Profit maximisation and pricing strategies

Literature, Russian Literature

The seperation of ownership from control can play a factor. Large PLC's such as Marks and Spencer can be effected by this as the objectives of profit may be split between Shareholders and managers or Directors. Shareholders will put in thefinanceand take the risks, with the objective that with profit maximisation, they will benefit from shares etc. However managers are allowed total control of the hands on running of the organisations, and they make decisions.

This allows them to pursue their owngoals, gives them the discretion to pay themselves the wage they want or take the perks such as large cars etc as along as the shareholders are seeing some level of profit. Economic and financial goals of an organsiation cannot be looked apon seperately. Organisations must consider a large variety of social factors that have an effect on the running of their company. They must act responsibly and not only look after but invest in areas such as their staff, theenvironment, people living near their premises and even the shareholders.

All these factors do costmoneyand managers may need to use some of the profits to ensure these groups of people are kept happy and satisfied. " Satisficing Behaviour". Whilst how a company can maximise profits is very easy to work out and put down on paper, the reality of it actually happening in practice hardly ever happens as the " factual information" it is based on doesn't always take into account anomilies or alternatives. So satisficing behavouir is the term used to describe the way companies will compromise or reach an acceptable and satisfactory solution.

Maximisation of Sales Revenue is a goal that some companies may pursue. Reasons that the company decides to follow this route may be based on a desire to increase market share; managers may also be motivated by prestige, status or sales related salaries. Sales are a visible sign of companies success in the market place. Companies may, particulary in the short term, adopt a growth maximisation strategy where in order to sell more and increase market place status the company must produce more which means growth of production, plant, machinery, land and labour.

This may also involve the diversification of the business either vertically or horizontally. Company goals can be likely to vary depending upon MacroEconomic conditions, product lifecycle or internal company politics. This may mean the company will need to adopt a strategy or behaviour which allows them to pursue a number of objectives at one time, to satisify all elements. For example in recessionary times companies principle objective maybe survival rather than profit maximisation.

This pricing strategy is based on competition within the market place and being able to keep your product competitive with others. Companies need to keep up with competitors or rivals and to this they will select the " going rate" as the price of their product. This is often the strategy taken when the market place is flooded with suppliers and/or consumers are not known to be loyal to one brand.

By pricing it to high, they will price themselves out of the market as consumers can get the same product from another supplier at a lower price, whilst setting a price too low might make consumers feel that the product is

inferior or a cheaper version. This is why a firm in this situation must keep their price in line with others. However, to maximise or increase their share of the market they could develop a marketing strategy to increase consumer awareness and familiarity.