

Good case study on profit maximization and cost efficiency

[Business](#), [Company](#)



Introduction

Economics is a field which has its active recognition in almost every walk of life and it is an important thing as well. Alfred Marshall and Adam Smith are known as the founder of Economics who invented it. According to both of these individuals, Economics is the name of how to earn the money and how to consume it in a perfect and well organized position.

There are two different branches of economics, which are microeconomics and macroeconomics. Microeconomics is the branch of economics that deal specifically with the economics of individuals while macroeconomics is the name of economics that deal specifically with the economics of the country as a whole. Both of these types of economics are essential and vital from their own aspects. The concept of economics also applies on the organizations as well like the aspects of cost and profit maximization.

According to the concept of economics, a firm would be in the position of profit maximization stage after the Marginal Revenue Exceeds from Marginal Cost, or in simple words when revenue exceeds the cost. The main perspective of this assignment is to apply the concept of cost and revenue models on two companies operating in the same line of business. The companies which are chosen for the same analysis are hypothetical ones with the name of Company X and Company Y and both have different pricing strategies with each other. The assignment has been distributed into different sections like introduction, analytical review and conclusion which are some of the essentials.

Analytical Framework

There are different models pertain to statistics have been applied on the project like regression analysis, mean, standard deviations and other . All of these concepts have the ability to effectively analyze the aspects of the economic based concept and applies on a single raw data. Multiple Regression application is again an important provision from the viewpoint of an analytical framework and it would be applied again on the analysis. We have assumed an observation of around 360 days of two different products which are X and Y.

The average pricing of company Y is 0. 029 \$ while it is 0. 028 for company, showing that the there is not much variation is found among the pricing of these two different companies. There is only a different of \$ 0. 01 is presented in the list which is quite low in particular. We have also applied the standard deviation technique on the pricing of these two different companies and found that the variations among these two pricing strategies are different from each other. The variations among the pricing of these two companies are quite minimal that is a good sign from the standpoint of the company. Because it, shows strong commitment from the company as far as maintaining the cost and profit maximization function and stage. Mentioned below is the graph containing the pricing variations among the prices of two different companies,

Pricing of X and Pricing of Y is not quite change in this particular scenario.

The regression statistics of the summary output is mentioned below accordingly

If regression statistics would have applied over this concept, then it is found

that the standard error comes under this particular technique are 6, 420 while the adjusted R square is 0. 76. The observations count under these objects could be essential. The complete regression model and ANOVA analytical technique is mentioned below in Appendix-1. The model is showing the 95% confidence level interval in particular which is showing that the result is 95% accurate.

There are two different types of costs which particularly are Variable Cost (VC) and Fixed Cost (FC) and the combination of both of these costs are known as Total Cost. Fixed cost is the one which cannot be change due to different provisions; however Variable costs subject to change timely accordingly to its timings and other things in particular. We are now assuming the fixed cost here in this analytical procedure and only considering the variable cost in particular variable analysis. The average total variable cost of Product Y is 177. 69 \$ and the total computation of the same thing is mentioned in the appendix-2 of the report which is showing the marginal cost analysis of the report as well, however the graph of the same is mentioned below

Total Variable Cost (TVC) lies above and lowers to the tangent line of Y which is showing that there is not much variation is found among them. Apart from the TVC of Product Y, there is yet another curve and tangent line adjacent to Product X and the graph of the same is also mentioned below

The graphs of both of these scenarios are somewhat identical and TVC of X is showing that the average variable cost of X Variable or company is \$ 165. 309. The summary of differences among both of these companies are mentioned below just for a quick reference

Variable cost of Company Y is way higher than that of Company X, at about 12.38 \$, which is showing that company X is managing its operations more conveniently and effectively as compared to Company Y.

Ample Capacity/ Ratio Analysis

In this particular section, it is advised to analyze the ample capacity for both of the companies along with analyzing the same through some ratios which are essential for analyzing the capacity in particular scenario. The values of the price elasticity and other important ratios of both of the companies are mentioned below to compare the things effectively

The price elasticity of Company Y is higher than that of Company X which is not a good sign for the company, while Company X also have high Contribution margin, high Gross margin and high gross margin to revenue ratio, showing that Company X is more profitable as compared to Company Y in terms of generating net revenue for the company in particular.

Optimal Pricing

Optimal Pricing is the pricing which is showing that how much a company would earn revenue or profit in terms of a given scenario. Profitability of a company in terms of revenue and net income depends upon the amount of pricing it has. It also depends upon how much quantity a company produces and sells. It is known as Optimal Capacity (OC), which initializes the amount of Optimal pricing as well as revenue and total cost as well. Optimal Pricing and other important variable information of Company X is mentioned below

The profit of Company Y is lower than Company X, like it is only \$ 132.64, while it is higher than the level of 140\$ from Company X. Total Revenue

which has been earned by Company Y is \$ 209. 79 and the cost is 77. 15\$ amounting to a proportion of nearly 37% in particular. However, it is more than 62% in terms of profit. The Optimal Price of Company Y is 0. 049\$ while the quantity of the same is 4245 onz. It is also mentioned in the graph 1 in the appendix

Decreasing of Cost

Company Y comparatively have a better cost scenario as compared to Company X, as the amount of cost relates to Company Y is way higher than that of Company X, showing a high power of revenue for this company as compared to the other. The company Y can increase the revenue of their company higher than Company X by increasing the quantity accordingly. Higher quantity subject to higher the gross profit and net income margin of the company in particular, while lower amount of quantity subjects to lowering the revenue of the companies, which is found in the Company X. Company X on the other way have a slightly up cost to revenue function, but its higher capacity of quantity compensates the same in particular.

Conclusion

The main perspective of this assignment is to apply the concept of cost and revenue models on two companies operating in the same line of business. The companies which are chosen for the same analysis are hypothetical ones with the name of Company X and Company Y and both have different pricing strategies with each other. From the entire analysis, it is found that the Company X has a much higher profit maximization state as compared to Company Y, however the cost structure of Company Y is better than

Company X. Both of the companies have to adopt the good behavior of them and should interchange with each other, as quantity should be increased by Company Y and cost should be minimize by Company X in order to initiate the competition between each other for a long span of time.

Work Cited

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Appendix-1

Appensix-2

Graph-1