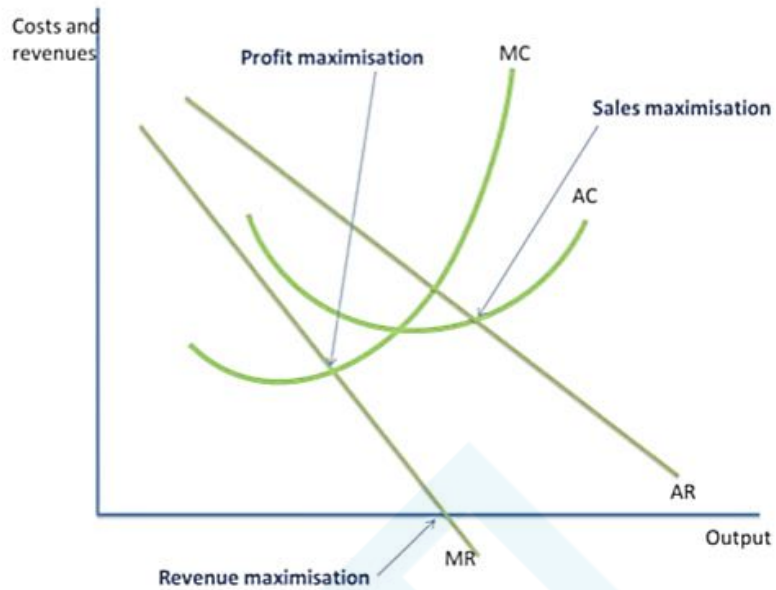


3.2.1 Business objectives

- a) Different business objectives and reasons for them:
- Profit maximisation
 - Revenue maximisation
 - Sales maximisation
 - Satisficing
- b) Diagrams and formulae to illustrate the different business objectives:
- Profit maximisation
 - Revenue maximisation
 - Sales maximisation
- Profit maximisation: when $MC=MR$. Where total revenue and total costs are at their greatest difference apart or, where the revenue gain from selling one more unit is exactly equal to the cost
 - Reasons for profit maximisation:
 - Higher wages and dividends for entrepreneurs
 - Retained profits are a cheap source of finance, which saves paying high interest rates on loans
 - Revenue maximisation: $MR=0$
 - Reasons for revenue maximisation:
 - If a firm has to dispose of all its stock, then effectively costs are not relevant for example a flower seller
 - Principal agent-problem
 - If a firm is about to be taken over it may be valued based on its revenue
 - Sales maximisation: the firm sells as much of their goods and services as possible without making a loss. Not-for profit organisation operate at this output. $AC=AR$
 - Reasons for sales maximisation:
 - To increase market share and get rid of competitors by cutting its price (short-term)
 - To avoid the attention of competition authorities as they look out for firms earning excessive profits
 - High level of profitability may attract other firms into the market, so by cutting prices and selling more, new entry is prevented
 - Increase brand recognition



- Satisficing: making enough profit to keep shareholders happy, after which managers can aim for other objectives
- Reasons for satisficing:
 - Managers may wish to have more leisure time
 - To keep a business small scale and low risk
 - Firms may wish to keep profits down to avoid being taken over
- Other business objectives:
 - Producing a high quality product
 - To gain loyal customers
 - Have a good corporate social responsibility (CSR),
 - Protect the environment
 - Pay its workers above the market rate
 - Support local businesses