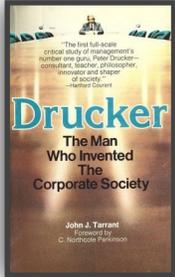


# 1 9 The Purpose and Objectives of a Business

2 by [Peter Drucker](#) in [Management, Revised Edition](#)



3

4 How is it possible ↓

4

5 to works toward horizons ↑ ↓

5

6 that aren't on your mental radar –

6

7 at the right point in time? ↓

7

8



Navigating  
a changing world



9

↑ [larger](#)

10 [Thinking Broad](#) and [Thinking Detailed](#) ↑ ↓

10

11 [Intelligence, Information, Thinking](#)

11

12 ■ “Most of the **mistakes in thinking** are **mistakes in perception**.

13 ❖ Seeing only part of the situation – [broad](#)

13

14 ❖ Jumping to conclusions

14

15 ❖ Misinterpretation caused by feelings” – [Edward de Bono](#)

15



- 29 Whether there is such a thing as a profit motive at all is highly doubtful.
- 30 It was invented by the classical economists to explain the economic reality that their theory of static equilibrium could not explain.
- 31 There has never been any evidence for the existence of the profit motive.
- 32 We have long since found the true explanation for the phenomena of economic change and growth that the profit motive was first put forth to explain. ...
- 33 It is irrelevant for an understanding of business behavior, profit, and profitability whether there is a profit motive or not.
- 34 That Jim Smith is in business to make a profit concerns only him and the Recording Angel.
- 35 *It does not tell us what Jim Smith does and how he performs.*
- 36 We do not learn anything about the work of a prospector hunting for uranium in the Nevada desert by being told that he is trying to make his fortune.
- 37 We do not learn anything about the work of a heart specialist by being told that he is trying to make a livelihood, or even that he is trying to benefit humanity.
- 38 The profit motive and its offspring maximization of profits are just as irrelevant to the function of a business, the purpose of a business, and the job of managing a business. ...
- 39 In fact, the concept is worse than irrelevant:
- 40 it does harm.

41 It is a major cause for the misunderstanding of the nature of profit in our society and for hostility profit, which are among the most dangerous diseases of a society or (of) organizations.

42 It is largely responsible for the worst mistakes of public policy—in this country well as in Western Europe—which are squarely based on the failure to understand, the nature, function, and purpose of business enterprise.

43 And it is in large part responsible for the prevailing belief that there is an inherent contradiction between profit and a company's ability to make a social contribution.

44 Actually, a company can make a social contribution only if it is highly profitable.

45 [To know what a business is, we have to start with its purpose]

46 To know what a business is, we have to start with its purpose.

47 [Its purpose must lie outside of the business itself]

48 Its purpose must lie outside of the business itself.

49 In fact, it must lie in society, since business enterprise is an organ of society.

50 There is only one valid definition of business purpose:

51 to create a customer. ...

52 Markets are not created by God, nature, or economic forces but by executives.

53 The want a business satisfies may have been felt by the customer before he was offered the means of satisfying it.

54 Like food in a famine, it may have dominated the customer's life and filled all his waking moments, but it

remained a potential want until the action of businessmen converted it into effective demand.

55 Only then is there a customer and a market.

56 The want may have been unfelt by the potential customer; no one knew that he wanted a photocopier or a computer until these became available.

57 There may have been no want at all until business action created it—by innovation, by credit, by advertising, or by salesmanship.

58 In every case, it is business action that creates the customer.

59 **[It is the customer who determines what a business is]**

60 It is the customer who determines what a business is.

61 It is the customer alone whose willingness to pay for a good or for a service converts economic resources into wealth, things into goods.

62 What the customer buys and considers value is never a product.

63 It is always utility, that is, what a product or a service does for him.

## 64 ***The Purpose Of A Business***

65 **[Two basic functions: marketing and innovation]**

66 Because its purpose is to create a customer, the business enterprise has two—and only these two—basic functions: **marketing and innovation.**

67 **[About Marketing]**

68 Despite the emphasis on marketing and the marketing approach, marketing is still rhetoric rather than reality in far too many businesses.

69 Consumerism proves this.

- 70 For what consumerism demands of business is that it actually market.
- 71 It demands that business start out with the needs, the realities, the values of the customer.
- 72 It demands that business define its goal as the satisfaction of customer needs.
- 73 It demands that business base its reward on its contribution to the customer. ...
- 74 But consumerism is also the opportunity for organizations to adopt a customer focus through marketing.
- 75 It forces businesses to become market-focused in their actions as well as in their pronouncements. ...
- 76 Above all, consumerism should dispel the confusion which largely explains why there has been so little real marketing.
- 77 When managers speak of marketing, they usually mean the organized performance of all selling functions.
- 78 This is still selling.
- 79 It still starts out with "our products."
- 80 It still looks for "our market."
- 81 True marketing starts out the way Marks & Spencer starts out, with the customer, his demographics, his realities, his needs, his values.
- 82 It does not ask, "What do we want to sell?"
- 83 It asks, "What does the customer want to buy?"
- 84 It does not say, "This is what our product or service does."

85 It says, "These are the satisfactions the customer looks for, values and needs. ..."

86 Indeed, selling and marketing are antithetical rather than synonymous or even complementary. ...

87 There will always be, one can assume, a need for some selling.

88 But the aim of marketing is to make selling superfluous.

89 *The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself.*

90 [About Innovation]

91 Marketing alone does not make a business enterprise.

92 In a static economy, there are no business enterprises.

93 There are not even executives.

94 The middleman of a static society is a broker who receives his compensation in the form of a fee, or a speculator who creates no value.

95 A business enterprise can exist only in an expanding economy, or at least in one that considers change both natural and acceptable.

96 And business is the specific organ of growth, expansion, and change. ...

97 The second function of a business is, therefore, *innovation*—the provision of different economic satisfactions.

- 98 It is not enough for the business to provide just any economic goods and services; it must provide better and more economic ones.
- 99 It is not necessary for a business to grow bigger; but it is necessary that it constantly grow better. ...
- 100 Innovation may result in a lower price—the datum with which the economist has been most concerned, for the simple reason that it is the only one that can be handled by quantitative tools.
- 101 But the result may also be a new and better product, a new convenience, or the definition of a new want. ...
- 102 The most productive innovation is a *different* product or service that creates a new potential of satisfaction, rather than an improvement.
- 103 Typically this new and different product costs more—yet its overall effect is to make the economy more productive. ...
- 104 The antibiotic drug costs far more than the cold compress, which is all yesterday's physician had to fight pneumonia.  
...
- 105 Innovation may be finding new uses for old products.
- 106 A salesman who succeeds in selling refrigerators to Eskimos to prevent food from freezing would be as much of an innovator as he would have been had he developed brand-new processes or invented a new product.
- 107 To sell Eskimos a refrigerator to keep food cold is *finding a new market*; to sell a refrigerator to keep food from getting *too* cold is actually creating *a new product*.

- 108 Technologically there is, of course, only the same old product; but economically there is innovation. ...
- 109 Above all, "innovation" is not *invention*.
- 110 It is a term of economics rather than of technology.
- 111 Nontechnical innovations—social or economic innovations—are at least as important as technological ones. ...
- 112 In the organization of the business enterprise, innovation can no more be considered a separate function than can marketing.
- 113 It is not confined to engineering or research but extends across all parts of the business, all functions, all activities.
- 114 It cannot be confined to manufacturing.
- 115 Innovation in distribution is as important as innovation in manufacturing; and so is innovation in an insurance company or in a bank. ...
- 116 Innovation can be defined as the task of endowing human and material resources with new and greater wealth-producing capacity. ...
- 117 Managers must convert society's needs into opportunities for profitable business.
- 118 That, too, is a definition of innovation.
- 119 It needs to be stressed today, when we are so conscious of the needs of society, schools, health-care systems, cities, and the environment.

120 [The reality of today's organization]

121 Today's business enterprise (but also today's hospital and government agency) brings together a great many men and women of high knowledge and skill, at practically every level of the organization.

122 But such high knowledge and skill impacts how the work is to be done and what work is actually tackled. ...

123 As a result, decisions affecting the entire business and its capacity to perform are made at all levels of the organization, even fairly low ones.

124 Risk-taking decisions—what to do and what not to do, what to continue work on and what to abandon, what products, markets, or technologies to pursue with energy and which ones to ignore—are, in the reality of today's business enterprise (especially the large one), made every day by a host of people of subordinate rank, very often by people without a *traditional* managerial title or position (e. g., research scientists, design engineers, product planners, and tax accountants).

125 [What is Our Business?]

126 Every one of these executives bases his or her decisions on some [theory, if only vague, of the business](#).

127 Everyone, in other words, has an answer to the question, "What is our business and what should it be?"

128 Unless, therefore, the business itself—and that means its top management—has thought through the question and formulated the answer or answers to it, the decision makers in the business, all the way up and down, will decide and act on the basis of different, incompatible, and conflicting theories of the business.

129 They will pull in different directions without even being aware of their divergences.

- 130 But they will also decide and act on the basis of wrong and misdirecting theories of the business. ...
- 131 Common vision, common understanding, and unity of direction and effort of the entire organization require definition of "what our business is and what it should be."  
...
- 132 Nothing may seem simpler or more obvious than to know what a company's business is.
- 133 A steel mill makes steel; a railroad runs trains to carry freight and passengers; an insurance company underwrites fire risks; a bank lends money.
- 134 Actually, "What is our business?" is almost always a difficult question and the right answer is usually anything but obvious. ...
- 135 The answer to the question "What is our business?" is the first responsibility of top management.
- 136 That business purpose and business mission are so rarely given adequate thought is perhaps the most important single cause of business frustration and business failure.
- 137 Conversely, in outstanding businesses such as Procter & Gamble and Toyota, success always rests to a large extent on clearly and deliberately raising the question, "What is our business?," and answering it thoughtfully and thoroughly.
- 138 **[Who is the Customer is the Starting Point]**
- 139 With respect to the definition of business purpose and business mission, there is only one such focus, one starting point.
- 140 It is the customer.

- 141 The customer defines the business.
- 142 A business is not defined by the company's name, statutes, or articles of incorporation.
- 143 It is defined by the want the customer satisfies when he buys a product or a service.
- 144 To satisfy the customer is the mission and purpose of every business. ...
- 145 The question "What is our business?" can, therefore, be answered only by looking at the business from the outside, from the point of view of customer and market.
- 146 All the customer is interested in is his own values, his own wants, his own reality.
- 147 For this reason alone, any serious attempt to state "what our business is" must start with the customer, and her realities, situation, behavior, expectations, and values. ...
- 148 "Who is the customer?" is the first and the crucial question in defining business purpose and business mission.
- 149 It is not an easy, let alone an obvious question.
- 150 How it is answered determines, in large measure, how the business defines itself. ...
- 151 The consumer—that is, the ultimate user of a product or a service—is always a customer.
- 152 But he is never the customer; there are usually at least two, sometimes more.

- 153 Each customer defines a different business, has different expectations and values, buys something different. ...
- 154 Most businesses have at least two customers.
- 155 The rug and carpet industry has both the contractor and the homeowner for its customers.
- 156 Both have to buy if there is to be a sale.
- 157 The manufacturers of branded consumer goods always have two customers at the very least:
- 158 the housewife and the grocer.
- 159 It does not do much good to have the housewife eager to buy if the grocer does not stock the brand.
- 160 Conversely, it does not do much good to have the grocer display merchandise advantageously and give it shelf space if the housewife does not buy.
- 161 **[Where is the customer?]**
- 162 It is also important to ask, "Where is the customer?"
- 163 One of the secrets of Sears' s success in the 1920s was the discovery that its old customer was now in different place:
- 164 the farmer had become mobile and was beginning to buy in town.
- 165 **[What does the customer buy?]**
- 166 The next question is, "What does the customer buy?"
- 167 The Cadillac people say that they make an automobile, and their business is called the Cadillac Motor Car Company.
- 168 But does the man who spends \$50,000 on a new Cadillac buy transportation, or does he buy primarily prestige?

- 169 Does the Cadillac compete with Chevrolet, Ford, and Volkswagen?
- 170 Nicholas Dreystadt, the German-born service mechanic who took over Cadillac in the Depression years of the 1930s, answered, "Cadillac competes with diamonds and mink coats.
- 171 The Cadillac customer does not buy "transportation" but "status."
- 172 This answer saved Cadillac, which was about to go under.
- 173 Within two years or so, it was a major growth business despite the Depression.
- 174 [When to ask: What is our business?]
- 175 Most managements, if they ask the question at all, ask, "What is our business?" when the company is in trouble.
- 176 Of course, then it **must** be asked.
- 177 And asking the question then may, indeed, yield spectacular results and may even reverse what appears to be irreversible decline. ...
- 178 To wait until a business or an industry is in trouble is playing Russian roulette It is irresponsible management.
- 179 The question should be asked at the inception of a business—and particularly in the case of a business that has ambitions to grow. ...
- 180 The most important time to seriously ask, "What is our business?" is **when a company has been successful**.
- 181 Success always obsoletes the very behavior that achieved it.

- 182 It always creates new realities.
- 183 It always creates, above all, its own and different problems.
- 184 Only the fairy story ends "They lived happily ever after." ...
- 185 It is not easy for the management of a successful company to ask, "What is our business?"
- 186 Everybody in the company then thinks that the answer is so obvious as not to deserve discussion.
- 187 It is never popular to argue with success, never popular to rock the boat.
- 188 Sooner or later, however, even the most successful answer to the question, "What is our business?" becomes obsolete.
- 189 [And what will it be?]
- 190 In asking, "What is our business?" management therefore also needs to add, "And what **will** it be?"
- 191 What changes in the environment are already discernible that are likely to have a high impact on the characteristics, mission, and purpose of our business?" and "How do we now build these anticipations into our theory of the business, into its objectives, strategies, and work assignments?" ...
- 192 Again the market, its potential and its trends, is the starting point.
- 193 How large a market can we project for our business in five or ten years, assuming no basic changes in customers, in market structure, or in technology And, what factors could validate or disprove these projections? ...

- 194 The most important of these trends is one to which few businesses pay much attention:
- 195 changes in population structure and population dynamics.
- 196 Traditionally executives, following economists, have assumed that demographics are a constant. ...
- 197 Historically this has been a sound assumption.
- 198 Populations used to change very slowly except as a result of catastrophic events, such as major war or famine.
- 199 This is no longer true, however.
- 200 Populations nowadays can and do change drastically, in developed as well as in developing countries. ...
- 201 The importance of demographics does not lie only in the impact population structure has on buying power and buying habits, and on the size and structure of the workforce.
- 202 Population shifts are the only future events for which true prediction is possible. ...
- 203 Management needs to anticipate changes in market structure that result from changes in the economy, from changes in fashion or taste, from moves by competition.
- 204 And competition must always be defined according to the customer's concept of what product or service he buys, and thus, it must include indirect as well as direct competition. ...

205 Finally, management has to ask, "Which of the consumer's wants are not adequately satisfied by the products or services offered to him today?"

206 The ability to ask this question and to answer it correctly usually makes the difference between a growth company and one that depends for its development on the rising tide of the economy or of the industry.

207 But whoever contents himself to rise with the tide will also fall with it.

## 208 ***"What Should Our Business Be?"***

209 "What **will** our business be?" aims at adaptation to anticipated changes.

210 It aims at modifying, extending, developing the existing, ongoing business. ...

211 But there is need also to ask, "What **should** our business be?"

212 What opportunities are opening up, or can be created, to fulfill the purpose and mission of the business by making it into a **different** business? ...

213 Businesses that fail to ask this question are likely to miss their major opportunity. ...

214 Next to changes in the society, the economy, and the market, as factors demanding consideration in answering "What should our business be?" comes, of course, innovation—one's own and that of others.

215 **[Planned, systematic abandonment]**

- 216 Just as important as the decision concerning what new and different things should be done is planned, systematic abandonment of the old that no longer fits the purpose and mission of the business, no longer conveys satisfaction to the customer or customers, no longer makes a superior contribution.
- 217 [Systematic analysis of all existing products, services ...]
- 218 An essential step in deciding what our business is, what it will be, and what it should be is, therefore, systematic analysis of all existing products, services, processes, markets, end-uses, and distribution channels. ...
- 219 Are they still viable? ...
- 220 And are they likely to remain viable? ...
- 221 Do they still give value to the customer? ...
- 222 And are they likely to do so tomorrow? ...
- 223 Do they still fit the realities of population and markets, of technology and economy? ...
- 224 And if not, how can we best abandon them—or at least stop pouring in further resources and efforts? ...

- 225 Unless these questions are being asked seriously and systematically, and unless managements are willing to act on the answers to them, the best definition of “what our business is, will be, and should be” will remain a pious platitude. ...
- 226 Energy will be used up in defending yesterday. ...
- 227 No one will have the time, resources, or will to work on exploiting today, let alone to work on making tomorrow.
- 228 [Defining the purpose and mission enables a business to be managed for performance]
- 229 Defining the purpose and mission of the business is difficult, painful, and risky.
- 230 But it alone enables a business to set objectives, to develop strategies, to concentrate its resources, and to go to work.
- 231 It alone enables a business to be managed for performance.
- 232 [The basic definition of the business and of its purpose and mission have to translated into objectives]
- 233 The basic definition of the business and of its purpose and mission have to translated into objectives.
- 234 Otherwise, they remain insight, good intentions, and brilliant epigrams that never become achievement.
- 235 [Objectives must be derived from “what our business is, what it will be, and what it should be.”]
- 236 1. Objectives must be derived from “what our business is, what it will be, and what it should be.”
- 237 They are not abstractions.

238 They are the action commitments through which the mission of a business is to be carried out, and the standards against which performance is to be measured.

239 *Objectives*, in other words, are the *fundamental strategy of a business*.

240 [Objectives must be operational]

241 2. Objectives must be *operational*.

242 They must be capable of being converted into specific targets and specific assignments.

243 They must be capable of becoming the basis, as well as the motivation, for work and achievement.

244 [Objectives must make possible concentration of resources and efforts]

245 3. Objectives must make possible *concentration* of resources and efforts.

246 They must winnow out the fundamentals among the goals of a business so that the key resources of people, money, and physical facilities can be concentrated.

247 They must, therefore, be selective rather than encompass everything.

248 [There must be multiple objectives rather than a single objective]

249 4. There must be *multiple objectives* rather than a single objective.

250 Much of today's lively discussion of management by objectives is concerned with the search for the "one right objective."

251 This search is not only likely to be as unproductive as the quest for the philosopher's stone; it does harm and misdirects.

- 252 To manage a business is to balance a variety of needs and goals, and this requires multiple objectives.
- 253 [Objectives are needed in all areas on which the survival of the business depends]
- 254 5. Objectives are needed in all areas on which the *survival* of the business depends.
- 255 The specific targets, the goals in any objective area, depend on the strategy of the individual business.
- 256 But the areas in which objectives are needed are the same for all businesses, for all businesses depend on the same factors for their survival.
- 257 [Areas that need objectives]
- 258 A business must first be able to create a customer.
- 259 There is, therefore, need for a *marketing objective*.
- 260 Businesses must be able to innovate, or else their competitors will obsolesce them.
- 261 There is need for an *innovation objective*.
- 262 All businesses depend on the three factors of production of the economist, that is, on *human resources*, *capital resources*, and *physical resources*.
- 263 There must be objectives for their supply, their employment, and their development.
- 264 The resources must be employed productively and their productivity has to grow if the business is to survive.
- 265 There is need, therefore, for *productivity objectives*.
- 266 Business exists in society and community and, therefore, has to discharge social responsibilities at least to the point where it takes responsibility for its impact upon the environment.

267 Therefore objectives in respect to the **social dimensions** of business are needed. ...

268 Finally, there is need for **profit**—otherwise none of the objectives can be attained.

269 They all require effort, that is, cost.

270 And they can be financed only out of the profits of a business.

271 They all entail risks; they all, therefore, require a profit to cover the risk of potential losses.

272 **Profit is not an objective**, but **it is a requirement** that has to be objectively determined with respect to the individual business, its strategy, its needs, and its risks.

273 Objectives, therefore, have to be set in these eight key areas:

274     ▪ Marketing

275     ▪ Innovation

276     ▪ Human Resources

277     ▪ Financial Resources

278     ▪ Physical Resources

279     ▪ Productivity

280     ▪ Social Responsibility

281     ▪ Profit Requirements

282 **[Objectives are the basis for work and assignments]**

283 Objectives are the basis for work and assignments.

284 They determine the structure of the business, the key activities that must be discharged, and, above all, the allocation of people to tasks.

285 **Objectives are the foundation for designing both the structure of the business and the work of individual units and individual managers.**

- 286 **[Objectives are always needed in all eight key areas]**
- 287 Objectives are always needed in all eight key areas.
- 288 The area without specific objectives will be neglected.
- 289 **[Measurements are needed in all areas]**
- 290 Unless we determine what shall be measured and what the yardstick of measurement in an area will be, the area itself will **not be seen**.
- 291 (On measurement, see [chapter 31](#).) ...
- 292 The measurements available for the key areas of a business enterprise are still by and large haphazard.
- 293 We do not even have adequate concepts, let alone measurements, except for market standing.
- 294 For something as central as profitability we have only a rubber yardstick, and we have no real tools at all to determine how much profitability is necessary.
- 295 With respect to innovation and, even more, to productivity, we hardly know more than that something ought to be done.
- 296 See [Innovation and Entrepreneurship](#)
- 297 In the other areas, including physical and financial resources, we are reduced to statements of intentions we do not possess goals and measurements for their attainment. ...
- 298 However, enough is known about each area to give at least a progress report.
- 299 Enough is known for each business to go to work on objectives.

300 [How to use objectives]

301 We know one more thing about objectives: *how to use them*.

302 If objectives are only good intentions, they are worthless.

303 They must degenerate into work.

304 And work is always specific, always has—or should have—clear, unambiguous, measurable results, a deadline, and a specific assignment of accountability.

305 But objectives that become a straitjacket do harm.

306 Objectives are always based on expectations.

307 And expectations are, at best, informed guesses.

308 Objectives express an appraisal of factors that are largely outside the business and not under its control.

309 The world does not stand still. ...

310 The proper way to use objectives is the way an airline uses schedules and flight plans.

311 The schedule provides for the 9:00 AM flight from Los Angeles to get to Boston by 5:00 PM.

312 But if there is a blizzard in Boston that day, the plane will land in Pittsburgh instead and wait out the storm.

313 The flight plan provides for flying at 30,000 feet and for flying over Denver and Chicago.

314 But if the pilot encounters turbulence or strong headwinds, he will ask flight control for permission to go up another 5,000 feet and to take the Minneapolis-Montreal route.

- 315 Yet no flight is ever operated without a schedule and flight plan.
- 316 Any change is immediately fed back to produce a new schedule and flight plan.
- 317 Unless 97 percent or so of its flights proceed on the original schedule and flight plan—or within a very limited range of deviation from either—a well-run airline gets another operations manager who knows his job. ...
- 318 Objectives are not fate; they are direction.
- 319 They are not commands; they are commitments.
- 320 They do not determine the future; they are a means to mobilize the resources and energies of the business for the making of the future.

## 321 ***Marketing Objectives***

- 322 Marketing and innovation are the foundation areas in objective setting.
- 323 It is in these two areas that a business obtains its results.
- 324 It is performance and contribution in these areas for which a customer pays. ...
- 325 It is somewhat misleading to speak of a marketing objective.
- 326 Marketing performance requires a number of objectives:
- 327 ■ for existing products and services in existing and present markets;
  - 328 ■ for abandonment of “yesterday” in product, services, and markets;
  - 329 ■ for new products and services for existing markets;
  - 330 ■ for new markets;

- 331     ▪ for the distributive organization;
- 332     ▪ for service standards and service performance;
- 333     ▪ for credit standards and credit performance, and so on.

334    [Two key decisions]

335    Many books have been written on every one of these areas.

336    But it is almost never stressed that objectives in these areas can be set only after two key decisions have been made:

- 337     ▪ the decision on concentration, and
- 338     ▪ the decision on market standing.

339    [Area of concentration]

340    Archimedes, one of the great scientists of antiquity, is reported to have said, "Give me a place to stand on, and I can lift the universe off its hinges."

341    The place to stand on is the area of concentration.

342    It is the area that gives a business the leverage that lifts the universe off its hinges.

343    The concentration decision is, therefore, a crucial decision.

344    In large measure, it converts the definition of "what our business is" into meaningful operational commitment.

345    [Market standing]

346    The other major decision underlying marketing objectives is that on market standing.

347    One common approach is to say, "We want to be the leader."

348    The other one is to say, "We don't care what share of the market we have as long as sales go up."

349    Both sound plausible, but both are wrong. ...

- 350 Obviously, not everybody can be the leader.
- 351 One has to decide in which segment of the market, with what product, what services, what values, one should be the leader.
- 352 It does not do much good for a company's sales to go up if it loses market share, that is, if the market expands much faster than the company's sales do. ...
- 353 A company with a small share of the market will eventually become marginal in the marketplace, and thereby exceedingly vulnerable. ...
- 354 Market standing, regardless of the sales curve, is therefore essential.
- 355 The point at which a supplier becomes marginal varies from industry to industry.
- 356 But to be a marginal producer is dangerous for long-term survival. ...
- 357 There is also a maximum market standing above which it may be unwise to go—even if there were no antitrust laws.
- 358 Market domination tends to lull the leader to sleep; monopolists flounder on their own complacency rather than on public opposition.
- 359 Market domination produces tremendous internal resistance against any innovation and thus makes adaptation to change dangerously difficult. ...
- 360 There is also well-founded resistance in the marketplace to dependence on one dominant supplier.

- 361 Whether it is the purchasing agent of a manufacturing company, the procurement officer in the Air Force, or the housewife, no one likes to be at the mercy of the monopoly supplier. ...
- 362 Finally, the dominant supplier in a rapidly expanding, especially a new, market is likely to do less well than if he shared that market with one or two other major and competing suppliers.
- 363 This may seem paradoxical—and most businessmen find it difficult to accept.
- 364 But the fact is that a new market, especially a new major market, tends to expand much more rapidly when there are several suppliers rather than only one.
- 365 It may be very flattering to a supplier's ego to have 80 percent of a market.
- 366 But if as a result of domination by a single source, the market does not expand as it otherwise might, the supplier's revenues and profits are likely to be considerably lower than they would have been if two suppliers share a fast-expanding market.
- 367 Eighty percent of 100 is considerably less than 50 percent of 250.
- 368 A new market that has only one supplier is likely to become static at 100.
- 369 It will be limited by the imagination of the one supplier, who is likely to always know what his product or service cannot or should not be used for.
- 370 If there are several suppliers, they are likely to uncover and promote markets and end-uses the single supplier never dreams of.
- 371 And the market might grow rapidly to 250. ...

- 372 DuPont seems to have grasped this.
- 373 In its most successful innovations, DuPont retains a sole-supplier position only until the new product has paid for the original investment.
- 374 Then DuPont licenses the innovation and launches competitors deliberately.
- 375 As a result, a number of aggressive companies start developing new markets and new uses for the product.
- 376 Nylon would surely have grown much more slowly without DuPont-sponsored competition.
- 377 Its markets are still growing, but without competition it would probably have begun to decline in the early 1950s, when newer synthetic fibers were brought on the market by Monsanto and Union Carbide in the U. S., Imperial Chemicals in Great Britain, and AKU in Holland.
- 378 The market standing to aim at is not the maximum but the *optimum*.

## 379 ***The Innovation Objective***

380 The innovation objective is the objective through which a company makes operational its definition of "what our business should be." ...

381 There are essentially three kinds of innovation in every business:

- 382 ■ innovation in product or service,
- 383 ■ innovation in marketplace and consumer behavior and values, and
- 384 ■ innovation in the various skills and activities needed to make the products and services and to bring them to market.

385 They might be called respectively *product innovation*, *social innovation* (e. g., installment credit), and *managerial innovation*. ...

386 The problem in setting innovation objectives is the difficulty of measuring the relative impact and importance of various innovations.

387 But how are we to determine what weighs more:

388 a hundred minor but immediately applicable improvements in packaging a product, or one fundamental chemical discovery that after ten more years of hard work may change the character of the business altogether? ...

389 A department store and a pharmaceutical company will answer this question differently, but so may two different pharmaceutical companies.

## 390 ***Resources Objectives***

391 A group of objectives deals with the resources a business needs to be able to perform—with their supply, their utilization, and their productivity.

392 All economic activity, economists have told us for two hundred years, requires three kinds of resources:

- 393 ■ land, that is, products of nature;
- 394 ■ labor, that is, human resources; and
- 395 ■ capital, that is, the means to invest in tomorrow.

396 The business must be able to attract all three and put them to productive use. ...

397 A business that cannot attract the people and the capital it needs will not last long. ...

398 The first sign of the decline of an industry is its loss of appeal to qualified, able, and ambitious people.

- 399 The American railroads, for instance, did not begin their decline after World War II—it only became obvious and irreversible then.
- 400 The decline actually set in around the time of World War I.
- 401 Before World War I, able graduates of American engineering schools looked for a railroad career.
- 402 From the end of World War I on, for whatever reason, the railroads no longer appealed to young engineering graduates, or to any educated young people. ...
- 403 In the two areas of people and capital supply, genuine marketing objectives are therefore required.
- 404 “What do our jobs have to be to attract and hold the kind of people we need and want?
- 405 What is the supply available on the job market?
- 406 And, what do we have to do to attract it?”
- 407 Similarly, “What does the investment in our business have to be, in the form of bank loans, long-term debts, or equity, to attract and hold the capital we need?” ...
- 408 Resource objectives have to be set in a double process.
- 409 One starting point is the anticipated needs of the business, which then have to be projected on the outside, that is, on the market for land, labor, and capital.
- 410 But the other starting points are these “markets” themselves, which then have to be projected onto the structure, the direction, the plans of the business.

## 411 ***Productivity Objectives***

412 Attracting resources and putting them to work is only the beginning.

413 The task of a business is to make resources productive.

414 Every business, therefore, needs productivity objectives with respect to each of the three major resources—people, capital, and products of nature—and with respect to overall productivity itself. ...

415 A productivity measurement is the best yardstick for comparing managements of different units within an enterprise, and for comparing managements of different enterprises. ...

416 All businesses have access to pretty much the same resources.

417 Except for the rare monopoly situation, the only thing that differentiates one business from another in any given field is the quality of its management on all levels.

418 The first measurement of this crucial factor is productivity, that is, the degree to which resources are utilized and their yield. ...

419 The continuous improvement of productivity is one of management's most important jobs.

420 It is also one of the most difficult; for productivity is a balance between a diversity of factors, few of which are easily definable or clearly measurable. ...

421 Capital is one of the three factors of production.

422 And if productivity of capital is accomplished by making the other resources less productive, there is actually a loss of productivity. ...

423 Productivity is a difficult concept, but it is central.

424 Without productivity objectives, a business does not have direction.

425 Without productivity measurements, it does not have control.

## 426 ***The Social Responsibility Objectives***

427 Only a few years ago executives as well as economists considered the social dimension so intangible that performance objectives could not be set.

428 We have now learned that the intangible can become very tangible indeed.

429 Such lessons as the attacks on industry for the destruction of the environment are expensive ways to learn that business needs to think through its impacts and its responsibilities and to set objectives for both. ...

430 The social dimension is a survival dimension.

431 An enterprise exists in society and the economy.

432 Within an institution one always tends to assume that the institution exists by itself in a vacuum.

433 And managers inevitably look at their business from the inside.

434 But the business enterprise is a creature of society and the economy.

- 435 Society or the economy can put any business out of existence overnight.
- 436 The enterprise exists on sufferance and exists only as long as society and the economy believe that it does a job, and a necessary, useful, and productive one. ...
- 437 That such objectives need to be built into the strategy of a business, rather than be statements of good intentions, needs to be stressed here.
- 438 These are not objectives that are needed because the manager has a responsibility to society.
- 439 They are needed because the manager has a responsibility to the enterprise.

440 ***Profit: A Need And Limitation***

- 441 Only after the objectives in the aforementioned seven key areas have been thought through and established can a business tackle the question "How much profitability do we need?"
- 442 To attain any of these objectives entails high risks.
- 443 It requires effort, and that means cost.
- 444 Profit is, therefore, needed to pay for attainment of the objectives of the business.
- 445 Profit is a condition of survival.
- 446 It is the cost of the future, the cost of staying in business. ...
- 447 A business that obtains enough profit to satisfy its objectives in the key areas is a business that has the means of survival.

448 A business that falls short of the profitability demands made by its key objectives is a marginal and endangered business. ...

449 Profit planning is necessary.

450 But it is planning for a needed minimum profitability rather than for that meaningless shibboleth "profit maximization."

451 The minimum needed may well turn out to be a good deal higher than the profit goals of many companies, let alone their actual profit results.

## 452 ***Balancing Objectives***

453 There are three kinds of balance needed in setting objectives.

454 Objectives have to be balanced against attainable profitability.

455 Objectives have to be balanced as to the demands of the immediate and the distant future.

456 They have to be balanced against each other, and trade-offs have to be established between desired performance in one area and desired performance in others.

457 In setting objectives, management always has to balance the immediate future against the long-range future.

458 But if it sacrifices the long-range needs of "what our business will be" and "what our business should be" to immediate results, there will also be no business fairly soon. ...

459 Setting objectives always requires a decision on where to take the risks, a decision as to how immediate results should be sacrificed for the sake of long-range growth, or

how long-range growth should be jeopardized for the sake of short-run performance.

- 460 There is no formula for these decisions.
- 461 They are risky, entrepreneurial, and uncertain—but they must be made. ...
- 462 Growth companies often promise both more sales and higher profits indefinitely.
- 463 This alone is reason to distrust them.
- 464 Every experienced manager should know that these two objectives are not normally compatible.
- 465 To produce more sales almost always means to sacrifice immediate profit.
- 466 To produce higher profit almost always means to sacrifice long-range sales. ...
- 467 There are few things that distinguish competent from incompetent management quite as sharply as performance in balancing objectives.
- 468 There is no formula for doing the job.
- 469 Each business requires its own balance—and it may require a different balance at different times.
- 470 Balancing is not a mechanical job.
- 471 It is a risk taking decision that is made in the budgeting and priority-setting processes.
- 472 (On the topic of budgeting, see [chapter 32](#).)

## 473 ***From Objectives To Doing***

474 One final step remains: to convert objectives into doing.

475 Action rather than knowledge is the purpose of asking, "What is our business, what will it be, what should it be?" and of thinking through objectives.

476 The aim is to focus the **energies** and resources of the organization on the right results.

477 The end products of business analysis, therefore, are **work programs** and **specific and concrete work assignments** with defined goals, with deadlines, and with clear accountability.

478 Unless objectives are converted into action, they are not objectives; they are dreams.

## 479 ***Summary – The Purpose and Objectives of a Business***

480 Marketing and innovation are the two result areas with which the setting of objectives has to begin.

481 Both are likely to require a range of objectives rather than one target figure.

482 Both also require prior decisions of high risk: on concentration and on market standing.

483 And then there is the need for objectives with respect to all resources—people, capital, and key physical resources—their supply, their utilization, and their productivity.

484 There is the need for objectives with respect to the social dimension of business, its social responsibilities and social impacts.

485 In all these areas, the small business needs clear objectives just as much as the big one.

486 Profit and profitability come at the end; they are survival needs of a business and therefore require objectives.

- 487 But the needed profitability also establishes limitations on all the other objectives.
- 488 Objectives have to be balanced—with each other, in terms of the different requirements of the short and the long term, and against available resources.
- 489 Finally, action priorities have to be set.