

Ten things you need to know about objectives

Ian Marcousé provides a framework of ten concepts for revision. In this volume we look at aims, objectives, strategy and tactics

1 Corporate objectives

These are company-wide goals identified by the directors to achieve the company's aims. They must be precise enough to be monitored, making it clear whether the management has achieved or failed.

Example: Aldi has set itself the goal of having 1,500 stores across the UK. Its 2024 plan to open 34 stores takes it towards that figure (it had just over 1,000 UK stores at the start of 2024).

Advantage: this ensures that staff know that their employer has a growth plan – especially important when hiring ambitious younger managers.

Disadvantage: Aldi's corporate objective lacks a timescale, so there is a risk that staff will treat other things as higher priorities.

2 Corporate standing

This is making sure that the reputation of the business is as high as possible among all stakeholders.

Example: in 2024 Costa Coffee was voted the UK's favourite coffee shop for the 14th successive year. This implies a level of brand loyalty that makes it easy to launch branded Costa products into the grocery market.

Advantage: it is a way of boosting customer and staff loyalty and should make it easier to recruit the brightest and best new staff.

Disadvantage: corporate standing alone may make little sense as an objective. In the case of John Lewis/Waitrose, the company had high standing, but declining profits and declining staff bonus levels.

3 Cost minimisation

This is the goal of cutting variable and/or fixed costs to the minimum compatible with the long-term health of the organisation. The risk would be cutting too far.

Example: in November 2023, Reach, the owner of *The Mirror* newspaper, set itself the objective of cutting staff costs by 5–6% to help offset steady falls in annual revenues.

Advantage: cost-cutting is entirely within management's control. While the attempt to boost market share depends on the actions of rivals, cost minimisation is simply a matter of deciding what to cut and where. The key thing is whether to cut capacity (long term) or direct costs (short term).

Disadvantage: cost minimisation cannot be a satisfactory long-term objective, because profit involves revenue as well as costs. Consequently, it only works as a medium-term objective.

4 Diversification

Diversification involves spreading business risk by reducing a firm's dependence on one business division or income stream.

Example: at the end of 2023, Mars bought Hotel Chocolat. This gave it a new source of income and its first retail presence – diversifying from the grocery market that is the bulk of the company's business.

Advantage: if the growth of Aldi and Lidl keeps forcing grocers to hold prices down, it may be vital to have growing income streams from unrelated distribution channels.

Disadvantage: a useful business term is 'diworsification', highlighting that many businesses branch out into new areas, lose money heavily, then retreat back to their core business. As Ansoff proves, diversification is attractive, but very difficult to get right.

5 Maximising sales

Growth is a hugely attractive aim for many businesses, often leading to specific targets for sales revenue, such as 'reach £1 billion worth of sales by 2027'.

Example: in June 2024, aerospace firm Chemring Group plc announced a target to break the £1 billion sales barrier for the first time. It expected it would achieve this in its 2024/5 financial year.

Advantage: a hugely ambitious sales target might make it easier to attract top-quality graduate trainees who can see huge promotion prospects in the near future.

Disadvantage: targeting sales growth has brought down many businesses, including Volkswagen with its diesel emissions scandal. Overly rapid growth tends to bring new sets of problems.

6 Maximising profit

This involves trying to make as much profit as possible within a certain time period. It often boils down to short-term profit maximisation.

Example: a business in a fast-growing sector such as vegan food decides to maximise short-term profit before selling the business – either to a corporate buyer or by floating the shares on the stock market.

Advantage: maximising the sale price can create huge wealth that enables new business opportunities to be seized.

Disadvantage: ramping profits up to their maximum can mean selling shares at unfairly high prices, leading to unhappy buyers and a dent in the seller's reputation.

7 Objectives can be wrong

There is a temptation to blame strategy for failing to achieve objectives. However, the real problem may be that the objectives were wrongly set.

Example: over many years John Lewis was operating with growth targets that were unrealistic in a world moving online. This led to falling profits and a collapse in the profit share paid out to staff (it fell from 20% to 0%).

Advantage: the only advantage comes from recognising that the objectives are wrong and need resetting. This almost always waits until a new boss has taken over the business.

Disadvantage: chief executives may have large egos, making it rare to see a voluntary admission of having made a mistake. Instead, they may persist in pursuing faulty objectives for far too long.

8 Short term versus long term

Short-term objectives cover the period within which it is not possible to achieve fundamental strategic change. Long-term objectives cover the period when strategic change can happen.

Example: Apple has recognised that it cannot achieve more growth from iPhone sales. It has therefore set itself the medium-to-long-term objective of substantially increasing the money it makes from services such as music streaming.

Advantage: short-term objectives can galvanise staff, who appreciate the possibility of achieving something within a psychologically motivating time period, such as within a year.

Disadvantage: short-term goals can easily turn into short-term thinking, with staff taking decisions that help this year's profit at the cost of long-term customer or staff loyalty.

9 SMART objectives

These are objectives that are specific, measurable, achievable, realistic and time-bound. The two most important factors are measurable and time-bound, which make the objectives more specific.

Example: in late 2016, with its profit margins having slumped to below 2.5%, Tesco set a new objective of achieving net profit margins of 4% by 2020. In fact, it achieved 4.4% that year, which it successfully sustained through to 2024.

Advantage: as long as staff believe that the specific target is achievable, they may work harder to ensure that it is met. This is a bit like having a clear target of a specific grade to achieve in your Business A-level.

Disadvantage: if staff doubt that the target is realistic, they may find it demotivating – especially if annual bonuses are linked to achieving the impossible.

10 Survival

When businesses start out or when a recession hits, the corporate objective may suddenly focus on survival.

Example: in 2018 Jaguar Land Rover made pre-tax losses of more than £3 billion. Even though the Covid-19 pandemic was to follow, by 2023/24 the company was making its largest-ever profits.

Advantage: the need to survive is a hugely intense motivation that can unite a workforce. In good times, the vast salaries of top executives can make it hard to feel like 'we're all in this together'. When trying to survive, a strong team ethos is easier.

Disadvantage: as with short-termism, there is a risk that staff may take chances with the company's long-term future for the sake of short-term survival.

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