

Unit 2

Business Objectives

Overview

1. Understand the financial aims and objectives of businesses
2. Understand the non-financial aims and objectives of businesses : social objectives, personal satisfaction, challenge, independence and control
3. Understand why business objectives change in response to market conditions, technology, performance, legislation and internal reasons.

1. The important of clear objectives

: Businesses need to have objectives for the following reasons

- Employees need something to work towards. Objectives help to motivate people.
- Without objectives owners might not have the motivation needed to keep business going.
- Objectives help to decide where to take a business and what steps are necessary to get there.
- It is easier to assess the performance of a business if objectives are set. If objectives are achieved it could be argued that the business has performed well.

2. Financial Objectives

2.1 Survival

: At the beginning, owners face with high competition, lack experience and may be a shortage of resources.

2.2 Profit

: Most businesses aim to make a profit because their owners want a financial return. Shareholder would like to gain large dividends.

2.3 Sales

: This is because businesses with large volumes of sales may enjoy a number of benefits
Eg. - may enjoy the lower cost (economies of scales), have a large market share

Meaning market share : $\frac{\text{Sales of Com A.}}{\text{Total sales of sector}}$

2.4 Increase market share

: Businesses often want to build a large market share.

Advantages

- Able to dominate market ; as a result ; it is possible to charge higher price.
- Large market share also have higher profile in the market. As a result, it is easier to launch new products

2.5 Financial security

: Some business might aim to make enough profit to give them financial security. This is sometimes called “ Profit satisficing”

3. Non-financial objectives

: These are objectives that are not connected with money.

3.1 Social Objective

: **In the public sector**, gov owns business which concerns on social objectives.

Aims of government

- Social objectives are designed to improve human-being. eg. National Defence

3.2 Personal satisfaction

: Some owners have developed their hobby into a business.

3.3 Challenge

: Some people are motivated by challenges and starting a business can be very challenging.

3.4 Independence and control

: Some people want to be “ their own boss” - they want to be in control.

4. Why might objective change as businesses evolve ?

Its aims and objectives are likely to change. This is usually because businesses have to respond to events or changes in circumstances. Some of the main examples are outlined below

4.1 Market conditions

- A new entrant may appear in the market, a rival might introduce new products all the time
- The economy may start to decline. As a result, the demand will be declined.

4.2 Technology

- As the pace of technological development increases business may have to adjust objectives
- Eg. Automation : Firm changes aims to be increase sales of growth. Since would like to utilise machine and achieve economies of scales.
- Eg. Firms changes aims to increase market share after introducing online selling technology.

4.3 Performance

- The performance of business is not likely to stay constant.
- Eg. If business has been growing sales for several years, firms might decide to focus on profit.

4.4 Legislation

- New legislation might have an impact on the objectives of a business.

- Many business have become more socially responsible. This might be a reaction to new environmental, employment or consumer legislation.
- Eg. Construct building that were more energy efficient

4.5 Internal reasons

- Sometimes a business might change its objectives for internal reasons
- Eg. Change in ownership or change in the senior management team. (They might change from high market share to high profit in order to pay high dividend to shareholders)

Exercise part 1:

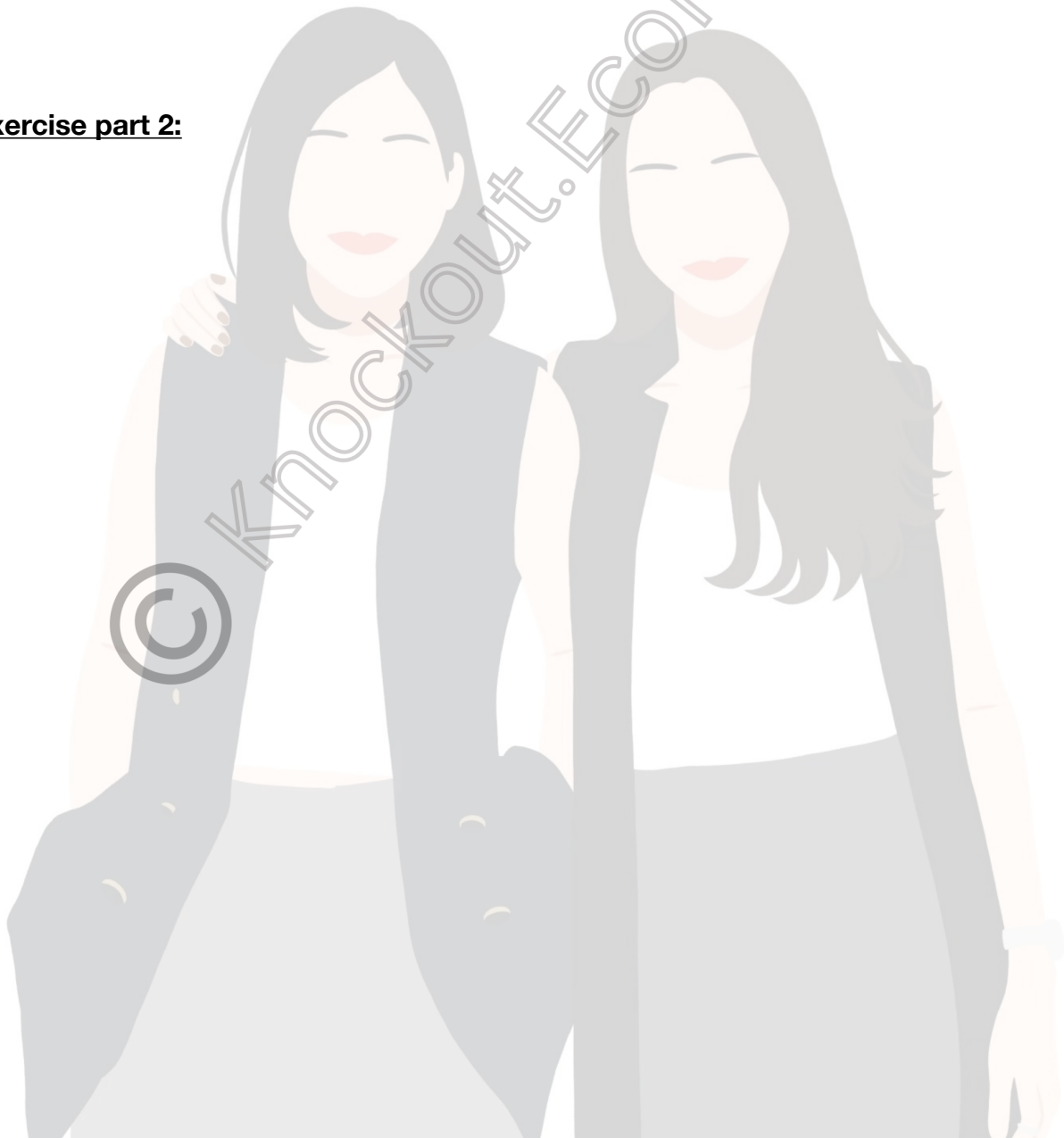
MULTIPLE-CHOICE QUESTIONS

SUBJECT VOCABULARY

revenue money from the sale of goods and services

- ▶ **1** Which of the following is a non-financial business objective?
A Increase market share
B Independence and control
C Profit maximisation
D Survival
- ▶ **2** Which of the following is a financial business objective?
A Improve customer service
B Independence and control
C Sales growth
D Improve social responsibility
- ▶ **3** Which of the following might cause business objectives to change over time?
A Technological development
B A rise in the price of shares
C Following the introduction of a new accounting system
D A change in weather patterns
- ▶ **4** Which of the following is likely to be an objective of a public sector organisation?
A Increase profit by 5 per cent in the next financial year
B Survival
C Increase **revenue** by 20 per cent over a three-year period
D Improve the quality of customer service

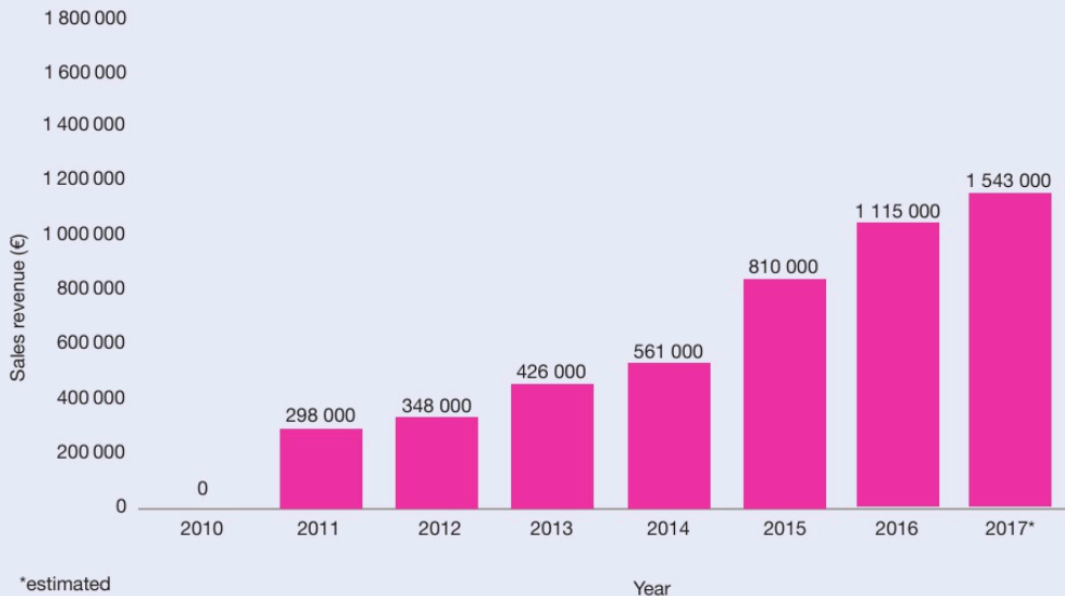
Exercise part 2:



CHAPTER REVIEW

CASE STUDY: SUPERSKISWISS.COM

SuperSkiSwiss.com is an online retailer of ski equipment and accessories. It is based in Basel, Switzerland and has recently branched into relatively expensive outdoor fashionwear. It targets skiers and young fashion-conscious consumers. It sells a combination of own-label and branded products. The company has grown rapidly since it was set up in 2000. Its ambitious aim is to be Europe's number one online shopping site for skiers. Figure 2.2 shows the growth in sales revenue between 2010 and 2017. SuperSkiSwiss.com hopes to achieve sales of €3 000 000 by 2020.



▲ Figure 2.2 SuperSkiSwiss.com sales revenue for 2010 to 2017

SuperSkiSwiss.com also claims that it wants to grow in a sustainable way. As a result, for example, the business is committed to the protection of the environment. The biggest environmental impacts from SuperSkiSwiss.com are carbon emissions from the distribution of goods, the running of buildings and waste from packaging. SuperSkiSwiss.com aims to use resources as efficiently as possible by controlling emissions and focusing on the sustainability of packaging. In 2016/17 SuperSkiSwiss.com cut its carbon emissions by 15 per cent. It also reduced its stock and vehicle movements across Europe and saved 11 tonnes of materials by reducing the number of swing tags (product labels) used.

CHAPTER QUESTIONS

- 1 What is meant by a business objective? Use this case as an example.
- 2 Some businesses have non-financial objectives. Name two examples of non-financial business objectives.
- 3 Work out the change in sales revenue between 2010 and 2017.
- 4 Describe one benefit to SuperSkiSwiss.com of sales growth.
- 5 SuperSkiSwiss.com may be concerned about social responsibility. What evidence is there in the case study to support this view?
- 6 How might a company like SuperSkiSwiss.com change its objectives as it evolves? Provide two reasons in your analysis.