8

Developing Marketing Objectives and Goals

"Would you tell me please, which way I ought to go from here?" said Alice. "That depends a good deal on where you want to get to," said the Cheshire Cat

LEWIS CARROLL (ALICE IN WONDERLAND)

An organization must have an objective to guide its destiny. Although the objective in itself cannot guarantee the success of a business, its presence will certainly mean more efficient and financially less wasteful management of operations.

Objectives form a specific expression of purpose, thus helping to remove any uncertainty about the company's policy or about the intended purpose of any effort. To be effective, objectives must present startling challenges to managers, jolting them away from traditional in-a-rut thinking. If properly designed, objectives permit the measurement of progress. Without some form of progress measurement, it may not be possible to know whether adequate resources are being applied or whether these resources are being managed effectively. Finally, objectives facilitate relationships between units, especially in a diversified corporation, where the separate goals of different units may not be consistent with some higher corporate purpose.

Despite its overriding importance, defining objectives is far from easy: there is no mechanical or expert instant-answer method. Rather, defining goals as the future becomes the present is a long, time-consuming, and continuous process. In practice, many businesses run either without any commonly accepted objectives and goals or with conflicting objectives and goals. In some cases, objectives may be understood in different ways by different executives. At times, objectives may be defined in such general terms that their significance for the job is not understood. For example, a product manager of a large company once observed that "our objective is to satisfy the customer and increase sales." After cross-checking with the vice president of sales, however, she found that the company's goal was making a minimum 10 percent after-tax profit even when it meant losing market share. "Our objective, or whatever you choose to call it, is to grow,"

the vice president of finance of another company said. "This is a profit-oriented company, and thus we must earn a minimum profit of 15 percent on everything we do. You may call this our objective." Different companies define their objectives differently. It is the task of the CEO to set the company's objectives and goals and to obtain for them the support of his or her senior colleagues, thus paving the way for other parts of the organization to do the same.

The purpose of this chapter is to provide a framework for goal setting in a large, complex organization. A first step in planning is usually to state objectives so that, knowing where you are trying to go, you can figure out how to get there. However, objectives cannot be stated in isolation; that is, objectives cannot be formed without the perspectives of the company's current business, its past performance, resources, and environment. Thus, the subject matter discussed in previous chapters becomes the background material for defining objectives and goals.

FRAMEWORK FOR DEFINING OBJECTIVES

This chapter deals with defining objectives and goals at the SBU level. Because SBU objectives should bear a close relationship to corporate strategic direction, this chapter will start with a discussion of corporate direction and will then examine SBU objectives and goals. Product/market objectives will also be discussed, as they are usually defined at the SBU level and derived from SBU objectives.

The framework discussed here assumes the perspectives of a large corporation. In a small company that manufactures a limited line of related products, corporate and SBU objectives may be identical. Likewise, in a company with a few unrelated products, an SBU's objectives may be no different from those of the product/market.

It is desirable to define a few terms one often confronts in the context of objective setting: mission, policy, objective, goal, and strategic direction. A **mission** (also referred to as corporate concept, vision, or aim) is the CEO's conception of the organization's raison d'être, or what it should work toward, in the light of long-range opportunity. A **policy** is a written definition of general intent or company position designed to guide and regulate certain actions and decisions, especially those of major significance or of a recurring nature. An **objective** is a long-range purpose that is not quantified or limited to a time period (e.g., increasing the return on stockholders' equity). A **goal** is a measurable objective of the business, judged by management to be attainable at some specific future date through planned actions. An example of a goal is to achieve 10 percent growth in sales within the next two years. **Strategic direction** is an all-inclusive term that refers to the network of mission, objectives, and goals. Although we recognize the distinction between an objective and a goal, we will consider these terms simultaneously in order to give the discussion more depth.

The following are frequently cited types of frustrations, disappointments, or troubling uncertainties that should be avoided when dealing with objectives:

1. Lack of credibility, motivation, or practicality.
2. Poor information inputs.
3. Defining objectives without considering different options.
4. Lack of consensus regarding corporate values.
5. Disappointing committee effort to define objectives.
6. Sterility (lack of uniqueness and competitive advantage).

Briefly, if objectives and goals are to serve their purpose well, they should represent a careful weighing of the balance between the performance desired and the probability of its being realized:

> Strategic objectives which are too ambitious result in the dissipation of assets and the destruction of morale, and create the risk of losing past gains as well as future opportunities. Strategic objectives which are not ambitious enough represent lost opportunity and open the door to complacency.[1]

CORPORATE STRATEGIC DIRECTION

Corporate strategic direction is defined in different ways. In some corporations, it takes the form of a corporate creed, or code of conduct, that defines perspectives from the viewpoint of different stakeholders. At other corporations, policy statements provide guidelines for implementing strategy. In still others, corporate direction is outlined in terms of objective statements. However expressed, corporate direction consists of broad statements that represent a company's position on various matters and serve as an input in defining objectives and in formulating strategy at lower echelons in the organization.

A company can reasonably expect to achieve a leadership position or superior financial results only when it has purposefully laid out its strategic direction. Every outstanding corporate success is based on a direction that differentiates the firm's approach from that of others. Specifically, strategic direction helps in

1. Identifying what "fits" and what needs the company is well suited to meet.
2 Analyzing potential synergies.
3. Undertaking risks that simply cannot be justified on a project basis (e.g., willingness to pay for what might appear, on a purely financial basis, to be a premium for acquisition).
4. Providing the ability to act fast (presence of strategic direction not only helps in adequately and quickly scanning opportunities in the environment but capitalizing on them without waiting).
5. Focusing the search for opportunities and options more clearly.

Corporate Strategic Direction: An Example

To illustrate the point, consider the corporate direction of Dow Chemical Company, which has persisted for more than 60 years.[2] Herbert Dow founded and built Dow Chemical on one fundamental and energizing idea: start with a cheap and basic raw material; then develop the soundest, lowest-cost process possible. This idea, or direction, defined certain imperatives Dow has pursued consistently over time:

1. First, don't copy or license anyone else's process. In other words, as Dow himself put it, "Don't make a product unless you can find a better way to do it."
2. Second, build large, vertically integrated complexes to achieve maximum economies of scale; that is, maintain cost leadership by building the most technologically advanced facilities in the industry.
3. Third, locate near and tie up abundant sources of cheap raw materials.
4. Fourth, build in bad times as well as good. In other words, become the large-volume supplier for the long pull and preempt competitors from coming in. Be there, in place, when the demand develops.
5. Fifth, maintain a strong cash flow so that the corporation can pursue its vision.

Over the years, Dow has consistently acted in concert with this direction, or vision. It has built enormous, vertically integrated complexes at Midland, Michigan; Freeport, Texas; Rotterdam, Holland; and the Louisiana Gulf Coast. And it has pursued with almost fanatical consistency the obtaining of secure, low-cost sources of raw materials.

Strategic Direction and Organizational Perspectives. Pursuing this direction has, in turn, mandated certain human and organizational characteristics of the company and its leadership. For example, Dow has been characterized as a company whose management shows "exceptional willingness to take sweeping but carefully thought out gambles."[3] The company has had to make leaps of faith about the pace and direction of future market and technological developments. Sometimes, as in the case of shale oil, these have taken a very long time to materialize. Other times, these leaps of faith have resulted in failure. But as Ben Branch, a top Dow executive for many years, was fond of saying, "Dow encourages well-intentioned failure."

To balance this willingness to take large risks, the company has had to maintain an extraordinary degree of organizational flexibility to give it the ability to respond quickly to unexpected changes. For example, "Dow places little emphasis on, and does not publish, organization charts, preferring to define areas of broad responsibility without rigid compartments. Its informal style has given the company the flexibility to react quickly to change."[4]

Changing the Strategic Direction. Over the years, Dow's direction has had to expand to accommodate a changing world, its own growth, and expanding horizons of opportunity. The expansion of its direction, or vision, has included, for example:

1. Recognition of the opportunities and the need to diversify downstream into higher-value-added, technologically more sophisticated intermediate and end-use products, with the concomitant requirement for greater technical selling capability after World War II.
2. The opportunity and the imperative to expand abroad. In fact, Herbert Dow's core vision may have initially been retarded expansion abroad, since raw material availability was not as good in Europe or in Japan as it was in the United States and since it was harder to achieve comparable economies of scale.

3. The need to reorganize and decentralize foreign operations, setting them up on a semiautonomous basis to give them room for growth and flexibility.

But throughout its history, Dow's leadership has consistently held to a guiding concept that perhaps has been best articulated as this: "In this business, it's who's there with the vision, the money, and the guts to seize an opportunity."[5]

In the 1980s, Xerox Corporation faced the task of redefining its strategic direction in response to a new technological era. There were three different schools of thought within the company. One school believed it should stick to its core competency—copying—and that paper would be there for a long time. Another view, held by a smaller group, felt Xerox ought to quickly transform itself into a systems company. Based on its leading-edge technology at Palo Alto Research Center, this view suggested getting out of the paper world as quickly as possible. A third school of thought said that the company should finesse the differences and focus on being "the" office company. After all, it was reasoned, the company had a worldwide direct sales force that reached into almost every office around the world; it could sell anything through that direct sales force.

Looking carefully at the future, the company concluded that paper would not go away, but that its use would change. The creation, storage, and communication of documents will increasingly be in electronic form; however, for many years, people will prefer the paper document display to the electronic document display. They will print out their electronic documents closer to their end use and then throw them away, thereby making paper a transient display medium. Xerox chose to bridge the gap between the paper and electronic world. The strategic direction was defined to not remain the *copier* company, but to become the *document* company.[6]

Corporate Strategic Direction and Strategy Development. What can be concluded from this brief history of Dow Chemical's corporate direction? First, it seems clear that, for more than 50 years, all of Dow's major strategic and operating decisions have been amazingly consistent. They have been consistent because they have been firmly grounded in some basic beliefs about where and how to compete. The direction has evidently made it easier to make the always difficult and risky long-term/short-term decisions, such as investing in research for the long haul or aggressively tying up sources of raw materials.

This direction, or vision, has also driven Dow to be aggressive in generating the cash required to make risky investments possible. Most important, top management seems never to have eschewed its leadership role in favor of becoming merely stewards of a highly successful enterprise. They have been constantly aware of the need to question and reshape Dow's direction, while maintaining those elements that have been instrumental in achieving the company's long-term competitive success. Dow illustrates that corporate direction gives coherence to a wide range of apparently unrelated decisions, serving as the crucial link among them.

Corporate Strategic Direction and Marketing Strategy

Without exception, the corporate direction of all successful companies is based not only on a clear notion of the markets in which they compete but also on specific concepts of how they can sustain an economically attractive position in those markets. Their direction is grounded in deep understanding of industry and competitive dynamics and company capabilities and potential. Corporate direction should focus in general on continually strengthening the company's economic or market position, or both, in some substantial way. For example, Dow was not immobilized by existing industry relationships, current market shares, or its past shortcomings. It sought and found new ways to influence industry dynamics in its favor. Corporate direction should foster creative thinking about realistic and achievable options, driving product, service and new business decisions. Its impact can actually be measured in the marketplace. In other words, in addition to having thought through the questions of where and how to compete, top management should also make realistic judgments about (a) the capital and human resources that are required to compete and where they should come from, (b) the changes in the corporation's functional and cultural biases that must be accomplished, (c) the unique contributions that are required of the corporation (top management and staff) to support pursuit of the new direction by the SBUs, and (d) a guiding notion of the timing or pace of change within which the corporation should realistically move toward the new vision.

Mentioned below is the strategic direction of a number of companies:[7]

Merck
- Corporate social responsibility
- Unequivocal excellence in all aspects of the company
- Science-based innovation
- Honesty and integrity
- Profit, but profit from work that benefits humanity

Nordstrom
- Service to the customer above all else
- Hard work and individual productivity
- Never being satisfied
- Excellence in reputation; being part of something special

Philip Morris
- The right to freedom of choice
- Winning—beating others in a good fight
- Encouraging individual initiative
- Opportunity based on merit; no one is entitled to anything
- Hard work and continuous self-improvement

Sony
- Elevation of the Japanese culture and national status
- Being a pioneer—not following others; doing the impossible
- Encouraging individual ability and creativity

Walt Disney
- No cynicism
- Nurturing and promulgation of "wholesome American values"
- Creativity, dreams, and imagination
- Fanatical attention to consistency and detail
- Preservation and control of the Disney magic

As can be noted, strategic direction is not an abstruse construct based on the inspiration of a solitary genius. It is a hard-nosed, practical concept based on the thorough understanding of the dynamics of industries, markets, and competition and of the potential of the corporation for influencing and exploiting these dynamics. It is only rarely the result of a flash of insight; much more often it is the product of deep and disciplined analysis.

Formulating Corporate Strategic Direction

Strategic direction frequently starts out fuzzy and is refined through a messy process of trial and error. It generally emerges in its full clarity only when it is well on its way to being realized. Likewise, changes in corporate direction occur by a long process and in stages.

Changing an established direction is much more difficult than starting from scratch because one must overcome inherited biases and set norms of behavior. Change is effected through a sequence of steps. First, a need for change is recognized. Second, awareness of the need for change is built throughout the organization by commissioning study groups, staff, or consultants to examine problems, options, contingencies, or opportunities posed by the sensed need. Third, broad support for the change is sought through unstructured discussions, probing of positions, definition of differences of opinion, and so on, among executives. Fourth, pockets of commitment are created by building necessary skills or technologies within the organization, testing options, and taking opportunities to make decisions to build support. Fifth, a clear focus is established, either by creating an ad hoc committee to formulate a position or by expressing in written form the specific direction that the CEO desires. Sixth, a definite commitment to change is obtained by designating someone to champion the goal and be accountable for its accomplishment. Finally, after the organization arrives at the new direction, efforts are made to be sensitive to the need for further change in direction, if necessary.

Specific Statements about Corporate Strategic Direction

Many companies make specific statements to designate their direction. Usually these statements are made around such aspects as target customers and markets, principal products or services, geographic domain, core technologies, concern for survival, growth and profitability, company philosophy, company self-concept, and desired public image. Some companies make only brief statements of strategic direction (sometimes labeled corporate objectives); others elaborate on each aspect in detail. Avon products expressed its strategic direction rather briefly: "to be the company that best understands and satisfies the product, service and self-fulfillment needs of women globally."[8] IBM defines its direction, which it calls principles, separately for each functional area. For example, in the area of marketing, the IBM principle is: "The marketplace is the driving force behind everything we do." In technology, it is "at our core, we are a technology company with an overriding commitment to quality."[9] Apple Computer states its direction five years into the future with detailed statements under the following headings: corporate concept, internal growth, external

growth, sales goal, financial, planning for growth and performance, management and personnel, corporate citizenship, and stockholders and financial community. Exhibit 8-1 shows the strategic direction of the Hewlett-Packard Corporation. As can be noted, this company defines its strategic perspective through brief statements.

No matter how corporate strategic direction is defined, it should meet the following criteria. First, it should present the firm's perspectives in a way that enables progress to be measured. Second, the strategic direction should differentiate the company from others. Third, strategic direction should define the business that the company wants to be in, not necessarily the business that it is in. Fourth, it should be relevant to all the firm's stakeholders. Finally, strategic direction should be exciting and inspiring, motivating people at the helm.[10]

EXHIBIT 8-1
Hewlett-Packard's Corporate Direction

Profit
To achieve sufficient profit to finance our company growth and to provide the resources we need to achieve our other corporate objectives

Customers
To provide products and services of the greatest possible value to our customers, thereby gaining and holding their respect and loyalty

Field of Interest
To enter new fields only when the ideas we have, together with our technical, manufacturing and marketing skills, assure that we can make a needed and profitable contribution in the field

Growth
To let our growth be limited only by our profits and our ability to develop and produce technical products that satisfy real customer needs

People
To help our own people share in the company's success, which they make possible: to provide job security based on their performance, to recognize their individual achievements, and to help them gain a sense of satisfaction and accomplishment from their work

Management
To foster initiative and creativity by allowing the individual great freedom of action in attaining well-defined objectives

Citizenship
To honor our obligations to society by being an economic, intellectual and social asset to each nation and each community in which we operate

Source: Company records.

SBU OBJECTIVES

An SBU was defined in Chapter 1 as a unit comprising one or more products having a common market base whose manager has complete responsibility for integrating all functions into a strategy against an identifiable external competitor. We will examine the development and meaning of SBUs again in this chapter to make it clear why objectives must be defined at this level. Abell's explanation is as follows:

> The development of marketing planning has paralleled the growing complexity of business organizations themselves. The first change to take place was the shift from functionally organized companies with relatively narrow product lines and served-market focus to large diversified firms serving multiple markets with multiple product lines. Such firms are usually divided into product or market divisions, divisions may be divided into departments, and these in turn are often further divided into product lines or market segments. As this change gradually took place over the last two decades, "sales planning" was gradually replaced by "marketing planning" in most of these organizations. Each product manager or market manager drew up a marketing plan for his product line or market segment. These were aggregated together into an overall divisional "marketing plan." Divisional plans in turn were aggregated into the overall corporate plan.
>
> But a further important change is now taking place. There has been over the last decade a growing acceptance of the fact that individual units or subunits within a corporation, e.g., divisions, product departments, or even product lines or market segments, may play different roles in achieving overall corporate objectives. Not all units and subunits need to produce the same level of profitability; not all units and subunits have to contribute equally to cash flow objectives.
>
> This concept of the organization as a "portfolio" of units and subunits having different objectives is at the very root of contemporary approaches to strategic marketing planning. It is commonplace today to hear businesses defined as "cash cows," "stars," "question marks," "dogs," etc.* It is in sharp contrast to practice in the 1960s and earlier which emphasized primarily sales and earnings (or return on investment) as a major measure of performance. Although different divisions or departments were intuitively believed to have different capabilities to meet sales and earning goals, these differences were seldom made explicit. Instead, each unit was expected to "pull its weight" in the overall quest for growth and profits.
>
> With the recognition that organizational entities may differ in their objectives and roles, a new organizational concept has also emerged. This is the concept of a "business unit." A business unit may be a division, a product department, or even a product line or major market, depending on the circumstances. It is, however, usually regarded by corporate management as a reasonably autonomous profit center. Usually it has its own "general manager" (even though he may not have that title, he has general managerial responsibilities). Often it has its own manufacturing, sales, research and development, and procurement functions although in some cases some of these may be shared with other businesses (e.g., pooled sales). A business unit usually has a clear market focus. In particular it usually has an identifiable strategy and

* These items are defined in Chapter 10.

> an identifiable set of competitors. In some organizations (the General Electric Company, for example), business units are clearly identified and defined. In other organizations, divisions or product departments are treated as relatively autonomous business units although they are not explicitly defined as such.
>
> A business unit will usually comprise several "program" units. These may be product lines, geographic market segments, end-user industries to which the company sells, or units defined on the basis of any other relevant segmentation dimension. Program units may also sometimes differ in their objectives. In such cases, the concept of a portfolio exists both in terms of business units within a corporate structure (or substructure, such as a group) or in terms of programs within a business unit. Usually, however, the business unit is a major focus of strategic attention, and strategic market plans are of prime importance at this level.[11]

As Abell notes, a large, complex organization may have a number of SBUs, each playing its unique role in the organization. Obviously, then, at the corporate level, objectives can be defined only in generalities. It is only at each SBU level that more specific statements of objectives can be made. Actually, it is the SBU mission and its objectives and goals that product/market managers need to consider in their strategic plans.

BUSINESS MISSION

Defining the Business Mission: The Traditional Viewpoint

Mission is a broad term that refers to the total perspectives or purpose of a business. The mission of a corporation was traditionally framed around its product line and expressed in mottoes: "Our business is textiles," "We manufacture cameras," and so on. With the advent of marketing orientation and technological innovations, this method of defining the business mission has been decried. It has been held that building the perspectives of a business around its product limits the scope of management to enter new fields and thus to make use of growth opportunities. In a key article published in 1960, Levitt observed:

> The railroads did not stop growing because the need for passengers and freight transportation declined. That grew. The railroads are in trouble today not because the need was filled by others (cars, trucks, airplanes, even telephones), but because it was not filled by the railroads themselves. They let others take customers away from them because they assumed themselves to be in the railroad business rather than in the transportation business. The reason they defined their industry wrong was because they were railroad-oriented instead of transportation-oriented; they were product-oriented instead of customer-oriented.[12]

According to Levitt's thesis, the mission of a business should be defined broadly: an airline might consider itself in the vacation business, a publisher in the education industry, an appliance manufacturer in the business of preparing nourishment.

Recently, Levitt's proposition has been criticized, and the question has been raised as to whether simply extending the scope of a business leads far enough. The Boston Consulting Group, for example, has pointed out that the railroads could not have protected themselves by defining their business as transportation:

> Unfortunately, there is a prevalent notion that if one merely defines one's business in increasingly general terms such as transportation rather than railroading the road to successful competitive strategy will be clear. Actually, that is hardly ever the case. More often, the opposite is true. For example, in the case of the railroads, passengers and freight represent very different problems, and short haul vs. longer haul are completely different strategic issues. Indeed, as the unit train demonstrates, just coal handling is a meaningful strategic issue.[13]

In the early 1980s, Coca-Cola extended its business mission from being a soft drink marketer to a beverage company. Subsequently, the company bought three wine companies. A few years later, the company decided to leave the wine business. What happened is simply this: Although soft drinks and wine both are parts of the beverage industry, the management skills required to run a soft drink business are quite different from those required for the wine business. Coca-Cola overlooked some basics. For example, because wine must be aged, inventory costs run much higher than for soft drinks. Further, grapes must be bought ahead of time. Coke added to its work by vastly overestimating the amount of grapes it needed. Another key characteristic of the wine business is a requirement for heavy capital investment; Coke did not want to make that investment.[14]

As the Coca-Cola example illustrates, the problem with Levitt's thesis is that it is too broad and does not provide a common thread: a relationship between a firm's past and future that indicates where the firm is headed and that helps management to institute directional perspectives. The common thread may be found in marketing, production technology, finance, or management. ITT took advantage of its managerial abilities when it ventured into such diverse businesses as hotels and bakeries. Merrill Lynch found a common thread via finance in entering the real estate business. Bic Pen Company used its marketing strength to involve itself in the razor blade business. Thus, the mission cannot be defined by making abstract statements that one hopes will pave the way for entry into new fields.

It would appear that the mission of a business is neither a statement of current business nor a random extension of current involvements. It signifies the scope and nature of business, not as it is today, but as it could be in the future. The mission plays an important role in designating opportunities for diversification, either through research and development or through acquisitions. To be meaningful, the mission should be based on a comprehensive analysis of the business's technology and customer mission. Examples of technology-based definitions are computer companies and aerospace companies. Customer mission refers to the fulfillment of a particular type of customer need, such as the need for basic nutrition, household maintenance, or entertainment.

Whether the company has a written business mission statement or not is immaterial. What is important, however, is that due consideration is given to technological and marketing factors (as related to particular segments and their needs) in defining the mission. Ideally, business definitions should be based on a combination of technology and market mission variables, but some companies venture into new fields on the basis of one variable only. For example, Texas

Instruments entered the digital watch market on the basis of its lead in integrated circuits technology. Procter & Gamble added over-the-counter remedies to its business out of its experience in fulfilling the ordinary daily needs of customers.

To sum up, the mission deals with these questions: What type of business do we want to be in at some future time? What do we want to become? At any given point, most of the resources of a business are frozen or locked into current uses, and the outputs in services or products are for the most part defined by current operations. Over an interval of a few years, however, environmental changes place demands on the business for new types of resources. Further, because of personnel attrition and depreciation of capital resources, management has the option of choosing the environment in which the company will operate and acquiring commensurate new resources rather than replacing the old ones in kind. This explains the importance of defining the business's mission. The mission should be so defined that it has a bearing on the business's strengths and weaknesses.

Defining the Business Mission: A New Approach

In his pioneering work on the subject, Abell has argued against defining a business as simply a choice of products or markets.[15] He proposes that a business be defined in terms of three measures: (a) scope; (b) differentiation of the company's offerings, one from another, across segments; and (c) differentiation of the company's offerings from those of competitors. The scope pertains to the breadth of a business. For example, do life insurance companies consider themselves to be in the business of underwriting insurance only or do they provide complete family financial planning services? Likewise, should a manufacturer of toothpaste define the scope of its business as preventing tooth decay or as providing complete oral hygiene? There are two separate contexts in which differentiation can occur: differentiation across segments and across competitors. Differentiation across segments measures the degree to which business segments are treated differently. An example is personal computers marketed to young children as educational aids and to older people as financial planning aids. Differentiation across competitors measures the degree to which competitors' offerings differ.

These three measures, according to Abell, should be viewed in three dimensions: (a) customer groups served, (b) customer functions served, and (c) technologies used. These three dimensions (and a fourth one, level of production/distribution) were examined at length in Chapter 5 in the context of defining market boundaries and will not be elaborated further here. An example will illustrate how a business may be defined using Abell's thesis.

Customer groups describe who is being satisfied; customer functions describe what needs are being satisfied; technologies describe how needs are being satisfied. Consider a thermometer manufacturer. Depending on which measure is used, the business can be defined as follows:

Customer Groups	*Customer Functions*	*Technologies Used*
Households	Body temperature	Mercury-base
Restaurants	Cooking temperature	Alcohol-base
Health care facilities	Atmospheric temperature	Electronic-digital

The manufacturer can confine the business to just health care facilities or broaden the scope to include restaurants and households. Thermometers can be provided only for measurement of body temperature or the line can be extended to offer cooking or atmospheric thermometers. The manufacturer could decide to produce only mercury-base thermometers or could also produce alcohol-base or electronic-digital thermometers. The decisions that the manufacturer makes about customer groups, customer functions, and technologies ultimately affects the definition of the business in terms of both scope and differentiation. Exhibits 8-2 and 8-3 graphically show how business can be defined narrowly or broadly around these three dimensions. In Exhibit 8-2, the manufacturer limits the business to service health care facilities only, offering just mercury-base thermometers for measuring body temperatures. In Exhibit 8-3, however, the definition has been broadened to serve three customer groups: households, restaurants, and health care facilities; two types of thermometers: mercury-base and alcohol-base; and three customer functions. The manufacturer could further expand the definition of the business in all three directions. Physicians could be added as a customer group. A line of electronic-digital thermometers could be offered. Finally, thermometers could be produced to measure temperatures of industrial processes.

EXHIBIT 8-2
Defining Business Mission—Narrow Scope

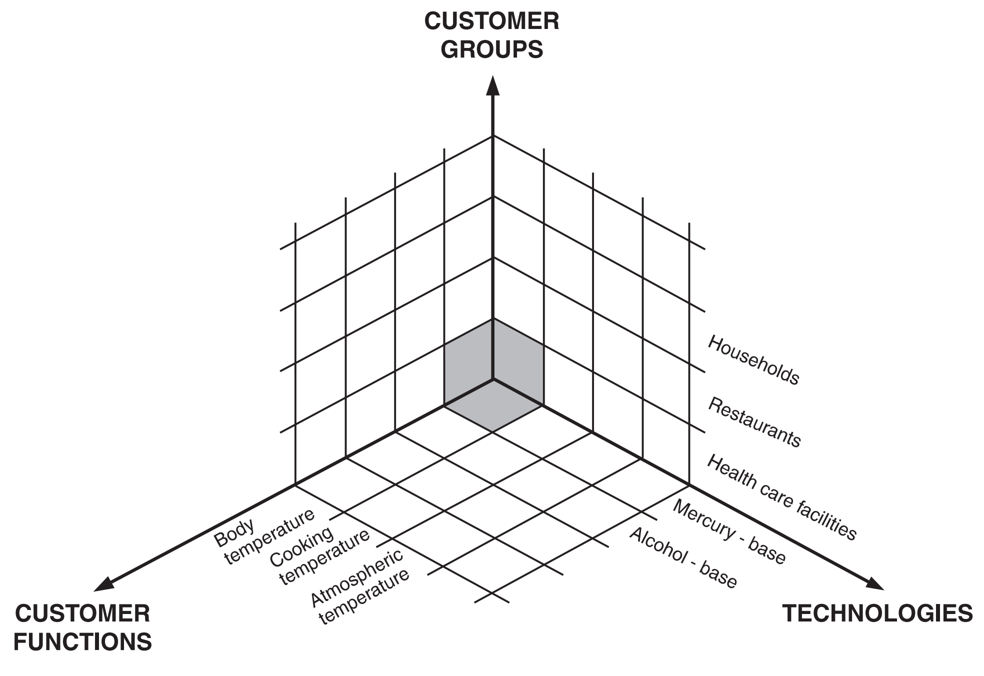
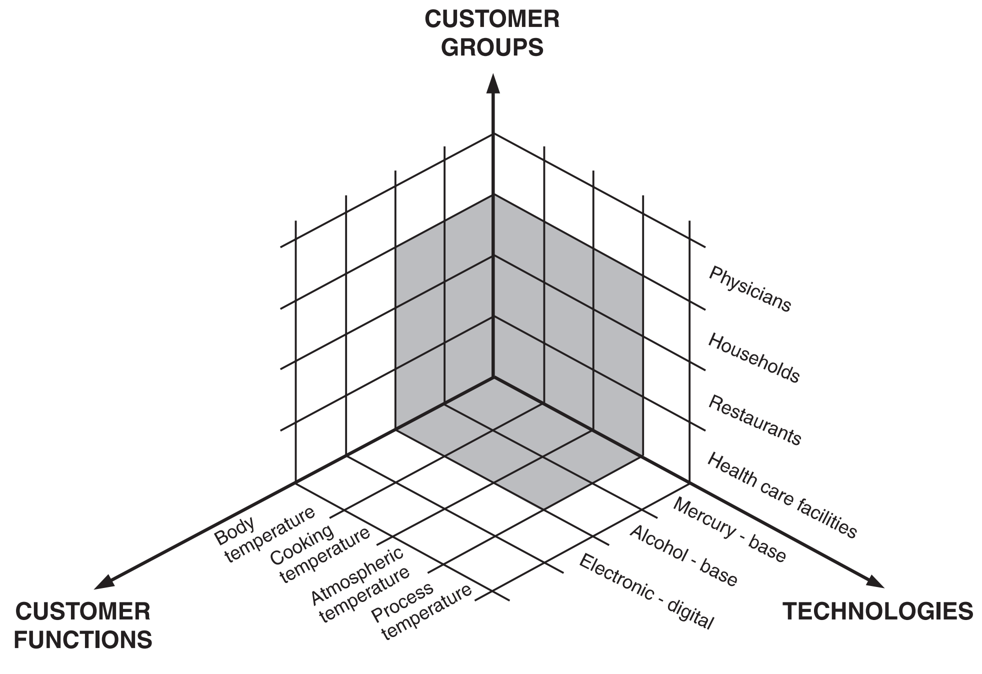


EXHIBIT 8-3
Defining Business Mission—Broader Scope



An adequate business definition requires proper consideration of the strategic three Cs: customer (e.g., buying behavior), competition (e.g., competitive definitions of the business), and company (e.g., cost behavior, such as efficiencies via economies of scale; resources/skills, such as financial strength, managerial talent, engineering/manufacturing capability, physical distribution system, etc.; and differences in marketing, manufacturing, and research and development requirements and so on, resulting from market segmentation).

Typology of Business Definitions

Abell proposed defining business in terms of three measures: scope, differentiation across segments, and differentiation across competitors. According to Abell, scope and both kinds of differentiation are related to one another in complex ways. One way to conceptualize these interrelationships is in terms of a typology of business definitions. Three alternative strategies for defining a business are recommended: (a) a focused strategy, (b) a differentiated strategy, and (c) an undifferentiated strategy.

- *Focused strategy*—A business may choose to focus on a particular customer group, customer function, or technology segment. Focus implies a certain basis for segmentation along one or more of these dimensions, narrow scope

involving only one or a few chosen segments, and differentiation from competitors through careful tailoring of the offering to the specific need of the segment(s) targeted.

- *Differentiated strategy*—When a business combines broad scope with differentiation across any or all of the three dimensions, it may be said to follow a differentiated strategy. Differentiation across segments may also be related to competitive differentiation. By tailoring the offering to the specific needs of each segment, a company automatically increases the chance for competitive superiority. Whether or not competitive differentiation also results is purely a function of the extent to which competitors have also tailored their offerings to the same specific segments. If they have, segment differentiation may be substantial, yet competitive differentiation may be small.
- *Undifferentiated strategy*—When a company combines broad scope across any or all of the three dimensions with an undifferentiated approach to customer group, customer function, or technology segments, it is said to follow an undifferentiated strategy.[16]

Each of these strategies can be applied to the three dimensions (customer groups, customer functions, and technologies) separately. In other words, 27 different combinations are possible: (a) focused, differentiated, or undifferentiated across customer groups; (b) focused, differentiated, or undifferentiated across customer functions; (c) focused, differentiated, or undifferentiated across technologies, and so on.

A focused strategy serves a specific customer group, customer function, or technology segment. It has a narrow scope. Docutel Corporation's strategy in the late 1960s exemplified a focused strategy relative to customer function. When Docutel first pioneered the development of the automated teller machine (ATM), it defined customer function very narrowly, concentrating on one function only—cash dispensing.

A differentiated strategy combines broad scope with differentiation across one or more of the three dimensions. A differentiated strategy serves several customer groups, functions, or technologies while tailoring the product offered to each segment's specific needs. An example of a differentiated strategy applied to customer groups is athletic footwear. Athletic footwear serves a broad range of customer groups and is differentiated across those groups. Tennis shoes are tailored to meet the needs of one specific customer group; basketball shoes, another.

An undifferentiated strategy combines a broad scope across one or more of the three dimensions. This strategy is applied to customer groups in a business that serves a wide range of customer groups but does not differentiate its offerings among those groups. Docutel's strategy was focused with respect to customer function but not with respect to customer groups: they offered exactly the same product to commercial banks, savings and loans, mutual savings banks, and credit unions. To sum up, the strategy that a business chooses to follow, based on the amount of scope and differentiation applied to the three dimensions, determines the definition of the business.

SBU OBJECTIVES AND GOALS

The objectives and goals of the SBU may be stated in terms of activities (manufacturing a specific product, selling in a particular market); financial indicators (achieving targeted return on investment); desired positions (market share, quality leadership); and combinations of these factors. Generally, an SBU has a series of objectives to cater to the interests of different stakeholders. One way of organizing objectives is to split them into the following classes: measurement objectives, growth/survival objectives, and constraint objectives. It must be emphasized that objectives and goals should not be based just on facts but on values and feelings as well. What facts should one look at? How should they be weighed and related to one another? It is in seeking answers to such questions that value judgments become crucial.

The perspectives of an SBU determine how far an objective can be broken down into minute details. If the objective applies to a number of products, only broad statements of objectives that specify the role of each product/market from the vantage point of the SBU are feasible. On the other hand, when an SBU is created around one or two products, objectives may be stated in detail.

Exhibit 8-4 illustrates how SBU objectives and goals can be identified and split into three groups: measurement, growth/survival, and constraint. Measurement objectives and goals define an SBU's aims from the point of view of the stockholders. The word profit has been traditionally used instead of measurement. But, as is widely recognized today, a corporation has several corporate publics besides stockholders; therefore, it is erroneous to use the word *profit*. On the other hand, the company's very existence and its ability to serve different stakeholders depend on financial viability. Thus, profit constitutes an important measurement objective. To emphasize the real significance of profit, it is more appropriate to label it as a measurement tool.

It will be useful here to draw a distinction between corporate objectives and measurement objectives and goals at the level of an SBU. Corporate objectives define the company's outlook for various stakeholders as a general concept, but the SBU's objectives and goals are specific statements. For example, keeping the environment clean may be a corporate objective. Using this corporate objective as a basis, in a particular time frame an SBU may define prevention of water pollution as one of its objectives. In other words, it is not necessary to repeat the company's obligation to various stakeholders in defining an SBU's objectives as this is already covered in the corporate objectives. Objectives and goals should underline the areas that need to be covered during the time horizon of planning.

Growth objectives and goals, with their implicit references to getting ahead, are accepted as normal goals in a capitalistic system. Thus, companies often aim at growth. Although measurements are usually stated in financial terms, growth is described with reference to the market. Constraint objectives and goals depend on the internal environment of the company and how it wishes to interact with the outside world.

EXHIBIT 8-4
Illustration of an SBU's Objectives

I. SBU
Cooking Appliances

II. Mission
To market to individual homes cooking appliances that perform such functions as baking, boiling, and roasting, using electric fuel technology

III. Objectives (general statements in the following areas):
   A. Measurement
      1. Profitability
      2. Cash flow
   B. Growth/Survival
      1. Market standing
      2. Productivity
      3. Innovation
   C. Constraint
      1. Capitalize on our research in certain technologies
      2. Avoid style businesses with seasonal obsolescence
      3. Avoid antitrust problems
      4. Assume responsibility to public

IV. Goals
Specific targets and time frame for achievement of each objective listed above

An orderly description of objectives may not always work out, and the three types of objectives and goals may overlap. It is important, however, that the final draft of objectives be based on investigation, analysis, and contemplation.

PRODUCT/MARKET OBJECTIVES

Product/market objectives may be defined in terms of profitability, market share, or growth. Most businesses state their product/market purpose through a combination of these terms. Some companies, especially very small ones, may use just one of these terms to communicate product/market objectives. Usually, product/market objectives are stated at the SBU level.

Profitability

Profits in one form or another constitute a desirable goal for a product/market venture. As objectives, they may be expressed either in absolute monetary terms or as a percentage of capital employed or of total assets.

At the corporate level, emphasis on profit in a statement of objectives is sometimes avoided because it seems to convey a limited perspective of the corporate purpose. But at the product/market level, an objective stated in terms of profitability provides a measurable criterion with which management can evaluate

performance. Because product/market objectives are an internal matter, the corporation is not constrained by any ethical questions in its emphasis on profits.

An ardent user of the profitability objective is Georgia-Pacific Company. The company aims at achieving a return of 20 percent on stockholders' equity. The orthodox view has been that, in an industry where product differentiation is not feasible, the goal of profitability is irrelevant. But Georgia-Pacific's CEO, Marshall Hahn, insists on the profit goal, and the outcome has been very satisfactory. Georgia-Pacific's overall performance has been twice as good as any other competitor in the industry.[17] Similarly, Chrysler Corporation, before it was acquired by the German automaker, shunned market share in favor of profits. In 1993, for example, Chrysler earned more from the auto business than GM and Ford combined, or the nine Japanese automakers.[18]

How can the profitability goal be realized in practice? First, the corporate management determines the desired profitability, that is, the desired rate of return on investment. There may be a single goal set for the entire corporation, or goals may vary for different businesses. Using the given rate of return, the SBU may compute the percentage of markup on cost for its product(s). To do so, the normal rate of production, averaged over the business cycle, is computed. The total cost of normal production then becomes the standard cost. Next, the ratio of invested capital (in the SBU) to a year's standard cost (i.e., capital turnover) is computed. The capital turnover multiplied by the rate of return gives the markup percentage to be applied to standard cost. This markup is an average figure that may be adjusted both among products and over time.

Market Share

In many industries, the cigarette industry, for example, gaining a few percentage points in market share has a positive effect on profits. Thus, market share has traditionally been considered a desirable goal to pursue. In recent years, extensive research on the subject has uncovered new evidence on the positive impact of market share on profitability.[19]

The importance of market share is explainable by the fact that it is related to cost. Cost is a function of scale or experience. Thus, the market leader may have a lower cost than other competitors because superior market share permits the accumulation of more experience. Prices, however, are determined by the cost structure of the least effective competitor. The high-cost competitor must generate enough cash to hold market share and meet expenses. If this is not accomplished, the high-cost competitor drops out and is replaced by a more effective, lower-cost competitor. The profitability of the market leader is ascertained by the same price level that determines the profit of even the least effective competitor. Thus, higher market share may give a competitive edge to a firm.

One strong proponent of market share goal is Eastman Kodak Co. The company takes a long-term view and commits itself to obtaining a big share of growth markets. It keeps building new plants even though its first plant for a product has yet to run at full capacity. It does so hoping large-scale operations will provide a cost advantage that it can utilize in the form of lower prices to customers. Lower prices in turn lead to a higher market share.

Kodak has 80 percent of the U.S. consumer film market and 50 percent of the global business. Yet even with such a high share, the company does not believe in simply maintaining market share. For Kodak, there are only two alternatives: grow the share or it will decline. After all, in the film business, one point of global market share amounts to $40 million in revenues.[20]

While market share is a viable goal, tremendous foresight and effort are needed to achieve and maintain market share positions. A company aspiring toward a large share of the market should carefully consider two aspects: (1) its ability to finance the market share and (2) its ability to effectively defend itself against antitrust action that may be instigated by large increases in market share. For example, when General Electric considered entering the computer business, it found that to meet its corporate profitability objective it had to achieve a specific market share position. To realize its targeted market share position required huge investment. The question, then, was whether General Electric should gamble in an industry dominated by one large competitor (IBM) or invest its monies in fields where there was the probability of earning a return equal to or higher than returns in the computer field. General Electric decided to get out of the computer field.

Fear of antitrust suits also prohibits the seeking of higher market shares. A number of corporations—Kodak, Gillette, Xerox, and IBM, for example—have been the target of such action.

These reasons suggest that, although market share should be pursued as a desirable goal, companies should opt not for share maximization but for an optimal market share. Optimal market share can be determined in the following manner:

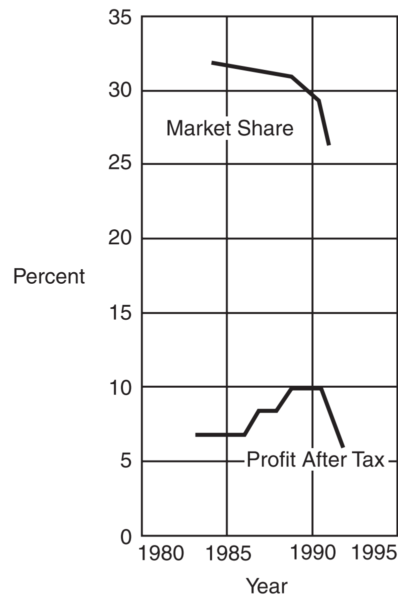
1. Estimate the relationship between market share and profitability.
2. Estimate the amount of risk associated with each share level.
3. Determine the point at which an increase in market share can no longer be expected to earn enough profit to compensate the company for the added risks to which it would expose itself.

The advantages of higher market share do not mean that a company with a lower share may not have a chance in the industry. There are companies that earn a respectable return on equity despite low market shares. Examples of such corporations are Crown Cork and Seal, Union Camp, and Inland Steel. The following characteristics explain the success of low-share companies: (a) they compete only in those market segments where their strengths have the greatest impact, (b) they make efficient use of their modest research and development budgets, (c) they shun growth for growth's sake, and (d) they have innovative leaders.[21]

Briefly, market share goals should not be taken lightly. Rather, a firm should aim at a market share after careful examination.

The following example illustrates the importance of market share. Exhibit 8-5 shows the experience of the industry leader in an industrial product. With an initially high share of a growing and competitive market, management shifted its emphasis from market share to high earnings. A manager with proven skills was

EXHIBIT 8-5
Relationship between Market Share and After-Tax Profit



put in charge of the business. Earnings increased for six years at the expense of some slow erosion in market share. In the seventh year, however, market share fell so rapidly that, though efforts to hold profits were redoubled, they dropped sharply. Share was never regained. The manager had been highly praised and richly rewarded for his profit results up to 1990. These results, however, were achieved in exchange for a certain unreported damage to the firm's long-term competitiveness. Only by knowing both and by weighing the gain in current income against the degree of market share liquidation that entailed could the true value of performance be judged. In other words, reported earnings do not tell the true story unless market share is constant. Loss of market share is liquidation of an unbooked asset upon which the value of all other assets depends. Gain in market share is like an addition to cost potential, just as real an asset as credit rating, brand image, organization resources, or technology. In brief, market share guarantees the long-term survival of the business. Liquidation of market share to realize short-term earnings should be avoided. High earnings make sense only when market share is stable.

Growth

Growth is an accepted phenomenon of a modern corporation. All institutions should progress and grow. Those that do not grow invite extinction. Static corporations are often subject to proxy fights.

There are a variety of reasons that make growth a viable objective: (a) growth expectations of the stockholders, (b) growth orientation of top management, (c) employees' enthusiasm, (d) growth opportunities furnished by the environment, (e) corporate need to compete effectively in the marketplace, and (f) corporate strengths and competencies that make it easy to grow. Exhibit 8-6 amplifies these reasons under the following categories: customer reasons; competitive reasons; company reasons; and distributor, dealer, and agent reasons.

EXHIBIT 8-6
Reasons for Growth

Customer Reasons

The product line or sizes too limited for customer convenience
Related products needed to serve a specific market
Purchasing economies: one source, one order, one bill
Service economies: one receiving and processing; one source of parts, service, and other assistance
Ability to give more and better services
Production capacity not enough to fill needs of important customers who may themselves be growing

Competitive Reasons

To maintain or better industry position; growth is necessary in any but a declining industry
To counter or better chief competitors on new offerings
To maintain or better position in specific product or market areas where competition is making strong moves
To permit more competitive pricing ability through greater volume
To possess greater survival strength in price wars, product competition, and economic slumps by greater size

Company Reasons

To fulfill the growth expectations of stockholders, directors, executives, and employees
To utilize available management, selling, distribution, research, or production capacity
To supplement existing products and services that are not growth markets or are on downgrade of the profit cycle
To stabilize seasonal or cyclical fluctuations
To add flexibility by broadening the market and product base of opportunities
To attain greater borrowing and financial influence with size
To be able to attract and pay for better management personnel
To attain the stability of size and move to management by planning

Distributor, Dealer, and Agent Reasons

To add products, sizes, and ranges necessary to attract interest of better distributors, dealers, and agents
To make additions necessary to obtain needed attention and selling effort from existing distributors, dealers, and agents

An example of growth encouraged by corporate strength is provided by R.J. Reynolds Industries. In the early 1980s, the company was in an extremely strong cash position, which helped it to acquire Heublein, Del Monte Corp., and Nabisco. H. S. Geneen's passion for growth led ITT into different industries (bakeries, car rental agencies, hotels, insurance firms, parking lots) in addition to its traditional communications business. Any field that promised growth was acceptable to him. Thus, the CEO's growth orientation is the most valuable prerequisite for growth. Similarly, growth ambitions led Procter & Gamble to venture into cosmetics and over-the-counter health remedies.

For most managers today, growth is the Holy Grail. When charting strategy, they focus on ways to expand revenues, believing that higher sales will bring higher profits. The assumption is that a company able to capture a large proportion of revenues in an industry—a large market share—will reap scale efficiencies, brand awareness, or other advantages that will translate directly into greater profits. If you can grow faster than your competitors, the thinking goes, profits will surely follow.

Unfortunately, profits do not necessarily follow revenues. Consider the recent experience of Gucci, one of the world's top names in luxury leather goods. In the 1980s, Gucci sought to capitalize on its prestigious brand by launching an aggressive strategy of revenue growth. It added a set of lower-priced canvas goods to its product line. It pushed its goods heavily into department stores and duty-free channels. In addition, it allowed its name to appear on a host of licensed items such as watches, eyeglasses, and perfumes. The strategy worked—sales soared—but it carried a high price: Gucci's indiscriminate approach to expanding its products and channels tarnished its sterling brand. Sales of its high-end goods fell, leading to erosion of profitability. Although the company was eventually able to retrench and recover, it lost a whole generation of image-conscious shoppers in some countries.

Gucci's misstep highlights the problem with growth: the strategies businesses use to expand their top line often have the unintended consequence of eroding their bottom line. Gucci attempted to extend its brand to gain sales—a common growth strategy—but ended up alienating its most profitable customer segments and attracting new segments that were less profitable. It was left with a larger set of customers but a much less attractive customer mix.[22]

Other Objectives

In addition to the commonly held objectives of profitability, market share, and growth (discussed above), a company may sometimes pursue a unique objective. Such an objective might be technological leadership, social contribution, the strengthening of national security, or international economic development.

Technological Leadership. A company may consider technological leadership a worthwhile goal. In order to accomplish this, it may develop new products or processes or adopt innovations ahead of the competition, even when economics may not justify doing so. The underlying purpose in seeking this objective is to keep the name of the company in the forefront as a technological

leader among security analysts, customers, distributors, and other stakeholders. To continue to be in the forefront of computer technology, in 1987 IBM entered the field of supercomputers, an area that it had previously shunned because the market was limited.[23]

Social Contribution. A company may pursue as an objective something that will make a social contribution. Ultimately, that something may lead to higher profitability, but initially it is intended to provide a solution to a social problem. A beverage company, for example, may attack the problem of litter by not offering its product in throwaway bottles. As another example, a pharmaceutical company may set its objective to develop and market an AIDS-preventive medicine.

Strengthening of National Security. In the interest of strengthening national defense, a company may undertake activities not otherwise justifiable. For example, concern for national security may lead a company to deploy resources to develop a new fighter plane. The company may do so despite little encouragement from the air force, if only because the company sincerely feels that the country will need the plane in the coming years.

International Economic Development. Improvement in human welfare, the economic progress of less-developed countries, or the promotion of a worldwide free enterprise system may also serve as objectives. For example, a company may undertake the development of a foolproof method of birth control that can be easily afforded and conveniently used.

PROCESS OF SETTING OBJECTIVES

At the very beginning of the process of setting objectives, an SBU should attempt to take an inventory of objectives as they are currently understood. For example, the SBU head and senior executives may state the current objectives of the SBU and the type of SBU they want it to be in the future. Various executives perceive current objectives differently; and, of course, they will have varying ambitions for the SBU's future. It will take several top-level meetings and a good deal of effort on the part of the SBU head to settle on final objectives.

Each executive may be asked to make a presentation on the objectives and goals he or she would like the SBU to adopt for the future. Executives should be asked to justify the significance of each objective in terms of measuring performance, satisfying environmental conditions, and achieving growth. It is foreseeable that executives will have different objectives; they may express the same objectives in terms that make them appear different, but there should emerge, on analysis, a desire for a common destiny for the SBU. Disharmony of objectives may sometimes be based on diverse perceptions of a business's resource potential and corporate strategy. Thus, before embarking on setting SBU objectives, it is helpful if information on resource potential and corporate strategy is circulated.

Before finalizing the objectives, it is necessary that the executive team show a consensus; that is, each one should believe in the viability of the set objectives and

willingly agree to work toward their achievement. A way must be found to persuade a dissenting executive to cooperate. For example, if a very ambitious executive works with stability-oriented people, in the absence of an opportunity to be creative, the executive may fail to perform routine matters adequately, thus becoming a liability to the organization. In such a situation, it may be better to encourage the executive to look for another job. This option is useful for the organization as well as for the dissenting executive. This type of situation occurs when most of the executives have risen through the ranks and an "outsider" joins them. The dynamism of the latter is perceived as a threat, which may result in conflict. The author is familiar with a $100 million company where the vice president of finance, an "outsider," in his insistence on strategic planning came to be perceived as such a danger by the old-timers that they made it necessary for him to quit.

To sum up, objectives should be set through a series of executive meetings. The organizational head plays the role of mediator in the process of screening varying viewpoints and perceptions and developing consensus from them.

Once broad objectives have been worked out, they should be translated into specific goals, an equally challenging task. Should goals be set so high that only an outstanding manager can achieve them, or should they be set so that they are attainable by the average manager? At what level does frustration inhibit a manager's best efforts? Does an attainable budget lead to complacency? Presumably a company should start with three levels of goals: (a) easily attainable, (b) most desirable, and (c) optimistic. Thereafter, the company may choose a position somewhere between the most desirable goals and the optimistic goals, depending on the organization's resources and the value orientation of management. In no case, however, should performance fall below easily attainable levels, even if everything goes wrong. Attempts should be made to make the goals realistic and achievable. Overly elusive goals can discourage and affect motivation. As a matter of fact, realistic goals may provide higher rewards. In 1992, Eastman Kodak lowered its 6 percent annual revenue growth from the core film and photographic paper business to 3 percent. Subsequently, its stock price went up from $40 to $50.[24]

There are no universally accepted standards, procedures, or measures for defining objectives. Each organization must work out its own definitions of objectives and goals—what constitutes growth, what measures to adopt for their evaluation, and so on. For example, consider the concept of return on investment, which for decades has been considered a good measure of corporate performance. A large number of corporations consider a specified return on investment as the most sacrosanct of goals. But ponder its limitations. In a large, complex organization, ROI tends to optimize divisional performance at the cost of total corporate performance. Further, its orientation is short-term. Investment refers to assets. Different projects require a varying amount of assets before beginning to yield results, and the return may be slow or fast, depending on the nature of the project. Thus, the value of assets may lose significance as an element in performance measurement. As the president of a large company remarked, "Profits are often the result of expenses incurred several years previously." The president sug-

gested that the current amount of net cash flow serves as a better measure of performance than the potential amount of net cash flow: "The net cash contribution budget is a precise measure of expectations with given resources."

The following six sources may be used to generate objectives and goals:

1. Focus on material resources (e.g., oil, minerals, forest).
2. Concern with fabricated objects (e.g., paper, nylon).
3. Major interest in events and activities requiring certain products or services, such as handling deliveries (Federal Express).
4. Emphasis on the kind of person whose needs are to be met: "Babies Are Our Business" (Gerber).
5. Catering to specific parts of the body: eyes (Maybelline), teeth (Dr. West), feet (Florsheim), skin (Noxzema), hair (Clairol), beard (Gillette), and legs (Hanes).
6. Examination of wants and needs and seeking to adapt to them: generic use to be satisfied (nutrition, comfort, energy, self-expression, development, conformity, etc.) and consumption systems (for satisfying nutritional needs, e.g.).

Whichever procedure is utilized for finally coming out with a set of objectives and goals, the following serve as basic inputs in the process. At the corporate level, objectives are influenced by corporate publics, the value system of top management, corporate resources, the performance of business units, and the external environment. SBU objectives are based on the strategic three Cs of customer, competition, and corporation. Product/market objectives are dictated by product/market strengths and weaknesses and by momentum. Strengths and weaknesses are determined on the basis of current strategy, past performance, marketing excellence, and marketing environment. Momentum refers to future trends—extrapolation of past performance with the assumption that no major changes will occur either in the product/market environment or in its marketing mix.

Identified above are the conceptual framework and underlying information useful in defining objectives at different levels. Unfortunately, there is no computer model to neatly relate all available information to produce a set of acceptable objectives. Thus, whichever conceptual scheme is followed and no matter how much information is available, in the final analysis objective-setting remains a creative exercise.

Once an objective has been set, it may be tested for validity using the following criteria:

1. Is it, generally speaking, a guide to action? Does it facilitate decision making by helping management select the most desirable alternative courses of action?
2. Is it explicit enough to suggest certain types of action? In this sense, "to make profits" does not represent a particularly meaningful guide to action, but "to carry on a profitable business in electrical goods" does.
3. Is it suggestive of tools to measure and control effectiveness? "To be a leader in the insurance business" and "to be an innovator in child care services" are suggestive of measuring tools in a helpful way; but statements of desires merely to participate in the insurance field or child care field are not.
4. Is it ambitious enough to be challenging? The action called for should in most cases be something in addition to resting on one's laurels. Unless the enterprise

sets objectives that involve reaching, there is the threat that the end of the road may be at hand.

> Canon illustrates this point clearly. In 1975, Canon was a mediocre Japanese camera company. It was scarcely growing and had recently turned unprofitable for the first time since 1949. It set a few enormously aggressive goals, most of them quantitative. Its key goals were to increase sales *fivefold* over the next decade, to achieve 3 percent productivity improvement per *month*, to cut in half the time required to develop new products, and to build the premier manufacturing organization.
>
> To achieve these goals, Canon established policies that focused on continuous improvement through the elimination of waste, broadly defined. Among other new policies, Canon put in place a number of organizational measures to promote active employee cooperation. A prime objective was to increase the number of suggestions per employee to 30 per year by 1982, up from one in 1975. This goal was achieved and then surpassed: by 1986, each employee was contributing, on average, 50 suggestions annually.
>
> Planning within the company was refocused on methods to reach targets and, more importantly, on identifying internal capabilities required to achieve targets. Another policy was to make every performance measure visual, so employees could see at a glance where they were in relation to goals. In each factory, for example, there are visual representations of ongoing improvement activity in relation to goals.
>
> By 1982, Canon had achieved each of its goals. It is now a significant and vigorous competitor in cameras, copiers, and computers.[25]

5. Does it suggest cognizance of external and internal constraints? Most enterprises operate within a framework of external constraints (e.g., legal and competitive restrictions) and internal constraints (e.g., limitations in financial resources).

> In the late 1970s, Toyota set as its goal to defeat General Motors. It realized that to do so, it needed scale. To achieve scale, it needed first to defeat Nissan. Toyota initiated a battle against Nissan in which it rapidly introduced a vast array of new autos, capturing market share from Nissan. That battle won, Toyota could turn its attention to its long-term goal—besting General Motors. Targeting the leader is a great way to build momentum and create an organizational challenge.

6. Can it be related to both the broader and the more specific objectives at higher and lower levels in the organization? For example, can SBU objectives be related to corporate objectives, and in turn, do they also relate to the objectives of one of its products/markets?

SUMMARY

The thrust of this chapter was on defining objectives and goals at the SBU level. Objectives may be defined as general statements of the long-term purpose the business wants to pursue. Goals are specific targets the corporation would like to achieve within a given time frame. Because SBU objectives should bear a close relationship to overall corporate direction, the chapter first examined the networks of mission, objectives, and goals that make up a company's corporate direction. The example of the Dow Chemical Company was given.

The discussion of SBU objectives began with the business mission, which defines the total perspectives or purpose of a business. In addition to presenting the traditional viewpoint on business mission, a new framework for defining the business was introduced. SBU objectives and goals were defined in terms of either financial indicators or desired positions or combinations of these factors. Also considered were product/market objectives. Usually set at the SBU level, product/market objectives were defined in terms of profitability, market share, growth, and several other aspects. Finally, the process of setting objectives was outlined.

DISCUSSION QUESTIONS

1. Define the terms *policy*, *objective*, and *goal*.
2. What is meant by corporate direction? Why is it necessary to set corporate direction?
3. Does corporate direction undergo change? Discuss.
4. How does the traditional view of the business mission differ from the new approach?
5. Examine the perspectives of the new approach to defining the business mission.
6. Using the new approach, how may an airline define its business mission?
7. In what way is the market share objective viable?
8. Give examples of product/market objectives in terms of technological leadership, social contribution, and strengthening of national security.

NOTES

[1] *Perspectives on Corporate Strategy* (Boston: Boston Consulting Group, 1970): 44.

[2] The discussion on Dow Chemical Company draws heavily on information provided by the company.

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[4] Lee Smith, "Dow vs. Du Pont: Rival Formulas for Leadership," *Fortune* (10 September 1979): 74.

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[6] Roger E. Levien, "Technological Transformation at Xerox," in *Strategic Management: Bridging Strategy and Performance* (New York: The Conference Board, Inc., 1992): 21–22.

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[14] "Coca-Cola: A Sobering Lesson from Its Journey into Wine," *Business Week* (3 June 1985): 96.
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[16] Abell, *Defining the Business*: 174–75.
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[18] Alex Taylor III, "Will Success Spoil Chrysler?" *Fortune* (10 January 1994): 88.
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[23] *Time* (28 March 1988): 36.
[24] "Higher Rewards in Lowered Goals," *Fortune* (8 March 1993): 75.
[25] Robert Reiner, "Goal Setting," in *Perspectives* (Boston: Boston Consulting Group, Inc., 1988).