

Assignment component 1

by Teodor Katrandzhiev

Submission date: 21-Jun-2023 02:06PM (UTC+0100)

Submission ID: 209270261

File name: 36505_Teodor_Katrandzhiev_Assignment_component_1_504519_1593726105.docx (53.25K)

Word count: 2796

Character count: 16894



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

6

Student name: **Teodor Katrandzhiev**

Student ID number: **2124415**

Programme: **BA Business Management**

Module: **Management Economics**

Module code: **LCBB5008**

Module Leader: **Muno Zuwirai**

Assignment Title: **Assessment Component 1: Individual Report**

Table of Contents

Introduction	3
Profit maximisation.....	3
Price elasticity	5
The business environment.....	5
Market structure	6
Supply and Demand	7
The behaviour of businesses operating in an oligopolistic market.....	8
Conclusion	9
Recommendation.....	10
References.....	12

Individual Business Report

Introduction

This report aims to provide an in-depth analysis of profit maximisation and its importance in business, the strategies used to achieve this goal, and the various approaches and actions that ASSI as a company can consider. Profit maximisation is the primary objective of companies as it ensures financial sustainability, growth and value creation for stakeholders. As decision-makers, we can make informed decisions that improve the company's financial performance and competitive position in the market by understanding the key factors and strategies involved in maximising profits. (Sloman and Jones, 2017)

To better understand the economic factors involved, this report examines the factors influencing profit maximisation, including market conditions, the competitive environment, demand, customer behaviour, and supply. This highlights the importance of analysing these factors to identify opportunities, mitigate risks and adapt strategies according to the specifics of the business environment. (Sloman and Jones, 2017)

The report also looks at different market structures and how they affect the company, including perfect competition, monopolistic competition, monopoly and oligopoly, which affect profit maximisation strategies. Moreover, we will address the pricing power, market dynamics, and competitive behaviour associated with each market structure and provide insight into their unique challenges and opportunities. (Sloman and Jones, 2017)

Market trends and consumer behaviour are essential to the economic environment that companies must consider. Understanding consumer preferences, buying habits, and market dynamics allows companies to adjust their products, prices and marketing strategies to maximise profit. Adapting to changing market trends and consumer demands is essential to maintain companies' competitiveness and maximise profits. (Sloman and Jones, 2017)

To accomplish our corporate goals, we will examine the company's current operations, market dynamics and industry trends. The report provides insights and recommendations to optimise profit levels and improve financial performance.

Profit maximisation

Sloman et al. (2019) suggest that in economics, it is traditionally assumed that businesses aim to maximise profits. Profitability is crucial to a company's success and sustainability in a market economy. Therefore, it might be beneficial for All Seasons Supplies Incorporated (ASSI) to pursue a business strategy commonly referred to as Profit maximisation. This is the goal of a company to generate the highest possible profit in a given period of time. It is an essential concept in economics and business science that aims to optimise production, pricing, and resource allocation decisions for companies to achieve maximum profitability. (Sloman et al., 2019)

However, as decision-makers within ASSI, we should consider the sustainable and long-term route to meet our objectives. And if we are to make an informed decision, we must examine the advantages and disadvantages of Profit maximisation that could affect financial success and sustainability. Some of the benefits of maximising profit are:

- **Competitive Advantage:** Profitable companies have a competitive advantage because they can invest in improving product quality, customer service, and marketing efforts. (Porter, 1985) More significant financial resources will allow ASSI to attract more customers and capture a larger market share.
- **Shareholder Value:** Profit maximisation goes hand in hand with shareholder value. When a company generates more profit, it can pay dividends to shareholders, buy back shares, or reinvest in the company. (Jensen, 2012) Therefore, profit maximisation can potentially improve share price and shareholder satisfaction within ASSI, attracting more investors.

Some of the disadvantages associated with profit maximisation are:

- **Ethical Concerns:** Pursuing profit maximisation can lead companies to prioritise short-term profits over ethical considerations. (Carroll, Brown and Buchholtz, 2018) Following the profit maximisation route can lead ASSI to disregard the environmental sustainability of our projects and even utilise unethical marketing strategies.
- **Negative Stakeholder Impact:** Focusing solely on profit maximisation can neglect the interests of other stakeholders, such as employees, customers, and the wider community. (Freeman, 2010) This can cause ASSI to create customer dissatisfaction, poor employee satisfaction, and strained relationships with the community

It is, therefore, essential for ASSI to Balance profit maximisation and responsible business practices. Ethical considerations and stakeholder well-being should be highly prioritised to ensure the sustainable long-term success of the company and a positive impact on society.

Price elasticity

Price elasticity of demand plays a vital role in informing and guiding business decisions in various aspects of operational and pricing strategies. Price elasticity refers to the responsiveness of quantity demanded to a change in price. It measures the percentage change in quantity demanded relative to the percentage change in price.

If demand is elastic, any price change will cause the quantity demanded to change proportionately more. Ignoring the negative sign, it will have a value greater than 1.

If demand is inelastic, any change will cause the quantity demanded to change by a proportionately smaller amount. Ignoring the negative sign, it will have a value of less than 1.

(Sloman et al., 2019)

To determine the optimal pricing strategies, decision-makers within ASSI must understand that prices within the food market are relatively elastic, meaning consumers are highly responsive to price changes, meaning that If ASSI is to increase prices, we will see a significant decline in the demand for our products. It is worth it to consider lowering prices to stimulate demand.

The business environment

The business environment in economics refers to the external factors and circumstances that affect a firm's operations, decisions, and performance. This includes various economic, social, political, legal, technological and competitive factors that affect the business environment. (Sloman et al., 2019)

The business environment can be divided into two main components:

- External business environment refers to all elements outside an organisation's boundaries and can affect all or part of an organisation. These factors include competitors, customers, suppliers, economic conditions, technology and socio-cultural factors. (Brander and Perloff, 2019)
- Internal business environment refers to the conditions, factors and variables that exist within an organisation and are directly controlled or influenced. This includes

organisational resources, capabilities, structure, culture, leadership and internal processes. (Daft, Murphy and Wilmott, 2017)

Determining and evaluating the business environment in which ASSI operates will help us managers make informed decisions, formulate effective strategies, and adapt to dynamic external conditions. Brander and Perloff (2019) argue that thorough knowledge of the business environment can provide insights into market opportunities, potential risks, and business performance factors.

Market structure

Sloman et al. (2019) state that market structure in management economics refers to a specific market's organisational characteristics and competitive environment. (Sloman et al., 2019) It will help ASSI decision-makers understand how firms within our industry interact, the degree of competition, and the extent of market power held by individual firms. Market structure is crucial in determining market behaviour, pricing strategies, entry barriers, and overall market performance. (Sloman et al., 2019)

We will look at several types of market structures commonly discussed in management economics and examine the different market environments in which companies operate, their levels of competition, and the associated challenges.

- Perfect Competition: Perfect competition is a market structure characterised by many small, price-oriented buyers and sellers. In perfect competition, firms produce the same or similar products, have perfect information about prices and market conditions, and are free to enter and exit the market. There are no barriers to entry, and companies compete based solely on price and production levels. (Samuelson and Marks, 2015)
- ² Monopolistic Competition: Monopolistic competition is a market structure characterised by many firms offering differentiated products and services. Each firm participating in the monopolistic competition has a degree of market power that allows it to control pricing and production decisions. ² However, unlike a monopoly, there is competition between companies regarding product differentiation, branding and marketing. (Mankiw, 2018)
- ¹⁹ Monopoly: A monopoly is a market structure characterised by a single firm being the sole supplier of a particular product or service in a specific industry. In a monopoly, a

firm has complete market control and no direct competition. This allows monopolies to set prices and production levels without being influenced by market forces. (Samuelson and Marks, 2015)

- Oligopoly: An oligopoly is a market structure characterised by a small number of large companies dominating an industry. In an oligopoly, these companies have significant market power and often have interdependencies. They can influence market prices, production levels and competitive behaviour. In an oligopoly, he states that one firm's decisions and actions can profoundly affect other firms and the market as a whole. (Perloff, 2018)

Supply and demand

A deep understanding of supply and demand dynamics is critical for decision-makers in today's complex business environment. The interaction of supply and demand influences pricing and determines overall market behaviour. Demand and supply are fundamental concepts in economics and apply to every business. (Sloman et al., 2019) If our company is considering an increase in prices, managers and decision-makers must evaluate and anticipate the effects of these theories.

- Supply in economics refers to the quantity of a good or service that producers are willing and able to offer for sale in a given market and over a given period. The theory states that as the price of a product increases, the quantity supplied by producers also increases, and vice versa. (Sloman et al., 2019)
- Demand in economics refers to the amount of a good or service that consumers are willing and able to buy at various prices in a given market and over a given period. The law of demand states that if the price of a product rises, the quantity demanded by consumers will fall. (Sloman et al., 2019)

It is important to note that both theories have the underlying assumption that all other factors remain constant.

Considering the facts, ASSI will need to think twice about raising prices. And if we

If ASSI is to consider price changes, we must first understand the expected impact on demand. In our business environment and the food market, even a relatively small price increase can significantly reduce sales when people switch to competitors with lower prices or alternative

products. What's the point of making a little more profit per unit sold when we lose significant market share and end up selling a lot less? In our current situation, we should consider lowering prices.

The behaviour of businesses operating in an oligopolistic market

ASSI operates in an oligopoly market where a few dominant players compete for market share. Recognising the unique characteristics of oligopolistic markets is essential for us to navigate and succeed in this competitive environment. As the leading company by market share in an oligopoly, we have significant market power, and our actions can have an enormous impact on competitors and the market as a whole. As a decision-maker at ASSI, understanding the implications of operating in an oligopolistic market is paramount. This requires anticipating and responding to competitors' strategies, adapting to changing market conditions, and effectively leveraging your company's resources to maintain a competitive advantage.

Here are some standard business practices observed in oligopolistic markets:

- Price competition: Oligopoly firms may engage in fierce price competition to gain market share and attract customers. Discounts, rebates and special offers often attract customers from competing businesses. However, price competition can also lead to a "price war" scenario, where companies continuously lower prices so that the profitability of all competitors decreases. (Sloman and Jones, 2017)
- Non-price competition: Oligopolies often engage in non-price competition to differentiate their products and build brand loyalty. This includes investing in marketing and advertising campaigns to improve brand awareness, product features, customer service and reputation. Competition beyond price competition allows companies to attract and retain customers without relying solely on price cuts. (Mankiw, 2014)
- Strategic Alliances: Firms in an oligopoly may form strategic alliances or partnerships to strengthen their market position. These alliances may include research and development collaboration, manufacturing, distribution or marketing. By collaborating with other companies, companies can leverage their complementary capabilities, enter new markets and achieve economies of scale. (Sloman et al., 2019)

- Product Differentiation: Oligopoly firms try to differentiate their products from their competitors to create uniqueness and value among customers. Products can be determined by innovation, design, quality, features or branding. By offering unique products, companies can reduce direct price competition and increase customer loyalty. (Mankiw, 2014)

Conclusion

Profit maximisation is a fundamental goal of any company trying to achieve financial success and sustain its business in a highly competitive market. Companies can increase profitability and create long-term shareholder value through efficient and optimised pricing strategies.

However, decision-makers within ASSI need to be aware of the potential downsides of this pursuit. A relentless focus on profit maximisation can adversely affect the well-being of various stakeholders and society. Companies that focus solely on profit can neglect their responsibilities to their employees, communities and the environment. This focus on economic gain alone can erode trust, damage reputation, and have long-term negative consequences. (Sloman et al., 2019)

Therefore, profit maximisation must be guided by a deep understanding of the business environment. ASSI must consider factors such as customers, suppliers, and market structure when chasing increased profitability. Businesses must adapt to these forces, identify new opportunities and address potential threats to ensure sustainable financial performance. (Mankiw, 2018)

In summary, profit maximisation is still an important goal for businesses. However, it must be pursued responsibly and sustainably, considering the interests of its stakeholders and its impact on the broader society. By understanding the business environment and following ethical principles, companies can manage the complex market and achieve long-term profitability and success.

Recommendation

For ASSI to implement a profit maximisation strategy, decision-makers must understand the oligopoly market structure and consider its characteristics. Here are some recommendations for sustainable business growth and long-term profit maximisation.

- **Product Differentiation:** For ASSI to be successful within an oligopoly environment, we need to lean heavily on product differentiation to gain market share and increase profitability. Our company can earn a competitive advantage and increase prices by offering unique features, superior quality and innovative designs.
- **Discount card program:** ASSI can implement customer loyalty programs that offer discount cards to encourage repeat purchases and customer loyalty. Discount cards will provide cardholders with exclusive discounts, rewards, or special offers and promote continued engagement with our products and services.
- **Establishing an Online Presence:** ASSI can invest in developing an easy-to-use e-commerce website or mobile application to allow customers to browse and purchase products and services online. Ensuring that the online platform offers detailed product information, multiple payment options, and a smooth checkout process is essential.
- **Innovation and Research:** Investment in research and development activities can help ASSI drive innovation, improve product offerings, and generate new revenue streams. As a business within an oligopoly, we must focus on continuous innovation to differentiate and maintain a competitive advantage.
- **Lower prices:** Lower prices can attract customers and increase market share. By offering competitive prices, ASSI can reach a more extensive customer base and stimulate demand. However, it is essential to carefully analyse the potential impact on profitability and assess the reaction of competitors.
- **Marketing and Communications:** An effective marketing and communications strategy is essential for ASSI to communicate our value proposition to the customers. Through targeted advertising, promotions and social media efforts, our company can increase brand awareness, educate customers about our products and promote a positive brand image. Consistent messaging that emphasises competitive pricing, customer

benefits, and unique selling propositions will help maximise the effectiveness of our pricing strategy.

13

References

Brander, J.A. and Perloff, J.M. (2019). *Managerial economics and strategy*. Harlow, England: Pearson.

Carroll, A.B., Brown, J.A. and Buchholtz, A.K. (2018). *Business & society: ethics, sustainability, and stakeholder management*. 10th ed. Boston, Ma: Cengage Learning.

Daft, R.L., Murphy, J. and Wilmott, H. (2017). *Organisation theory & design : an international perspective*. Hampshire, United Kingdom: Cengage Learning Emea.

Freeman, R.E. (2010). *Strategic Management : A Stakeholder Approach*. Cambridge: Cambridge University Press.

Jensen, M.C. (2012). *Value Maximization, Stakeholder Theory, and the Corporate Objective Function*. Business Ethics Quarterly.

N Gregory Mankiw (2018). *Essentials of economics*. Australia ; Boston, Ma: Cengage Learning.

N. Gregory Mankiw (2014). *Principles of Microeconomics*. Cengage Learning.

Perloff, J.M. (2018). *Microeconomics, Global Edition*. Harlow, United Kingdom: Pearson Education Limited.

Porter, M.E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance : with a New Introduction*. New York: Free Press.

Samuelson, W. and Marks, S.G. (2015). *Managerial economics*. Hoboken, Nj: John Wiley & Sons, Inc.

Sloman, J., Garratt, D., Guest, J. and Jones, E. (2019). *Economics for business*. Harlow, United Kingdom: Pearson Education Limited.

Sloman, J. and Jones, E. (2017). *Essential economics for business*. 5th ed. Harlow, England ; New York: Pearson.

Assignment component 1

ORIGINALITY REPORT

16%

SIMILARITY INDEX

12%

INTERNET SOURCES

6%

PUBLICATIONS

15%

STUDENT PAPERS

PRIMARY SOURCES

1

Submitted to Chester College of Higher Education

Student Paper

2%

2

Submitted to Barnet and Southgate College

Student Paper

2%

3

Submitted to West Herts College

Student Paper

1%

4

Submitted to American International School of Bucharest

Student Paper

1%

5

Submitted to University of Lincoln

Student Paper

1%

6

Submitted to University of Wales, Lampeter

Student Paper

1%

7

Submitted to National College of Ireland

Student Paper

1%

8

citpm.wz.pcz.pl

Internet Source

1%

9	Submitted to American InterContinental University Student Paper	1 %
10	pinpdf.com Internet Source	1 %
11	Submitted to Manchester Metropolitan University Student Paper	1 %
12	www.researchgate.net Internet Source	1 %
13	Submitted to University of Sheffield Student Paper	1 %
14	minerva-access.unimelb.edu.au Internet Source	1 %
15	Submitted to Management Development Institute Of Singapore Student Paper	<1 %
16	www.i-scholar.in Internet Source	<1 %
17	myassignmenthelp.com Internet Source	<1 %
18	dokumen.pub Internet Source	<1 %
19	Submitted to Tower Hamlets College Student Paper	<1 %

Exclude quotes Off
Exclude bibliography Off

Exclude matches Off