

Core Principles of Business

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Most businesses fail long before they open the doors to the first customer. These failures come from not understanding the 4 core principles that are the foundation to every successful business.

1. A Large And Growing Market

Businesses live and die based on the number of customers they have and the ability to grow that number. The larger the market, the greater the potential there is for finding customers. The second part is the market needs to be expanding. Growing markets are increasing opportunities. Every day the market grows that is potential growth for the company. In contrast contracting markets have less opportunity every day. Imagine it is 1905 and you are given the choice of partnering with the best buggy whip maker of the day or Henry Ford. Looking back the choice is obvious. Horse drawn carriages were on their way out, a contracting market and cars were an expanding market.

2. Unique And Consumable Products

This is one of the biggest failures in modern business is the “me too” effect. If your product is indistinguishable from the competition you are dealing with a commodity product and will be forced to compete on price alone. Competing on price you have no control of your market and will eventually be under cut. In a price war no one wins. A good modern example of this is the computer industry. Look at the major players in personal computing Dell, HP and Apple. Dell and HP are forced to compete on price. Exclude some cosmetic differences their products are essentially identical. Apple on the other hand offer a product that is unique from the other two and competes on quality. This leads to much different expectations from customers. Buyers expect to be able to buy a decent HP or Dell laptop for under \$800 and react poorly to the idea of spending \$1200-1500 for a better model. At Apple you can't buy a laptop for under \$999 and most end up with a better equipped model for \$1200-1500. Uniqueness has allowed Apple to gain market share and maintain pricing control. Consumable is the second half of the product equation. If a product is not consumable your customer has no reason to become a repeat customer. Nike is a company that takes the product mix to an art form. Nike develops proprietary performance technologies (unique) and puts them into shoes that wear out from use (consumable).

3. Trends

A trend is the most powerful force in business. A trend is a shift in the needs or wants of a large group of people. For the last 60 years the “Baby Boomers” have been the dominant trend setters. As a generation the boomers have set major trends that last almost two decades. The real estate boom and bust of the 1970’s and 1980’s is directly attributed to the boomers moving out of their parents houses and buying homes of their own. When the major wave of first home buyers dried up the market crashed. I have a suspicion that when the smoke clears on the most recent real estate bubble the rise in prices that started in the back half of the 1990’s will be attributed to the “Echo Boom” (kids of the baby boomers) moving out of their parents houses and buying homes of their own. These trends are important because catching the trend on the way up ordinary people make extraordinary incomes. Those who get in on the back side of the trend end up working harder for less every day.

4. Employ Others To Work For You

Money is made one of two ways. People at work or money at work. A business that is limited to the owners working hours has limited opportunity for success. Business don’t hire people to be swell, they are hired to expand the productivity of the business. Lets say you own a business. If you are the only one working that is how productive the business is. Lets say you work 40 hours a week. Now you higher Jim and he also works 40 hours a week. As the owner of the business you now have 80 hours of production a week, 40 from you and 40 from Jim. Jim worked out so well you hire John and Pat to each work 40 hours a week. Your business is up to 160 hours a week of production but your own efforts only represent a small portion of that time.

Business of all sizes all over the world have succeeded or failed because of these 4 core principles of business. Ignore them at your own peril or embrace them and position your self for success. How does your business or the business you are planning compare to these principles?