on various imported materials, mostly from India. Large manufacturing plants are owned and operated by the government. Major manufactured products include jute, sugar, cigarettes, beer, matches, shoes, cement, and bricks. Traditional cottage industries such as basket and carpet weaving are also important to Nepal's economy.

Services

Tourism represents a growing sector of the economy. Foreign tourism is primarily confined to Kathmandu Valley and major national parks such as the Sagarmatha National Park (around the Mount Everest area), Annapūrna Conservation Area, and Royal Chitwan National Park. Tourism has created demands for services and materials that are slowly changing the ecology, environment, and economy of the Himalayan region. Sherpas, well known for assisting as guides on Himalayan treks and mountain-climbing expeditions benefit from Nepal's growing popularity as a tourist destination. A unique part of Nepal's economy is the famous Gurkha mercenaries. Beginning with a treaty signed with British-controlled India in the early 1800s, young Nepali men served in the British, and later Indian, armies. Known for their brave fighting skills, these mercenaries have fought in nearly every major war, and with UN peacekeeping forces. Nepal receives more than $50 million in hard currency annually from soldiers' salaries sent home, pensions, and other Gurkha-related payments.

Energy

Most of the energy consumed in Nepal comes from traditional sources such as fuelwood, the use of which contributes to deforestation. Tremendous potential exists for hydroelectric power development, but growth is inhibited by terrain, lack of infrastructure, and insufficient capital investment. Nepal has harnessed only a fraction of its potential hydropower; however, a major hydroelectric facility was under construction on the Kali Gandaki River in western Nepal in the early 2000s. The country is heavily reliant on India for imported, nonrenewable sources of power such as oil and kerosene.

Transportation and Communications

Nepal has a relatively underdeveloped network of roads. There are some main roads, which connect major cities and stretch to the borders of both India and China. However, the main means of transportation is the network of footpaths and trails that interlace the mountains and valleys. There is also a small railway along the Indian border. The government-owned Royal Nepal Airlines was the only commercial airline until 1992, when the government permitted other airlines to operate. Now a number of airlines provide domestic service between Nepal's major cities as well as to its remote regions. International service is available to India, Singapore, Hong Kong, Thailand, Pakistan, and Japan. Tribhuvan International Airport outside Kathmandu is the main airport. There are also several smaller airstrips serving domestic air travel in Nepal. Nepal has limited telecommunication services. Postal services have improved in recent years but are still inaccessible to many Nepalese. Few people own telephones, although most urban areas have public telephone services. Radio Nepal broadcasts programs in Nepali and English to more than 90 percent of the population. Television programming is limited, but programs from overseas are available via satellite in remote parts of the country. The major newspapers in Nepal include the Gorkhapatra, Kantipur, and Daily Times; freedom of the press was guaranteed under Nepal's 1990 constitution.

Foreign Trade

For geographical and historical reasons, most of Nepal's trade is with India. Attempts have been made to diversify trade by making new agreements with China, Pakistan, Bangladesh, the United States, the United Kingdom, Singapore, Thailand, Germany, and Japan. Nepal has a growing trade deficit with India. Major exports are clothing, carpets, grain, and leather goods. Major imports are petroleum products, fertilizer, and machinery.

Currency and Banking

Nepal's monetary unit is the Nepalese rupee (83.40 Nepalese rupees equal U.S. $1; 2011 average). It is issued from the country's central bank, Nepal Rastra Bank (founded in 1956). Indian rupees are still used in Nepal, although less widely than before trade disputes between the two countries in 1989.

1.2 General Concept of Banking

Though there is much controversy as to the origin of the world 'Bank; some believe that it originated from the Latin world 'bencs' means a bench. Similarly some believe that it originated from the France world 'Benque' and some to Italian world 'Bancal, all meaning collective fund. Ancient money dealer used to deal on a bench. Sometime when the dealer failed to meet the depositors clam, the depositor used to break the dealer bench from which the world 'Bankruptcy' seems to be derived.

Thus a bank is an organization, the major function of which is to deal in money and credit. The main business of a bank is to pool the scattered ideal deposit from the public and channel it for productive use through needy parties.

- According to R.S. Sayers, “A Bank is an institution whose whole debts are widely accepted in settlement of other people’s debits.”
- As per kent, “A bank is an organization whose principal operations are concerned with the accumulation of the temporally idle money of the general public for the purpose of evincing to other for expenditure.”

1.3 Development of Banking Sector in Nepal

In is assumed that the regular history of coinage in Nepal began from the 5th century A.D. The advent of 12th century marked on new period in economic history of Nepal. Silver coinage was introduced in this period, which widened the scope for trade. The second major logical order of development was found in the innovation of interest bearing private debt such as bonds, mortgages, and loans. In the year 1879/80 A.D, a low cast merchant named “Sankhadhar Sakhwa” introduced a new era offer paying all the debts that exist in country. The term “Tanka Dhari” was one of the 64 casts classified on the basis of occupation by King Jaystithi Malla indigenous individuals, wealthy agriculturists, landlords merchant and traders conducted some banking activities as a side business to their normal business activities.

In 1877 A.D, Prime Minister Ranodeep Singh introduced many financial and economic reforms. The ‘Tejarath Adda’ was established at that time. The basic purpose of establishing this “Tejarath Adda” was to provide credit facilities to the general public at a very concessional interest rate. The ‘Tejarath Adda’ disbursed credit to the people on the basis of collateral of loan, which was settled by deducting from this salary. Under the prime Minister ship Chandra Shamsher, Tejarath Adda extended its services outside the Kathmandu Valley. Legal provision was made to prevent the practice of capitalization of interest on loans extended by private dealers. Hence, the establishment of Tejarath Adda is regarded as the foundation of modern banking in Nepal. However, 'Kaushi Toshakhana' established during the regime of King Prithivi Narayan Shah is also consider as the first step towards initiating banking development in Nepal.

Tejarath Adda extended credit only, it did not accept deposits from the public and utilize. Hence, the Adda finally faced financial crisis making it impossible to meet the credit need of the general population of the country. Prior to the establishment of Nepal Bank limited, people relied on borrowing from the corrupt money lenders, who charged very high interest rate and added other charge. These money lender extended loan on the collateral of land house and Precious ornament.

With the co-operation of Imperial Bank of India, Nepal Bank Ltd came into existence under the Nepal Bank Act 1937. The preamble of the Nepal Bank Act 1937 states the objectives of setting up the Nepal Bank Ltd .as follows: In the absence of any bank in Nepal, the economic progress of the country was being hampered and casing inconvenience to the people and therefore, with the objectives of fulfilling that need by providing services for the people and for the betterment of the country this law is here lay promulgated for the establishment of the bank and its operation.

Nepal Bank Ltd, played dual role of a commercial bank and a central bank .Until the establishment of NRB on 26th April,1956,it carried all the functions of a central bank, NBL was a semi government bank so it was unwilling to go to many sectors where the government felt the need of providing banking services. Hence, RBB a fully government owned bank was established on 23rd January 1966.

Until 1984, the Nepalese financial sectors were dominated by the above to commercial banks. Commercial Bank Act 1974 was amended in 1984 to increase competition among commercial banks .Hence provision was made to allow private sectors including foreign investments to open commercial banks. As a result, Nepal Arab Banks Ltd. (now Nabil Bank) was established on July 12, 1984 with the partnership of Dubai Bank Ltd. Then, on 27th February 1986 Nepal Grindlays Bank (now Standard Chartered Bank Nepal Ltd.) were established. The numbers of commercial Bank operating in the country are increasing everyday and many more are in the pipeline to commerce their business. Before 1985, only public enterprises such as two development banks; NIDC and ADB and in the form of non-bank financial institution; Employee Provident Fund and National Insurance Corporations were established. So to increase the financial activities of the country, Finance company Act 1985 was introduced which prompted people to established many financial institution in the country.

1.4 Meaning of Development Banks

Development banks are those financial institutions engaged in the promotion and development of industry, agriculture and other key sectors.

In the words of Kheradjou, A.G., “A development bank is like a living organism that reacts to the social-economic environment and its success depends on reacting most aptly to that environment”. Kheradjou assigns an important task to the development banks. He feels that these banks should react to the socio-economic needs. They should satisfy the developmental needs of the economy and their success is linked to the satisfactory growth of the economy.

In the views of Diamond William, “A development bank has the opportunity to promote enterprises i.e., to conceive investment proposals and to stimulate others to pursue them or itself to carry them through, from ‘conception’ to ‘realization’. In principle, a development bank is well suited to assume this kind of role. Yet, enterprise creation is fraught with costs and risks which development bank cannot neglect. Development banks can prudently undertake them only when they have the requisite financial strength, technical expertise and the managerial skill to bank". In his views, a development bank is an institution which takes up the job of developing industrial enterprises from its inception to completion. This process involves costs as well as risks. The bank should have sufficient financial sources and expertise to promote a new unit.

Mithani, D.M. states that. "A development bank may be defined as a financial institution concerned with providing all types of financial assistance (medium as well as long-term) to business units in the form of loans, underwriting, investment and guarantee operations and development in general and industrial."

The role of a development bank has been emphasized in this definition. In this view a development bank aims to provide financial and promotional facilities for the overall development of a country. Along with the increment of financial transactions in the country, numbers of development banks are also increasing. There are altogether 67 development banks listed in the NEPSE.

1.5 Functions of Development Banks

Functions of development banks are classified into two functions. Here following are the functions.

Primary functions

- Collect deposits in various types of accounts.
- Provide credit in the forms of various loans.
- Remit fund.

Subsidiary functions

- Invest in government security, treasury bills.
- Deal in foreign exchange.

- Provide agency functions such as collection of bills, cheques, promissory notes etc.
- Executive standing instruction such as payment of rent, insurance premium, income tax. etc. on behalf in their consumers.
- Involved in collections of dividend and interest on shares and debentures.
- Purchase or sale of securities.
- Act as trustee when so nominated.
- Act as customers correspond of representative in dealing in dealing with other banks.
- Underwrite shares floated by government bodies and public bodies.
- Supply trade information and statistical data.
- Involve in L/C and guarantee issuance, purchase or sale of TC and circular notes etc.
- Act as a referee with regards to the financial status of the customers.

1.6 Profile of the Bank under Study

Clean Energy Development Bank Ltd. is the band which is taken as a sample band for this research purpose.

1.6.1 Introduction of Clean Energy Development Bank Limited

Clean Energy Development Bank Ltd. (**CEDBL**), established in 2006 in a joint venture with FMO - Netherlands, is the first national level development bank and perhaps the only Bank in Asia to have a focused developmental agenda towards harnessing the nation's abundant natural resources in addition to uplifting the standards of living of the people of Nepal. CEDBL is playing a proactive role in finding the best solutions to create an effective platform for the sustained development of the country. Thus, **"CEDBL is, in its rightful**

sense, a true development bank, a fact that has been attested after it won the Best Development Bank 2010."

1.6.2 Organizational Objectives

CEDBL's priority lies in serving the people and the nation, providing world class banking products and services, providing technical expertise and investing in clean energy sector to strengthen the economy of the nation.

The 6 folds objectives are as under;

- To provide standard and reliable financial services to the general public by protecting and promoting the rights and interest of all stakeholders.
- To bring about such financial resources, from internal and external sources, as may be required for the establishment, development, expansion and enhancement of capability and productivity of agriculture, industry, trade and other productive business which appears feasible from business viewpoint, and render support for bringing about dynamism in the development of industrial, trade and agricultural sectors of the country.
- To establish, operate, develop, expand and promote manufacturing and employment-oriented business in rural and urban areas, by properly utilizing the available skills, labor and capital, to provide such financial resources, technical and managerial consultancy service, training and technology as may be required for the same, and be actively engaged in, and thereby render support for, poverty alleviation.
- To provide financial services through institutional investment by integrating the capital scattered in the country and fair competition.
- To provide mid-term and long-term financial means and resources as may be required for investment to be made in the development of infrastructures of the country in a businesslike

manner, while remaining vigilant towards the protection of environment.

- To mobilize and provide such mid-term and long-term capital as may be required for the establishment, operation, protection and promotion of hydro-power, renewable energy and other infrastructures and business related therewith, by the private sector.

1.6.3 Product and service offered by Clean Energy Development Bank

Clean Energy development bank in a short period of time has been successful in positioning itself as one of the preferred providers of complete financial service in Nepal.

Embracing the latest IT services, the bank has been able to deliver various innovative products and services. New products and services are being continuously assessed to meet customer’s expectation. Beside traditional bank services, new product and services that are currently being offered are;

Remittance

CEDBL provides fully fledged remittance services in Nepal, helping customer receive money from your loved ones, all around the world. These services are offered at customer's convenience with superior customer services and the ability to track customer's funds end-to-end.

CEDBL has agreements with various remitting institutions for the following international or domestic fund transfer services;

- Crystal Worldwide Money Express.
- Reliable Remit.
- Laxmi Remit.
- Hulas Remit.
- Western Union Money Transfer...... etc

ATM Services

Automated Teller Machines (ATM) provide access to financial transactions in a public space without the need for a human clerk or bank teller. Clean Development Bank Visa Debit Card can be used in any Clean Energy Development Bank ATM without any charges.

SMS Banking

CEDBL SMS Banking service offers a convenient and easy way for customer to bank with us. This innovative service enables you to access your CEDBL accounts from your mobile phone, whenever you want-weekends, evenings, traveling around the country, any time - no matter where you are. What's more, it's simple and secure.

E-pay: Payment from home for purchase of goods and services.

Other Services

- Safe Deposit Locker Service.
- Foreign Currency Cash sales & purchase.
- Issuance of Demand Draft and Electronic Transfer of Fund.
- Internet Banking (Free).
- Transit Facility.
- Employee Salary Management (Free).
- Privilege Counter.
- Evening Counter and 365 days banking.
- Telephone & Mobile Bill Payment Facilities (Free).
- E-pin of Prepaid Mobile phones.
- Personal Accounts.
- Personal Loans.
- Insurances.
- Other Services

1.7 Statement of the Problem

Profit is the life blood of the any business organization. It is necessary for existence of business organization. Success is not a matter of chance. Profit does not just happen, it has to be plan and manage properly. Profit is the most for a bank to survive in the competitive market. Banks have been globalizing with their service and the technology has knocked to the worldwide net working of the banking. Banks can generate revenue by rendering banking and non-banking service. Today banks have emerged many trustee and agency roles, off balance sheet transaction and other near bank service by which banks compromise a major source of profit.

Since, the study is focused in revenue management and its impact on profitability. The study is deals with following issues;

- Does Clean Energy Development Bank have appropriate profit planning system?
- Does the bank mobilize the deposit or other resource at optimum cost?
- Does the bank gives proper attention to non-funded business activities thereby generating satisfactory amount of other income?

1.8 Objectives of the Study

The major objective of the study is to analyze the effectiveness of revenue management and its impact on profitability of the bank. To achieve this objectives have to be set such as;

- To evaluate the soundness of the profitability and operating efficiency of the bank.
- To study and analyze revenue fund based income and fee based income by proper utilization of resources.
- To provide suitable suggestions.

1.9 Significance of the Study

The research study is concerned with the revenue management and its impact on profitability of development bank with the major objective of examining the proper applicability of profit planning system of the bank. So certainly the reference bank will be benefited from this study; as well as other bank and financial institution also can take advantage from this study. This study aims to find out the current situation and tendency of profitability through revenue management, so there may be various parties, from stockholders to stakeholders, general public to government bodies, employee of the bank to research student an foremost the esteemed customers who may be seeking financial information for the interpretation of their own. All management of the bank will be provided information from this study to take corrective action, the shareholders can take right decision to make investment and employee of the bank will be familiar with the profitability position of the bank, importance to government bodies of policy makers such as the central bank. And the research student can take this study as a reference for their study.

1.10 Limitations of the Study

Although the research has tried utmost care to cover most of the important sector, the study is still subject to following limitations;

- The study is basically based in secondary data.
- The study is only with Clean Energy development bank, so this study may not be fully applicable to all banks.
- The study is based in the data of 5 years from 2063/64 to 2068/69 and conclusion drawn confines only to the above period.
- The study is analyzed only with the help of financial tools and very few statistical tools.
- The study is focused on revenue management and it impacts on profitability of the bank leaving other areas uncovered.
- The study is made for partial fulfillment of the requirements of master of business study.

1.11 Organization of the Study

The study covers the following five chapters.

Chapter – I: Introduction

This chapter includes general background of Nepalese economy, general concept of banking, development of banking sector in Nepal, meaning of commercial bank and total number of commercial banks operating in the country, profit of the bank under study, statement of problem, objective of the study, significance of the study, limitations of the study and organization of the study.

Chapter – II: Conceptual Framework and Review of Literature

This chapter includes conceptual framework and review of related studies.

Chapter – III: Research Methodology

This chapter includes research design, data collection and method of analysis and research variable.

Chapter – IV: Data Presentation and Analysis

This chapter includes data presentation, analysis and their interpretation. Major findings also included in this chapter.

Chapter – V: Summary, Conclusions and Recommendations

This chapter includes summary of the whole study, its conclusions and major recommendations.

CHAPTER - II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

The chapter is basically concerned with the conceptual framework with relevant terminologies and review of literature. The chapter is divided into two parts; one is conceptual framework and the other is review of literature. In conceptual framework, the relevant terminologies regarding profit and profitability, profit planning and control process, budgeting and other financial terms of commercial financial institutions are studied. However, there are some core concepts and specific terminologies used in the financials of commercial banks that may be used in the specific sense and practice in the banking sector. In review of literature, the past researches and studies are reviewed in order to set the foundation of the study. Because every study is very much based on past knowledge, study and experience. The past knowledge or the previous studies should not be ignored as it provides the basis for the present study. Review of literature is a way to discover what other researches in the area of stated problem has uncovered. It helps to minimize the costly effort and reveals areas of needed research. It enables the researcher to know about what research has been done in the subject, what techniques and tools have been advanced by the former researcher and so on. Thus, this chapter helps as adequate feedback to broaden the information and to support the inputs of the study. Therefore, the review of literature has its own importance.

2.1 Conceptual Framework with Relevant Terminologies

2.1.1 Revenue Management

Revenue management is the application of disciplined analytics that predict consumer behavior at the micro-market level and optimize product availability and price to maximize revenue growth. The primary aim of Revenue Management is selling the right product to the right customer at the right time for the right price. The essence of this discipline is in understanding customers' perception of product value and accurately aligning product prices, placement and availability with each customer segment. Businesses face important decisions regarding what to sell, when to sell, to whom to sell, and for how much. Revenue Management uses data-driven tactics and strategy to answer these questions in order to increase revenue. The discipline of revenue management combines data mining and operations research with strategy, understanding of customer behavior, and partnering with the sales force. Today, the revenue management practitioner must be analytical and detail oriented, yet capable of thinking strategically and managing the relationship with sales.

2.1.2 History of Revenue Management

Before the emergence of Revenue Management, BOAC (now British Airways) experimented with differentiated fare products by offering capacity controlled “Earlybird” discounts to stimulate demand for seats that would otherwise fly empty. Taking it a step further, Robert Crandall, former Chairman and CEO of American Airlines, pioneered a practice he called Yield Management, which focused primarily maximizing revenue through analytics-based inventory control. Under Crandall’s leadership, American continued to invest in Yield Management’s forecasting, inventory control and overbooking capabilities. By the early 1980s, the combination of a mild recession and new competition spawned by airline deregulation posed an additional threat. Low-cost, low-fare airlines like PeoplExpress were growing rapidly because of their ability to charge even less than American’s Super Saver fares. After investing millions in the next generation capability which they would call DINAMO (Dynamic Inventory Optimization and Maintenance Optimizer), American announced Ultimate Super Saver Fares in 1985 that were priced lower than the PeoplExpress. These fares were non-refundable in addition to being advance-purchase restricted and capacity controlled. This Yield Management system targeted those discounts to only those situations where they had a surplus of empty seats. The system and analysts engaged in continual re-evaluation of the placement of the discounts to maximize their use. Over the next year, American's revenue increased 14.5% and its profits were up 47.8%.

Other industries took note of American's success and implemented similar systems. Robert Crandall discussed his success with Yield Management with Bill Marriott, CEO of Marriott International. Marriott International had many of the same issues that airlines did: perishable inventory, customers booking in advance, lower cost competition and wide swings with regard to balancing supply and demand. Since "yield" was an airline term and did not necessarily pertain to hotels, Marriott International and others began calling the practice Revenue Management. The company created a Revenue Management organization and invested in automated Revenue Management systems that would provide daily forecasts of demand and make inventory recommendations for each of its 160,000 rooms at its Marriott, Courtyard Marriott and Residence Inn brands. They also created "fenced rate" logic similar to airlines, which would allow them to offer targeted discounts to price sensitive market segments based on demand. To address the additional complexity created by variable lengths-of-stay, Marriott's Demand Forecast System (DFS) was built to forecast guest booking patterns and optimize room availability by price and length of stay. By the mid-1990s, Marriott's successful execution of Revenue Management was adding between $150 million and $200 million in annual revenue. A natural extension of hotel Revenue Management was to rental car firms, which experienced similar issues of discount availability and duration control. In 1994, Revenue Management saved National Car Rental from bankruptcy. Their revival from near collapse to making profits served as an indicator of Revenue Management's potential.

Up to this point, Revenue Management had focused on driving revenue from Business to Consumer (B2C) relationships. In the early 1990s UPS developed Revenue Management further by revitalizing their Business to Business (B2B) pricing strategy. Faced with the need for volume growth in a competitive market, UPS began building a pricing organization that focused on discounting. Prices began to erode rapidly, however, as they began offering greater discounts to win business. The executive team at UPS prioritized specific targeting of their discounts but could not strictly follow the example set by airlines and hotels. Rather than optimizing the revenue for a discrete event such as the purchase of an airline seat or a hotel room, UPS was negotiating annual rates for large-volume customers using a multitude of services over the course of a year. To alleviate the discounting issue, they formulated the problem as a customized bid-response model, which used historical data to predict the probability of winning at different price points. They called the system Target Pricing. With this system, they were able to forecast the outcomes of any contractual bid at various net prices and identify where they could command a price premium over competitors and where deeper discounts were required to land deals. In the first year of this Revenue Management system, UPS reported increased profits of over $100 million.

The concept of maximizing revenue on negotiated deals found its way back to the hospitality industry. Marriott's original application of Revenue Management was limited to individual bookings, not groups or other negotiated deals. In 2007, Marriott introduced a "Group Price Optimizer" that used a competitive bid-response model to predict the probability of winning at any price point, thus providing accurate price guidance to the sales force. The initial system generated an incremental $46 million in profit. This led to an Honorable

Mention for the Franz Edelman Award for Achievement in Operations Research and the Management Sciences in 2009.

By the early 1990s Revenue Management also began to influence television ad sales. Companies like Canadian Broadcast Corporation, ABC, and NBC developed systems that automated the placement of ads in proposals based on total forecasted demand and forecasted ratings by program. Today, many television networks around the globe have Revenue Management Systems.

Revenue Management to this point had been utilized in the pricing of perishable products. In the 1990s, however, the Ford Motor Company began adopting Revenue Management to maximize profitability of its vehicles by segmenting customers into micro-markets and creating a differentiated and targeted price structure. Pricing for vehicles and options packages had been set based upon annual volume estimates and profitability projections. The company found that certain products were overpriced and some were underpriced. Understanding the range of customer preferences across a product line and geographical market, Ford leadership created a Revenue Management organization to measure the price-responsiveness of different customer segments for each incentive type and to develop an approach that would target the optimal incentive by product and region. By the end of the decade, Ford estimated that roughly $3 billion in additional profits came from Revenue Management initiatives. The public success of Pricing and Revenue Management at Ford solidified the ability of the discipline to address the revenue generation issues of virtually any company. Many auto manufacturers have adopted the practice for both vehicle sales and the sale of parts. Retailers have leveraged the concepts pioneered at Ford to create more dynamic, targeted pricing in the form of discounts and promotions to more accurately match supply with demand. Promotions planning and optimization assisted retailers with the timing and prediction of the incremental lift of a promotion for targeted products and customer sets. Companies have rapidly adopted markdown optimization to maximize revenue from end-of-season or end-of-life items. Furthermore, strategies driving promotion roll-offs and discount expirations have allowed companies to increase revenue from newly acquired customers.

By 2000, virtually all major airlines, hotel firms, cruise lines and rental car firms had implemented Revenue Management Systems to predict customer demand and optimize available price. These Revenue Management Systems had limited "optimize" to imply managing the availability of pre-defined prices in pre-established price categories. The objective function was to select the best blends of predicted demand given existing prices. The sophisticated technology and optimization algorithms had been focused on selling the right amount of inventory at a given price, not on the price itself. Realizing that controlling inventory was no longer sufficient, InterContinental Hotels Group (IHG) launched an initiative to better understand the price sensitivity of customer demand. IHG determined that calculating price elasticity at very granular levels to a high degree of accuracy still was not enough. Rate transparency had elevated the importance of incorporating market positioning against substitutable alternatives. IHG recognized that when a competitor changes its rate, the consumer's perception of IHG's rate also changes. Working with third party competitive data, the IHG team was able to analyze historical price, volume and share data to accurately measure price elasticity in every local market for multiple lengths of stay. These elements were incorporated into a system that also measured differences in customer elasticity based upon how far in advance the booking is being made relative to the arrival date. The incremental revenue from the system was significant as this new Price Optimization capability increased Revenue per Available Room (RevPAR) by 2.7%.

2.1.3 The Revenue Management Levers

Whereas yield management involves specific actions to generate yield through perishable inventory management, Revenue Management encompasses a wide range of opportunities to increase revenue. A company can utilize these different categories like a series of levers in the sense that all are usually available, but only one or two may drive revenue in a given situation. The primary levers are:

Pricing

This category of Revenue Management involves redefining pricing strategy and developing disciplined pricing tactics. The key objective of a pricing strategy is anticipating the value created for customers and then setting specific prices to capture that value. A company may decide to price against their competitors or even their own products, but the most value comes from pricing strategies that closely follow market conditions and demand, especially at a segment level. Once a pricing strategy dictates what a company wants to do, pricing tactics determine how a company actually captures the value. Tactics involve creating pricing tools that change dynamically, in order to react to changes and continually capture value and gain revenue. Price Optimization, for example, involves constantly optimizing multiple variables such as price sensitivity, price ratios, and inventory to maximize revenues. A successful pricing strategy, supported by analytically-based pricing tactics, can drastically improve a firm's profitability.

Inventory

When focused on controlling inventory, Revenue Management is mainly concerned with how best to price or allocate capacity. First, a company can discount products in order to increase volume. By lowering prices on products, a company can overcome weak demand and gain market share, which ultimately increases revenue so long as each product sells for more than its marginal cost. On the other hand, in situations where demand is strong for a product but the threat of cancellations looms (e.g. hotel rooms or airline seats), firms often overbook in order to maximize revenue from full capacity. Overbooking's focus is increasing the total volume of sales in the presence of cancellations rather than optimizing customer mix.

Marketing

Price promotion allows companies to sell higher volumes by temporarily decreasing the price of their products. Revenue Management techniques measure customer responsiveness to promotions in order to strike a balance between volume growth and profitability. An effective promotion helps maximize revenue when there is uncertainty about the distribution of customer willingness to pay. When a company's products are sold in the form of long-term commitments, such as internet or telephone service, promotions help attract customers who will then commit to contracts and produce revenue over a long time horizon. When this occurs, companies must also strategize their promotion roll-off policies; they must decide when to begin increasing the contract fees and by what magnitude to raise the fees in order to avoid losing customers. Revenue Management optimization proves useful in balancing promotion roll-off variables in order to maximize revenue while minimizing churn.

Channels

Revenue Management through channels involves strategically driving revenue through different distribution channels. Different channels may represent customers with different price sensitivities. For example, customers who shop online are usually more price sensitive than customers who shop in a physical store. Different channels often have different costs and margins associated with those channels. When faced with multiple channels to retailers and distributors, Revenue Management techniques can calculate appropriate levels of discounts for companies to offer distributors through opaque channels to push more products without losing integrity with respect to public perception of quality.

2.1.4 The Revenue Management Process

The revenue management process consist the following steps.

Data Collection

The Revenue Management process begins with data collection. Relevant data are paramount to a Revenue Management System's capability to provide accurate, actionable information. A system must collect and store historical data for inventory, prices, demand, and other causal factors. Any data that reflects the details of products offered, their prices, competition, and customer behavior must be collected, stored, and analyzed. Information about customer behavior is a valuable asset that can reveal consumer behavioral patterns, the impact of competitors' actions, and other important market information. This information is crucial to starting the Revenue Management process.

Segmentation

After collecting the relevant data, market segmentation is the key to market-based pricing and revenue maximization. Success hinges on the ability to segment customers into similar groups based on a calculation of price responsiveness of customers to certain products based upon the circumstances of time and place. Revenue Management strives to determine the value of a product to a very narrow micro-market at a specific moment in time and then chart customer behavior at the margin to determine the maximum obtainable revenue from those micro-markets. Useful tools such as Cluster Analysis allow Revenue Managers to create a set of data-driven partitioning techniques that gather interpretable groups of objects together for consideration. Market segmentation based upon customer behavior is essential to the next step, which is forecasting demand associated with the clustered segments.

Forecasting

Revenue Management requires forecasting various elements such as demand, inventory availability, market share, and total market. Its performance depends critically on the quality of these forecasts. Forecasting is a critical task of

Revenue Management and takes much time to develop, maintain, and implement. Quantity-based forecasts, which use time-series models, booking curves, cancellation curves, etc., project future quantities of demand, such as reservations or products bought. Price-based forecasts seek to forecast demand as a function of marketing variables, such as price or promotion. These involve building specialized forecasts such as market response models or cross-price elasticity estimates to predict customer behavior at certain price points. By combining these forecasts with calculated price sensitivities and price ratios, a Revenue Management System can then quantify these benefits and develop price optimization strategies to maximize revenue.

Optimization

While forecasting suggests what customers are likely to do, optimization suggests how a firm should respond. Often considered the pinnacle of the Revenue Management process, optimization is about evaluating multiple options on how to sell your product and to whom to sell your product. Optimization involves solving two important problems in order to achieve the highest possible revenue. The first is determining which objective function to optimize. A business must decide between optimizing prices, total sales, contribution margins, or even customer lifetime values. Secondly, the business must decide which optimization technique to utilize. For example, many firms utilize linear programming, a complex technique for determining the best outcome from a set of linear relationships, to set prices in order to maximize revenue. Regression analysis, another statistical tool, involves finding the ideal relationship between several variables through complex models and analysis. Discrete choice models can serve to predict customer behavior in order to target them with the right products for the right price. Tools such as these allow a firm to optimize its product offerings, inventory levels, and pricing points in order to achieve the highest revenue possible.

Dynamic Re-evaluation

Revenue Management requires that a firm must continually re-evaluate their prices, products, and processes in order to maximize revenue. In a dynamic market, an effective Revenue Management System constantly re-evaluates the variables involved in order to move dynamically with the market. As micro-markets evolve, so must the strategy and tactics of Revenue Management adjust.

2.1.5 Revenue Management in an Organization

Revenue Management's fit within the organizational structure depends on the type of industry and the company itself. Some companies place Revenue Management teams within Marketing because marketing initiatives typically focus on attracting and selling to customers. Other firms dedicate a section of Finance to handle Revenue Management responsibilities because of the tremendous bottom line implications. Some companies have elevated the position of Chief Revenue Officer, or CRO, to the senior management level. This position typically oversees functions like sales, pricing, new product development, and advertising and promotions. A CRO in this sense would be responsible for all activities that generate revenue and directing the company to become more "revenue-focused."

Supply Chain Management and Revenue Management have many natural synergies. Supply chain management (SCM) is a vital process in many companies today and several are integrating this process with a Revenue Management System. On one hand, supply chain management often focuses on filling current and anticipated orders at the lowest cost, while assuming that demand is primarily exogenous. Conversely, Revenue Management generally assumes costs and sometimes capacity are fixed and instead looks to set prices and customer allocations that maximize revenue given these constraints. A company that has achieved excellence in Supply Chain Management and Revenue Management individually may have many opportunities to increase profitability by linking their respective operational focus and customer-facing focus together.

Business Intelligence platforms have also become increasingly integrated with the Revenue Management process. These platforms, driven by data mining processes, offer a centralized data and technology environment that delivers business intelligence by combining historical reporting and advanced analytics to explain and evaluate past events, deliver recommended actions and eventually optimize decision-making. Not synonymous with Customer Relationship Management (CRM), Business intelligence generates proactive forecasts, whereas CRM strategies track and document a company’s current and past interactions with customers. Data mining this CRM information, however, can help drive a business intelligence platform and provide actionable information to aid decision-making.

2.1.6 Profit Planning and Control (PPC)

Profit planning and control is an important approach, mainly in profit oriented enterprises. Profit planning is merely a tool of management. It is not an end of management or substitute of management. It facilitates the managers to accomplish managerial goals in a systematic way. Profit planning and control is composed of profit, planning and control. To get the meaning of PPC as a whole, we go through them individually.

Profit

Profit is the ultimate goal of every business entities. They involve in business for making profit. Profit cannot be achieved easily. It should be managed well with better management. Continuity in proper managerial manipulation of outflows and inflows can secure the generation of profit. By element, profit is the difference of revenue and cost. Profit plan, thus, refers to the planning of revenue (i.e. increase the revenue) and planning of cost (i.e. increase the efficiency of cost).

There are different views regarding the definition of profit. In accounting context, profit denotes the excess of out flow (revenue factors) over the inflows (cash factor). The essential inflows are people, capital and material, methods and they are generally cost incurring factors. On the other hand, the planned outflows are products, services and social contribution that the enterprises generate. The planned outflows, products & services, are generally revenue generating factors. The excess of enterprises revenue earned over its cost spend for producing revenue within a define accounting period is called profit. In other sense, return on investment is profit. In economic context, economists have propounded several theories to explain it.

- **Theory of Risk and Uncertainty Bearing**

  It was F.B. Hawley who first developed the theory of risk bearing and concluded that profit is a reward of the entrepreneurs for bearing risks. But the theory was picked up by Professor F. H. Knight who divided risks into insurable and non-insurable risks and concluded that profit is a rewarded for bearing non-insurable risks and uncertainties. Thus, according to knight Profit is a rewarded of the entrepreneur for his non-transferable function of non-insurable risks and uncertainties.

- **Dynamic Theory of Profit**

  This theory was propounded by J. B. Clark. According to this theory, 'dynamic changes in the economy are the basic cause of emergence of profits. There is no profit in a static economy as any changes in population, capital, methods of production and industrial set up. These changes multiply wants of consumers, which earn profits to the entrepreneur.

- **Innovation Theory of Profit**

  Joseph Schumpeter singled out ‘innovation’ from the dynamic theory of profits and developed the innovation theory of profits. According to Schumpeter changes take place in a dynamic economy and innovation in the changing world gives rises to profits. In his views, the entrepreneur plays an important role of introducing innovation in an economy and profits are the rewards for his role as an innovator. The innovation could be changes or techniques that reduce cost or production or increase demand for the product.

Need of Profit

Profit is a most for the following reasons:

- **Measurement of Performance**

  Profit is only one factor to measure the management efficiency, productivity and performance. Profit is the most widely used yardstick to see what really is to be achieved and where the firm is to go in the future.

- **Premium to Cover Costs of Staying in Business**

  Business environment is full of risks and uncertainties. To gasp the globally changing technologies, to stay in the market uncertainties, to replace and acquire assets and enhancing business scope etc. require a profit margin.

- **Ensuring Supply of Future Capital**

  Profit is necessary to plough back in the investments like innovations, business expansion and self-financing. It o attracts investors for further investment.

Profit and Profitability of Development Banks

Profit is an essential fuel to drive business ahead and survive business effectively, efficiently and economically. No business enterprises can self survive in the absence of profit for long time. That's why; profit is the prime goal of every type of business enterprises. Unlike any other business organizations development banks also have to survive with the help of profit. Banks incur large administrative expenses in the course of maintaining service efficiency and attractive premises. The daily expenses, the operational expenses, staff expenses, returns to the stakeholders, all are ensured by profit alone. Profit is earned by the banks largely through financing activities, in the form of loans and advances to the customers, placement in other banks, investment in government securities, non-fund activities like issuing L/C, guarantee etc. Revenue is earned through non-exposure functions by the way of commission and fees. But its contribution in the overall profit remains in the lower side. Hence banks earns major portion of their income through lending money, which it acquires through various means such as collecting deposits in various accounts, by issuing shares. Debentures etc without profit, bank would not be in a position to meet all the expenses as mentioned above. Hence, profit is the main factor for the existence of a bank.

The majority of the needs of the stakeholders are related with the profitability of banks. For example, in case the banks earn profits, the investors get dividends. Employees get bonus, government gets benefits in the forms of taxes etc. Thus, the foremost objective of the banks is the maximization. The major source of funds of the bank is the public deposit. The bank in most of the cases has to pay certain rate of interest to the public if their deposit. Thus, the banks have to mobilize these funds in the profitable sectors which derive the maximum return on the assets. The investment of granting of loan and advances by them are highly influenced by profit margin. The profit of the bank is dependent on the interest rate, volume of loan and time period of loan.

However, the bank at the same time has to ensure that their investment is safe from default.

Although the banks have to invest in order to earn profits. But, at the same time have to set aside some of its fund in order to maintain their liquidity. As we all know the major source or bank's fund is public deposits, the bank has to be able to allow the depositors to withdraw their deposit in terms of need. Thus, the bank cannot invest all its funds in the profitable sectors. Thus, a successful bank is one who invests most of its funds in different earning assets standing safely from the problem of liquidity i.e. keeping cash reserves to meet the daily requirement of the depositors. Lower the liquidity, higher the profitability and higher the liquidity, lower the profitability. So, profitability and liquidity maintain a highly negative co-relation. Since both are equally important, banks cannot afford to ignore any of them. So, the management has to make a crucial decision regarding a mixture of liquidity and profitability.

Profitability and Liquidity of Development Banks

Profitability and liquidity both are equally important to the bank. Liquidity means the capability of the bank to meet the demand on the customer's deposits. Liquidity is the status and part of the assets which can be used to meet the obligation. The degree of liquidity depends upon the relationship between cash assets plus those assets which can be quickly turned into cash and the liability awaiting payment. Banks maintain liquidity in various forms like ready cash at its disposal. Certain percentage at Central Bank (NRB) as a statutory requirement makes placements in other banks and some percentage is utilized in investment on government securities.

Banks pay the depositors their money when demanded, and if this is not met, it damages the banks image. The confidence of the public will be lost and this leads the banks towards its downfall. So, banks should not invest all the money it has on exposure based assets only, as it will not be repaid when required. Therefore, banks keep a certain percentage O their fund on such assets that can be utilized as need arises, which is known as liquid assets.

Banks have to maintain liquidity to meet the depositors claim. For this, they have to maintain sufficient fund in liquid assets. Funds invested only in government securities and other liquid assets do not earn sufficient income to meet all its expenditure. Banks have to pay a large amount as interest to its depositors and have to spend a lot of amount in its daily operational activities. To meet such expenses banks have to invest in assets that generate maximum revenue. However, banks cannot lend all the money in possession with it, on assets like loans and advances, which generate optimum revenue.

Hence, a balance of assets must be stroked to ensure both profitability and liquidity. These paradoxical principles of liquidity and profitability are reconciled to the maximum benefits of the bank. In order to avoid difficulty in meeting the various commitments, (depositor's claim, payment of redeemable preference shares and debentures, regular interest payment etc) bankers strike a balance by arranging their assets in different proportions of liquidity and profitability (Shrestha & Sundar, 2007:205).

Planning

Planning is the first essence of management and all other function are performed within the framework of planning. Planning is the cornerstone of effective management. Planning stars with forecasting and predetermination of further events. Planning consists in setting goals for the firm both immediate and long range, considering the various means by which such goals may be achieved, and deciding which of any available alternative, means would be best suited to the attainment of the goals sought under the conditions expected to prevail. Planning is deciding in advance what to do, how to do it, when to do it and who is to do it. It provides the ends to be achieved.

Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes;

- Establishing enterprise objective and goals,
- Developing premises about the environment in which they are to be accomplished,
- Selecting a course of action for accomplishing the objectives,
- Initiating activities necessary to translate plans into an action and
- Current re-planning to correct current deficiencies.

Management planning involves uncertainty and reliable forecast can help reduce the uncertainty in planning. Planning is the first function of management and is performed continuously because the passage of time demands both re-planning and making new plans. Management planning provides the basis for performing the four other functions.

Strategic and functional, short range and long range formal and informal, adhoc and standing planning, administrative and operational planning are the various types of managerial planning. Mainly two type of planning i.e. strategic and tactical is the prime aspects in planning of profit planning and control.

Control

Control is a function in the management process and one of the prime parts of profit planning and control. As with planning, controlling is performed continuously. Therefore, there is a control process that should be always operating in an enterprise. Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprise initiating corrective action when necessary to ensure efficient accomplishment of enterprise objective, goals, policies, and standards. Planning establishes the objective, goals, policies and standards of an enterprise. Control is excused by using personal evaluation, periodic performance reports and special reports. Another view identifies the types of control as follows:

- Preliminary Control (Feed Forward).

  Used prior to action to ensure that resources and personnel are prepared and to start activities.

- Concurrent control (Usually Periodic Performance Reports).

  Monitoring (By using personal observation and reports) of current activities to ensure that are being met and policies and procedures are being followed during action.

- Feedback Control.

  Ex post - action (pre planning) focusing on past result to control future activities. Beside these controls, other types of control are internal and external control, formal and informal, systematic and adhoc control, activities control, physical and financial control etc.

Planning and control is the base-camp of profit planning and control system. After defining about profit, planning and control individually, now, it is going to present holistic theoretical concept of profit planning and control.

2.1.7 Meaning of Profit, Planning and Control

Profit planning and control is a new term in the literature of business, not an end and substitute of management. Through it is a new term; it is not a new concept in management. The other terms this can be used in same context are comprehensive budgeting, managerial budgeting or simply budgeting. The

PPC con is defined as process or technique of management that enhances the efficiency of management.

Every enterprise is established with its definite objectives to be achieved. An enterprise is a successful enterprise if its management is efficient to accomplish the objective of the enterprise. The management is effective, when it accomplishes the objective with minimum effort and cost. In order to attain long-range efficiency and effectiveness, management must chart out its course action in advance. A systematic approach that facilitates effective management performance is profit planning and control, or budgeting. Budgeting is therefore an integral part of management. In a way, budgetary control system has been described as a historical combination of a goal-setting machine for increasing an enterprises profit, and "goal-achieving the budgeted targets."

Some definitions gives by various scholars are as follows:
"Comprehensive profit planning and control is a systematic and formalized approach for accomplishing the planning, co-ordination and control responsibilities of management" (Welsch, et al., 2005:153).

"The concept of a comprehensive budget covers its use in planning, organizing and controlling all the financial and operating activities of the firm in the forth coming period" (Lynch & Williamson, 2004: 96).

Profit planning and control involves development and application of:

- Broad and long range objectives for the enterprise,
- Specification of goals,
- Long range profit plan in broad terms,
- Tactical short range profit plan detailed by assigned responsibilities (division, department, project),

- A system of periodic performance reports detailed by assigned responsibilities,
- Control system,
- Follow up procedure.

Hence, profit planning and control represents an overall plan of operations, providing guidelines to management and acting as single light for the management. It enables the management to correct its policy. Profit planning and control covers a definite period of time and formulates the planning decision of management (Goet & Gautam, 2062:1.1-1.2).

2.1.8 Role of Profit, Planning and Control

The role of PPC or budgeting is vital to the success and survival of a business firm. Without a fully coordinated budgeting system, management cannot know the direction the business is taking out. Organizations that do not plan are likely to wonder aimlessly and ultimately succumb to the swirl of current events. The roles of PPC or budgeting are pointed as follows;

- It helps to set definite goals and objectives that serve as benchmarks for evaluating subsequent performance and to show the direction of business.
- It uncovers subsequent bottlenecks before they occur and compels management to plan for the most economical use of labor, material, and capital.
- It compels and motivates management to make an early and timely study of its problems. It generates a sense of caution and case, and adequate study among managers before they makes decisions.
- Profit planning and control co-ordinates the activities of the entire organization by integrating the plans and objectives of the various parts. By doing so, it ensure that the plans and

objectives of those parts are consistent with the broad goals of the entire organization.

- It rewards high performance and seeks to correct unfavorable performance.
- It provides a valuable means of controlling income and expenditure of a business, as it is a plan for spending.
- It provides a tool through which managerial policies and goals are periodically evaluated, tested and established as guidelines for the entire organization.
- It develops an attitude of cost consciousness, stimulates the effective use of resources, and creates an environment of profit conscious through out the organization. It emphasizes how much should be spent to achieve a goal.
- It provides norms, basis or yardstick for measuring performance of departments and individuals working in organizations. Individual managers can evaluate their own decision and achievement and take suitable steps to improve their performance.
- It encourages productive competition, provides incentives to perform efficiency and gives sense of purpose to achieve individuals in organization. All these positive factors lend to higher output and increase employee’s productivity.
- It helps one to distinguish between actual needs and wants. It enables the management to lay down an order of priorities and reflects some planning of long and short-term requirement in a business.
- As decentralization of responsibility is a feature of profit planning, each manager works critically in his own area of responsibility. Profit planning thus fixes the responsibility center for manager.

- It also promotes understanding among members of management on their co-workers problems.
- It tends to remove the cloud of uncertainty that exists in many firms, especially among lower level or management, relatively to basic policies and enterprise objectives.

Thus the well organized profit planning and control programs enable the management to maintain a level of profits, which will ensures the existence of the business and the fulfillment of management responsibilities (Goet & Gautam, 2062:1.2-1.3).

2.1.9 Fundamental of Profit, Planning and Control

The concept of budgeting was originally established with the function of an accountant. At its origin, the function of budgeting was assigned to the accountant. But in modern day budgeting is given much more importance and is regarded as a way of management and in more important sense as a basic technique of decision-making and is given the name "Profit planning and control program".

Managerial Involvement and Commitment

Managerial involvement entails managerial support, confidence, participation, and performance orientation. In order to engage competently in comprehensive profit planning and control, all levels of management, especially top management, must (1) understand the nature and characteristics of profit planning and control, (2) be convinced that this particular approach to managing is to devote the effort required to make it operative (3) support the programmers in all its planning process as performance commitments. For a comprehensive profit planning and control programmed each member of management, starting from the president, the impetus and direction must come from the very top.

Organizational Adaptation

A profit planning and control programmed must rest upon sound organizational structure for the enterprise and a clear-cut designation of lines of authorities and responsibilities. The purpose of organizational structure and the assignment of authority are to establish a framework within which enterprise objectives may be attained in a coordinated and effective way on a continuing basis. The scope and interrelation-ship of the responsibilities of each individual manager are specified. To increase management and operational efficiency, particularly all enterprises, except perhaps the very smallest ones, should be structurally disaggregated into organizational subunits. The manager of each subunit would be assigned specific authority and responsibility for the operational activities of that subunit. These subunits are often referred to as decision centers or responsibility centers. Responsibility centers are further classified in respect to the extent of responsibility as follows:

- Cost center
- Profit center
- Investment center
- Revenue center

Responsibility Accounting

In order to set-up profit planning and control on a sound basis, there must be a responsibility accounting system, that is, one tailored first and foremost to the organizational responsibilities. Within this primary accounting structure, secondary classification of costs, revenues, and other financial data that are relevant may be utilized in accordance with the needs of the enterprise. A responsibility accounting system can be designed and implemented on a relevant basis regardless of the other features of the accounting systems standard cost systems, direct costing system, and so on. When the accounting system is established on a responsibility basis, the historical data generated become especially pertinent for planning and control purpose.

Full Communication

Communication can be defined as an interchange of thought or information to bring about a mutual understanding between two or more parties. Communication can be of dialogue, message or understanding from working together. Although, the management gives least importance to communication, it is most important thing for any organizational observation and control. Most of the organizations face lot of problems due to bad communication system. Communication is needed for both the feed forward and feed backward process, which is most important for operation of any organization. Role of communication can be justified in all aspect of management. It is needed either for decision-making or for supervision or for evaluation. Flows of information must be adequate in all side (downward, upward and laterally).

For profit planning and control, effective communications means development of well-defined objective, specification of goals, development of profit plans and reporting and follow up activities related to performance evaluation for each responsibility center. Communication for effective planning and control requires same understanding of responsibilities and goals in both the executives and subordinates.

Realistic Expectation

Profit planning and control must be based on realistic approach or estimation Management must use realistic assumption and must not take either irrational optimism or unnecessary conservatism.

Perfection on setting goal or objectives of the future sales, production levels, costs, capital expenditures, cash flow and so on determines the success of profit planning and control programmed. So for profit planning and control purpose, a realistic approach reared with time dimension and external environment that will prevail during the time span should be considered. This is called realistic expectation.

Before preparing comprehensive profit planning and control programmed, management has to take a good care that the goal or objective which is going to be determine neither should be too low nor should be too high but should be attainable with high level of efficiency. This because goals set very low will destroy motivation as it does not require efforts and goal set high will discourage the implementer as it would not be attained with existing capacity of the units, but the goal which will be of challenging nature, will be of real value and will keep the organization alert which is the main objective of the realistic expectation.

Flexible Application

Profit planning and control programmed or any other management techniques should not dominate slowly. Any of such technique of management must not be flexible or rigid. These are the techniques or means, which is not only the end of management itself because the main end or aim of the management is to use the resources in the most effective way earn high return on investment and for this purpose profit planning and control or other techniques are used as means only.

Timeless

Whether an individual or an entity remains idle or busy, time passes at the same rate. The problem of the manager in one hand is to accomplish the planned activities in a given time and on other hand is to prepare the plan itself. Planning of the planning is of two types: one is (a) timing of planning horizons and (b) timing of planning activities.

Planning horizons is the time for which planning is done or we can call it life span of the plan. For any enterprise, there used to be many planning horizons to maintain the continuity of planning activities. The decision made by the manager for future activities reflects the managerial planning. In other words, managerial decision, which reflects planning activities, always effects on future activities only. It does not have any effects on present or past. Major decision should be made on the basis of adequate supporting study, analysis, evaluation, and consolation. For effective implementation of planning management of an enterprise must establish a definite time dimension for each activity. In other word, for each activity related with planning would be given definite time for implementation, followed by other activities. This is called planning activities. From the view point of time dimension, a manager should maintain clear-cut distinction between historical and future consideration. Because the result derived from historical activities should be consider as platform for deciding plan.

Individual and Group Recognition

Behavioral aspects of human being are of the field of study of the psychologist, educators and business man, and finding was that can be so many unknown misconception and speculations which has to be considered for an efficient management. A good and dynamic leadership can resolve this problem by integrating all the group efforts for betterment of the organization. This fact also has been well considered under profit planning and control approach and focuses have been given to resolve the behavioral problems.

Follow up

The importance of follow up on action on profit planning and control approach is more. Follow up action after a careful study is needed to:

- Correct the action of substandard performance in a constructive manner.

To recognize and transfer the knowledge of outstanding performance to others and based on the study and evaluation to provide a sound basis for future profit planning and control program (Goet & Gautam, 2062:1.5-1.6).

2.1.10 Purpose of Profit, Planning and Control

A comprehensive profit planning and controlling is a systematic and formularized approach for stating and communicating the firm's expectation and accomplishing management in such a way to maximize the use of a profit plan and to achieve the maximum benefit from the resources available to an organization over a particular span of time. It serves as a tool for management control. The maximum objective of profit planning and control is to assist in systematic planning and in controlling the operations of the enterprise. In fact, it is the best sources of communication and an important tool in the hand of management. The purpose of budgeting or profit planning and control may be summarized as follows;

- To state the firm's expectation (goal) in formal terms clearly to avoid confusion and facilitates their attainability.
- To communicate expectation to all concerned with the management to the firm so that they are understood, supported and implemented.
- To provide a detailed plan of action for reducing uncertainty and for its proper direction of individual and group efforts to achieve goals.
- To co-ordinate the activities and efforts in such a way that the use of resources is maximized.]

To provide a means of measuring and controlling the performance of individuals and units and to supply information based on which the corrective action can be taken (Goet & Gautam, 2062:1.6).

2.1.11 Time Factor on Profit, Planning and Control

Whether an individual or an entity is idle or busy, time passes at the same rate. We selfdom, if ever, have time to do many things that we would like to do, nor do we have time to do many things as much as we would like. The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself. Thus, the planning function often suffers. Two important timing issues require careful attention if the planning function is to be carried out effectively. Among these timing issues, one relates to the concept of a planning horizon, and the other relates to the timing of planning activities.

Planning Horizon

Planning horizon refers to the period of time into the future for which management should plan. We can call it life span of the plan. For all enterprise, many planning horizons are needed to maintain the continuity of planning activities. The decision made by the manager for future activities reflects the managerial planning. In other words, managerial decision, which reflects planning activities, always effects on future activities only. It does not have any effects on present or past. Major decision should be made on adequate supporting study, analysis, evaluation and consolation.

Timing of Planning Activities

For effective implementation of planning management of an enterprise must establish a definite time dimension types of activities. In other word, for each activity related with planning would be given definite time for implementation followed by other activities. This is called planning activities. From the view point of time dimension, a manager should maintain clear-cut distinction between historical and futuristic consideration. Because the result derived from historical activities should be considered as platform for deciding plan (Goet & Gautam, 2062:1.3).

2.1.12 Limitation of Profit, Planning and Control

Profit planning and control is an important tool for management. However, each tool suffers some limitation and its use is fruitful within these limits. Profit planning and control is also not a limitless tool, so it is essential that the user of profit planning and control must be having a full knowledge of its limitations. The limitations of budgeting are as under.

Based on Estimates

Profit planning is not an exact science. It source depends upon precision of estimates. The success of profit planning and control depends to a large degree on the accuracy with which the basic estimates will be made. Therefore, estimates should be made on the basis if of all the facts available. Using correct and modified statistical techniques and management can make the accurate estimate.

Danger of Rigidity

Profit planning is an estimation and quantitative expression of all relevant data. So, there can be the tendency to attach some sort of rigidity or finality to them. However, rigidness makes profit planning and control useless. For usefulness, the profit planning and control must be flexible. Various techniques must be tried, improved discard and replaced with others. In other words, a profit planning and control programmed must be dynamic in every sense of the word.

Application for Long Period

The installation of a complete profit planning and control is not possible in a short period. It should be continuously used in the business, and should be revised and modified with the changed situation in the business.

Execution not Automatic

A skillfully prepared profit planning and control will not itself improve the management of an enterprise, unless it is properly implemented. For the success of profit planning and control it is essential that all the related persons inside the enterprise should understand it. It is mostly required that each executive must feel the responsibility and should make efforts to attain the budgeted goals. Department leaders should seriously think that it is their individual responsibility to fulfill the target set up in their department budget. The success of a budgeting system totally depends upon the efficient management and administration.

Not a Substitute for Management

Profit planning and control is a management tool. It is not a substitute for the management. It is totally wrong to think that the introduction of profit planning and control is alone sufficient to ensure success and to guarantee future profits. It is only for achieving the end.

Costly Affairs

The installation of a profit planning and control system is an elaborated process involving to much time and costs. Normally it is so costly that small column cannot afford to it. Even for a large concern, it is suggested that there should be some correlation between the cost of operating a budgeting system and benefits derived from it. The system should be adapted only when benefit exceeds the cost.

Proper Evaluation

For finding out the inefficiencies, proper evaluation should be made. In the absence of proper evaluation, budgeting will hide inefficiencies. So there should be continuous evaluation of the actual performances, standards also should be re-examined regularly.

Lower Morale and Productivity

Unrealistic target should not be set and used as a pressure tactic. By doing it profit planning and control will lower morale and productivity. To some extent, profit planning and control may be used as pressure device but its extent must be carefully determined (Goet & Gautam, 2062:1.6-1.7).

2.1.13 Areas of Profit Planning and Control

Comprehensive profit planning and control (profit planning and control) is the new term, modified, modern and comprehensive approach of same traditional budgeting. Therefore all the budgets are covered by PPC or area of PPC. Budgets may be classified from various viewpoints depending upon various bases adopted for such classification i.e. on bases of time; long term (up to 5 or 10 years) and short term (1 month to 1 years), Current budget on the basis of flexibility. Static and flexible budget; On the basis of business transaction; capital expenditure and operation or revenue budget44; on the basis of functions; sales budget, selling and distribution cost budget, production budget, purchase budget, labor budget, research budget, plant utilization budget, office and administration budget, capital budget, cash budget and master budget etc. mainly, PPC consist of three main. Budgets are briefly explained as fallows;

Operating budget

Budget related with revenue and expenses such as sales budget, production budget etc is called operating budget. These budgets deal with plans for routine activities. The main operating budgets are as follows;

- **Sales budget**

  The sales budget is a forecast of total sales of all the products expressed in terms of physical quantities, Prices and values in respect of each product for a future budget period. Sales budge is usually prepared according to product or product groups, territory or area, types of customer's etc. it is a primary budget of PPC.

- **Production budget**

  The production budget is concerned with estimating the probable output of each product in the forthcoming budget period. The production flan involves determining the numbers of units of each product that must be manufactured to meet planned sales maintain inventory levels of finished goods that are to be planned. Thus, the production units and production cost.

- **Raw Material Purchase budget**

  After having prepared the production budget, the material usage and the purchase budget can be easily constructed. Purchase would include both direct and indirect materials and good. Non-manufacturing company have to prepare purchase budget according to sales unit.

- **Direct Labor Cost budget**

  Direct labor cost budget is the budget which provides planning data about the direct labors requirement, number of direct labors, employees needed, labors cost of each product and investments.

- **Overhead Cost or Other Expenses Budget**

  The overhead/cost budget of other expenses budget is related with the formal estimation and planning & controlling with regarding three board categorized expenses, factory or manufacturing, selling & distribution and general administrative expenses. To accomplish planning and controlling objectives, expenses should be classified by responsibility, designated as controllable and non controllable, and estimated with respect to their cost behavior pattern.

Financial Budget

The budgets which are concerned with financial implication of operating budgets or financial statements such as: cash budget, income statement, balance sheet and change in financial position. The main financial budgets are briefly explained as follow;

- **Cash Budget**

  A cash budget shows the planned cash inflows, outflows and ending position by interim periods for a specific span. This method is based on detailed analysis of the increase and decrease in the budgeted cash account that would reflect all cash inflows and outflows from such budgets as sales, expenses and capital expenditures.

- **Capital Expenditure Budget**

  A capital expenditure is the use of funds (e.g. cash) to obtain operational assets that will help earn future revenues or reduce future costs. The capital expenditure budget is directly related to a company's operating assets and cash.

- **Budgeted Income Statement**

  Income is concerned with determining the total income of the planned period. It is to be prepared under accrual basis rather than cash basis on the basis of other preceding budget.

- **Statement of Changes in Financial Position**

  Other statements which show the changes in financial position are includes in financial budget. Such as: funds flow statement, cash flow statement etc.

- **Budgeted Balance Sheet**

  Budgeted balance sheet is concerned with forecasting total assets and properties capital and liabilities or financial position of the company by time period. Budgeted balance sheet is prepared on the basis of all budget and prepared at last of the period.

2.1.14 Budgeting

The various types of activities within a company should be coordinated by the preparation of plans of actions for future periods. These details plans are usually referred to as budgets. A budget is a detailed plan outlining the acquisition and use of financial and other resources over a given period of time. It represents the plan for the future expressed in formal quantities terms. A budget is a numerical plan of action, which generally covers the area of revenues and expenditures. A budget is a quantitative expression of a plan and an aid to co-ordination and control. A budget may be formulated for an organization as a whole or for its sub-units. Budgets, basically, are forecasted financial statements – formal expressions of managerial plans. They are targets that encompass all phases of operation including sales, production, purchasing and manpower and financing.

A budget is a comprehensive and coordinated plan, expressed in financial terms, for the operations and resources of an enterprise for some specified period in the future. Budget is estimation and predetermination of revenues and expenses that estimate how much income will be generated and how it should be spent in order to meet investment and profit requirement. It is such type of plan which shows a clear way of spending income that does not result in a loss because all the expenditures will be compared to the budget. If real costs exceed the budgeted costs, an explanation will be required. A firm with specific goals in the form of budget helps a firm to control its costs by setting guidelines for spending money for needed items. The complete budget for a firm is often called the master budget, which includes a sales budget, a production budget, a purchase budget, an expense budget and cash budget. Once all of these budgets are completed, the master budget for the entire firm is prepared. Budgets basically are forecasted financial statements – formal expressions of managerial plan. They are targets that encompass all phases of operations – sales, productions, distributions and financials.

Some definitions of budgets are;

"A budget is a detailed plan expressed in quantitative terms that specifies how resources will be acquired and used during a specified period of time. The procedures used to develop a budget constitute a budgeting system" (Hilton, 2000: 137).

"A budget is the quantitative expression of a proposed plan of action by management for a future time period and is an aid for the coordination and implementation of the plan" (Foster & Dater, 1999:113).

The process of preparing and using budgets to achieve management objective is called budgeting. In other words, the entire process of preparing the budget is called budgeting. One systematic approach for attaining effective management performance is profit planning or budgeting; Budgeting is the numerical planning for profits covering the areas of future revenues and costs.

2.1.15 Scope and Application of Budgeting

Budget is a pervasive phenomenon, which applies in every kind of organization. The terms and functions of budgeting were firstly developed for a state's purposes but, nowadays, it has become an especially to business organizations whose practicability depends upon the size of the business. The common objective of profit planning and control system or budgeting, whether applied to national finance or business administrations is to formulate polices aimed at an objective established after consideration of the probable course of events in the future, and to provide a means for the constant comparison of actual progress toward this goal with the pre-conceived results. Since, budget is flexible and depends upon the size of the firm, the formats and rules regarding profit planning also vary according to the nature of business organizations. A budget is prepared within the environment of relevant variables and strengths and weaknesses of an organization.

2.1.16 Objectives of Budgeting

The main objective of budgeting is to ensure the planned profit of the enterprises. So, it is considered as a task of planning and controlling the profit. One of the primary objective of an annual budget is to measure the profit expectations for the next financial year with due regard to all the circumstances favorable and unfavorable that can influence the trading prospects.

The main objective of budgeting can be summarized as follows:

- It reflects the policy of a business in financial terms and serves as a declaration of policies.
- It forecasts for future to avoid loss and to maximize profit by serving as a financial document for management to control and monitor actual performance.
- It states the firm's expectation (goals) in clear formal terms to avoid confusion and to facilitate their attainability.
- It brings about coordination between different functions of an enterprise i.e. to help in coordination and communication so that the management expectations are understood and supported for proper implementation.
- It is a measure against which the quality of management is evaluated.
- It facilitates centralized control with delegated authority and responsibility.

2.1.17 Budgetary Control

Budgetary control is a system of controlling cost, which includes of budgets coordinating the departments and establishing responsibilities, comparing actual performance with the budgeted and outing upon the results to achieve maximum profitability. In short, the uses of budget to control a firm's activities are known as budgetary control.

Budgetary control is the establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of the policy or to provide a basis for its revision.

Budgetary control involves the followings:

- Preparing budgets.
- The business is divided into various responsibility centers for preparing various budgets.
- The actual figures are recorded.
- The budgeted and actual figures are compared for studying the performance of different cost centers.
- If actual performance is less than the budgeted norms, then a remedial action is taken immediately.

2.1.18 Purpose of Budgeting

The main purpose of budgeting can be summarized in the following points;

- To provide a realistic estimate of income and expenses for a period and of the financial position at the close of the period, detailed by areas of management responsibility.
- To provide a coordinated plan of action, that is designed to achieve the estimate reflected in the budget.
- To provide comparison of actual results with those budget and an analysis and interpretation of deviation by areas of responsibilities to indicate course of corrective action and to lead to improvement in produces in building future plans.
- To provide a guide for management decision in adjustment plans and objectives as conditions change.
- To provide a ready basis for making forecasts during the budget period to guide the management in making day to day decisions.

2.1.19 Problems and Limitations of Budgeting

The followings are the major problems of budgeting system.

- Seeking the support and involvement of all levels of management.
- Establishing realistic objectives, polices, procedures and standards of desired performance.
- Developing meaningful forecast especially the sales plan.
- Maintaining effective follows up procedures and adapting the budgeting system wherever the circumstances changes.
- Applying the budgeting system in a flexible manner.
- Educating all individuals to be involved in the budgeting process and joining their full participation.

The following are the main limitations of budgeting system.

- Budgeting is not exact science its success links upon the precision of estimates.
- The installation of a perfect system of budgeting is not possible in a short period. Budgeting has to be a continuous exercise. It is a dynamic process.
- The success of budgetary programmed is to understand by all and the manager and subordinates put concerned effort for accomplishing the budget goal.
- Budgeting will be ineffective and expensive if it is unnecessary detailed and complicated. It should be flexible and rigid in application.
- The presence of a budgeting system should not make management complacent. To get the best results of management, management should use budgeting with intelligence and foresight. It cannot replace management.

- The purpose of budgeting will be defeated if budget goals carelessly conflict with enterprise objectives.
- Budgeting will hide inefficiencies through a proper evaluation system.
- Budgeting will lower moral and productivity if unrealistic targets are set and if it is used as a pressure tactic.

2.1.20 Sales Budget or Sales Plan

The sales plan is the foundation for periodic planning in the firm because all other enterprises planning are built on it. Sales budget or plan is the starting point of preparing profit plan, which displays the projected sales in units and rupees. The sales planning process is an essential part of profit plan and control because it provides for the basic management decision about marketing and based on these decisions. It is an organized approach for developing a comprehensive sales plan. The sales plan must be realistic and relevant because all of the other parts of profit plan are depended on sales plan. The sales budget is the forecast of total sales of the entire product expressed in terms of physical quantities, prices, and values in Respect of each product of a future budget period. The need of capital addition, the plan of expenses, the manpower requirement, production level and other important operational aspects depends on the volume of sales or revenue. A comprehensive sales plan includes two separate but related plans- the strategic and the tactical sales plan. A comprehensive sales plan incorporates such management decisions as objectives, goals, strategies and premise. Long- term/strategic and short-term/ tactical plans must be developed in harmony with comprehensive profit plan. The primary purposes of sales plan are as follows;

- To reduce uncertainty about future revenues.
- To incorporate management judgment and decisions into the planning process.
- To provide necessary information for developing other elements of comprehensive profit plan.

- To facilitate management control of sales activities.

2.1.21 Sales Planning and Sales Forecasting

Sales planning and sales forecasting are usually used synonymously but they have distinctly different purposes. A forecast is not a plan; rather it is a statement and/or a quantified assessment of future conditions about a particular subject based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input for the development of sales plan. The management of the company may accept, modify or reject forecast. In contrast, sales plan incorporates the management decisions that are based on the forecast, other inputs and management judgment about such related items as sales volume, prices, efforts, production and financing. It is important to make a distinction between the sales forecast and sales plan primary because the internal technical staff should not be expected or permitted to make the fundamental management decisions and judgments implicit in every sales plan. Major differences between sales forecast and sales budget can be attributed as follows;

- The sales forecast is merely the initial estimate of future sales, where as sales plan is the projection approved by the budget committee that describes expected sales in units and rupees.
- Sales forecast is a merely well educated estimate of future expected demand of a specific product whereas sales budget is the quantitative expression of business plan and policies to be pursued in future.
- A sales plan provides standard for comparison with the result actually achieved. Thus, it is an important control device of management, whereas forecasting represents merely probable events over which no control can be exercised.
- Sales plan beings where and when sales forecast end. Sales forecast is the input to sales plan; sales plan in the foundation to profit planning and control.

2.1.22 Strategic and Tactical Sales Plan

Time dimension is an important consideration in planning. Planning range over a time spectrum that runs from the current day to a period sometimes as far as more than twenty years in the future. Practices on this score differ considerably. Generally, there are two types of planning which are as follows;

- **Strategic or Long Range Planning**

  Strategic sales plan is the long range sales plan of an enterprise. When plans are prepared for more than five or ten years bases, then they are called long range or strategic planning. It is broad and general. It is usually developed by year and annual amount. It is prepared by considering future market potentials, population changes, state of economy, industry projections, company objectives and long term strategies because they affect in such areas as pricing, development of new product line, innovation of product, expansion or distribution channel, cost, pattern etc. Long range as a means of planning for the future is frequently done by and is useful for government planning agencies and economic studies.

- **Tactical or Short Range Planning**

  Tactical sales plan is the short range sales plan of an enterprise. Generally, it is developed for a short period of time usually a year, initially by quarters and by months for the quarters. The tactical sales plan includes a detailed plan for each major product and for grouping of minor products. Tactical sales plan are usually developed in terms of physical units and in sales rupees. Short term sales plan must also be structured by marketing responsibility for planning and control purposes. Short term sales plan may involve the application of technical analysis; however, judgment plays a large part in their determination.

2.1.23 Sales Budgeting as a Tool of Profit Planning

An enterprise should adopt number of budgets for the application of comprehensive profit plan. One of them is sales budget. Budgeting means deciding or estimating in advance the course of action to achieve a particular target or objectives in a given period of time along with the numerical expression of the inputs required and outputs expected.

Sales planning or budgeting provides basic management decision about marketing. Marketing decision are the basic approaches for developing comprehensive sales plan and profit plan. Therefore, sales budgeting is a necessary part of PPC for every business enterprise either they are manufacturing or non-manufacturing and either public or private enterprises. If sales plan is not realistic, most other parts of overall profit plan will not be realistic. Management should develop a realistic sales plan. If management cannot develop realistic sales plan, it will be little justified. If it is difficult to assess the future revenue of business, there will be little incentives for investment.

The prime objective of business enterprise is to generate profit. So, first consideration of sales plan must be made from profit plan. To attain planned profit, sales should be properly budgeted or planned. In today's modern business production as well as inventory is also for sales. All cost or expenses are planned according to sales budget. So, sales budget is the foundation of all budgets.

The sales or revenue budget forms the fundamental basis on which all the other budgets are built up. All budgets except sales budget are related with cost. On the basis of sales budget, production budget or planning is made. This planning depends on the capacity of the plant; an all other functional budgets are prepared on the basis of the production budget. In this way, sales budget is first prepared and it is variously termed as commencement of the budgeting, a nerve center or backbone of the enterprise. Foundation budget or corner stone of budgeting, initial or preliminary budget etc. by reducing the clouds of uncertainty, removing the risk of future revenues and present investment, a proper or appropriate or systemic sales budgeting directly or indirectly forms foundation for all the other budgets and ensure to receive the planned profit of the enterprise. Therefore, sales budgeting are as a tool of profit planning.

2.2 Review of Related Studies

Review of literature is the review of studies which are related and helpful to the present study. Many studies have been done about the profitability analysis and revenue planning of commercial banks. So, some of the related researches are presented below;

2.2.1 Review of Previous Research Work

Chhetri (2009) has conducted a research on the topic, *"Profitability Position of Nabil Bank Ltd."*

Major objectives:

- To evaluate the trend of deposits and loans and advances of Nabil and SCB.
- To evaluate the liquidity, profitability, capital structure, activity and capital adequacy position of Nabil and SCB.
- To study the strengths and weaknesses of Nabil and SCB. To study the opportunities and threats in terms of financials tools.
- To suggest and recommend some measures for the improvement of financial performance of Nabil and SCB in future.

Major findings:

- Loans and advances as well as total deposits of Nabil and SCB are increasing each year (study period).
- There exists positive correlation between total deposits and loans and advances of both banks.

- SCB's liquidity position is comparatively better than that of Nabil.
- Nabil's capital structure position is more risky than that of SCB in average.
- SCB's profitability position is more satisfactory than that of Nabil.

Major recommendations:

- To overcome deposit problem, the researcher has recommend to simplify present complicated and lengthy depositing process, set a more convenient minimum balance requirement to open a account, provide incentives for attracting new fixed depositors.
- To follow liberal lending policy for loans and advances.
- To operate new branches in non representing urban areas for more deposit collections and more utilization of the same as well as to increase their transactions and to provide financial services and facilities to more customers.
- All profitability ratios of Nabil are in fluctuating trend and SCB's profitability position is comparatively better than that of Nabil. So, Nabil is recommended to utilize its risky assets, shareholders fund and total assets more efficiently for generating more profit margins. Both SCB and Nabil should reduce their expenses for being more profitable.

Koirala (2010) has conducted a research work on the topic, *"Revenue planning and its impact on Profitable Operation of Nepal SBI Bank Limited."*

Major objectives:

- To highlight the current revenue planning processes adopted and its effectiveness in NSBI Bank.
- To analyze revenue structure and major revenue sources of the bank.

- To study the growth of the revenue business of the bank over the period.
- To provide suggestion and recommendation for improvement of the overall profitability of the bank.

Major findings:

- Bank has no proper revenue plan.
- Incomes from off-balance sheet items are not given proper attentions.
- Bank has given attention to increasing interest income by giving best effort in utilization of the deposit and decreasing the risk from on balance sheet items by investing more in deposits.
- Income from loans, investment has major role in interest income. Bills purchase is playing major role in commission and discount income. Remittance fee is major in commission income. Similarly, LC and BG contribute more in commission income.

Major recommendations:

- Interest income from loan and advances and investment has dominance to the total income of the bank. Income from other fee based transactions has low proportion. The proportion of OBS transactions is found decreasing in comparison to loans and advances.
- Proper attention should be given on revising bills purchase and discount rate so that amount of commission would not be lower than the previous year for long time.
- Remittance income must be given priority. Tie up with other bank and agents should be done for easy remit of money from foreign countries.

- The band should give high emphasis on goodwill and its proper marketing. Customer satisfaction should be center point for goodwill.
- Bank must focus on its cable and efficient human resources. The outflow of able and experienced employees must be checked for long term profitability.

Lamichhane (2010) has conducted a research work on the topic, "*Revenue Management and Its Impact on Profitability of Kumari Bank Limited.*

Major objectives:

- To evaluate the soundness of the profitability and operating, efficiency of the bank.
- To study and analyze revenue i.e. fund based income and fee based income by proper utilization of resources.
- To evaluate cost of deposits of the bank with regards to the profitability.
- To provide suitable suggestions and recommendations to take proper action to increase profitability of the bank.

Major findings:

- The bank is generating higher profit by mobilizing the funds to loans and advances and investment activities.
- The bank is satisfactory generating interest income from investing its funds in outside assets.
- The earning power of the bank of total assets of the bank is found satisfactory.
- The bank is getting higher income as interest income by mobilizing the funds as outside assets.
- Comparing to interest income of the bank, other income sources of structure contributes very low to total income of the bank.

- Considering the percentage of other composition of interest income, it seems that the interest income from loans and advances has occupied highest position and second position has occupied by investment. It seems that the bank has focused more on interest income from loans and advances and investment.
- Only the growth rate of interest income from loans and advances is in decreasing trend but the bank has been able to increase interest income amount from loans and advances every year.

Major recommendations:

- Regarding high demand and easy processing, it is recommended the bank to start credit cards business also.
- Along with interest expenses, other expense of the bank is also increasing every year. Therefore, the bank can adopt control mechanism to lower net burden.
- The bank is recommended to revise its free and commission charges and rates as per demand in the market.
- It is recommended to bank that it should increase number of local and international channels to attract customers to remit money. The bank can tie up with other banks and money transfer agents.
- It is recommended to the bank to give more priority to increase fee based transactions.

Rayamajhi (2011) has conducted a research work on the topic, *"Profitability of NB Bank Ltd with Comparison – to Other JV Banks."*

Major objectives:

- To find out the profitability position of the JV banks and to disseminate quality information.
- To analyze the profit trend of JV banks.
- To investigate the profit trend of NB Bank Ltd.

- To ascertain the comparative position of profitability of NB bank with respect to other JV banks.

Major findings:

- The bank has not been able to perform well in most of the criteria defined like ROE. EPS, net profit margin, loan loss provision, NPA to Credit and others as well during study period.
- The other contribution factors for the decline of performance of NB bank are high interest spread, low staff motivation and others like unable to provide additional services such as ATM, ABBS, credit card services, e-banking; negative publicity of its promoters, frequent changes in top level management.

Major recommendations:

- A serious effort has to be made towards the NPA management. The asset (loans and advances) quality is the serious issue in the organization and the sincere effort of the management is to be concentrated in their matter.
- The bank seems to be lacking in the conduct of detailed and proper credit appraisal and monitoring process.
- NB bank has not been renowned for coming up with new innovative products and services. One of the weak links in the NB Bank Ltd. has been its marketing department. The marketing department has been primarily focused on the routine activities like publishing auction notices, tender notices and interest rates. So, NB bank needs to devise appropriate marketing strategies, plans and police and revitalize the efforts of the marketing department.

Shrestha (2011) has conducted a research work on the topic, *"Profitability analysis of SCBL and NABIL."*

Major objectives:

- To evaluate the soundness of profitability and operating efficiency of Nabil comparison with that of SCBL.
- To compare and analyze fund based interest income with fee based income of Nabil with SCBL in light of interest earning assets.
- To compare the cost of deposits of two banks with the profitability.

Major findings:

- Nabil bank has fluctuating return on total assets than SCBL. SCBL has higher ROE is higher than Nabil bank.
- Nabil bank has more consistent interest earned to LDO ratio than SCBL throughout the study period. Similarly, the ratio of return on total LDO of SCBL is higher than Nabil bank.
- Both of the sample banks interest income to total earning assets ratio are decreasing. Earning spread rate of both of the banks ratio are also decreasing. Both of them are negative sign to the bank's performance.
- Sample bank's net profit margin is decreasing every year. Nabil bank's net profit margin is more than of SCBL.

Major recommendations:

- The study reveals that Nabil bank has not adopted any cost management strategy to have control over its cost of funding. Nabil has paid very higher interest to deposits and other working funds than SCBL. The cost management strategy would be ideal to reduce the various costs and increase the profitability.
- The bank should follow the strict investment policy to avoid the non performing assets.

- To coop the changing environment in the banking business, Nabil bank is suggested to enhance its existing facility of ATM, ABBS, credit card facility etc throughout the branching network from the limited service of the valley.
- An emphasis should be given on planning, research and development for the proper planning and controlling purpose. Proper and regular internal audit system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expense.

2.2.2 Research Gap

Many banks are not practicing various accounting tools and techniques to measure its performance in Nepal. Researcher should face problem for analyzing financial statement. Though there is significant gab between present researcher work and the previous research works. Most of the researches, profit planning tools are analyzed in one way or the other but impacts are rarely explained. Especially analyses of net burden in banks have not been done yet by other researcher. Similarly, previous researcher had only presented the calculation of aggregate interest. In this study, the calculations of interest from each heading have been presented. This study of Clean Energy Development Bank will also clear the contribution of public banks to build strong economic condition of the nation.

CHAPTER – III

RESEARCH METHODOLOGY

A systematic research study requires a proper methodology to achieve the set of objectives. Research methodology is a systematic method of finding solution of a problem i.e. systematic collection, recording, analysis, interpretation and reporting of data and information. Research methodology is a technique of analyzing the obtained data to solve the research problem. It consists of descriptive approach and statistical tools. Descriptive approach is used to analyze the research problem, setting hypothesis and other theoretical problem. Statistical tools are used to analyze the numerical data. Different section included in this chapter is research design, population and sample, sources and technique of data collection, coverage, and method of analysis. Researcher has used the following methodology to complete the research.

3.1 Research Design

Research design means drawing an outline of planning or arranging details and in an economic, efficient and relevant manner before the data collection and analysis. It is a process of making decisions before the situation arises in which the decision has to be carried out. Thus, research design is purely and simply the framework or plan for study that guides the collection and analysis of data. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variances. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. It guides the researcher to progress in the right direction in order to achieve the goal. It is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. In short, the design of research is concerned with making controlled scientific inquiry. This study is basically based on descriptive and analytical research. Descriptive research uses different kinds of surveys and fact finding approaches to search adequate information. Generally, it is conducted to assess the opinions, behaviors or characteristics of a given population and to describe the situation and events occurring at present. And analytical research uses facts or information readily available and analyzes these to make a critical evaluation of the material.

3.2 Population and Sample

The population refers to the industries of the same nature and its services and products in general. Thus, the total number of development banks constitutes the population of data and the bank under study constitutes the sample for the study. So, from the population of 34 development banks operating in the country, Clean Energy Development Bank Limited has been selected as the sample bank for the study.

3.3 Sources of Data

There are mainly two sources of data. They are primary sources and secondary sources. Primary sources of data are those which are collected by investigator or researcher from field by themselves. These data have never been used for any purpose earlier. Secondary sources of data are those which had been collected by some individual or agency previously and now same data are used and analyzed to extract some other information.

Most of the data presented in this study are of secondary type. The annual reports or the concerned bank are the major source of data for the study. However, besides the annual reports of the concerned bank, the following sources of data have also been used in the courses of the study.

- NRB reports and bulletins.
- Various publications dealing in the subject matter of the study.
- Various article published in the newspaper.

Formal and informal talks or discussions with the concerned authorities of the bank were also helpful to obtain the additional information of the related problems.

3.4 Data Collection Techniques

This study is mainly based on secondary data obtain from various sources as mentioned above. The required annual reports of CEDBL have been obtained from its websites. The data on some aspects have been obtained from the publications and websites of NRB and NEPSE. Some supplementary data and information and literature review have been collected from the library of Shankar Dev Campus, T. U., different journals, magazines, newspapers and other published and unpublished reports and documents by the concerned authorities.

3.5 Data Analysis Tools

Data are collected from various sources for the purpose of research and they are presented and analyzed which is the core part of the research work. The collected data are first presented in a systematic manner and are then analyzed by different financial and statistical tools to achieve the research objectives. Besides these, some graph charts and tables have been presented to analyze and interpreted the findings of the study. The applied tools are;

- Financial Tools
- Statistical Tools

3.5.1 Financial Tools

The evaluation of financial performance involves a series of techniques that can be used to help identify the strengths and weaknesses of a firm. Financial tools basically help to analyzed strengths and weaknesses of a firm. Financial ratios which use data from a firm’s balance sheet, income statement, statement of cash flow and certain market data are often used when evaluating the financial performance of a firm.

Ratio analysis is a widely used financial tool to evaluate the financial position and performance of a firm. A ratio is simply one number expressed in terms of another and such it express the quantitative relationship between any two figures. Ratio analysis is a part of the whole process of analysis of financial statements of any business of industrial concern especially to take output and decisions. In this study only those ratios have been analyzed and interpreted which are related to revenue management of the bank.

3.5.2 Statistical Tools

Some important statistical tools are used to achieve the objectives of the study. In this study, statistical tools such as mean, standard deviation, coefficient of variance and trend analysis have been used.

Mean

A mean is the average value or the sum of all the observations divided by the numbers of observations and it is denoted by $\bar{x}$ and given by the formula;

$$\bar{x} = \frac{X}{N}$$

Where,

$\bar{x}$ = mean of the value

N = Number of pairs of observations

Standard Deviation

The standard deviation is the absolute measure of dispersion in which the drawbacks present in other measures of dispersion are removed. It is said to be the best measure of dispersion as it satisfies most of the requisites of a good measure of dispersion. It is denoted by a Greek letter ‘α’ read as sigma and given by the formula;

$$\sigma = \sqrt{\frac{(X - \bar{X})^2}{N}}$$

Where,

$x = (x - \overline{x}\ )$

N = Number of observations

Coefficient of Variance

The coefficient of dispersion is based on standard deviation multiplied by 100 is known as the coefficient of variation (C. V). It is denoted by the formula;

Coefficient of Variation (C.V) = $\frac{\exists}{\overline{X}} \mid 100$

It is independent of the unit. So, two distributions can bitterly compared with the help of C.V for their variability. Less the C.V; more will be the uniformity, consistency etc. and more the C.V; less will be the uniformity, consistency etc.

Trend Analysis

Among the various methods of determining trend of time series, the most popular and mathematical method is the least square method, from which we will be able to estimate the future trend values of different variables. Here, trend line is used for the clear view of the data.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

Data collected from various sources are presented and analyzed in this chapter to measure the various dimensions of the problems of the study. The major findings of the study are also presented in this chapter.

4.1 Analysis of Total Interest Income to Total Income Ratio

This ratio measures the volume of interest income to total income of the bank. This ratio helps to measure the bank's performance on how well they are mobilizing their fund for the purpose of income generation as interest. The high ratio indicates the contribution made by the lending and investing activities and vice – versa. This ratio can be computed by dividing total interest income to total income.

Table: 4.1

Total Interest Income to Total Income Ratio

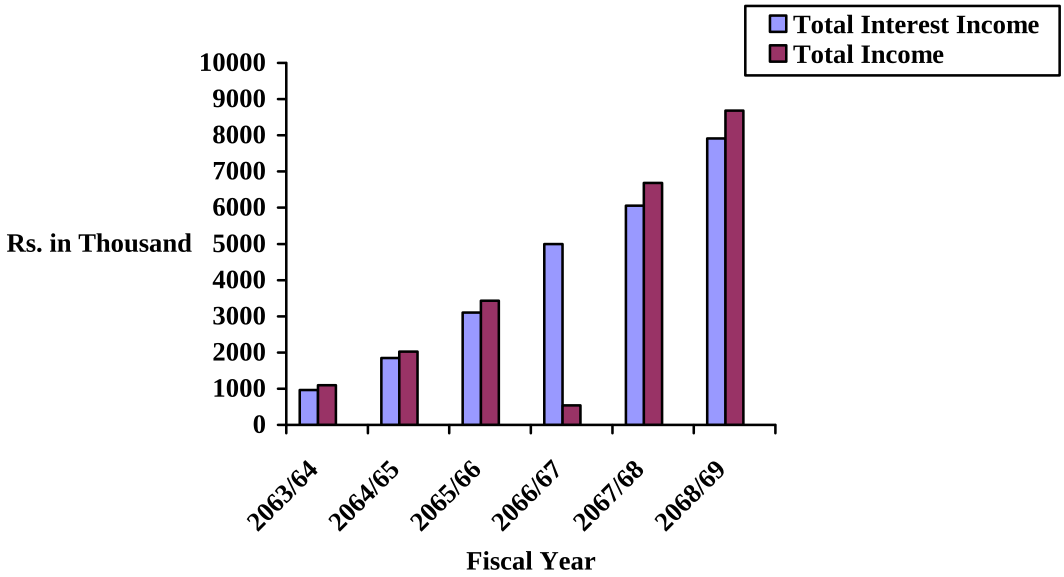
(In, 000)

Fiscal Year	Total Interest Income	Total Income	Ratio (%)
2063/64	963.5	1095.6	87.94
2064/65	1850.9	2022.3	91.52
2065/66	3102.1	3428.5	90.48
2066/67	4999.2	5406.0	92.47
2067/68	6055.2	6681.4	90.62
2068/69	7912.8	8682.9	91.13
Mean (%)			90.69
S. D (σ)			1.39
C. V			1.53

Source: Appendix - I

Figure: 4.1

Total Interest Income to Total Income Ratio



The above table and figure 4.1reveal that the interest income and total income are fluctuating over the study period ranging from minimum of 87.94% in FY 2063/64 to maximum of 92.47% in FY 2066/67. The mean of the ratio is 90.66% and S. D and C. V are 1.53 and 1.69 respectively which shows that the ratios are fluctuating over the study period.

The data show that the bank is generating maximum income i.e. 90.69% as interest income from its total income. This means that he bank is generating large proportion of income from mobilizing the funds to loans and advances and investment activities.

4.2 Analysis of Total Interest Income to Total outside Assets Ratio

The main assets of banks are its outside assets in the form of loans and advances and investments employed for income generation purpose. This ratio reflects the extent to which the bank is successful to earn interest as major income from outside assts. A high ratio indicates high earning power of total assets and vice – versa. This ratio is computed by dividing total interest income to total outside assets.

Table: 4.2

Total Interest Income to Total outside Assets Ratio

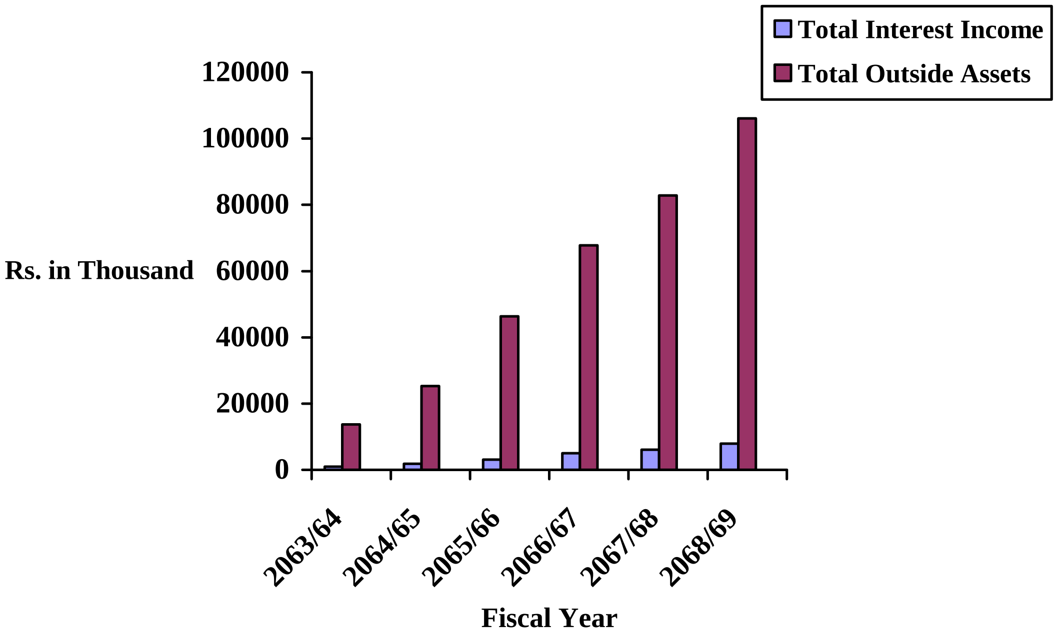
(In, 000)

Fiscal Year	Total Interest Income	Total Outside Assets	Ratio (%)
2063/64	963.5	13665.6	7.05
2064/65	1850.9	25288.9	7.32
2065/66	3102.1	46325.1	6.7
2066/67	4999.2	67811.9	7.37
2067/68	6055.2	82868.0	7.31
2068/69	7912.8	106074.3	7.46
Mean (%)			7.20
S. D (σ)			0.257
C. V			3.569

Source: Appendix - II

Figure: 4.2

Total Interest Income to Total outside Assets Ratio



The above table and figure 4.2 show that the ratios are slightly fluctuating during the study periods ranging from minimum of 6.70% in FY 2065/66 to maximum of 7.46% in FY 2068/69. The mean of the ratio is7.20% and S.D and C.V are 0.28 and 3.89 respectively which shows that the ratios are slightly fluctuating.

The banks are liberal to quote interest rate. As a result, the banks went on unhealthy competition of interest rate. This caused low interest spread which fluctuate interest income.

4.3 Analysis of Total Interest Income to Total Assets

This ratio reflects the extent to which the bank is successful in mobilizing its total assets to generate high income as interest income. A high ratio is an indicator of high earning power of the bank's total assets and vice – versa. This ratio is calculated by dividing total interest income by total assets of the bank.

Table: 4.3

Total Interest Income to Total Assets

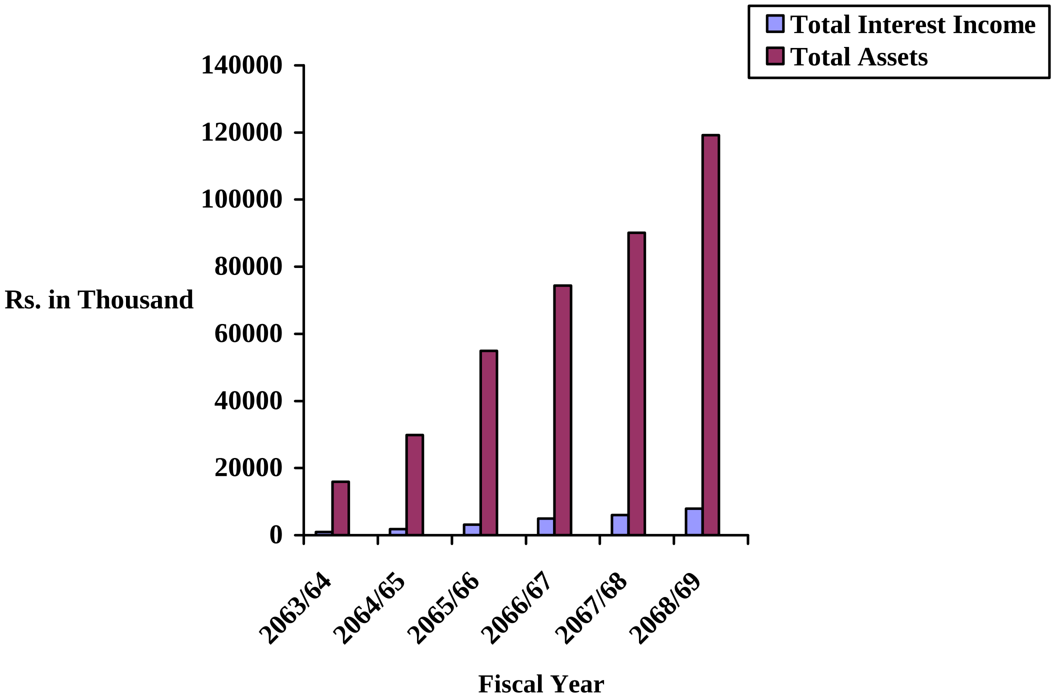
(In, 000)

Fiscal Year	Total Interest Income	Total Assets	Ratio (%)
2063/64	963.5	15927.6	6.05
2064/65	1850.9	29861.7	6.2
2065/66	3102.1	54941.7	5.65
2066/67	4999.2	74378.8	6.72
2067/68	6055.2	90102.7	6.72
2068/69	7912.8	119183.1	6.64
Mean (%)			6.33
S. D (σ)			0.39
C. V			6.16

Source: Appendix - III

Figure: 4.3

Total Interest Income to Total Assets



The above table and figure 4.3 reveal that the ratios are ranging from minimum of 5065% in FY 2065/66 to the maximum of 6.72% in FY 2066/67 and 2067/68. The mean of the ratios are 6.33% and the S. D and C.V are 0.44 and 6.95 respectively. This means that the ratios are consistent over the study period.

The ratios are consistent over the study period which means that the bank is mobilizing its total assets satisfactory to generate high income as interest income.

4.4 Analysis of Total Interest Expenses to Total Assets

This ratio measures the percentage of total interest expenses against the total assets of the bank. A high ratio is an indicator of low earning power of the bank's total assets and vice – versa. This ratio is calculated by dividing total interest expenses to total assets.

Table: 4.4

Total Interest Expenses to Total Assets

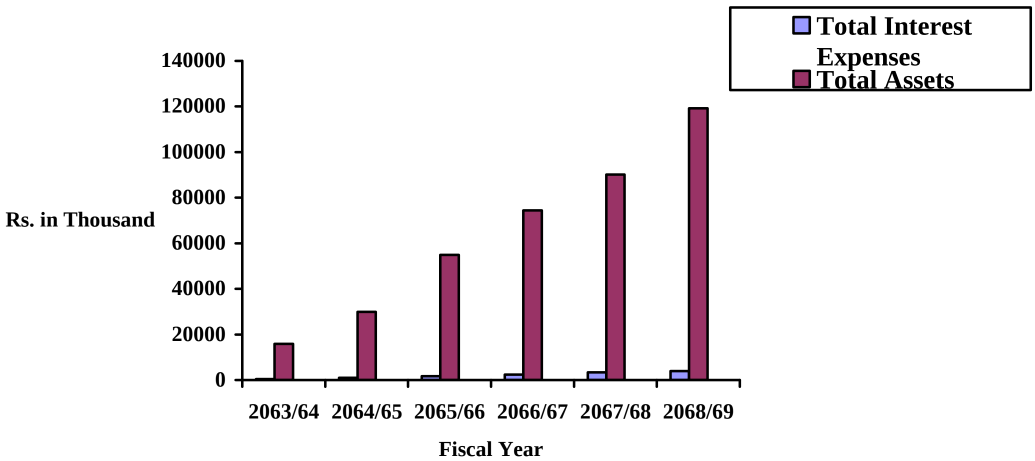
(In, 000)

Fiscal Year	Total Interest Expenses	Total Assets	Ratio (%)
2063/64	481.6	15927.6	3.02
2064/65	929.4	29861.7	3.11
2065/66	1639.0	54941.7	2.98
2066/67	2401.3	74378.8	3.23
2067/68	3370.6	90102.7	3.74
2068/69	3970.5	119183.1	3.33
Mean (%)			3.24
S. D (σ)			0.26
C. V			8.037

Source: Appendix - IV

Figure: 4.4

Total Interest Expenses to Total Assets



The above table and figure 4.4 reveal that the ratios are almost consistent over the study period. The ratios are ranging from 2.98% in FY 2065/66 to 3.74% in FY 2067/68. The mean of the ratios are 3.24 and the S. D and C. V are 0.28 and 8.64 respectively which mean that the ratios are in consistent level.

4.5 Analysis of Total Income to Total Expenses

The comparison between total income and total expenses measures the productivity of expenses in generating income. The amount of income that a unit of expenses generates is measured by total income and total expenses. The higher ratio is indicative of higher productivity of expenses and vice – versa. This is calculated by dividing total income by total expenses.

Table: 4.5

Total Income to Total Expenses

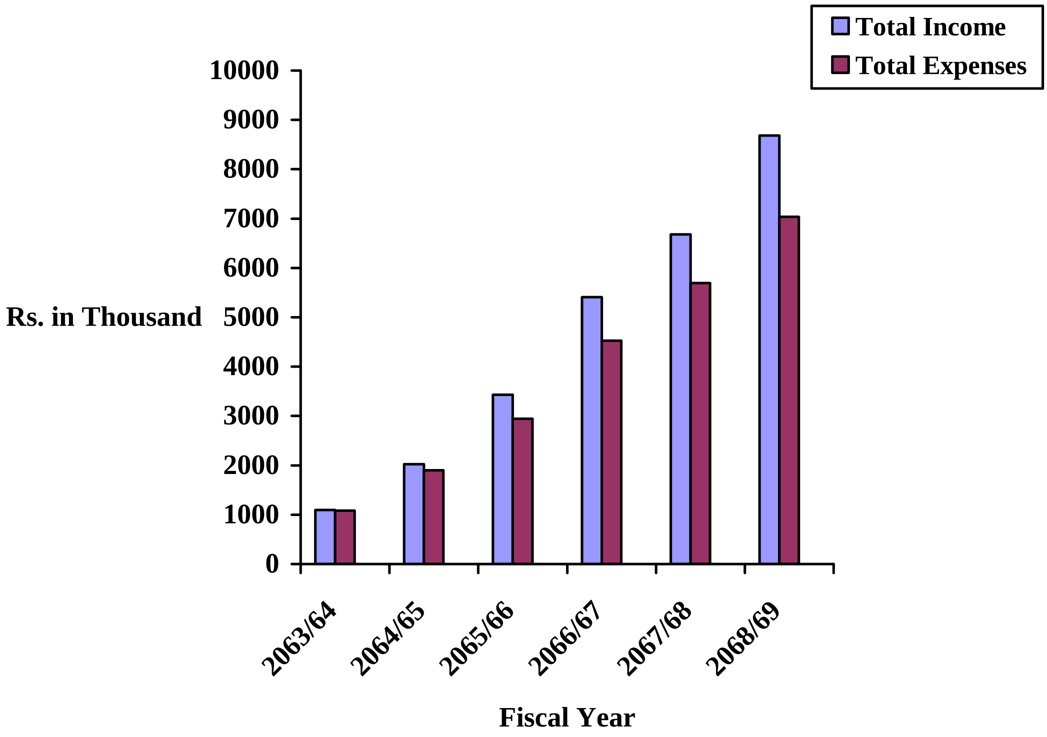
(In, 000)

Fiscal Year	Total Income	Total Expenses	Ratio (%)
2063/64	1095.6	1082.3	1.01
2064/65	2022.3	1897.6	1.07
2065/66	3428.5	2941.6	1.17
2066/67	5406.0	4527.2	1.19
2067/68	6681.4	5696.3	1.73
2068/69	8682.9	7034.8	1.23
Mean (%)			1.23
S. D (σ)			0.234
C. V			19.024

Source: Appendix - V

Figure: 4.5

Total Income to Total Expenses



The above table and figure 4.5 show that the relationship of total income to total expenses is fluctuating trend ranging from 1.01% in FY 2063/64 to 1.73 in FY 2067/68. This means that per unit of expenses is generating higher income every year until FY 2067/68, it has been decreased. In other words, one rupee of expenses has generated one paisa in FY 2063/64 where as it has generated seventy three paisa in FY2067/68 which has decreased to twenty three paisa in FY 2068/69. The average income of total expenses to total income is only twenty three paisa. Similarly, the S. D and C. V are 0.25 and 20.32 respectively which means that the ratios are little bit variable during the study period.

4.6 Analysis of Total Income to Total Assets

This ratio measures how efficiently the assets of the bank are utilized to generate total income. It also measures the quality of assets in income generation. This ratio is calculated by dividing total income by total assets.

Table: 4.6

Total Income to Total Assets

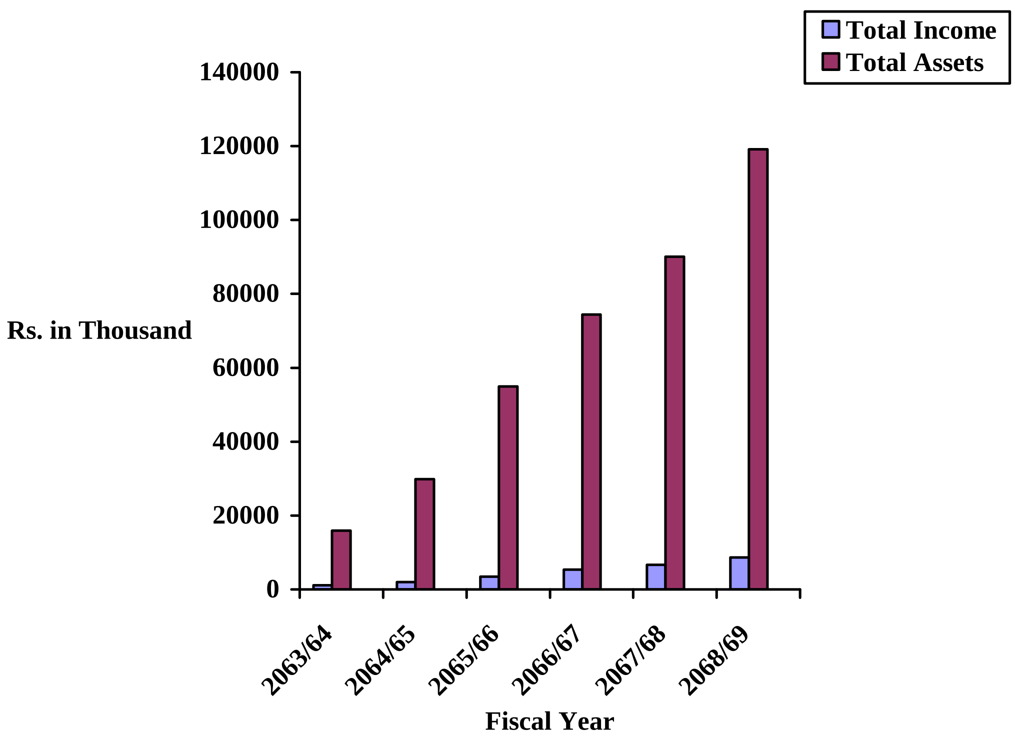
(In, 000)

Fiscal Year	Total Income	Total Assets	Ratio (%)
2063/64	1095.6	15927.6	6.88
2064/65	2022.3	29861.7	6.77
2065/66	3428.5	54941.7	6.24
2066/67	5406.0	74378.8	7.27
2067/68	6681.4	90102.7	7.41
2068/69	8682.9	119183.1	7.28
Mean (%)			6.975
S. D (σ)			0.4
C. V			5.73

Source: Appendix - VI

Figure: 4.6

Total Income to Total Assets



The above table and figure 4.6 show that the ratios ranging from minimum of 6.24% in FY 2065/66 to maximum of 7.41% in FY 2067/68. The mean of the ratios are 6.98%. Similarly, the S. D and C.V are 0.44 and 6.30 respectively which means that the ratios are almost consistent over the study period.

Consistent ratios mean that the bank has given sincere attention to generate high income by utilizing its total assets. Though the study periods were not so good due to political disputes, the bank is able to earn stable income from its total assets.

4.7 Analysis of Net Interest Margin

Net interest margin in general is the difference between the interest earned from granting loans and advances and interest paid on deposits collected by the bank. It shows the bank's efficiency to earn high profit to meet various expenses and to provide attractive return to the shareholders. Hence, the difference between interest earned and interest paid i.e. net margin is analyzed below.

Table: 4.7

Net Interest Margin

(In, 000)

Fiscal Year	Interest Income	Interest Paid	Net Interest Margin	Increased Amount	Growth Rate (%)
2063/64	963.5	481.6	481.9		
2064/65	1850.9	929.4	921.5	439.6	91.22
2065/66	3102.1	1639.0	1463.1	541.6	58.77
2066/67	4999.2	2401.3	2597.9	1134.8	77.56
2067/68	6055.2	3370.6	2684.6	86.7	3.34
2068/69	7912.8	3970.5	3942.3	1257.7	46.85

Source: Annual Reports

The above table 4.7 shows that the net interest margin is increasing every year during the study periods. But the growth rate of net interest margin is highly fluctuating. The growth rate for FY 2063/64 is not presented due to not considering previous year. The growth rate in FY 2064/65 is 91.22% which is very high. This is because when the previous year nil even the little growth will be higher in next year. The growth rate is continuously decreasing to the minimum of 3.34% in FY 2067/68. But in FY 2068/69, the growth rate has increased to 46.85%.

During the initial period of opening the bank, interest rate on deposit was offered high to attract the deposit. So, the growth rate was high. In the successive years of study periods, due to excess liquidity in the market, the bank lowered interest rate on deposit. When the interest rate on deposit is low, the bank also lowers its interest rates on lending and vice versa which will cause changes in interest spread. This ultimately makes changes in net interest margin.

4.8 Analysis of Composition of Interest Income

The bank invests its fund in different sectors from which it gains income as interest income. It is necessary to understand where the bank invests its fund. The segregation of the interest income into different sub-sectors helps to clarify the actual position of the bank on planning its revenue and the weaknesses that has occurred in the poor side of the composition of interest income. This part of analysis shows that which sub-sector of interest income has been affected resulting in less volume of interest income and thus suggest to take corrective actions. The compositions of interest income are as follows;

- Interest income from loans, advances and overdraft.
- Interest income from investment.
- Interest income from agency balance.
- Interest income from money at call and short notice.
- Interest income from others

4.9 Analysis of Composition of other Income

Other income is also one of the important revenue heading of development banks. A bank always needs to focus its effort to increase its income from other sources like locker charges, renew of ATM cards etc. Other income being the less risky income, it heavily depends upon the services it provides to the customers. More and sophisticatedly the bank provides the services, more is the volume of this income. So the bank always needs to give reliable and efficient services to the customers. This income has also no ceiling and hence despite being important income heading, it should gain the equal attention as that of other sources of income. Some banks earn more profit due to the highest amount of service charge, renewal and other income. The composition of other income is as follows;

- Safe deposit lockers rental
- Issue and renewals of ATM cards
- Telex/TT/SWIFT charges
- Services charges
- Loss provision written back
- Others

4.10 Growth Analysis of Major Revenue Heads

This part of the analysis helps to make clear vision over the major revenue heads of the bank. The bank's effort on increasing the revenue can be clearly judged from this analysis. Whether the bank's revenue is increasing, decreasing or consistent during the study period is analyzed in this section.

The major revenue sources of the bank are as follows;

i. Interest Income

- Income from loans and advances and overdraft.
- Income from investment

ii. Commission and Discount Income

- Bills purchased and Discount
- L/Cs commission
- Guarantees fees
- Remittance fees
- Collection fees

iii. Other Income

- TT/SWIFT charges
- Service charges

4.10.1 Interest Income

Among various sources of income of the bank, interest income of the bank is the main and important source. Hence, steady increase in interest income is the positive sign for the bank and vice versa. Interest income during the study period is analyzed below;

- **Interest Income from Loans and Advances and Overdraft**

  The main business of the bank is to provide loans and advances to the customers. The bank provides loans and advances from the deposits it collects from them. The interest income from this category depends upon the quality of loans and advances it provides to the customers. The steady increase in interest income from loans and advances shows that the bank is able to earn sufficient interest income from this category of lending. Interest income from loans and advances and overdraft is analyzed below;

Table: 4.8

Interest Income from Loans and Advances and Overdraft

(In, 000)

FY	Income from Loans & Advances	Increased Amount	Growth Rate (%)
2063/64	844.0		
2064/65	1691.3	847.3	100.39
2065/66	2807.1	1115.8	65.97
2066/67	4627.1	1820.0	64.83
2067/68	5336.9	709.8	15.34
2068/69	6911.4	1574.5	29.5

Source: Annual Reports

The growth rate for the FY 2063/64 is not presented due to not considering previous year. The above table 4.8 shows that the bank is able to earn 100% interest income from loans and advances and overdraft in FY 2064/65. This shows that the bank focused on providing loans and advances and also in recovery of interest. The growth rate of interest income decreased to around 65% in FY 2065/66. The growth rate in FY 2067/68 is 15.34% which is the lowest among all. This might be the adverse situation of the country which resulted high interest suspense.

- **Investment Interest Income from**

  Income from investment is the second major source of interest income of the bank. Banks utilize its money in the secured and profitable sectors of investment. Banks generally invest in treasury bills, development bonds, national saving certificates, foreign securities, NRB bonds and licensed institutions from NRB. Investments in these sectors are considered as risk free. So, interest income from investment is considered to be more secured than interest income from loans and advances. The growth of investment income is analyzed below;

Table: 4.9

Interest Income from Investment

(In, 000)

FY	Income from Investment	Increased Amount	Growth Rate (%)
2063/64	52.4		
2064/65	78.4	26.0	49.62
2065/66	16.8	88.4	112.75
2066/67	261.3	94.5	56.65
2067/68	481.2	219.9	84.16
2068/69	449.0	-32.2	-6.69

Source: Annual Reports

The growth rate for the FY 2063/64 is not presented due to not considering previous year. The growth rate in FY 2064/65 is 7.84% which has increased to 112.75% in the following year. This shows that the bank was successful in investing in secured sectors. But in FY 2066/67, the growth rate decreased to 56.65% with recovery of 84.16% in growth in FY 2067/68. But the growth rate in FY 2068/69 is negative of 6.69%. This means that the investment income in this year was less than previous year.

4.10.2 Income from Commission and Discount

Commission and discount income is also one of the important sources of bank's income. Hence, income from commission and discount is analyzed below;

Table: 4.10

Income from Commission and Discount

(In, 000)

FY	Commission and Discount Income	Increased Amount	Growth Rate (%)
2063/64	34.4		
2064/65	94.1	50.97	173.55
2065/66	164.4	70.3	74.71
2066/67	230.8	66.4	40.39
2067/68	262.8	32.0	13.86
2068/69	407.6	144.8	55.1

Source: Annual Reports

The growth rate for the FY 2063/64 is not presented due to not considering previous year. The bank was able to earn 173% commission and discount income in FY2064/65 which is the highest growth among all. The growth rate has been gradually decreased since then till FY2067/68. The lowest growth rate is 13.86% in FY2067/68. This all indicate that the commission and discount income has been increased every year but the growth rate shows that it is decreasing trend. So, the bank must be alert to increase this income.

- **Commission from letter of credit (L/C)**

  Bank and Financial Institutions Ordinance, 2003 defines a Letter of Credit as: "Letter of credit means a letter written by one bank or financial institutions to another bank or financial institutions authorizing the letter to accept cheques, drafts, hundies or bills or exchange or any specified person within the limit of the amount specified therein". So, letter of credit is a non funded business of the bank. It is a contingent liability of the bank. Thus, letter of credit is a kind of facility provided by the bank to their customers, by the way of which the customer can import the goods from foreign seller for which the bank undertake the guarantee for payment under which the terms and conditions and documents of letter of credit is complied with. Against the contingent liabilities borne by the bank, it charges certain fee or commission which is the income of the bank. Hence, income from letter credit is analyzed below;

Table: 4.11

Income from Letter of Credit (L/C)

(In, 000)

FY	Commission from L/C	Increased Amount	Growth Rate (%)
2063/64	1079		
2064/65	1756	677	62.74
2065/66	5635	3879	220.9
2066/67	7310	1675	29.72
2067/68	7592	282	3.86
2068/69	9910	2318	30.53

Source: Annual Reports

The growth rate for the FY 2063/64 is not presented due to not considering previous year. Table 4.11 shows that the bank was able to increase the commission from L/C every year but the growth rate is not consistent. The growth rate in FY 2065/66 is 220.9% which is maximum than its previous year's growth rate. The growth rate is 29.72% in FY 2066/67. There is stiff fall in the growth rate in FY 2067/68 i.e. 3.86%. Again growth rate rose to 30.53% in FY 2068/69. This shows that there is not consistency in the growth rate. Inconsistency is the inability of the bank to find the right and regular big L/C customers.

- **Commission from Bank Guarantees**

  A guarantee is an undertaking on behalf of the third party to make payment or fulfill the contractual obligations in case of default. In other words, a guarantee can be defined as an undertaking by a surety (guarantor) on behalf of the debtor (applicant) to the creditor (beneficiary) for payment up to a certain amount within a stipulated period for breach of contract or non fulfillment of obligations by the debtor. For this contingent liability borne, the bank charges certain commission which is the income of the bank under this revenue head. Hence, income from bank guarantee is analyzed below;

Table: 4.12

Income from Bank Guarantee

(In, 000)

FY	Income from Bank Guarantee	Increased Amount	Growth Rate (%)
2063/64	599		
2064/65	1590	991	165.44
2065/66	2590	1000	62.89
2066/67	4183	1593	61.5
2067/68	4231	48	1.12
2068/69	5321	1090	25.76

Source: Annual Reports

The growth rate for the FY 2063/64 is not presented due to not considering previous year. Table 4.12 shows that the bank was able to increase its income from bank guarantee every year during study period. But the growth rate is in descending order. The growth rate in FY 2064/65 is 165.44% which is the highest. After then, the growth rate has been continuously decreased reaching to the growth rate of 1.12% in FY 2067/68. In FY 2068/69, the growth rate has been improved reaching at 25.76%. The bank must be alert upon the decreased growth rate of this income. Though the improvement has been noticed in FY 2068/69, the same case of decreasing trend can be revised if not given proper attention.

) **Income from Remittance**

Remittance is the process of transferring or receiving fund from one place to another through various modes of payment such as draft, payment through fax message, pay order, electronic money transfer etc. Outward remittance is the process of sending fund to some other branch or bank within or out of the country. Inward remittance is to receive fund from some other branch or bank. The bank charges certain fee or commission for outward or inward remittances. The income received by the bank for this purpose is included in the remittance income. Hence, remittance income is analyzed below;

Table: 4.13

Income from Remittance

(In, 000)

FY	Income from Remittance	Increased Amount	Growth Rate (%)
2063/64	2603.5		
2064/65	8557.5	5954.0	228.69
2065/66	12361.9	3804.4	44.46
2066/67	14628.8	2266.9	18.34
2067/68	18795.2	4166.4	28.48
2068/69	23828.1	5032.9	26.78

Source: Annual Reports

The growth rate for the FY 2063/64 is not presented due to not considering previous year. Table 4.13 shows that the bank was able to increase remittance income every year during the study period but the increasing rate is fluctuating. The growth rate in FY 2064/65 is 228.69% which is the highest rate comparing to other. The growth rate has decreased to 44.46% in FY2065/66 and to the lowest growth rate of 18.34 in FY 2066/67. Improvement of growth rate of

28.48% in FY 2068/69 has been observed which has decreased to 26.78% in FY 2068/69.

Though the remittance income has been increasing every year, it is in fluctuating trend. So, the bank must give proper attention to increase this income.

4.11 Net Burden

Net burden is the overall expenses of the bank except interest expenses incurred for the payment of deposit funds. That is the operation cost of the bank except cost of the deposit. Nature of this cost is semi fixed where as interest cost is variable cost. Net burden is net amount of burden cost obtained from the difference between other expenses and other income except interest expenses and incomes.

Following table shows the status of net burden of the bank during the study period.

Table: 4.14

Net Burden

(In, 000)

FY	Total Income except Interest Income	Total Expenses except Interest Expenses	Net Burden
2063/64	132096.5	467496.2	335399.7
2064/65	171394.5	687576.9	516182.4
2065/66	326330.3	850174.5	523844.2
2066/67	406802.3	1142070.1	735267.8
2067/68	626577.5	1485026.0	858448.5
2068/69	763395.2	1783231.0	1019836.0

Source: Annual Reports

Table 4.14 shows that along with the increment of income and expenses, net burden of the bank has also increased. The bank had low net burden in FY 2063/64 and highest in FY 2068/69. This means that every year net burden of the bank is increasing. Increase in net burden means increase in semi fixed cost of the bank which deteriorates the strength of the bank in making more profit. Comparing to other expenses, other income of the bank is very low. To minimize the net burden of the bank, it must focus on increasing the income locker charges, service charges, ATM cards, commission and discount. These income heads have contributed less on other income. The bank is also lacing to increase non fund also means inefficiency of the bank in managing expenses.

4.12 Trend Analysis

Trend analysis helps to understand the past behavior of a variable in the time series and also to forecast and plan for future with the help of past and present data. It helps in evaluating the present accomplishment. The actual performance can be compared with the expected performance and analyze the causes of such variations.

4.12.1 Trend Analysis of Interest Income

Interest income is the main revenue head of the bank. So, an attempt has been made to analyze the trend values of total interest income of the bank for next five years till FY 2070.

Table: 4.15

Trend Values of Total Interest Income

(In, 000)

Years	Trend Values
2065/66	9073.2
2066/67	10480.6
2067/68	11888.0
2068/69	13295.4
2069/70	14702.8

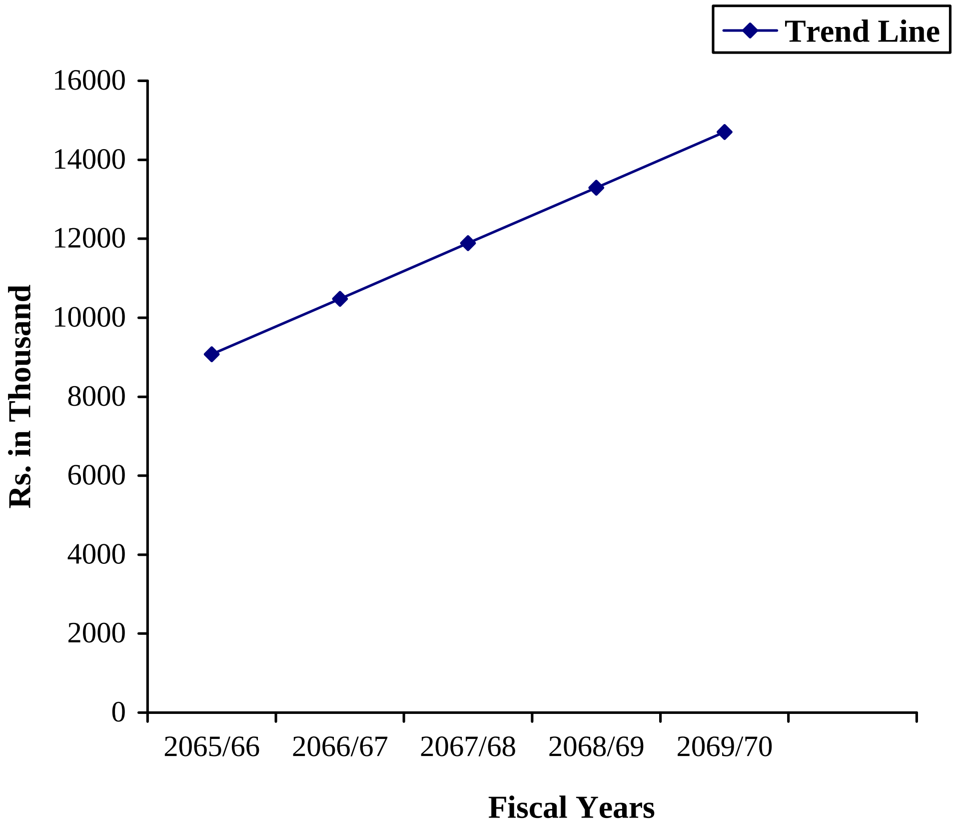
Source: Annual Reports

From the table 4.15 it is clear that the interest income of the bank is in increasing trend. Other things remaining same, total interest income of the bank will go on increasing till FY 2069/70 which will be Rs. 14702.8 thousand and which is the highest during the study periods and the periods taken for projection.

The trend values are shown in the figure below for more clarification.

Figure: 4.7

Trend line of Interest Income



The figure 4.7 clearly shows that the trend line of interest income has been increasing till the FY 2069/70. This means that the bank was able to manage the loans, advances and overdraft properly and earn high interest income.

4.12.2 Trend Analysis of Net Profit

The success of the bank is shown by the net profit earned by it. So, an attempt has been made to analyze the trend values of net profit of the bank for next five years till FY 2070.

Table: 4.16

Trend Values of Total Net Profit

Years	Trend Values
2065/66	1864.3
2066/67	2194.9
2067/68	2525.5
2068/69	2856.1
2069/70	3186.7

Source: Annual Reports

Table 4.16 reveals that the net income of the bank is in increasing trend. Other things remaining same, net profit of the bank will go on increasing till FY 2069/70 which will be Rs. 3186.7 thousand and which is the highest during the study periods and the periods taken for projection.

The trend values are shown in the figure below for more clarification.

Figure: 4.8

Trend line of Net Profit

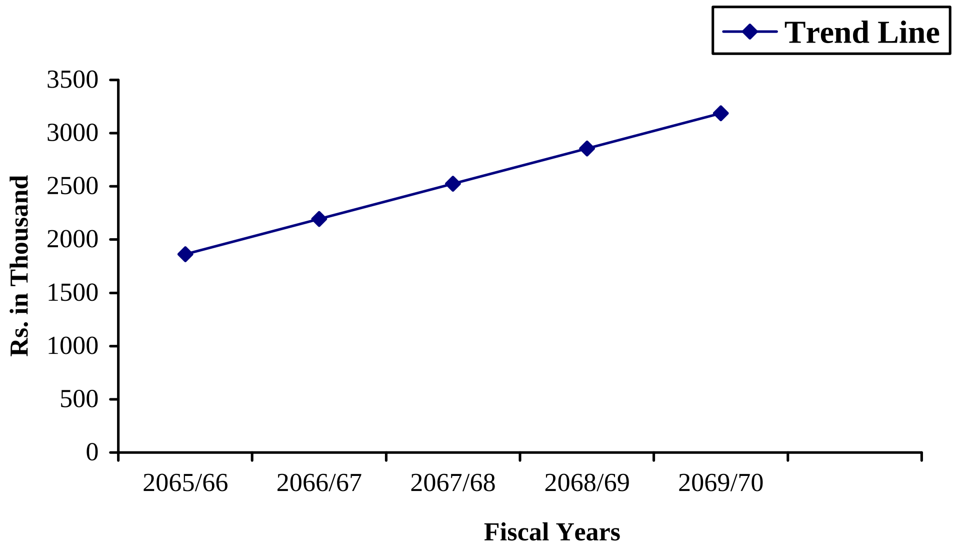


Figure 4.8 shows that the net profit of the bank is in increasing trend.

4.13 Major Findings of the Study

After the analytical study of subject matter of the study, it is the major responsibility of the researcher to find out the major facts of the study. Only the analytical part of the study is not the complete study of the research. The researcher must point out the findings of the study so that it will be meaningful and helpful to take corrective actions.

Here, the researcher has made effort to point out some major findings of various aspects of revenue planning of CEDBL by using important financials as well as statistical tools. The objective of the researcher is not only to study and analyze the subject matter but also to find some major facts and to provide suggestions which will be helpful to the concerned parties to take corrective actions.

The major findings of the study that are derived from preceding sections of this chapter are as follows;

- The interest income and total income are in fluctuating trend. The mean, S.D and C.V of the ratios of interest income and total income are 90.66%, 1.53 and 1.69 respectively.
- The total interest incomes to total outside assets ratio are slightly fluctuating. This made bank to go on unhealthy competition of interest rate.
- The total interest income to total assets ratios are consistent over the study period which means that the bank is mobilizing its total assets satisfactory to generate high income as interest income.
- The total interest expenses to total assets ratios are consistent. The mean, S. D and C. V of the ratios are 3.24, 0.28 and 8.64 respectively.

- The relationship of total income to total expenses is in fluctuating trend ranging from 1.01% minimum to maximum 1.73%.
- The relationship of total income to total assets is almost consistent which means that the bank has given sincere attention to generate high income by utilizing its total assets.
- The net interest margin is increasing every year but the growth rate of net interest margin is highly fluctuating.
- The growth rate of income from exchange is highly fluctuating and also in negative in FY 2068/69.
- Interest income from investment, loans and advances and draft are increasing every year but in decreasing rate.
- Income from commission and discount, letter of credit, bank guarantee and remittance are increasing every year.
- The net burden of the bank has also increased which means the semi fixed cost and expenses of the bank has increased. This make bank weak in making more profit. The bank is unable to track the other expenses and increase the fees from non fund based transactions. The amount of net burden clearly shows that the bank has less effort in fee based and commission based transactions.
- Trend analysis of interest income shows that it is in increasing trend. There will be Rs. 14702.8 thousand interest incomes in FY 2069/70 which is the highest among study periods. Similarly, trend analysis of net profit shows that it is also in increasing trend. Other things remaining the same, there will be net profit of Rs. 3186.7 thousand in FY 2069/70 which is the highest among the study periods.

CHAPTER – V
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This is the last chapter of the study. This chapter is divided into three sections viz. summary, conclusion and recommendations. The study in brief is presented in first section i. e. summary. Then in second section, what conclusions have been derived from the study is presented. And in the last section, some useful suggestions and recommendations are made so that the bank can increase revenue income. The conclusion and recommendations are made based upon the findings from the study.

5.1 Summary

Nepal is one of the developing countries of the world. Though it is very rich in natural resources and hydro power, it is not developed as expected. This is because of lack of technical ability, entrepreneurship, capital and skilled manpower. Also mass poverty, dependency on agriculture and foreign trade are characteristics of Nepalese economy. To overcome these characteristics, the country must develop its economic environment. The development of any country heavily depends upon the economic development. Nepalese economy is also highly correlated with the economy of two largest countries India and China.

Financial sectors play an important role in the economic development of the country. It is the financial sector which pools scattered funds and channels to productive uses. Financial institutions are the intermediaries between the surplus and deficit sectors of the economy. Financial institutions like banks play an important role in proper utilization of the funds in the economy. Financial institutions which are monitored and controlled by NRB generate income from various revenue heads like interest income, commission and discount and service charges. So, the banks must have proper revenue planning system.

This study is related with revenue management of Clean Energy Development Bank Limited. The study is basically based on secondary data. The data are collected from annual reports, journals, magazines, newspapers and relevant unpublished master's thesis. Besides, personal contacts with bank's personnel have been made. The main objective of the study is to evaluate the soundness of profitability and operating efficiency of the bank which have been constraints by various limitations. The data have been analyzed by financial as well as statistical tools and interpreted accordingly. Under financial tools, profitability ratios have been used. And under statistical tools; mean, standard deviation, coefficient of variance and trend analysis have been used. The analysis and interpretation of data and major findings give clear picture of the performance of the bank with regards to its revenue management.

5.2 Conclusions

The conclusions of the study are as follows;

- Total interest income to total income ratio is consistent over the study periods. Interest income covers almost 91% of total income. Though the interest income to total outside assets is slightly fluctuating, the interest income is satisfactory.
- Interest expense covers more than 50% of total expenses of the bank. Increase in interest expense means increase in cost of deposit.
- The earning power of total assts i.e. total interest income to total assets is found satisfactory. The total interest paid is found to be less than total interest earned. Per unit of expense is satisfactorily generating income that covers expense. Net profit of the bank is also increasing every year.

- Though the study periods were not so good due to political instability, total income to total assets ratio is found consistent.
- Net interest margin is increasing every year but the growth rate is fluctuating.
- Interest income dominates the income structure of the bank. It covers almost 90% of total income of the bank. In comparison to this income, commission and discount and exchange gain cover very low in income structure of the bank. They cover 4.25% and 4.19% respectively. Other income covers only 0.85% of total income. Even in interest income, interest income from loans and advances covers almost 90%.
- The income from commission and discount has been increased every year but in fluctuating trend.
- Issuance of L/C and bank guarantee covers 28% and 16% respectively in commission and discount income. The growth rate of income from L/C and bank guarantee is highly fluctuating.
- Loan loss provision written back, ATM cards and locker rental cover very low position in other income.
- The growth rate of interest income is fluctuating while the growth rate of interest income from loans and advances is in decreasing trend. The growth rate of interest income of investment is in decreasing trend and even in minus in FY 2068/69.
- The bank is failing to invest and to earn desired income from secured sectors. The growth rate of income from remittance is highly fluctuating. The growth rate of income from safe locker rent is also found fluctuating. Similarly, the growth rate of income from service charges is unnaturally and highly fluctuating.
- Net burden of the bank is in increasing trend. Margin of safety is also higher. The continuous increase in net burden means the bank is unable to manage its expenses.

- After the study we conclude that interest income dominates total income of the bank. Interest income from total loans and advances occupies more in interest income.
- The bank is giving more emphasis on fund based income rather than fee based income. The low ratio transactions to total loans shows that the bank is focusing less on fee based transactions.
- The ratios of major revenue heads are neither consistent nor increasing. Most of them are in fluctuating trend while some are in decreasing trend. This means that the bank is not giving proper attention to manage the revenue.

5.3 Recommendations

On the basis of analysis and findings of the study, following recommendations are made to increase revenue of the bank.

- The proportion of the transactions with loans and advances is very low. This means that the bank is getting more income from fund based transactions only.
- The bank is lacking its focus on fee based transactions from which bank can earn higher income as fees and commission. So, we recommend bank to give more priority to increase fee based transactions.
- Nepalese economy is sustained by the help of remittance that comes from abroad. It is recommended that the bank should increase number of local and international channels to attract customers to remit money.
- The bank is recommended to revise its fee and commission charges and rates as per demand in the market.
- Regarding high demand and easy processing, it is recommended to start credit cards business also.

- The income from locker facility is very low. Regarding security problem, people do not want to keep valuable things like ornaments, jewelry at home. So, it is recommended to have locker facility at each and every branch.
- Along with interest expenses, other expenses of the bank are also increasing every year. Therefore, the bank can adopt control mechanism to lower net burden.
- Unsatisfied customers are bad signals for the growth of the bank. So, it is recommended that the bank must have proper policy of maintaining satisfied customers and retaining unsatisfied customers.
- The bank has not analyzed or revised revenue income till now. The revenue income is highly fluctuating. The management is not sincere and has given less attention to manage revenue heads of the bank.
- Though overall budget is prepared by Strategic and Planning Department with coordination of other departments and individual branches, it has no separate revenue management system. Therefore, the bank is recommended to have revenue management system to analyze revenue income.
- The bank must have proper policies and plans to increase revenue of the bank.
- Because of innovation of internet and mobile banking for the first time in the country, the bank is always known as innovative bank in the market. So, it is recommended to be always focused on innovative sectors and be a leading financial institution in the market.

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