
DON'T AIM FOR PROFIT. INSTEAD, CREATE CUSTOMERS!

by Virak Prum, PhD
Chairman & Professor, CamEd Business School

Purpose of any business

It is well known that the purpose of a business is to create customers. Nothing else should matter as much. Peter Drucker, the well-regarded creator of management study as a distinct discipline, announced his wisdom early on when he published his *The Practice of Management* in 1954. There is, he wrote then, “only one valid definition of business purpose: to create a customer.” (p.37) Yet, it is not uncommon to find managers and economists so focused on profit maximization which leads them to prioritize on quick wins, neglecting the need for a more comprehensive strategy. True, business environment in the 1950s might have been quite different to what we are facing presently. Globalization and technological advancements have brought about new challenges and changing realities into the market, a phenomenon which could make long-term strategies less certain. But, even so, half a century after his famous book first appeared, in the revised edition of *Management* published in 2008, the assertion remained unchanged: “to maximize profits...is not only false, it is irrelevant.” (p.97)

If not profit, aim for what?

Granted, most books on corporate finance and financial management readily follow the same concept: maximization of profits for shareholders. “The success of a corporation depends on how...to increase value,” write Richard Brealey et al. (*Principles of Corporate Finance*, 2nd ed, 2011, p.1). And they are not wrong in claiming so, because that is what finance managers are hired to do. But they are exactly that: managers, rather than strategists. Managers are different from strategic leaders in that managers are obsessed with planning and costing whereas leaders believe in a vision and devise a strategy after evaluating various options. Planning is not strategy. In any sizeable firm, plans generally exist everywhere.

If you care enough to bring all the plans from all the divisions and view them altogether, they usually fail to form a big coherent whole. It will not be a surprise to find out that some plans are even counterproductive to each other. Lafley and Martin, in their best-selling 2013 book called *Playing to Win: How Strategy Really Works*, do not directly talk about profit maximization in their famous 5-question strategic framework.

Thinkers who do not treat profit maximization as a guiding purpose might not be always right. But profit, as any reasonable person can tell you, ultimately should be the likely result anyway if you have a right strategy and faithfully carry it out in an innovative manner. This is why two respected strategic thinkers painstakingly studied and tested their theory and bet everything on what they have famously called Blue Ocean Strategy, which powerfully recognizes “value innovation” as the cornerstone (Kim and Mauborgne, 2005). Maximization isn't the same as innovation. Simply put, value innovation focuses on “making the competition irrelevant by creating a leap in value for buyers and your company, thereby opening up new and uncontested market space.” (p.12) As such, the recommended business strategy is one that must aim to create new market and find new pools of customers.

Any observable trend?

A quick search on mission statements or similar statements adopted by purposeful companies in various industries—social media, food and beverages, hospitality, banking and manufacturing—tends to reflect the power of a customer-centered business model, a trend that is self-reinforcing.

Industry	Statements on mission, purpose or similar aspirations	Source
Meta (Facebook)	Giving people the power to build community and bring the world closer together.	https://about.meta.com/company-info/
Brown Coffee and Bakery	The BROWN family is committed to excellence and to providing friendly and welcoming service.	https://www.browncoffee.com.kh/page/Our_Company
Airbnb	Every day, hosts offer unique stays and experiences that make it possible for guests to connect with communities in a more authentic way.	https://news.airbnb.com/about-us/
ABA Bank	Our mission is to help Cambodia, Cambodian businesses and people to build a bigger and brighter future...	https://www.ababank.com/en/about-us/vision-mission-values/
Toyota USA	We create vehicles by listening and responding to you. Why? Because it's our belief that our cars should do more than help you go places on the road, they should also help you go places in life.	https://www.toyota.com/usa/our-story#philosophy-practice

How many times are these words You, People, Community used in the above statements? If you are a coffee lover like I am, you have certainly tasted the world's most recognizable brand: Starbucks coffee. Instead of settling for an uninteresting drink, Starbucks strategy is to allow customers to have coffee tailored to their personalized liking with various options to choose, from the level of sweetness to the amount of caffeine (or decaf) to the type of milk to the amount of ice or heat and many more varieties. Obviously, Starbucks company strives to create and nurture returning customers who are made to feel as if the brand belonged to them wherever they may be, globally. When the world was hit by the Global Financial Crisis in the years 2007-2009, Starbucks registered a 21% decline in earnings but, after introducing several bold moves, the company subsequently turned things around. One such recognizable move was to "ignite the emotional attachment with our customers" (*Leading the Starbucks Way*, Joseph A. Michelli, p.3-4, 2014). This is the reason why, "to inspire and nurture the human spirit—one person, one cup and one neighborhood at a time" is the mission statement of Starbucks Coffee Company (<https://www.starbucks.com.kh/about-us/company-information/mission-statement>). It does not require a rigorous training to be able to predict that Starbucks coffee shall remain a successful business (and therefore profitable) in the foreseeable future because they, clearly, have embraced Drucker's advice that the purpose of a business is to create a base of inspired clientele, first and foremost.

Any alternative?

Maybe. Of course, people don't like the idea of a one-size-fits-all prescription. They aspire to believe what they choose to believe. But for all the technological breakthroughs and for all the knowledge we have acquired concerning the mysterious universe, nobody can yet claim with certainty whether our human species had evolved à la Darwinism or were created by God. Uncertainty is the rule when it comes to big things. And in a big field such as economics, there often are numerous uncontrollable factors at play that can affect the fate of a particular industry at a particular time. For instance, if in a given country, the government suddenly decides to heavily subsidize local products so much that foreign imports simply become totally uncompetitive, imports would decrease unless the importers succeed in re-inventing a new value proposition based on some uniqueness that makes pricing an irrelevant factor for customers. For example, for those who readily pay \$4 dollars for a cup of coffee, price does not seem to be a problem. In Phnom Penh, with all the promotional discounts that are now offered regularly, loyalty and stickiness are hardly breakable. The existence of an expanding business ecosystem adds more value quickly, which helps to create and retain customers. And if yours is already a powerful and dignified brand, it can, with some localized tweaks, carry itself far and wide. For instance, faced with an initially strong resistance from

Vietnamese consumers, observers were quick to suggest that Starbucks would pull out of this coffee cultured Asian country. But the last time I checked, by September 2023, Starbucks had just opened its 100th store in Vietnam (<https://en.vietnamplus.vn/starbucks-opens-100th-store-in-10-year-journey-in-vietnam-post268156.vnp>).

So, how can we do it strategically?

Complexity belongs in a fool's toolkit. Resolving complex matters in simple ways is a habit of a genius. I am sure this statement sounds familiar. I recently gave a speech at CamEd Graduation Ceremony 2024 in which I asked graduates to simply ponder over three things: norm, progress and freedom. It would be great if strategy may be thought of this way:

Stage 1: Strategy as Norm. For example, formulate something to this effect: I am going to try to convince ten couples a week, come what may. Stick with this norm, you and your team. Commit to do as you say without second-guessing. Make it a law that you don't break unless warranted by absolutely necessary circumstances.

Stage 2: Strategy as Progress. This is when all the identified suitable and feasible resources are brought into action. All acceptable changes that must happen have to happen. No nonsense nay sayers; no reactive excuses. Keep going, keep doing, keep progressing until the desired norm has become a routine. Watch out for resistance and handle it tactfully. If necessary, do the unexpected.

Stage 3: Strategy as Freedom. If your normative strategy involved creating more excitement so that customers would want to stay a night longer (Sunday night) on top of their usual Saturday night stay, it should be clear by now what tactics/resources were used effectively, which led to progress. For things that worked, continue to execute them with tweaks as may be necessary. Those that did not work must be freely dropped, so as to give you needed space to maneuver. Also, don't forget to freely take lessons to heart and freely evaluate progress and pitfalls.

Quite often even well-versed normative strategies fail to achieve results because they are not progressively executed and become quickly unrecognizable, making the whole team lose confidence. So, execution, execution, and progressing. If, after executing it faithfully, it somehow creates effects not as intended, you must feel

free to revise, rectify, drop and try new ways. A strategy that offers no such freedom can become outdated or even harmful. Creating customers is not easy but not impossible. No strategy can bring you customers unless you act. Along the way, learn to appreciate progress and celebrate even small gains. Take to heart The Power of Small Wins (Amabile and Kramer, HBR, 2011).

Great, but will it work?

Have some faith. Let me draw a parallel from something bigger than ourselves, the fabric of our democratic society. If you read political or constitutional law materials sometimes, you would notice the idea that there should be three branches of government, three stages of governing: legislative stage, executive stage, and judicial stage. If legislators and ministers are inherently faithful and wise, a good law should carry itself at ease at these two stages since the intended effect was clearly identified from the get-go. Likewise, an effective strategy should manifest itself at the normative and the executive stages. Otherwise, just as a badly worded law would give ministers and judges headache and confusion, a poorly articulated strategy renders execution unnecessarily hard and, worse, it won't accommodate freedom that the evolving market space requires every so often. True, even without a good strategy, pure luck might still bring about some success sometimes. But if you do not grasp the challenge and do not assess what the challenge means for the future, less customers guaranteed.