

## Management by Objectives

Objectives are fundamental to the operation of a business. An objective is a written statement of results to be achieved, defining specific outcomes and establishing performance levels for the business, its manager and its employees. Objectives must be set for both the short and long range. They must be reasonable, attainable, measurable, detailed and time specific. They should be commitments, not facts; directions, not fate. An objective must have a means and a plan of accomplishment.

An example of an objective might be "to increase my business from \$24,000 to \$36,000 in the next 12 months." Another might be "to prepare, have printed and distribute 1,000 flyers to shoppers in the local mall, all within two months." Others might be "to hire and train a new sales clerk before the end of the fiscal year" or "to telephone each account receivable at the end of each month and to personally visit accounts that are more than six weeks delinquent."

Objectives should be written for every phase of a business, such as sales, service, bookkeeping, advertising, employee relations and marketing. Note that objectives should be written and reviewed frequently.

Every well-developed business plan should detail how the following will be accomplished:

- ! *Deciding* - Determining what must be done.
- ! *Planning and scheduling* - Setting time tables.
- ! *Performing* - Following through on decisions.
- ! *Controlling* - Monitoring events as they occur.
- ! *Coordinating* - Ensuring that each objective is in harmony and not at odds with the others.
- ! *Recording and documenting* - Keeping accurate and complete records.
- ! *Analyzing and evaluating* - Studying records.

## Essential Management Practices

The following are practices that are essential for a successful business.

- ! Have a written business plan that sets the objectives you want to achieve in the next year and the next five years.
- ! Analyze progress with hard numbers.
- ! Know your break-even point and when you are on target in reaching it.
- ! Have your accountant/bookkeeper prepare and thoroughly explain financial reports, such as profit and loss statements, balance sheets and cash flow sheets, in addition to those related to your tax returns.
- ! Even though your objective may not be to secure a loan, talk to your banker about your business. Know your numbers.
- ! Know exactly how much it costs you to make a sale, perform a service, make a repair, etc.
- ! Know how much inventory is on hand. Inventory is money. Old and obsolete inventory can paralyze your business.
- ! Solicit regular feedback from customers and make changes based on their suggestions.
- ! Join a trade association for your industry.
- ! Read the same publications that your competitors and customers read.
- ! Constantly scrutinize your competitors' advertisements and read their sales literature.
- ! Ask yourself the following about your competition: Is their business increasing or decreasing? How do you compare as far as quality, price, product line, exclusivity, service, reliability, location, warranties, delivery and courtesy are concerned?
- ! Talk regularly about business-related subjects with other small business owners.
- ! Review financial and marketing strategies often.
- ! Have regular training sessions for and regular motivation meetings with your employees.
- ! Recognize your own weaknesses and get help in these areas.
- ! Review the business plan monthly.
- ! Tell everyone on the payroll exactly what his or her responsibilities are and what is expected.
- ! Treat employees as individuals.
- ! When an employee does a good job, tell him or her.
- ! Keep as accurate a set of records as possible.
- ! Analyze your records often and take any appropriate steps that may be indicated.
- ! Take pride in your business.

## A business plan

- ! Clearly states both the short- and long-range objectives of the business.
- ! Provides the direction or plan for achieving these objectives.
- ! Provides financial forecasts based on your estimates of the future and your business experience.
- ! Provides budget guidelines, including projected cash flow analysis and income statements.
- ! Gives a break-even analysis of your business.
- ! Helps determine the amount and kinds of financing best for your business.
- ! Gives banks, investors and suppliers useful information they need to make fast and accurate decisions about your business.
- ! Forces you to think through every aspect of your business and recognize opportunities for growth and profit.
- ! Provides financial information so that the past can be compared to the present and future.

## Calculating the Cost of a Service

A simple, easy-to-understand method of calculating the cost of a service is by basing the cost on billable hours. Because services must be provided by people, begin by determining the number of hours available for billing in a year. Then calculate the break-even point by dividing the overhead and labor charges by the billable hours and adding the cost of any materials used. Your desired profit is then added to the break-even point. Two examples are shown below.

### Example 1

Two people experienced at bookkeeping open a business together. They estimate their overhead expenses as shown in Table 2.

The two entrepreneurs decide they each want a salary of \$25,000. In this case, the salary is actually an overhead expense, but we will treat it separately because the principals decide they want to make a profit of 20 percent on their salaries but only a 10 percent profit on their overhead. These expenses are set out below in Table 3.

**Table 2 - Estimated overhead expenses**

Expense	Amount per year
Rent	\$9,600
Utilities	1,800
Telephone	1,200
Office supplies	1,200
Insurance	600
Depreciation	2,500
Advertising	2,000
Miscellaneous	1,500
Total	\$20,400

**Table 3 - Estimated total revenues required**

Expense	Amount per year
Owners' salaries	\$50,000
Profit on salaries (20%)	10,000
Overhead	20,400
Profit on overhead (10%)	2,040
Total	\$82,440

The number of working days per year is 260 (52 weeks x 5 days). Subtracting holidays, vacations and sick days, the actual number of work days total 230. Two people working 8 hours per day results in 3,680 hours (230 x 2 x 8 = 3,680). However, the bookkeepers estimate 20 percent of these hours (736) will not be spent working for clients. Therefore, the billable hours for this company total 2,944.

To determine what rate to charge, the bookkeepers divide the desired revenue (\$82,440) by the number of billable hours (2,944), resulting in an hourly rate of \$28.00. Profit is then calculated by subtracting total overhead and salaries from the proposed revenue ( $\$82,440 - \$70,400 = \$12,040$ ). This is the profit to be realized, assuming the billable hours figure is realistic for the first year of operation.

## Market Strategy

Market strategy involves identifying customer groups that small businesses can serve better than larger competitors can, and tailoring products, services and promotional efforts to that particular market segment.

Ideally, this strategy should address the customers whose needs are not currently being met in the marketplace and whose needs are great enough to provide a profit. Small business should analyze its market and capabilities, and focus on that part of the market it can serve best.

## Target Marketing

Because small business owners may have limited funds to spend on marketing activities, they should consider restricting their efforts to one or two key market segments by

- ! *Geographic targeting* - Specializing in serving the needs of customers in a particular area, thus restricting advertising and promotional efforts to that area.
  
- ! *Customer targeting* - Identifying and promoting to those groups of customers most likely to buy, e.g., promoting boat products to boat owners.

## Market Mix

*Product and Services.* Small business owners may use the strategy of concentrating on a narrow product line, selling a highly specialized product or service or providing a product/service package that includes a large amount of skilled or personal service.

*Promotion.* This area includes advertising, sales tactics and other promotional activities. High quality selling is a must for small businesses and is one of the most effective types of promotion. (For a detailed discussion of advertising, refer to the above section on advertising.)

*Location and Product Distribution.* Selecting the proper areas for distribution and sale of certain products is crucial. Successful selling of popcorn requires high traffic areas with high visibility. On the other hand, a plumbing supply house does not require a high traffic area, as people will go out of their way to look for it.

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