**3 – The purpose and objectives of a business**

If you ask a typical businessman or a typical economist what a business is, he is likely to answer “An organisation to make a profit”. But this answer is not only false, it is irrelevant.

Of course, profit and profitability are crucial for business and even for society. But profitability is not the purpose of, but a limiting factor on business. Profit and profitability are irrelevant for understanding how a business works, what purpose it has and how it is managed.

To know what a business is, we have to start with it’s purpose. The purpose of a business is to create a customer.

Markets are created by businesspeople. Sometimes the want a business satisfies has been felt before someone offered the means of satisfying it, e.g. the want for food in a famine. But it’s the action of businesspeople that converts this potential want into demand. In other cases the want have been unfelt by the customer, nobody wanted a computer until it was available. Or there might have been no want at all until business action created it (e.g. by innovation or by marketing). In every case, it is business action that creates the customer.

The customer determines what a business is; it is his willingness to pay for a good or service that converts things into goods.

Because its purpose is to create a customer, a business enterprise has two basic functions: marketing and innovation.

To many managers, the concept of marketing means the organised performance of all selling functions. But this is selling, not marketing. It asks “what do we want to sell” instead of “what does the customer wants to buy”? True marketing starts with the customer, not with the product. The aim of marketing is to make selling unnecessary by knowing and understanding the customer so well that the product or service fits him and sells itself.

The second function of a business is innovation. A business enterprise can exist only in an expanding economy. In a static economy there are no business enterprises. It is not necessary for a business to grow bigger, but it is necessary that it constantly grows better.

Innovation may result in a lower price, a new and better product, a new convenience or the definition of a new want. The most productive innovation is a different product or service creating a new potential of satisfaction. Innovation may be finding new uses for old products. E.g. selling refrigerators to Eskimos to prevent food from freezing would be innovation. Technologically there is only the same old product, but economically there is innovation.

In a business enterprise work many men of high knowledge and skill. But high knowledge and skill also mean decision-impact on how the work is to be done. Decisions affecting the entire business are therefore made at all levels of the organisation. This decisions are based on some theory of the business. Everyone has an own answer to the question “What is our business and what should it be”? 
Decisions are based on different, incompatible and conflicting theories. It seems quite simple to know what a company’s business is. But actually it is almost always a difficult question. The answer to the question “What is our business?” is the first responsibility of top management.

To answer this question the management has to start with the customer.
- Who is the customer? E.G. the manufactures of branded consumer goods have at least two customers: the housewife and the grocer. Both customers have to be considered; the grocer has to stock the brand and the housewife has to buy it.
- Where is the customer? Where does he buy?
- What does the customer buy? E.g. a man who buys a new Cadillac probably buys primarily prestige, not transportation.

The question “What is our business” is, if it is asked at all, mostly asked when the company is in trouble. But the most important time to ask (and answer) the question is when a company has been successful. Success creates new realities; it always creates new problems. Furthermore it is not enough to answer the question just once. Sooner or later even the most successful answer becomes obsolete. Therefore management also needs to add “and what will it be?” What changes in the environment are likely to have high impact on our business? Starting point is again the market and its potential and trends, e.g. changes in population structure and population dynamics. Population shifts are the only events regarding the future for which true prediction is possible and are therefore important. Another question management has to ask is which of the consumer’s want are not adequately satisfied by existing products. Companies that ask and answer this question correctly can grow; the others depend for their development on the rising tide of the economy or industry, but they will also fall with it.

The next question a manager needs to ask is “What should our business be”? What opportunities do we have? Beside the decision on new and different things to do, all existing products have to be systematically analysed if they still fit the purpose. Otherwise they should be abandoned or at least putting in further resources and efforts should be stopped.

The basic definitions have to be translated into objectives. There are some essential rules for creating objectives.
1. Objectives must be derived from “What our business is, what it will be and what it should be”; they represent the fundamental strategy of a business.
2. Objectives must be operational. It must be possible to convert them to specific targets and assignments.
3. Objectives must make possible concentration on resources and efforts.
4. There’s no “one right object”. Because managers have to deal with a variety of needs and goals, there must be multiple objectives.
5. Objectives are needed in all areas on which the survival of the business depends. The area in which no specific objective is defined will be neglected. This key areas are the same for all businesses:

- Marketing
- Innovation
- Human Resources
Let's take a closer look on the key areas.

Marketing Objectives

Concerning marketing, though many books exist, but it is almost never stressed that 2 key decisions have to be made before you can set objectives: the decision on concentrating and the decision on market standing. The concentration decision converts the definition of “what our business is” into meaningful operational commitment.

The other major decision is on market standing. Some say they want to be the leader, others don’t care what share of the market they have as long as sales go up. Both are wrong. Obviously, not everybody can be the leader. And to be marginal in the marketplace is quite dangerous for long-term survival. There is also a maximum market standing which should not be exceeded. That is because market domination produces internal resistance against innovation, the business might become static. Furthermore there may be resistance in the marketplace to depend on one dominant supplier. Finally, a market with many competitors is more likely to grow than one with one or two major suppliers. If there are several suppliers, they are together more innovative than one single supplier and able to uncover and promote markets and end uses the single supplier doesn’t think of. It may sound good to have 80 % of the market. But 80 % of 100 are less than 50 % of 250, and with more competition the market is more likely to grow from 100 to 250. The market standing to aim is not the maximum but the optimum.

Innovation Objective

To survive, businesses must be able to innovate. Through the innovation objective a company makes operational its definition of “what it should be”. There are three kinds of innovation in every business:
- innovation in product or service
- innovation in marketplace and consumer behaviour and values
- innovation in the skills and activities to make the products and services and to bring them to market.

Resources Objectives

All businesses depend on three factors of production: on
- human resources
- capital resources
- physical resources (land)
There must be objectives for their supply, their employment and their development. The key questions are how to attract and to hold the kind of people we want? How to attract and hold the capital we need?
Productivity Objectives

The resources have to be made productive. Therefore productivity objectives regarding the three major resources land, labour and capital are needed. Productivity must be continually improved. Because productivity is a balance among many different factors, few of which are easily definable or clearly measurable, this is a difficult but important and central job.

Social Responsibilities Objectives

Because business exists in society and economy, and even depends on society, social responsibilities objectives are needed. The enterprise exists only as long as the society and the economy believe that it does a necessary, useful and productive job. These objectives are not needed because the manager has a responsibility to society, but because the manager has a responsibility to the enterprise.

Profit as a Need and a Limitation

Profit is needed to attain the objectives of the other 7 areas. It is a condition of survival. A business needs profit planning. But instead of planning a “profit maximisation” the minimum needed to satisfy its objectives should be planned. A business that obtains enough profit to satisfy its objectives in all key areas has the means of survival.

In most areas we only know that something ought to be done. We are reduced to statements of intentions, we can not define specific goals and we can not measure if we have attained them. But enough is known about each area to give a progress report at least. Objectives have to be transformed into work. Work is always specific and has measurable results. Because objectives are always based on expectations which lie outside the business and are not under control, objectives are just directions and should not become a straitjacket.