

3.2.1 Business Objectives

A business objective is a target that a firm aims to achieve. Different stakeholders may prefer different objectives. For example, shareholders may want higher profits, while managers may prioritise sales growth, revenue or job security.

The main business objectives are:

- Profit maximisation
- Revenue maximisation
- Sales maximisation
- Satisficing

Profit Maximisation

Definition

Profit maximisation occurs when a firm produces at where marginal revenue equals marginal cost.

MC = MR

Profit is the difference between total revenue and total cost.

Profit = TR – TC

Why Profit Is Maximised Where MC = MR

Marginal revenue is the additional revenue earned from selling one more unit. Marginal cost is the additional cost of producing one more unit.

- When $MR > MC$, producing another unit increases total profit.
- When $MC = MR$, no additional profit can be gained by increasing output.
- When $MC > MR$, producing another unit reduces total profit.

Reasons for Profit Maximisation

Rewarding Shareholders

Higher profits allow a firm to pay larger dividends to shareholders. Higher expected profits may also increase demand for the firm's shares, raising its share price and increasing shareholder wealth. For example in 2023, Apple generated nearly \$100 billion in net profit, returning over \$90 billion directly to shareholders.

Attracting Investment

A profitable firm may be more attractive to investors because it offers:

- Higher potential dividends
- Greater financial stability

This can make it easier for the firm to raise finance for future investment.

Retained Profit

A firm can keep some of its profit within the business to finance:

- New technology
- Product development (Think dynamic efficiency)

This can increase productivity and support long-run growth.

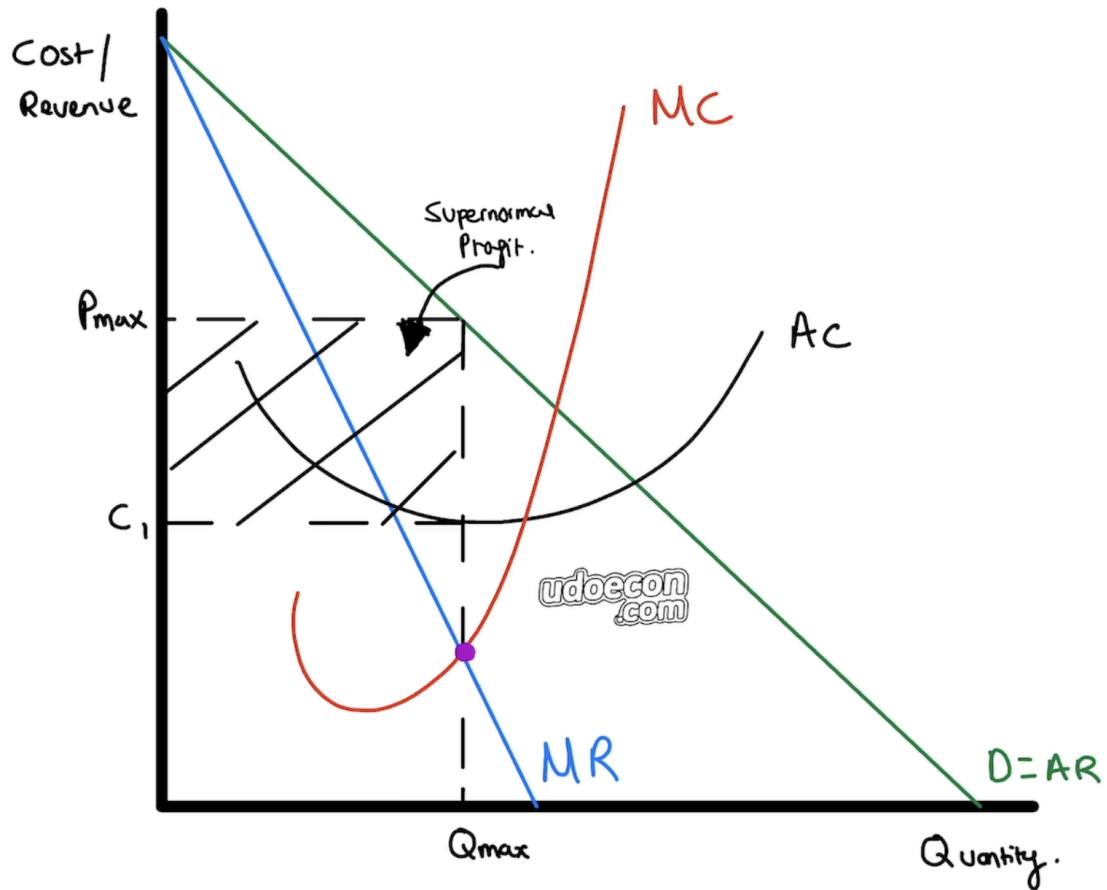
Survival

Profit gives a firm the financial resources needed to pay its costs, repay debt and survive unexpected falls in demand.

Profit Maximisation Diagram*

To identify profit maximisation on a cost and revenue diagram:

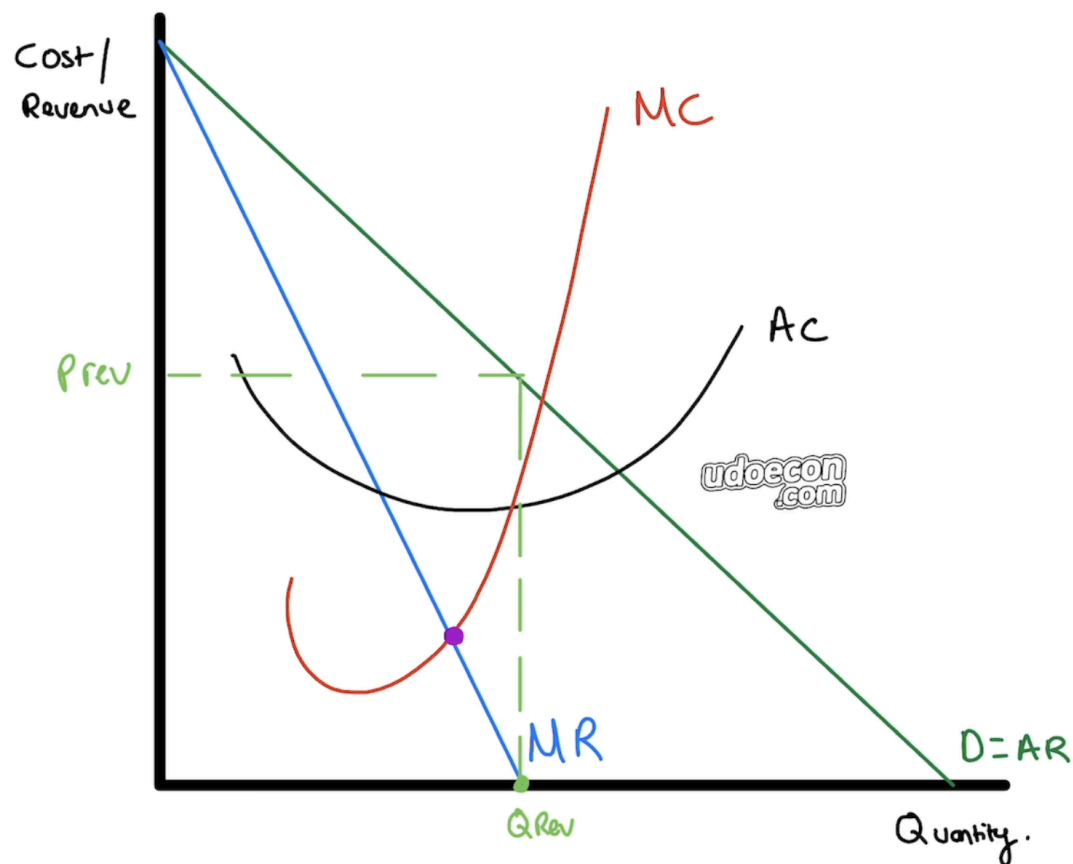
- Find where $MC = MR$ (Purple dot)
- Drop a vertical line down to find the quantity at where firms profit maximise (Q_{max})
- (From $MC=MR$) Drop a vertical line up until you hit your $D=AR$ curve and then go left, this will give you the price at which firms profit maximise, P_{max} .
- Lastly to find your box of supernormal profit draw a vertical line from $MC=MR$ till you hit your AC and go left from there which gives you $C1$
- The difference between P_{max} and $C1$ is therefore your box of supernormal profit



Revenue Maximisation

Definition

Revenue maximisation occurs when a firm produces at where marginal revenue equals zero ($MR = 0$)



Why Revenue Is Maximised Where $MR = 0$

Marginal revenue is the additional revenue earned from selling one more unit.

- When $MR > 0$, selling another unit increases total revenue.
- When $MR = 0$, selling another unit adds nothing to total revenue.
- When $MR < 0$, selling another unit reduces total revenue.

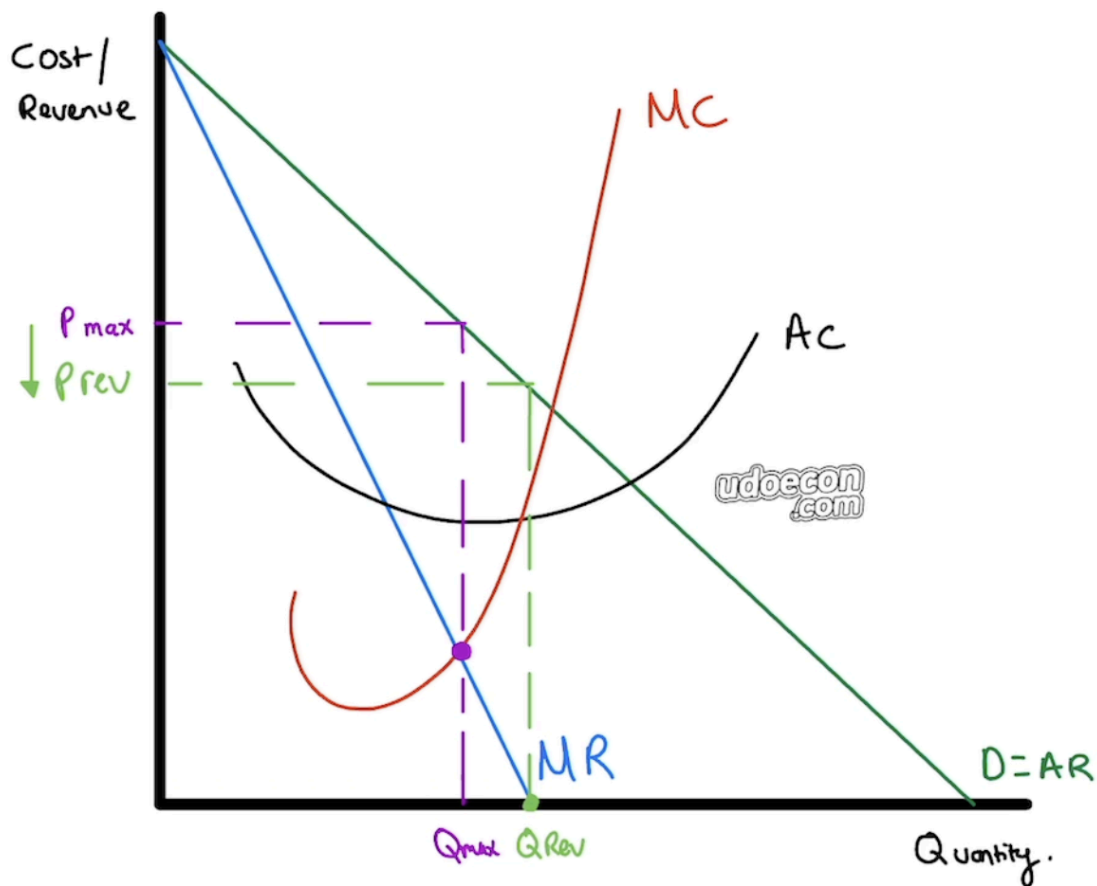
Total revenue is therefore maximised where $MR = 0$.

Reasons for Revenue Maximisation

Increasing Market Share

A firm may reduce its price and increase output to attract customers away from competitors. This can increase its market share and strengthen its position in the industry (as shown on

diagram as profit maximising price (P_{max}) is higher than Revenue Maximising price (P_{rev}).



Economies of Scale

Revenue maximisation normally involves producing and selling a larger output (Q_{max} vs Q_{rev}). This may allow the firm to benefit from economies of scale.

The Principal Agent Problem

The principal agent problem occurs when the objectives of a firm's owners differ from the objectives of its managers.

- Shareholders are the **principals** and may want **profit maximisation**.
- Managers are the **agents** responsible for **running the firm**.
- Managers may receive bonuses linked to revenue/sales therefore prioritise revenue growth over shareholder profit.

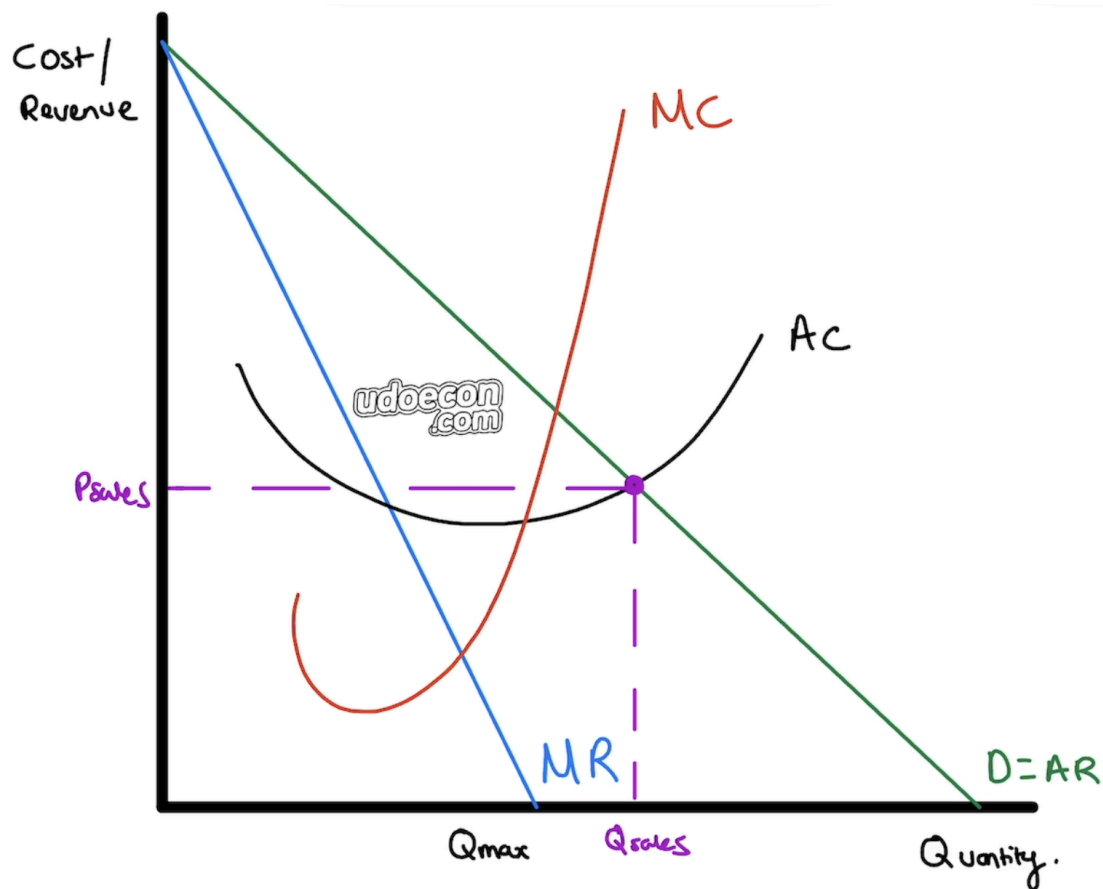
Sales Maximisation

Definition

Sales maximisation occurs when a firm sells the greatest possible quantity without making a loss.

It occurs where:

$$AR = AC$$



Reasons for Sales Maximisation

Increasing Market Share

A larger market share may:

- Increase bargaining power (Think Larger Purchasing EOS)
- Create customer loyalty (Think larger barriers to entry)

Managerial Rewards

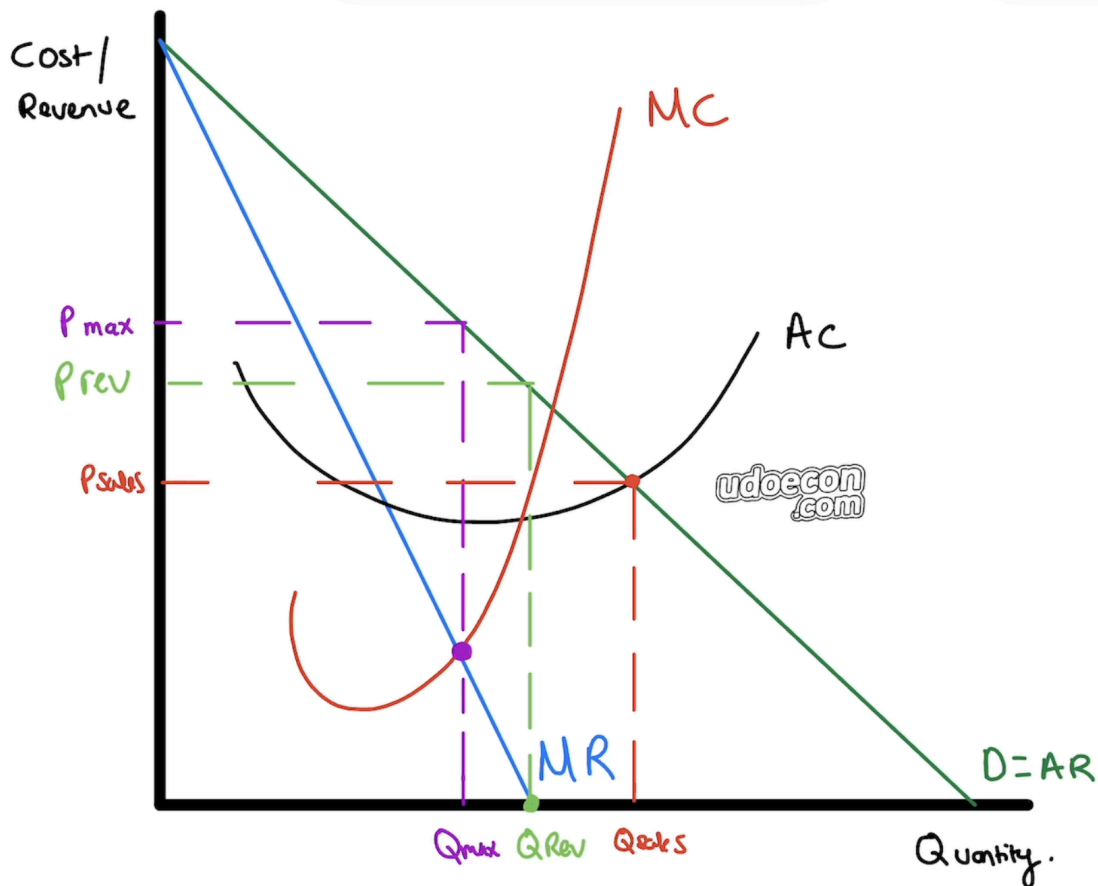
Managers may receive Sales related bonuses

They may therefore prioritise sales growth rather than maximum profit.

Deterring Entry

High sales and low prices may make the market appear less profitable to potential entrants (Links to limit pricing) .

Comparing the Three Maximisation Objectives



$Q_{\text{profit maximisation}} < Q_{\text{revenue maximisation}} < Q_{\text{sales maximisation}}$

$P_{\text{profit maximisation}} > P_{\text{revenue maximisation}} > P_{\text{sales maximisation}}$

Profit Satisficing

Definition

Satisficing occurs when a firm aims to achieve an acceptable level of performance rather than maximising one particular objective.

For example, a firm may aim to earn enough profit to satisfy shareholders while also protecting:

- Employee wellbeing
- Environmental performance

Why Firms Satisfice

Separation of Ownership and Control

In large companies, shareholders own the business, but managers control its daily operation. These groups may have different objectives.

Shareholders may want:

- Maximum profit

Managers may want:

- Higher bonuses

Managers may therefore choose an output between the profit-maximising and sales-maximising levels. This provides shareholders with an acceptable profit while allowing managers to pursue some of their own objectives.

Multiple Stakeholders

A firm may need to balance the interests of:

- Shareholders
- Employees
- Customers
- Suppliers
- Local communities
- The government

Maximising profit could harm another stakeholder group. Satisficing allows the firm to reach an acceptable compromise.