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Report

To: The Management of All Seasons Supplies Incorporated

From: Marin Karakolev- Business Planning Manager

Date: 15/06/2023

Subject: Producing recommendations to overcome pressures on the company's growth and profitability.

Introduction

The purpose of this report is to develop profit maximization strategies for one of the largest consumer goods retailers All Seasons Supplies Incorporated (ASSI), using profit maximization theory in the light of ASSI and analysing what the main shareholder has to say about how to maximize profit. In the development of these profit maximization strategies, appropriate economic theories such as demand, supply, business environment, business objectives, market structure, and stakeholder issues will be applied. These theories will be analysed and evaluated in working out the best ways to achieve profit maximization. As a result, appropriate recommendations will be made to the ASSI management so that the right decisions can be made.

In today's times of a rapidly developing global economy, increasing competition, and increasing customer needs, companies strive to achieve profit maximization.

There are several reasons for doing this.

Financial sustainability of the company, through profits companies cover their costs, can invest in new projects, and get opportunities for growth and business expansion. Profit maximization allows companies to develop new products and enter new markets, this can lead to an increase in market share, revenue, efficiency, and competitiveness of the company.

Profit maximization allows companies to invest in marketing, customer service and branding, thereby attracting more customers and maintaining a competitive advantage.

Profit maximization helps to generate a positive return on investment for shareholders, increase the value of shares and attract new investors. Higher profits allow companies to provide bonus opportunities and employee development initiatives, resulting in increased employee satisfaction and productivity. Companies with higher profits are more resilient to economic downturns and financial shocks.

Profit maximization is important for business, but it must be balanced with long-term sustainability, stakeholder interests, and ethical practices. Companies must be aware of customer expectations and their impact on society and the environment.

Profit Maximisation

Profit Maximisation Theory

Profit maximization theory is a concept that states that organizations should strive to maximize their profits because this would lead to "an 'economically efficient' or 'welfare maximizing' outcome" (Hussain, 2012). According to this theory, ASSI management should take action and make decisions leading to the highest possible level of profit.

Based on the Profit Maximization theory and Jesse Zole's statement, ASSI will be seen as a free rational entity that would seek to maximize its profits. For this purpose, ASSI must carefully analyse its revenues, costs, and the market before determining its profit maximization strategies. However, the social effect of their actions must always be considered.

According to Jensen (2001), profit maximization and value maximization are closely related. Profit maximization is focused on the company's financial return. Value maximization has a broader perspective and aims to maximize the total value of the company, which includes not only financial return but brand reputation, customer satisfaction, employee well-being, and environmental sustainability. Profit maximization is an important aspect of value maximization, but to create long-term sustainable value, the interests of all stakeholders must be considered (Hussain, 2012).

ASSI Profit Maximisation Strategies

Being a large retailer like ASSI has some advantages that help it compete and succeed in the market. Like economies of scale, which means they can purchase goods and services in bulk at lower prices compared to smaller retailers. Big retailers can leverage their economies of scale, supplier relationships, and pricing strategies to offer competitive pricing to customers. Also big retailers often have well-established brands with strong customer recognition and loyalty.

To overcome the pressure that the company has been experiencing on growth and profitability in recent years, the management must implement the appropriate strategies that will increase profitability and lead to the growth of the company. Based on the statement of the main shareholder Jesse Zole that the main goal is profit maximization, managers should analyse the current situation and look for the right solutions to maximize profit. If management accepts what Jesse Zole said about raising prices to maximize profits, they should evaluate the current pricing policy and analyse its impact on profits. They should look

at increasing the prices of goods and services, especially private label goods that are of unique quality and stand out in the market and be careful not to overprice goods as this can backfire and turn customers away. Raising prices is not always the right way to increase profits.

A large retailer like ASSI can employ various strategies to gain a greater share of customer spending and at the same time increase revenue. These strategies can be related to the product price and quality, loyalty schemes – like loyalty cards, creating greater shopping convenience – you can find everything in one place (can shop, drink coffee, fill fuel in your car, entertain kids, and more), promotions, and marketing as well as better efficiency in cost management (Conway, 2021).

⁸ “The fastest and most effective way for a company to realize its maximum profit is to get its pricing right” (Marn & Rosiello, 2014). ASSI must understand its cost including production or acquisition costs, overhead expenses, marketing expenses, and any other relevant costs associated with delivering the product or service, conduct market research to gain insights into customer preferences, competitor pricing, and industry standards, analyse pricing trends, customer perceptions of value.

Choosing the right price can lead to a rapid increase in profit, even faster than the increase in volume, but at the same time, the wrong price can reduce the profit just as quickly. Some managers are afraid to raise the price in order not to ⁵lose customers. The result of not ⁵managing the price can be more damaging. Getting the price right is one of the main responsibilities of a manager (Marn & Rosiello, 2014).

To choose the right price, retailers need to conduct market research to see the sensitivity of customers to prices and search for optimal prices that balance profitability with demand. Pricing strategies such as value-based pricing, promotional pricing, and dynamic pricing can be used to improve revenue and profit.

By creating loyalty programs, ASSI's customers receive rewards and personalized offers, thereby retaining customers. At the same time, customer data is collected through these programs to help marketers understand customer preferences and behaviour and, on that basis, prepare better product offerings to increase customer satisfaction and lead to higher profits.

ASSI management should consider offering more shopping convenience to its customers by setting up more stores, online shopping platform, wide selection of products. It is necessary

to invest in the design of stores to ensure comfortable shopping, to create amenities such as playgrounds, relaxation areas, restaurants and cafes, customer service counters. This ensures a pleasant and convenient shopping experience. Implementing effective promotional strategies can lead to increased sales and maximized profits.

For a retailer like ASSI, it is important to reduce costs to increase profit. This can be done by streamlining supply chain processes, investing in technology and automation solutions (Conway, 2021).

Economic Theories Influencing Decision-Making Process

Market Demand and Supply

Market demand is determined by the total amount of products or services that a customer wants and can purchase at a certain price and in a certain period. It represents the overall demand of all users in the market.

For ASSI to be successful, it is necessary to analyse the demand for its products, as well as to be able to respond to any changes in customer's tastes. A marketer needs to know how customers will react to price changes. It should also study the changes in the income of its customers to know the income elasticity of demand for its products. Good knowledge of the market will give ASSI the opportunity to respond to demand better and determine optimal prices for its products. Consumers, representing the demand side, are the ones who pay for the goods and services provided, and what and how much they will demand in the future is an important indicator for the decisions that the business makes. When analysing the future ³ changes in the prices of the goods and services that ASSI offers, the elasticity of demand for the various products must be assessed, and for the products with inelastic demand a price increase can be proposed, as the probability of a decrease in quantity demanded would be insignificant. For the other products that belong to the group with elastic demand, a price increase is not recommended (Sloman et al., 2019).

Firms can increase their profitability and revenue by increasing the supply of goods and services they offer or reducing production costs. The supply plays a significant role in ¹³ profit maximization, which occurs when marginal revenue equals marginal cost. At this equilibrium point, the firm produces and sells the optimal amount of products to maximize its profit.

Cost Analysis

ASSI's main company objective is profit maximization. To maximize its profit, a company must analyse its costs and revenues, what determines them, and how to reduce costs and increase revenues to widen the gap between them. The cost of production directly affects product pricing, profit margins, and the company's financial performance. ¹¹ The cost of production is a key factor in determining the price strategy of a large retailer such as ASSI. Cost analysis is important in making managerial decisions. To determine the level of profitability of the company, an accurate cost calculation must be done. Managers should ask themselves what to change to reduce costs, they must pay attention to the relationship between costs and output (Sloman, J. et al., 2019).

ASSI's management must make a short-run and long-run analysis of costs to maximize profit. Short-run analysis will help make immediate decisions to reduce costs, and through long-run analysis, strategies can be drawn up for long-term planning and future investments in time to achieve sustainable profitability.

In cost analysis, a distinction must be made between variable and fixed factors. A fixed factor cannot be changed over a given period, for example, buildings, and a variable can be changed in a short time, such as more labour, raw materials, and fuel (Sloman, J. *et al.*, 2019).

In the short-run, ASSI management can implement cost reduction strategies by streamlining operations, negotiating competitive prices from suppliers, or seeking alternative suppliers with better offers, improving process efficiency and inventory management. They should focus on promotional activities that will lead to greater returns in the short run. Another thing that can be done in the short term is to optimize staffing and schedules to ensure full customer service and minimize labour costs.

In the long run, ASSI can take advantage of economies of scale to reduce costs in the long-run. By expanding the sales network and increasing the products offered, fixed costs can be spread over a larger output, which lowers the average cost per unit.

¹ "Returns to scale refers to the proportional change in total output resulting from an equiproportional change in all inputs" (Webster, 2017).

Technological investments and automation of some processes are a way to increase efficiency and reduce costs. As an example, for a large retailer like ASSI, more self-checkout stations could be introduced, thus reducing the need for cashiers. By creating strategic relationships with suppliers, costs can be saved in the long run. ASSIs need to optimize their store networks and their locations, analyse market demand and competition, and make informed decisions about where to open new stores or relocate existing ones, thereby reducing costs, and improving profitability.

Market structure

To determine which factors of the specific industrial sector in which ASSI operates to affect the firm's pricing, it must be placed in the appropriate market structure. ASSI belongs to the ³ oligopoly.

An oligopoly is an industry dominated by a few large companies, offering perfect or near-perfect substitutes. The ³ barriers to entry in the sector are high and thus the entry of new

companies into the industry is difficult, this allows high profits to be earned in the long run (Webster, 2017).

To increase revenue and profit, ASSI management must choose how to price the product it offers. If the firm has market power, it has the power to charge a higher price. Market power indicates the degree of competition in a particular industry. The more competitors there are in the market, the more market power decreases (Webster, 2017).

To capture a larger market and increase profit ASSI can implement a price leadership strategy by setting prices for other industry participants to follow. Thus, they can influence market trends and maintain a competitive advantage. Another way to increase sales is for ASSI to create unique products, and exclusive brands that stand out in the market and attract more customers. The firm can take advantage of economies of scale by negotiating better prices with suppliers and optimizing its operations. In an oligopoly, ASSI can develop cooperation with complementary businesses or acquire smaller firms from the competition to expand the firm's market share.

As part of an oligopoly, ASSI must monitor market trends, competition activities and customer preferences to develop effective strategies to maintain a competitive advantage that will lead to stability, growth, and profit maximization.

Stakeholders

When developing their strategies, managers must pay attention to the different requirements of all stakeholders in relation to the company's strategic goals. By monitoring stakeholder reactions to company strategies and managing them, measures can be taken to create positive reactions or reduce negative ones. Managers must identify stakeholders and their importance to the future of the company and develop strategies for their management. ASSI management must engage in the management of certain stakeholders to achieve its strategic goals. Managers must determine the importance of stakeholders before developing their strategies. Stakeholders can be analysed based on their power and interest through a power/interest grid (Ackermann & Eden, 2011)

- High power and high interest

Shareholders and investors have a vested interest in maximizing profits, they have the power to put pressure on a big retailer like ASSI to implement appropriate strategies to reduce costs, increase profitability and invest in new products.

ASSIs should study customer needs, shopping habits and price sensitivities to develop appropriate pricing and marketing strategies.

- Low power, high interest

Employees play a key role in company performance, excellent customer service and increased profitability. ASSI management must work to create a satisfied, motivated, and qualified workforce, which will lead to profit maximization.

Suppliers also influence profit maximization strategies; excellent supplier relationships should be established for long-term cooperation and cost management.

- High power, low interest

Government regulations can affect profit maximization strategies. ASSIs must comply with legal requirements to avoid sanctions and fines.

- Low power, low interest

The community can influence the reputation of a retailer such as ASSI, so public expectations must be met, and sustainable practices implemented to ensure a good reputation and long-term profitability.

Balancing the interests of individual stakeholders, regular communication and feedback, and ongoing stakeholder analysis can ensure that profit maximization strategies are aligned with the interests of important stakeholders.

Company grows

For ASSI to achieve growth, they need to implement effective strategies and make sound business decisions. Streamlining the supply chain processes can lead to cost savings, improved efficiency, and faster delivery times. Collaborating with other businesses, suppliers, or strategic partners can provide ASSI with opportunities for growth. Leveraging data analytics and business intelligence tools can provide ASSI with valuable insights into customer behaviour, market trends, and operational efficiencies. By using data-driven decision-making, ASSI can make informed strategic choices that support growth objectives.

Conclusion

As seen in the report, one of the main objectives of any business organization is profit maximization. It is important for managers, when implementing various profit maximization strategies, to evaluate multiple issues and consider the influence of supply and demand, the business environment, market structure, and various stakeholders within the organization. Only after careful analysis of all of them, managers can create the right strategies to increase revenue, profitability, and sustainability of the organization and maximize its profit in the long run.

Recommendations

- Introducing loyalty programs to retain customers and data collection for their customers to make better marketing strategies. Using loyalty club cards for some discounts and bonus points will retain customers.
- Getting the price right: Implementing the pricing strategies like value-based pricing, promotional pricing, and dynamic pricing.
- Offering a pleasant and convenient shopping experience. Divide the supermarket into aisles, each dedicated to specific product categories. Use aisle markers or signs to indicate the contents of each aisle.
- Implement promotional strategies. Use strategically placed displays to highlight promotional or seasonal items.
- To analyse market demand and supply, which will give the company the opportunity to respond to demand and determine optimal prices for its products.
- In the short run –implement cost-reduction strategies, and promotional activities and optimize staffing.
- Long run – Expand sales network and increase product range. Invest in innovative technologies and automatization. ASSI can create an online system directly sending information to the suppliers about the sales of the cash registers, from where they get information about the demand and preferences of the customers. This will create cost advantages for ASSI.
- ASSI must balance the interests of individual stakeholders and align profit maximization strategies with the interests of important stakeholders.
- ASSI can implement a price leadership strategy by setting prices for other industry participants to follow.
- To create unique products, exclusive brands that stand out in the market and attract more customers.
- ASSI should establish long-term relationships with suppliers and negotiate better prices with them.
- Managers must identify stakeholders and their importance to the future of the company and develop strategies for their management.
- ASSIs should study customer needs, shopping habits, and price sensitivities to develop appropriate pricing and marketing strategies.
- ASSIs must comply with legal requirements to avoid sanctions and fines.

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