

A2 Micro: Business Objectives

A short revision webinar covering profit maximisation, changes in costs and revenues and pricing with different business objectives

Revising A2 Economics (Micro)



Build lots of real world examples into your notes
Common industries used include food retailers, utilities, banks, airlines, technology sectors

Business Objectives



Profits and Profit Maximisation



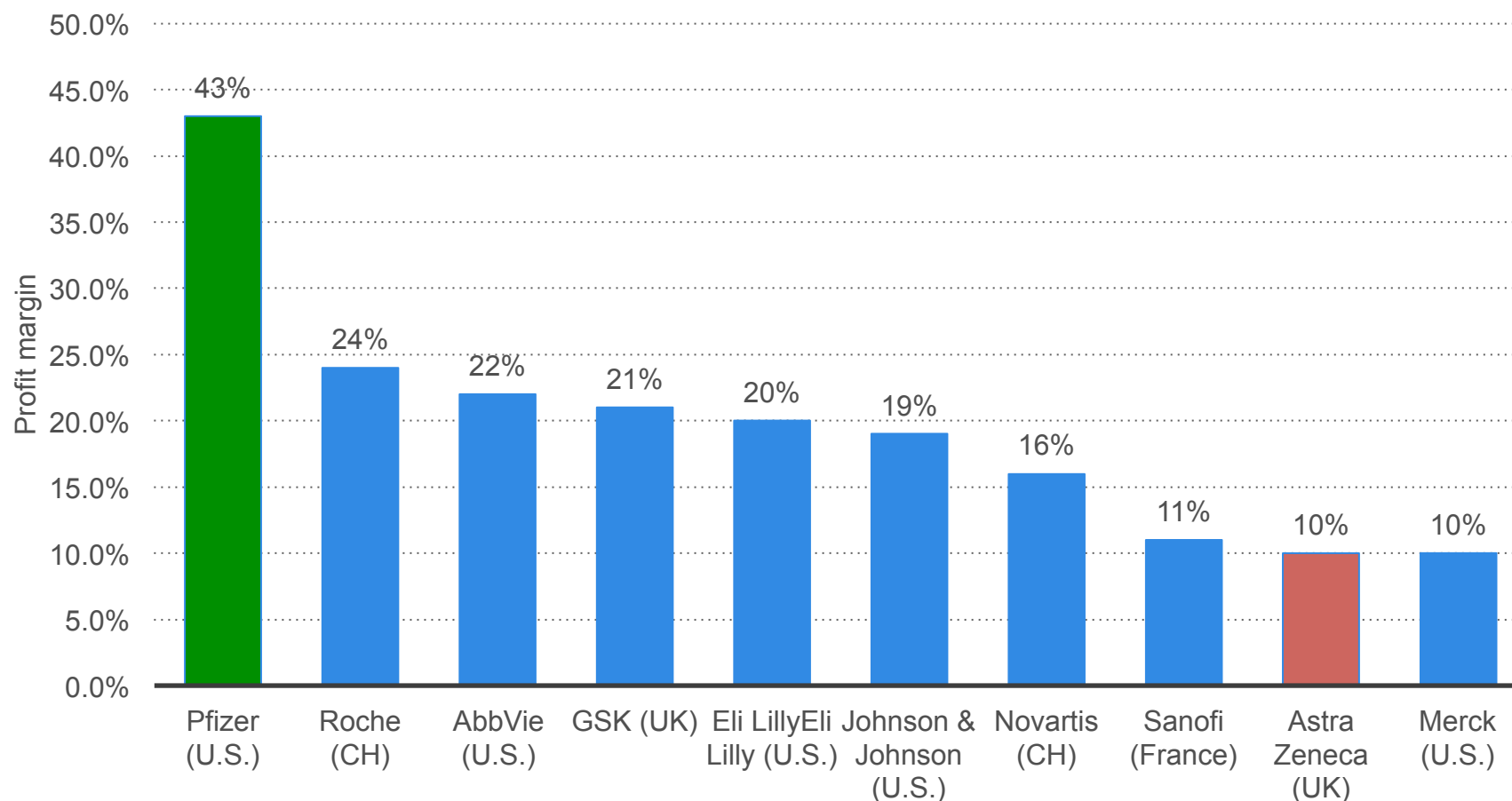
The Importance of Profit

Profit is an important objective of most firms

1. **Finance for investment:** Retained profits are source of finance for companies undertaking investment
2. **Market entry:** Rising profits send signals to other producers within a market
3. **Demand for factor resources:** Resources flow where the expected rate of return or profit is highest
4. **Signals about the health of the economy:** Rising profits might reflect improvements in supply-side performance. Strong profits are also the result of high levels of demand.

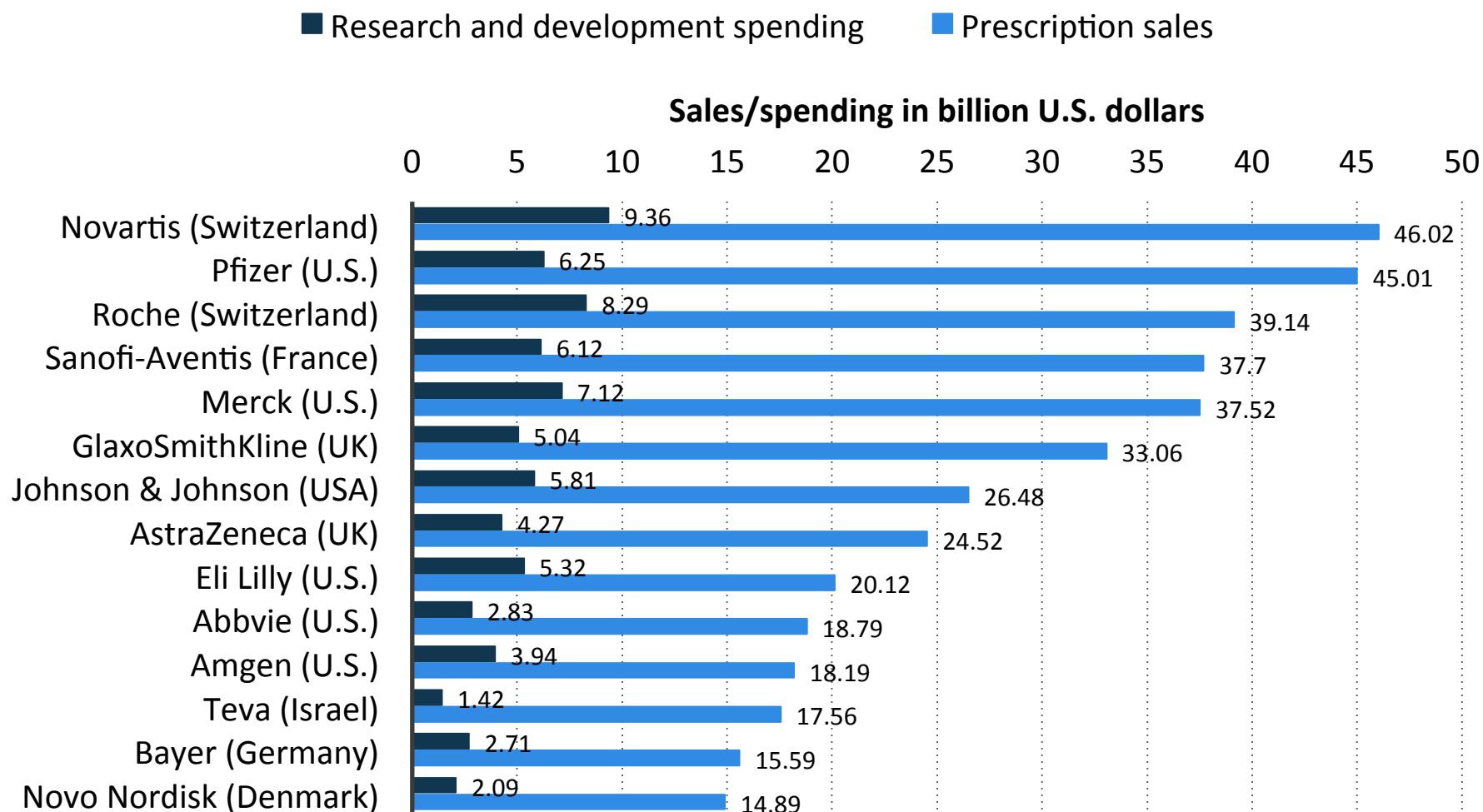
High Rates of Return in Pharmaceuticals

Profit margin of top 10 global pharmaceutical companies in 2013



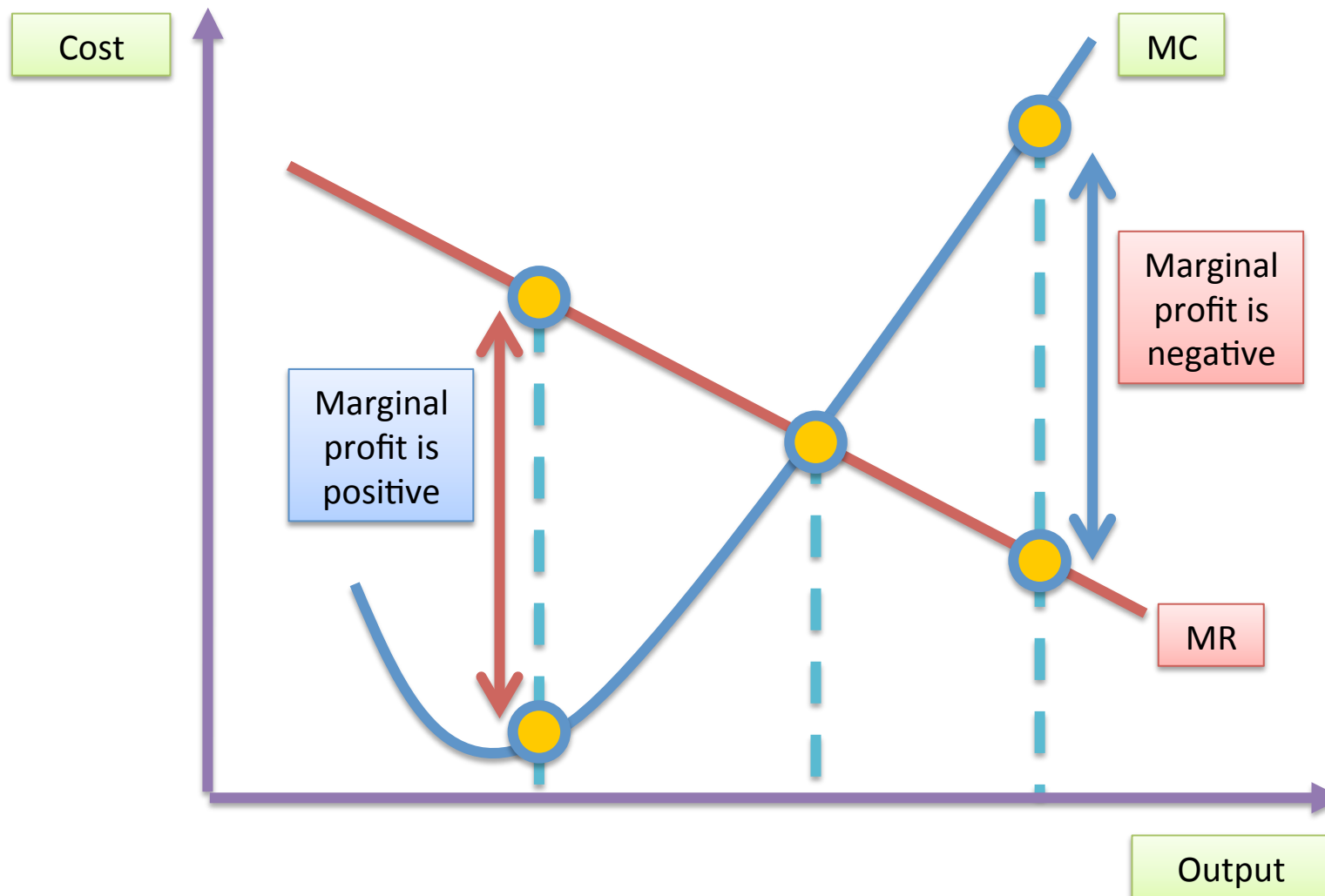
Research Spending in Pharmaceuticals

Top global pharmaceutical companies by prescription sales and R&D spending in 2013 (in billion U.S. dollars)



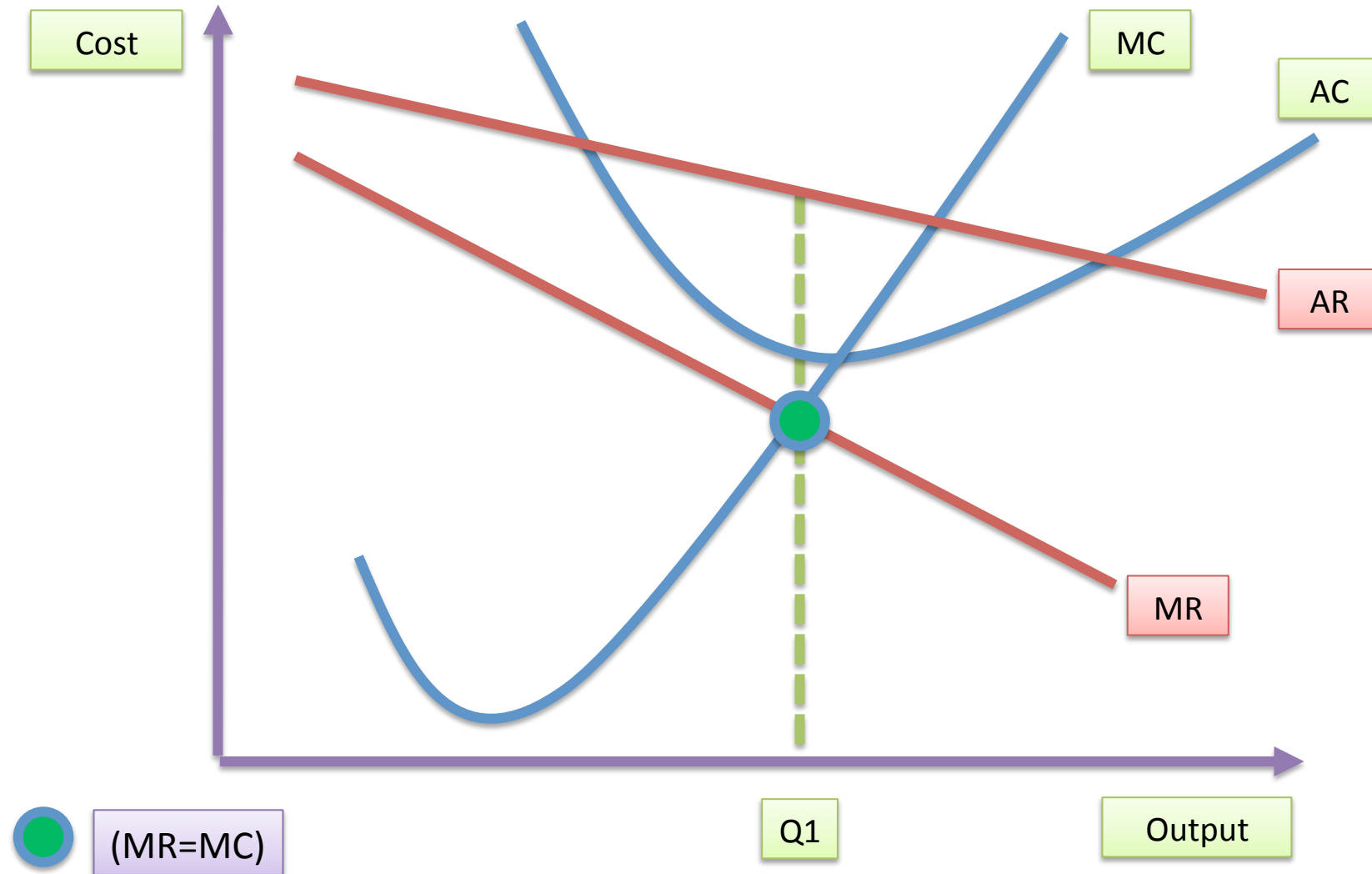
The Concept of Marginal Profit

Marginal profit is the increase in profit when one more unit is sold



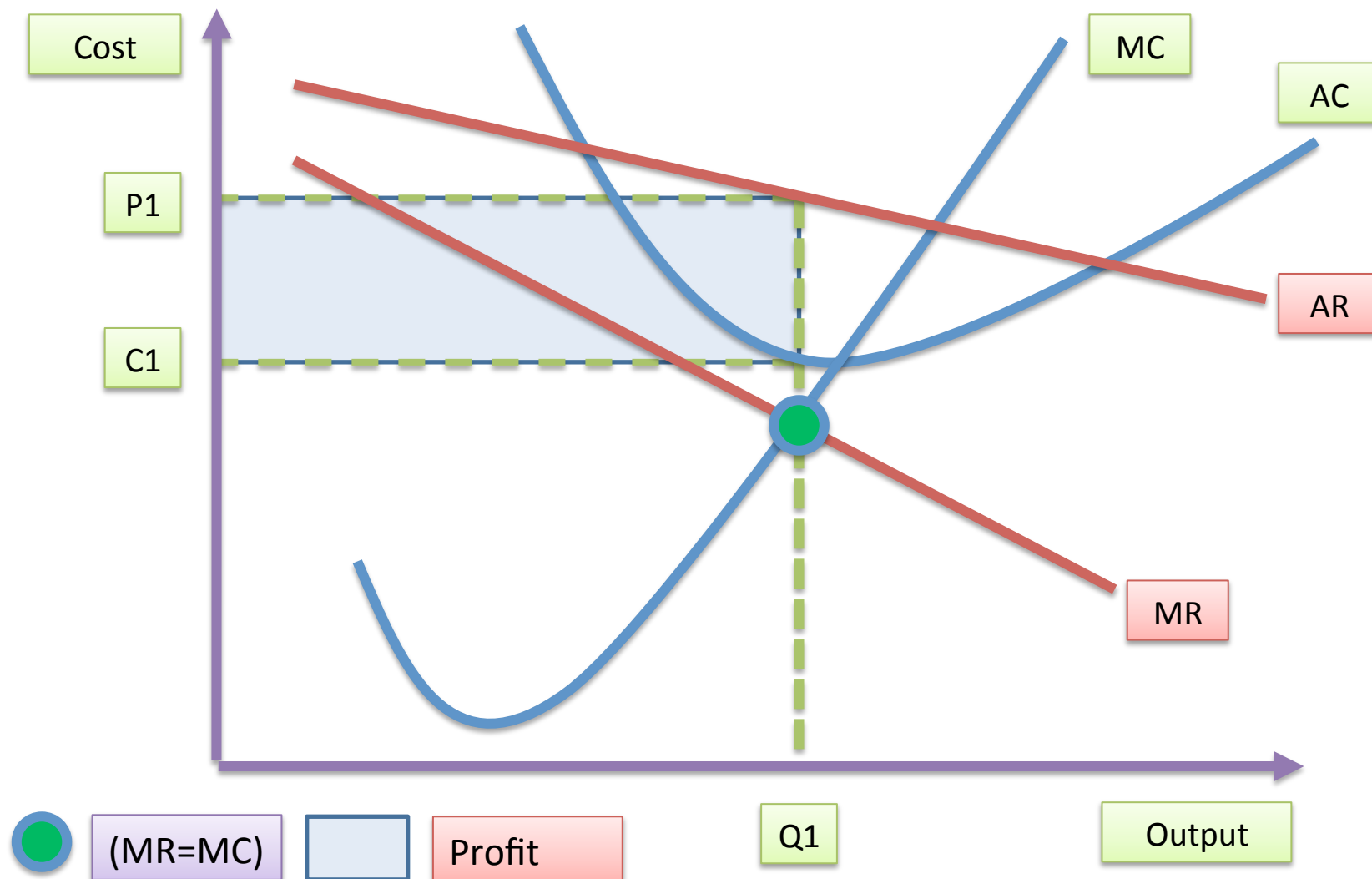
Profit Maximisation

Total profit is maximised when **marginal revenue = marginal cost**

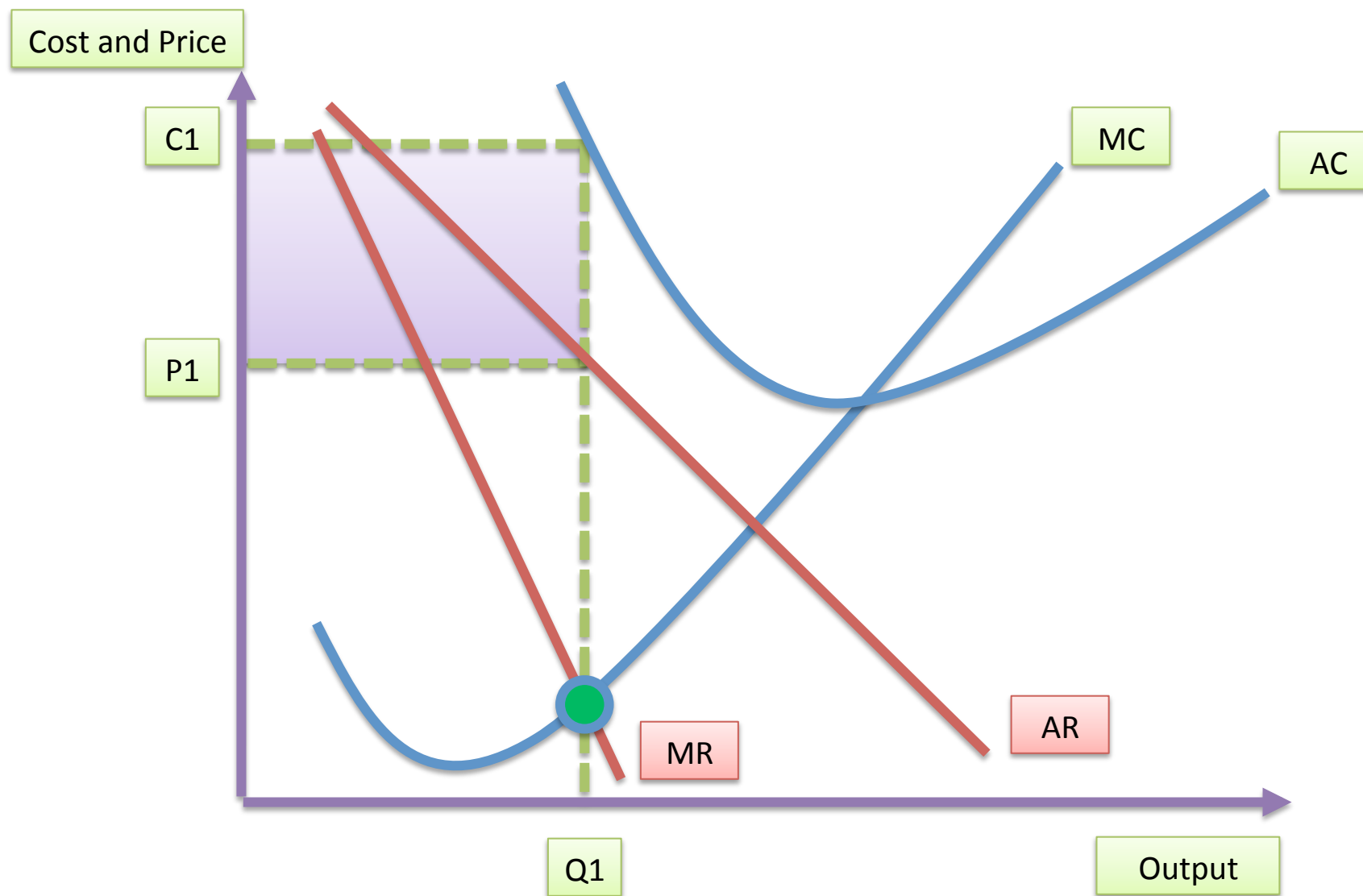


Profit Maximising Price and Total Profit

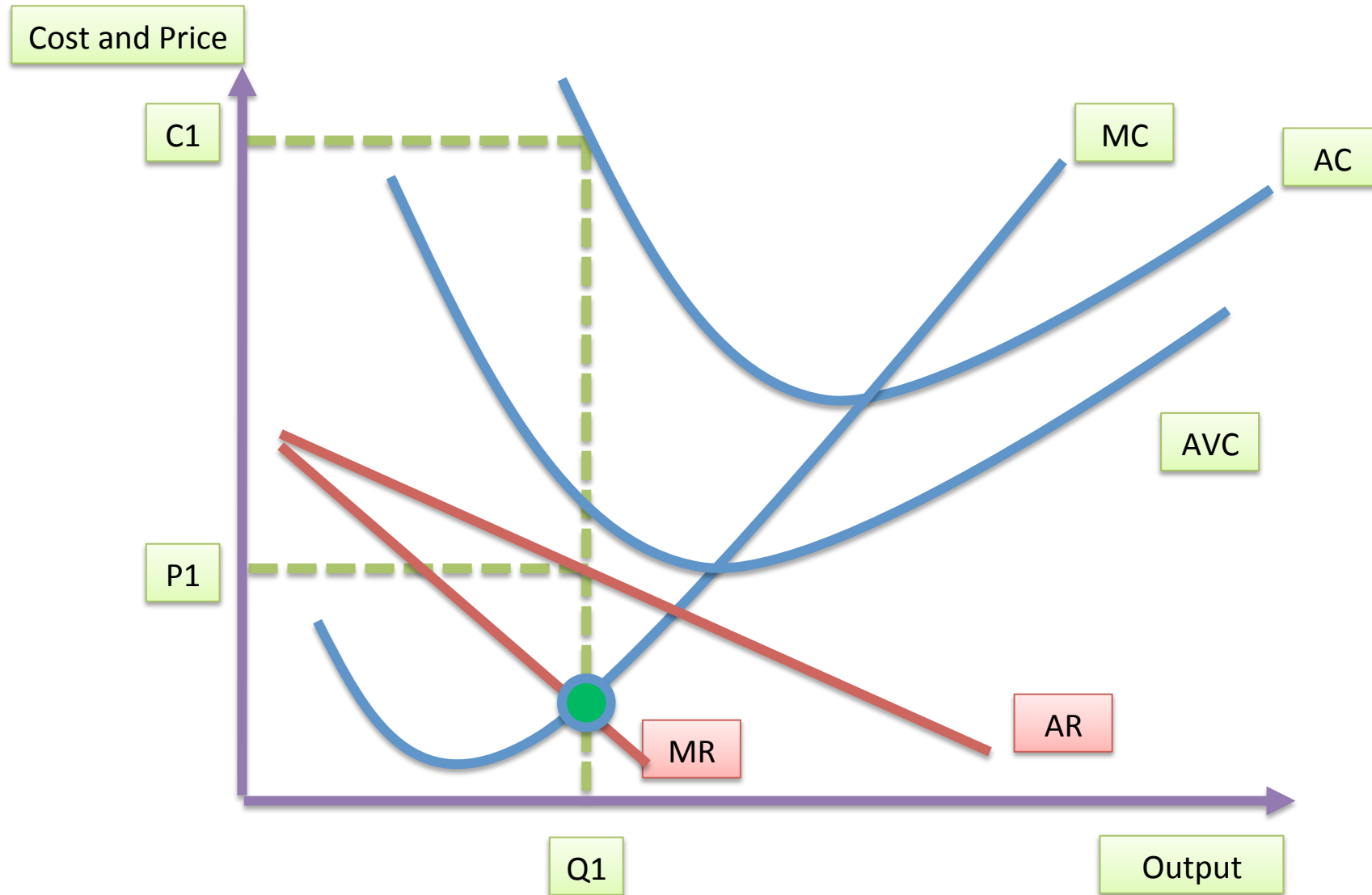
$P1$ is the profit maximising price; total profit = $(P1 - C1) Q1$



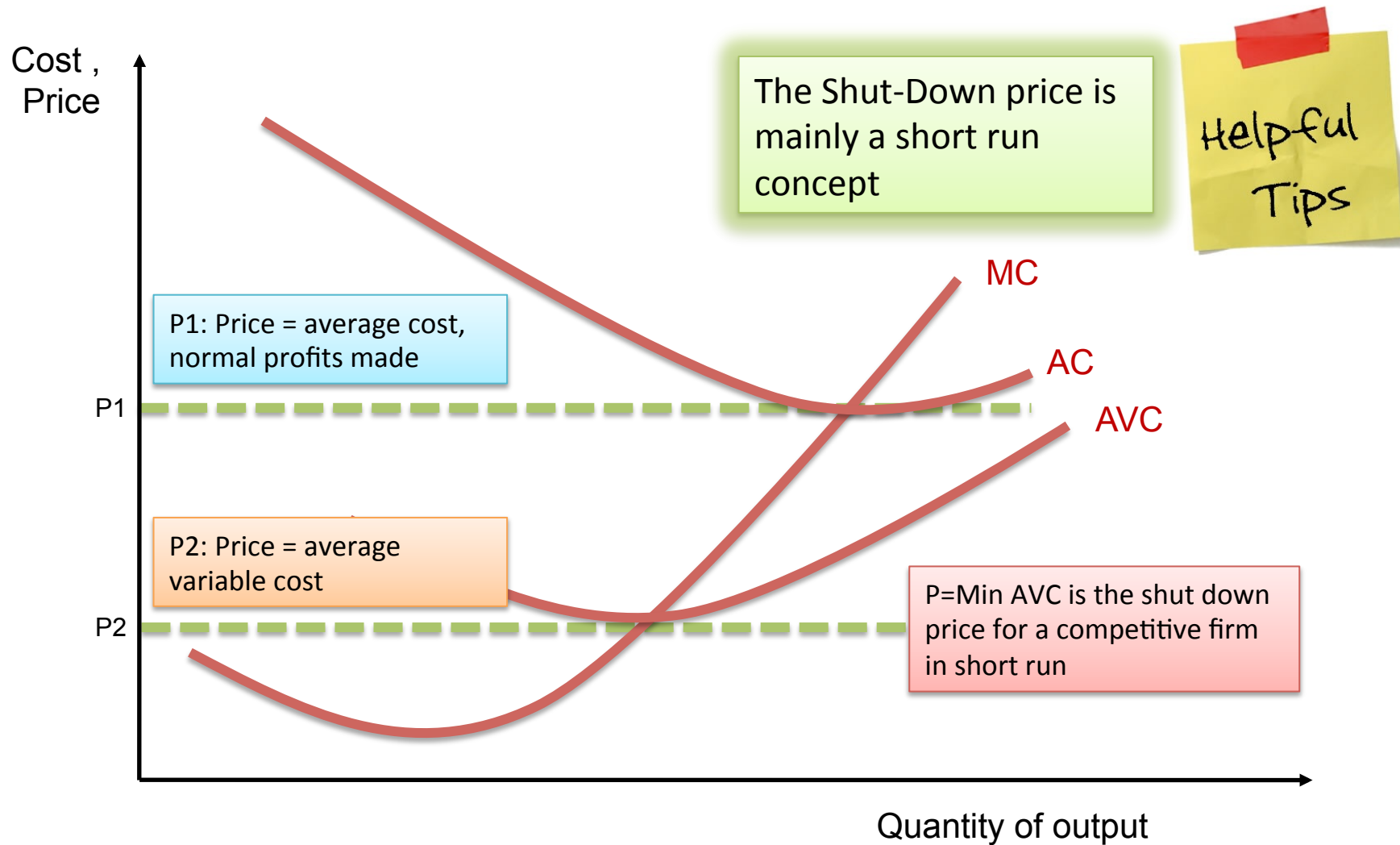
Economic Losses (Sub Normal Profit)



Shut Down Price in the Short Run

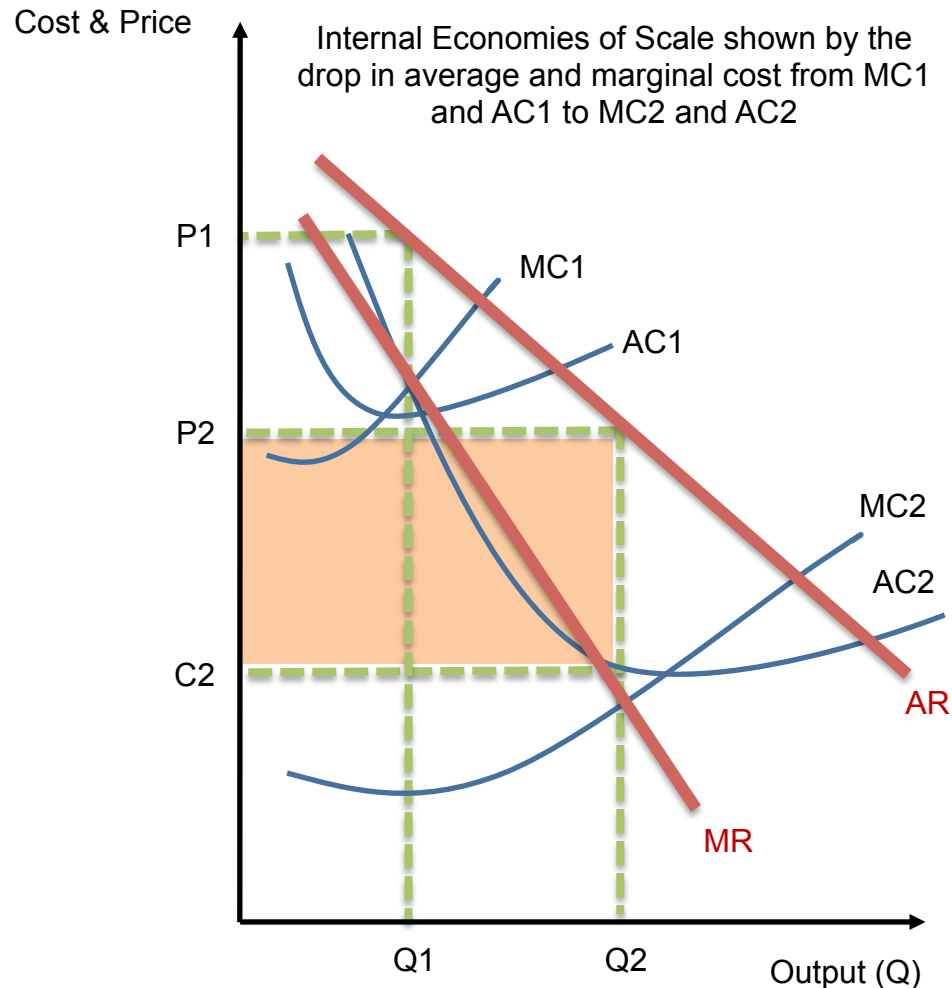


Shut Down Price in the Short Run



Prices and Profits with Economies of Scale

Economies of scale lead to higher supernormal profits



The profit maximising price when costs are high is P1 and Q1

When internal economies of scale are achieved, the profit-maximising price falls to P2 and output expands to Q2

Economies of scale mean lower prices for consumers

And higher profits for producers

Supernormal profit at price P2

Different Business Objectives



Profit
Maximisation



Sales Revenue
Maximisation



Business Growth /
Market Power



Business Survival



Not For Profit
Social Enterprises



State-Owned
Businesses

Reasons for Avoiding Profit Maximisation

Many business are profit-seeking but not always profit maximising

- Non-profit maximisation means moving away from an output where $MC=MR$
- Many reasons put forward including increasing market share at the expense of a rival by cutting a firm's prices
- The main aim of a business could be **long-run profit maximisation** which can involve **sacrificing some of the short run profits**



Protecting an existing Market Position



Business survival in hard times



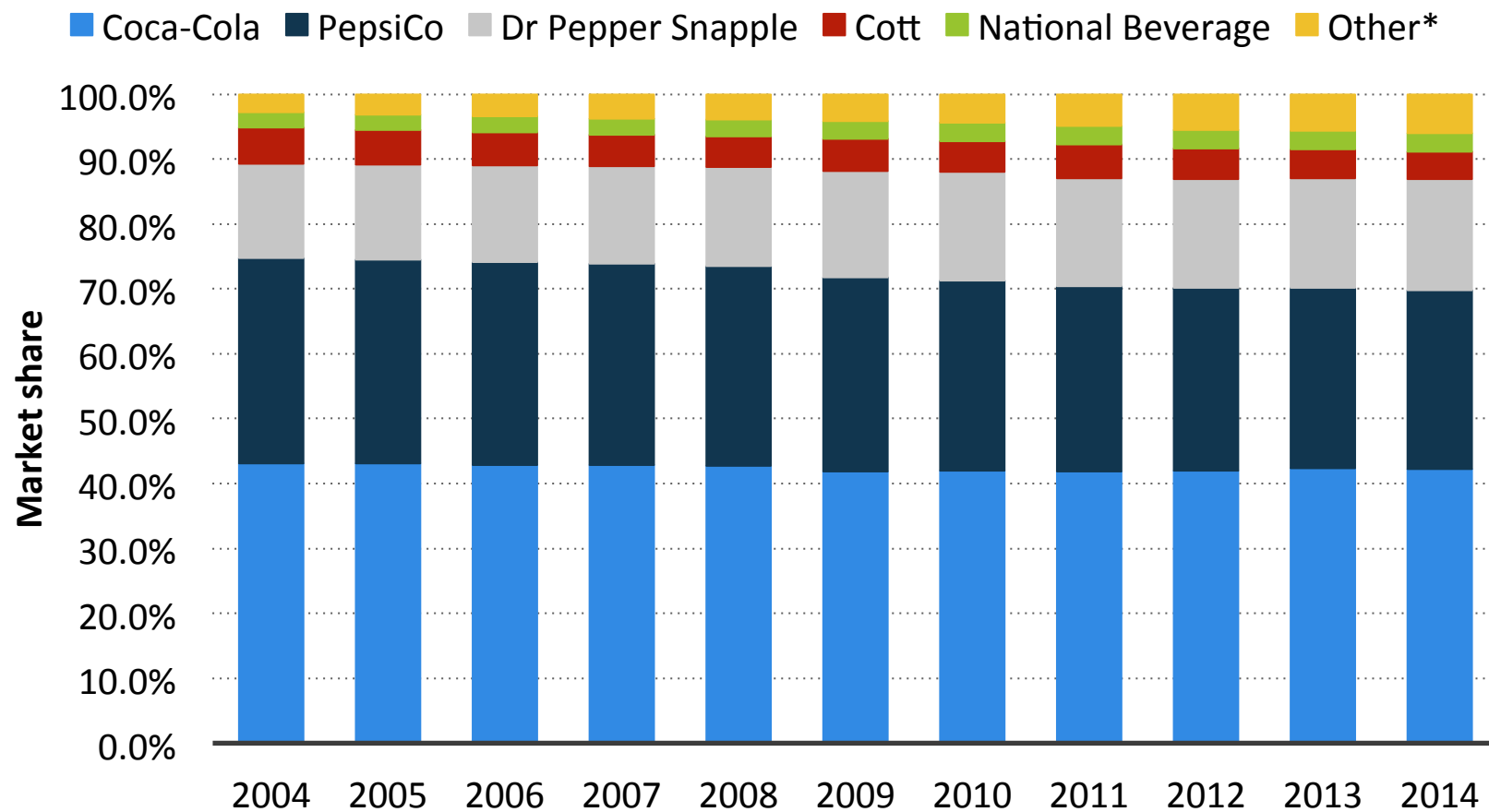
Managerial Objectives



Breaking into a new Market

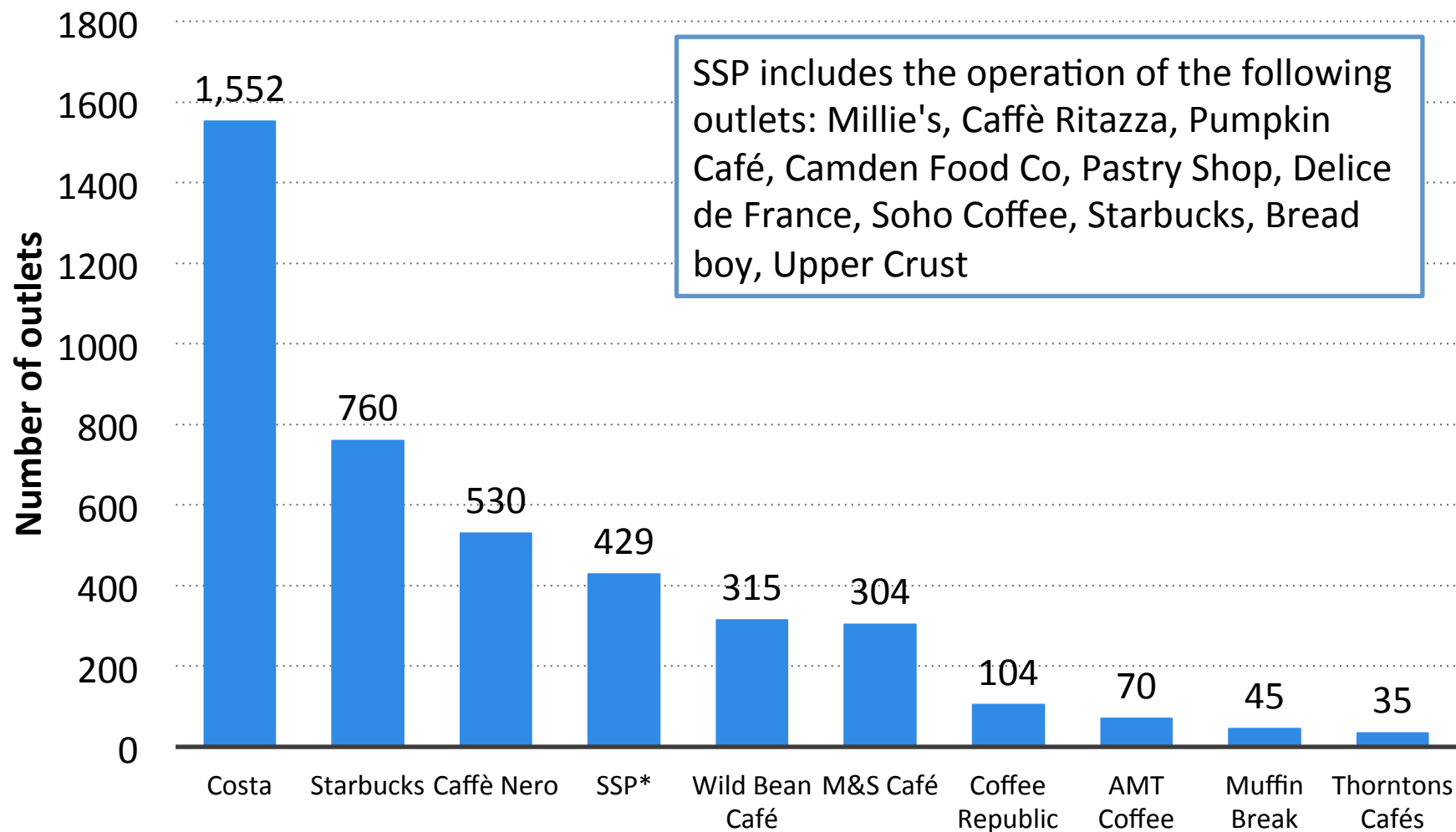
Soft Drinks – The Battle for Market Share

Market share of leading carbonated soft drink companies in the United States from 2004 to 2014



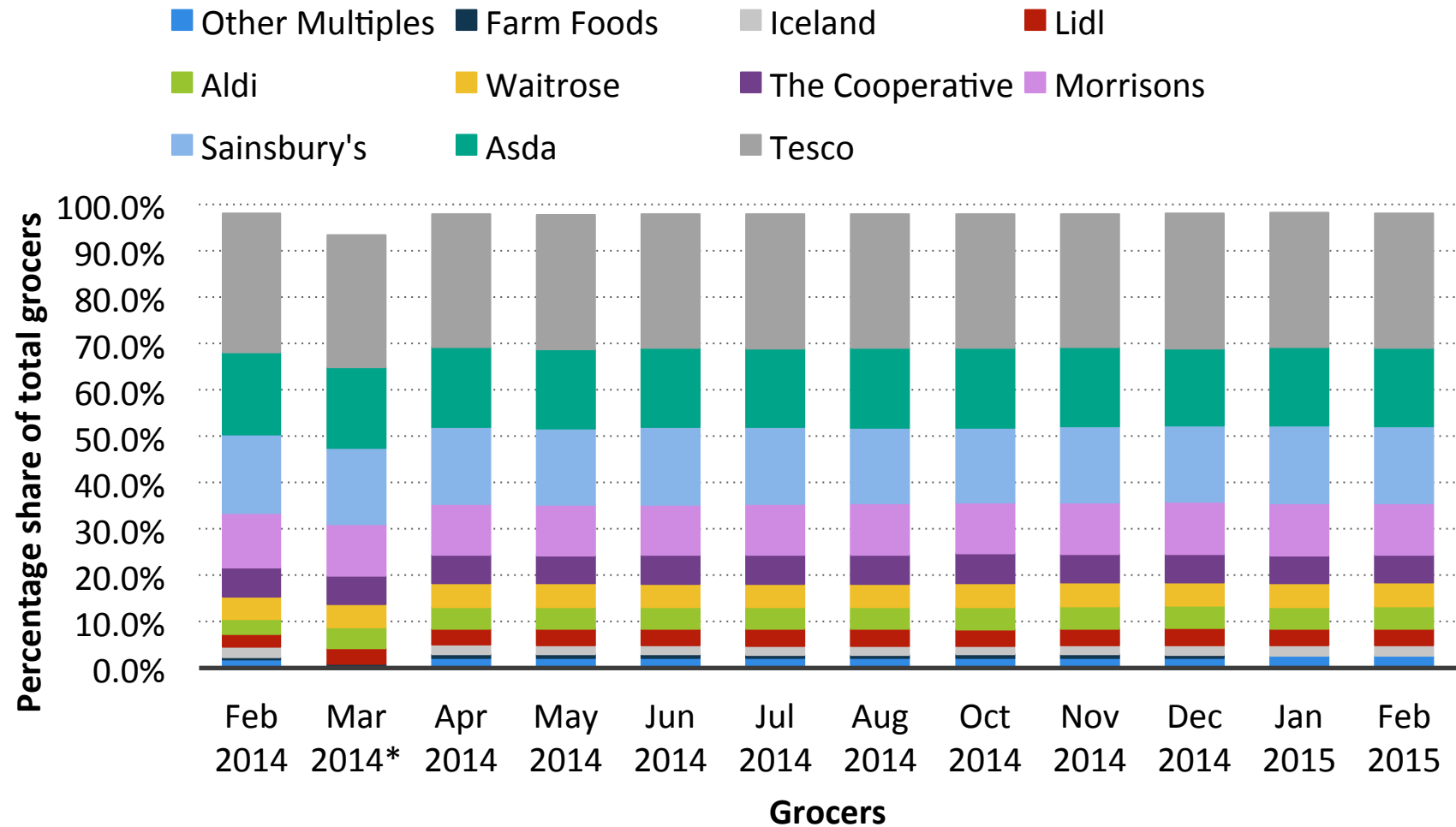
Coffee Retail Stores in the UK in 2013

Leading 10 coffee shop chains ranked by number of outlets in UK in 2013



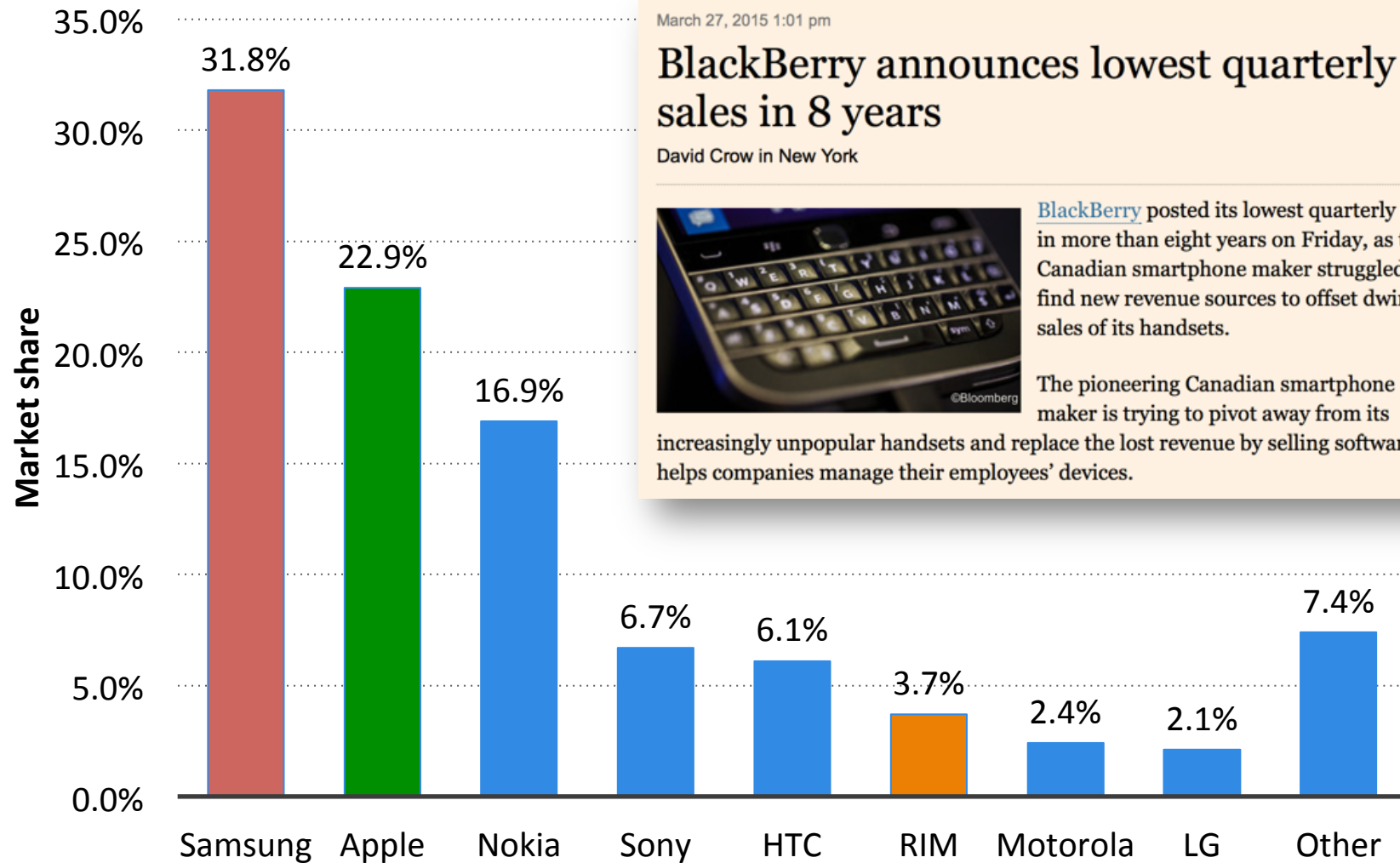
Discounters such as Aldi and Lidl are on the march!

Market share of grocery stores in UK from Feb 2013 to Feb 2014



The fierce battle for market share in mobile handsets

Market share of handset manufacturers in UK in June 2014



March 27, 2015 1:01 pm

BlackBerry announces lowest quarterly sales in 8 years

David Crow in New York

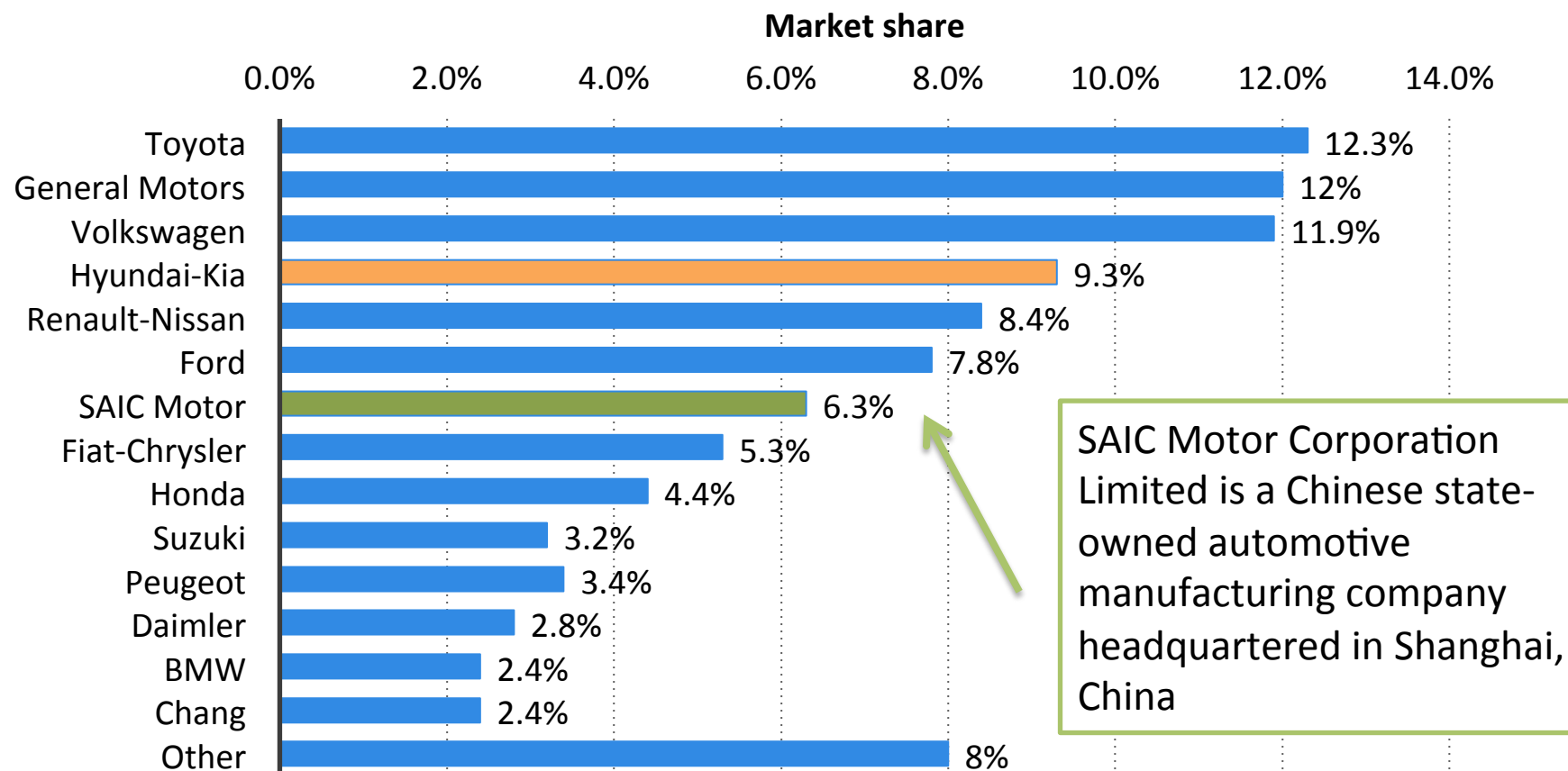


BlackBerry posted its lowest quarterly sales in more than eight years on Friday, as the Canadian smartphone maker struggled to find new revenue sources to offset dwindling sales of its handsets.

The pioneering Canadian smartphone maker is trying to pivot away from its increasingly unpopular handsets and replace the lost revenue by selling software that helps companies manage their employees' devices.

Global Market Share for Car Makers in 2013

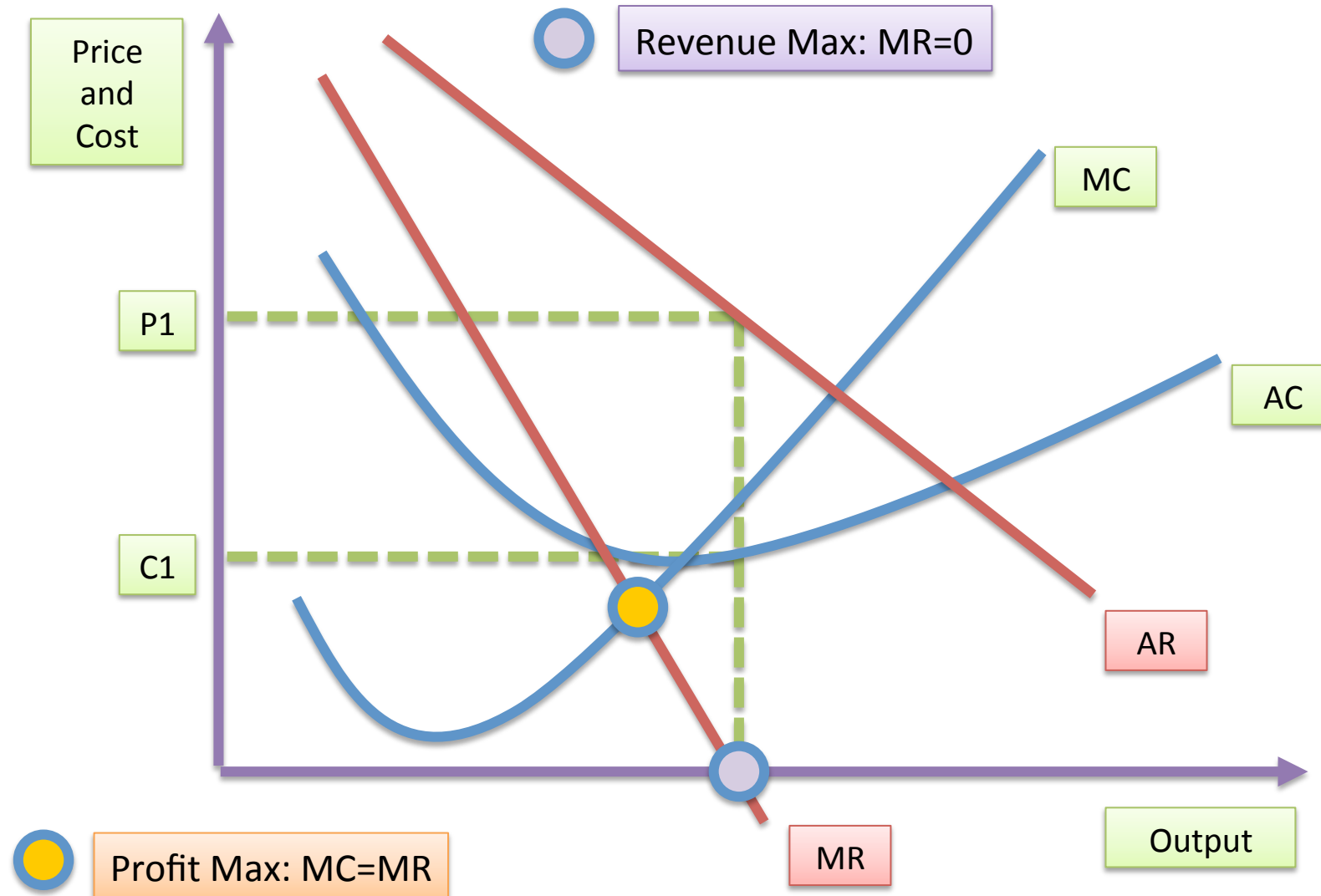
Global market share of the world's largest automakers in 2013



Revenue Maximisation

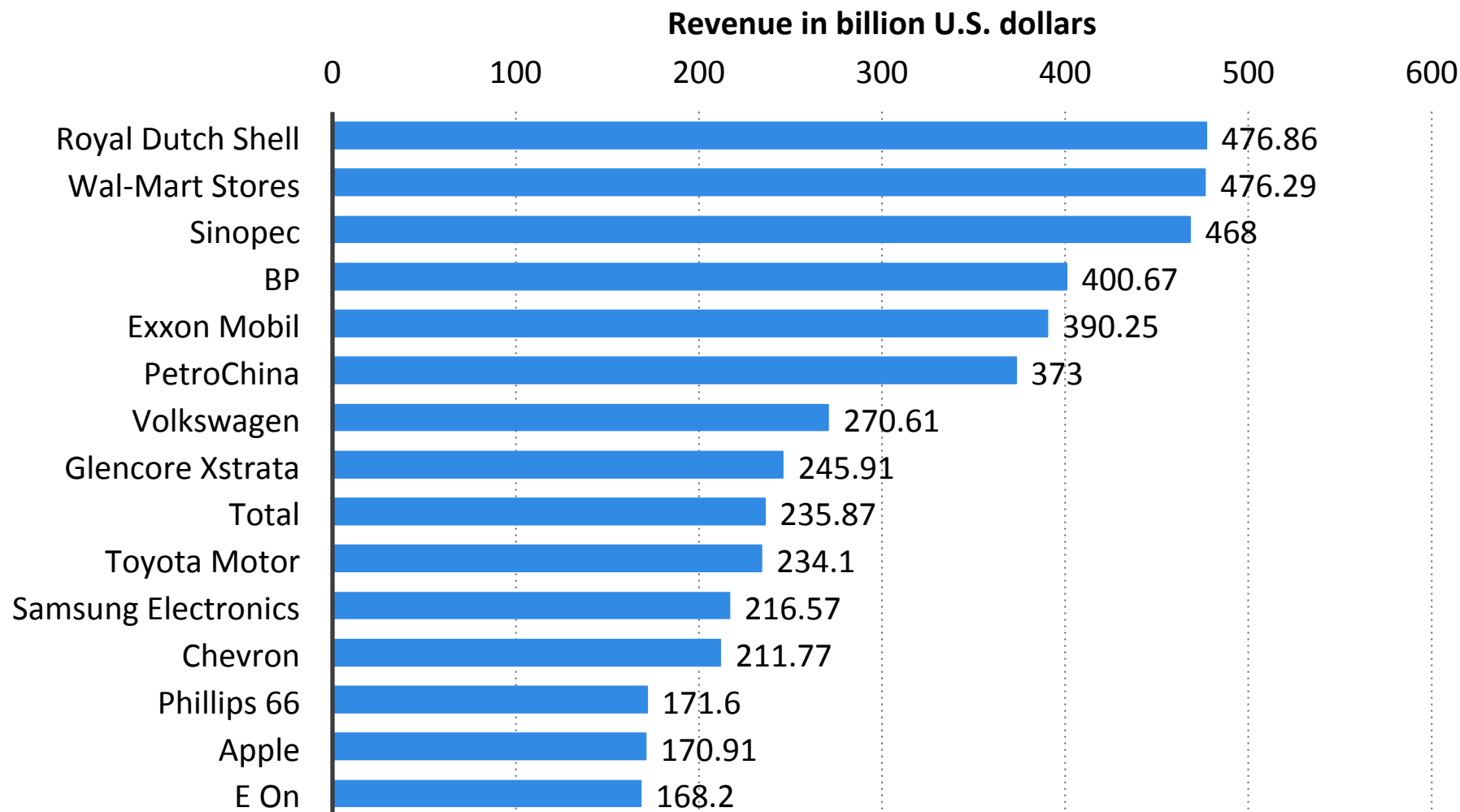


Maximising Total Revenue



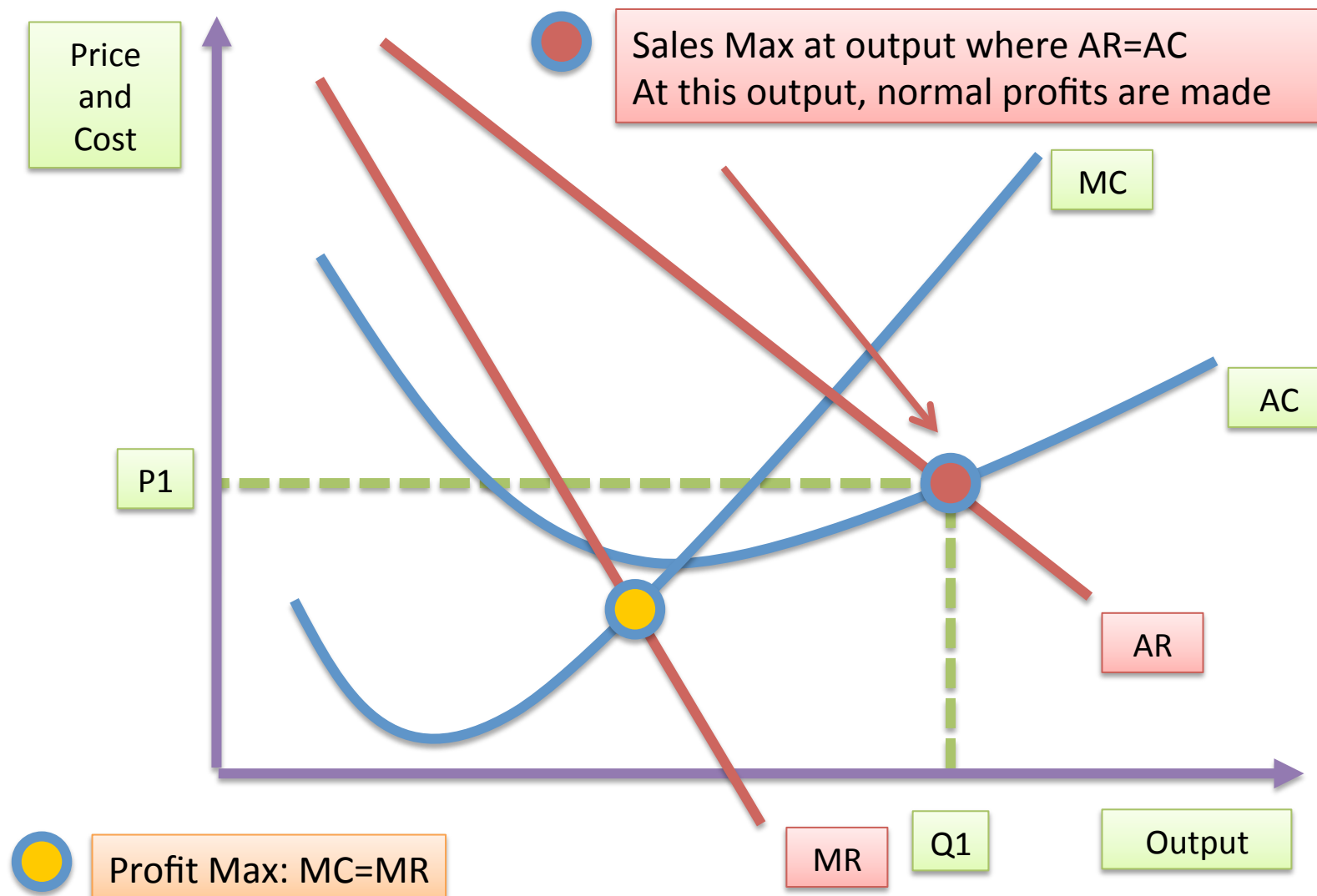
World's Biggest Companies By Revenue (2014)

100 largest companies in the world ranked by revenue in 2014 (\$



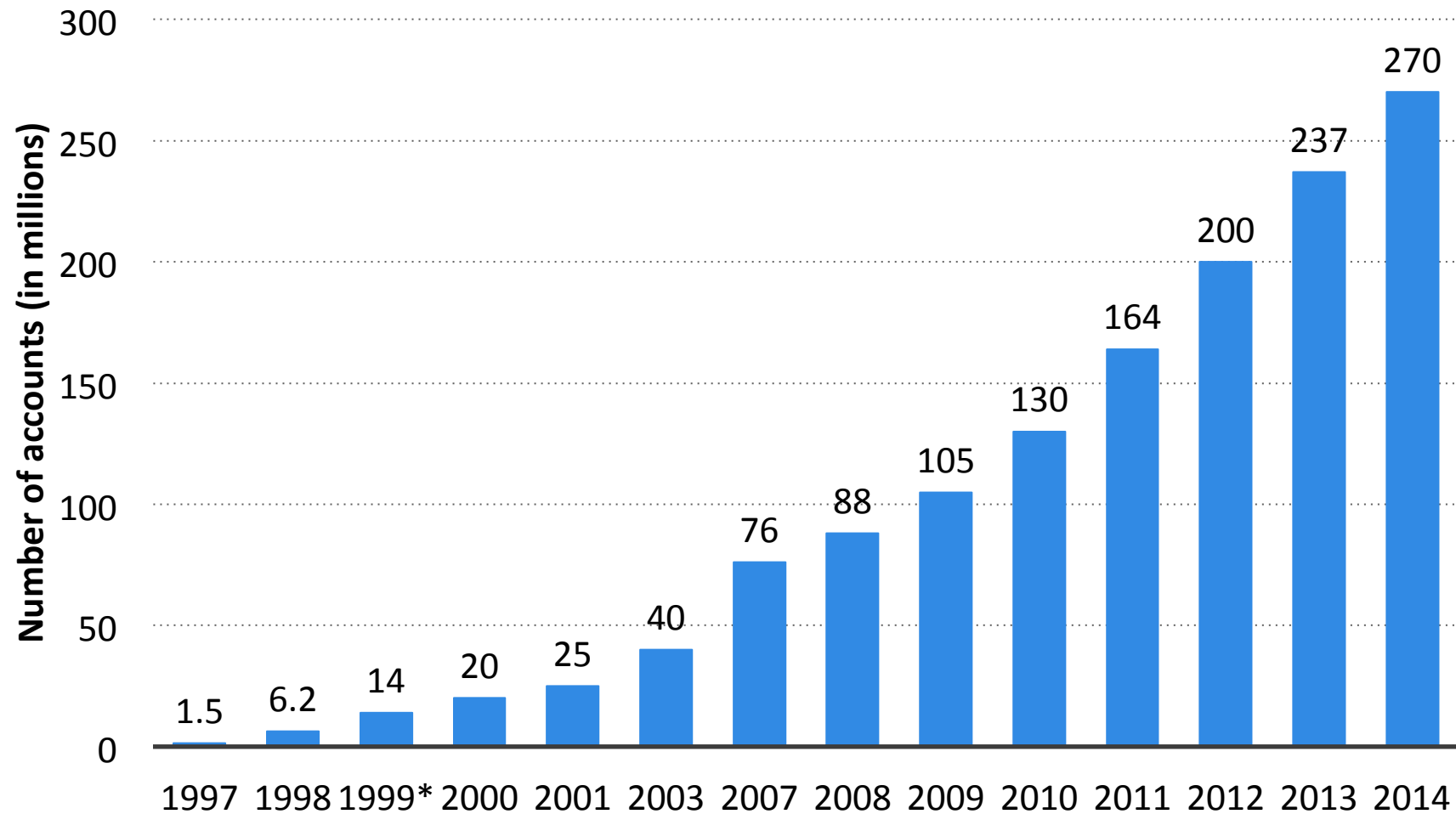
Sales Maximisation (AC=AR)

When a business sells as much as possible without making a loss

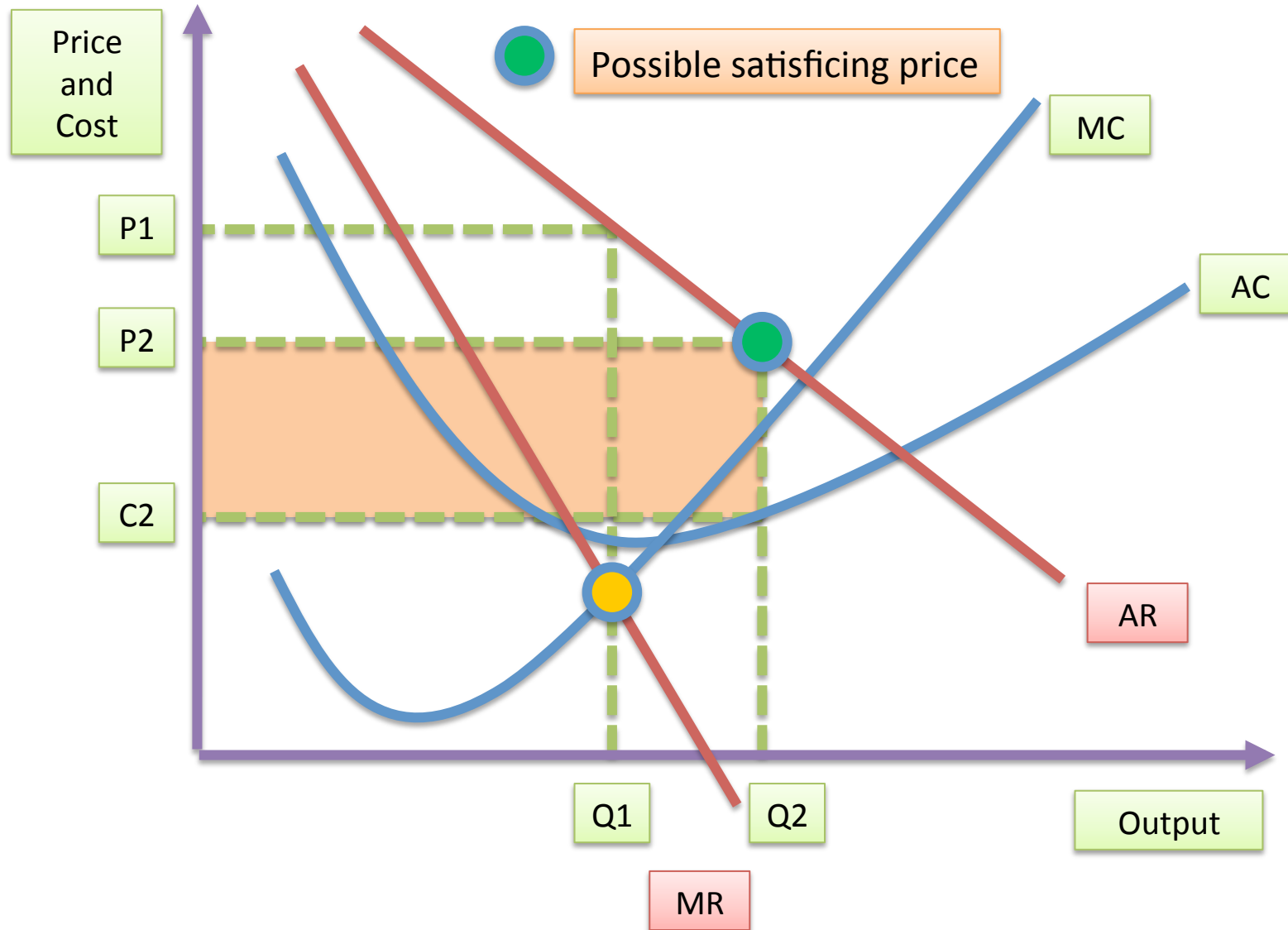


Building a base of installed users / customers

Number of worldwide active Amazon customer accounts: 1997 to 2014



Satisficing Pricing Behaviour





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