The Impacts of Adopting a Simple Profit-maximising Strategy Perspective for a Company

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Abstract. Companies are in business to make money, and every business attempts to maintain a continuing growth in the unpredictable economic situation. Therefore, companies are trying to make plans to support firms competing successfully against their rivals. Those plans are designed to state the direction and scope of an organisation over the long term, which achieve advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations. This paper analyzes the situation applied in company's mission statement, the environment analysis, low-cost leadership strategy. By assessing different company examples, it is concluded that adopting a simple profit-maximising perspective will also have both positive and negative impact.

Introduction

With the development of globalisation, the world economy becomes closer and more complex. Business now is operating to find a way to achieve higher levels of performance in the markets and industries for higher profitability and sustainable development. Thus, when companies make decisions to underpin the profit, it is considered that only focus on economic profitability is not enough, because when strategy adopts a simple profit-maximising perspective, both internal and external business environment will have impact on a firm. Owing to the strategic management in different companies, the results of the impacts are different. This paper is an attempt to discuss whether adopting a simple profit-maximising perspective can have positive impacts for a firm or not. The paper will start with the simple illustration of profit maximisation and why company attempt to make more profit. Secondly, it will go on to analyze the influence of the strategy adopting a simple profit-maximising on firms. In this section, different examples and frameworks will be given to discuss the task.

Profit Maximisation

Profit maximisation refers to the process that company is decided to control the price and cost to earn the greatest profit. Basically, there are two approaches to settle the issue. The first one is to sale more product and minimise the cost for the profit equals revenue minus cost. The second one is to use the margin revenue and margin cost theory that total profit in perfectly competitive market reaches its maximum profit where marginal revenue equals marginal cost. Firms require a certain measure of profitability to earn more profit if they want to compete and survive, and they need to exhibit a certain amount of social responsibility if they are to retain the trust and support of key stakeholders. [1] Generally, companies try to increase the revenue and reduce the cost to maximise the profit, because it is difficult to achieve the ideal situation that marginal revenue equals marginal cost. Therefore, company are collecting information from both internal and external environment to develop strategy which may direct or indirect influence the profit-maximising perspective.
Profit-maximising Applied in Company's Mission

The strategic management starts with defining the mission statement of a firm. It is an explanation why the company exists in the business activities and the expectations of stakeholders. Generally, if the mission statement does not influence behavior in an organisation, it is unlikely to have much effect on a firm's actions. However, it is considered that some missions can improve firm performance. Research by Jim Collins and Jerry Porras in Built to last has shown some firms whose sense of purpose and mission permeates all that they do. It is interesting to find that those visionary firms, some of which are listed in table 1, is their long-term profitability. [2]

Table 1. A sample of visionary firms.

| 3M   | Ford | Merck  | Wal-mart |
|------|------|--------|----------|
| Boeing | IBM  | Motorola | Walt Disney |
| Citicor | Johnson & Johnson | Motorola | Sony |
|       |       |         | Nordstrom |

From 1926 to 1995, an investment of $1 in one of these firms would have increased in value to $6,536. That same dollar invested in an average firm over this same time period would have been worth $415 in 1995. [2] These firms earned substantially higher returns than average firms, even though many of their mission statements suggest profit-maximising. For example, the mission of Johnson & Johnson says about the relationship between profit and the firm's mission statement: 'All our management is geared to profit on a day-to-day basis'. Compared with some other profit-maximising suggested companies like Nanjing Pharmaceutical Company in China, Johnson & Johnson's management are prefer operating under this set of principles rather than going to show up on the figures over the short-term. In other words, profit-maximising is not their primary reason for existence, but is an important corporate objective. This will underpin the company's strategy in maintaining a long-term profitability.

Although some firms have benefited from the strategy developed by that kind of mission, it can hurt a firm's performance as well. Sometimes the strategy's beneficiary, inwardly focused on its founders or top managers will have negative impact for a firm. For instance, owing to the human resource policies in Ben & Jerry's Ice Cream, the highest-paid employee can earn more than five times the lowest-paid employee. [3] If a company wants to reduce the labor cost inappropriately in order to maximise profit which are almost divided founders or top managers, it will demotivate the senior manager and operational level staff's talent which is needed to ensure the growth and profitability of the company. Finally, the company was acquired by Unilever in 2000.

Profit-maximising Perspective in Business Environment Analysis

A company's environment refers to all external forces, factors and conditions that exert some degree of impact on the strategies, decisions and actions taken by the company. If business wants to implement a strategy to earn more profit, it is necessary for companies to use different frameworks to assess the environment and underpin the strategy. McDonald's use SWOT to summarise the key issues from the business environment. According to that, McDonald's found that increasing customer desire for new types of food and hamburgers that are healthier or have low fat compared to current offerings. The top management recognised the increasing health awareness of the American public as a potential opportunity to expand its service to customers.

![Figure 1. McDonald's new product development.](image-url)
In order to exploit this opportunity, McDonald's developed a variety of new offerings, including fat-free hamburger, chicken sandwiches and different salads which would meet the health concept. Different new health products and tastes provide more choices for customers and also make the services more diversified. Customers’ rising health awareness also represents a potential threat to McDonald’s as well as opportunity. If McDonald’s failed to respond to the environment change, the company will lose competitive position in the industry. Owing to the new product development strategy and taking the strength of low cost operating, the company earned more profit and the new product development also became a new strength for McDonald’s.

Moreover, the general environment which refers to the broad collections of factors that directly or indirectly influence every firm in every industry. [4] For example, the increasing of new labor force, the changing cost of capital or interest rate and the developing of new technology will influence the cost as well as the profit of the company. Technology, as one element of PEST, is accelerating the pace of outsourcing to reduce cost and earn more profit. For instance, the increasing of the Internet and low-cost telecommunications has dramatically accelerated the outsourcing of many skilled jobs to lower-cost regions. [5] Outsourcing is the shifting of work and business activities that were once performed within the firm to external providers. Due to this general environment change, companies are forced to become more productive and cost-efficient to compete with rivals. For example, Dell Computer, General Electric, IBM, Microsoft and Oracle have established service and technical operations in China, India and other regions. This is the strategy that those companies use to underpin the cost-efficient to maximise the profit. In financial services, J.P. Morgan Chase hired forty junior research analysts and a thousand support staff in Bombay in 2003. [6] Finance specialists, for example, earn $1,000 per month in India, compared with $7,000 in the USA. With the technology environment changed, outsourcing strategy creates positive impact on a firm by reallocating resources more appropriately to become more profitable. That strategy will also improve the international image of those firm in solving unemployment in developing countries and promote the economy in these areas. At the same time, those outsourcing products are close to local market, it will reduce the barriers to enter into the local market.

However, although strategies adopting a profit-maximising perspective can have positive impact for a firm, sometimes, it will also have negative impact. Figure 2 show how the strategy adopting profit-maximising works in Sanlu Group, China.

![Figure 2. The supply chain and organisation structure of Sanlu Group.](image-url)

As with all strategies, firms that want to adopt a profit-maximising perspective must adopt an organisation structure, management control, and compensation policies that reinforce this strategy. [7] The board of directors of Sanlu Group decided to implement cost efficient strategy to reduce the cost and gain more profit. However, the Sanlu Corporation China baby milk scandal made the company fail to achieve the goal. Firstly, the organisation structure cannot support the strategy operating efficiently. The problem occurred in the operation level (raw milk purchasing) for
purchasing the cheap raw milk which contains melamine. The company's structure is too tall to control the strategy management for the decisions were made frequently by the delayed information. The operation level (raw material purchasing department and manufacturing department) was difficult to communicate to the manager, but the cost reducing goals were required from the top manages. As a result of that, the top managers lose management control. In order to achieve the target required from top managers, melamine contained raw milk was used to produce the baby milk. It is believed that a firm implementing cost reducing strategies will generally adopt a functional organisational structure. [8]

In the functional structure, each of the major business functions is managed by a functional manager. It is more efficiently than the work under the tall structure for the manager can find the operation problems on time and also can reduce the managing cost of the company. [9] Secondly, because of the company structure, the supply chain management in Sanlu was weak. According to figure 2, the company has less bargain power than customers, but has bigger bargain power than supplier. Associated the threats of entry and substitutes, to reduce the cost it a way to maintain competitive advantage and profit. While, as suppliers and buyers are also the stakeholders of the company, for long-term profitability, the company should simplify the structure and reinforce the supplier and operation level management to maintain the benefits of all stakeholders of the company. [10] Thirdly, owing to the uncontrollable structure, the problem feedback from customers cannot go back to the company quickly. It also influence the performance of the company. All in all, adopting a profit-maximising perspective must adopt an organisation structure, management control and compensation policies that reinforce this strategy. Otherwise, it will have a negative impact for a firm.

Summary

In summary, an attempt has been made to discuss whether adopting a simple profit-maximising perspective can have positive impacts for a firm or not. The paper has briefly described the approaches to maximise profit. Business competes for surviving by maintain a long-term profitability and responsibilities to its stakeholders. Company's strategy adopting a simple profit-maximising perspective can have positive impact for a firm. The discussion started from the situation applied in company's mission statement and then it went to the environment analysis by using SWOT and PEST models. Low-cost leadership strategy is another way to underpin the firms' profit and examples from Nike has been discussed in this part. All these strategies were discussed as positive impacts for a firm. However, sometimes, adopting a simple profit-maximising perspective will also have negative impact, such as the example of Sanlu Corporation China baby milk scandal. In a word, firms that want to adopt a profit-maximising perspective and want to have a positive impact must adopt an internal and external environment analysis, marketing management, organisation structure, management control, and compensation policies that reinforce this strategy.

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