How to Set Business Targets

In a competitive business world, it is imperative to have business targets, otherwise running blindly will not have your control on the output. Now "how to set business targets?" is a big question in itself. It is very important to fix targets that will help in making shareholders/investors happy, motivate employees but at the same time limiting the downside by not setting too aggressive targets. To solve this predicament, one needs to understand various parameters that an organization depends on to set their annual objectives/targets, which are:

External Factors

1. *Economic Environment*

a) Macro-economic Factors → Looking at the larger picture like unemployment, interest rates, inflation, tax-rates might help in giving a realistic view of the targets to be set.

b) Micro-economic Factors → Smaller factors like demand-supply analysis are very important while deciding, so that action can be taken accordingly for production and push/pull marketing

2. *Regulatory Environment*

a) Regulatory norms → Analysing the current outlook for the industry i.e. if the regulatory environment (taxation, trade policies, politics, economic policies) directly/indirectly favours the industry or not.

Internal Factors

3. *Industry performance*

a) Competitor Analysis → Analysing competitors on their targets, market-share can give a calibrated view of competition based on comparative analysis. Accordingly, steps can be taken to be ahead of the market or following the market.

b) Industry life cycle → Similar to business life cycle, it is imperative to understand the phase of industry to take on aggressive / mild business targets.

4. *Business health*

a) The phase of the business cycle (Development/Growth/Maturity/Decline) → Each phase will drive the organization to set targets according to their current phase.

b) Financial Health → Reserves and surplus can provide the opportunity for new investments and hence more ambitious targets. Overall Balance-sheet size and Revenue statement is the reflection of company's creditworthiness for investors' fund/ debt

c) YoY Growth (as compared to Industry average) depicts the trend in business growth, which is another indicator while target-setting.

5. *Feasibility*

a) Forecasting cashflows → Cash flows can be forecasted based on daily operations, investments and cash inflow then discounted by market rate of return to arrive at NPV. Positive NPV shows Financial viability for the project/business and negative means to either stop the project or change the path completely. Healthy cash-flows suggests more risk can be taken.

b) Budget allocated → Budget allocated to a project restricts the projection for a target, whereas overspending might lead to complete loss. Hence optimum budget is needed.

6. *Risk Appetite*

a) Ambition → Varies from one leader to another (from risk-seeker to risk-averse). Ceteris paribus, a risk-seeker leader will set the targets higher than a risk-averse leader.

b) Deep pockets → High on reserves and surplus and good investor relations might give way for aggressive target setting.

7. *People & Process*

a) Employee's Capability → If employees are capable enough to deliver high in tight timeline will contribute to the target-setting.

b) Engagement → Higher the engagement, higher the chance of delivering more than expected.

c) Process Optimization → Using better tools to supervise various processes, which help in bridging the missing links between different processes, help in reducing duplication, monitoring and control and constantly upgrading the processes through feedback. So, a CMM Level-5 company having optimized processes could set a better target than a CMM level-2.

Targets can be set based on all the above parameters, based on their contribution towards achieving business objectives. Different weightages can be set based on historical study/analysis and current scenario, which will help in arriving at the realistic picture.