E-Content (M.Com Sem 2)

Marketing Management

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The Pricing objectives

The basic objectives of firm are survival and growth. The objectives of pricing are derived from the overall objectives of the firm.

The specific objectives of pricing may vary from firm to firm. Most firms have multiple pricing objectives.

Pricing objectives

Profit oriented
- profit maximisation
- satisfactory ~~profit~~ profit
- minimisation of loss
- Target rate of return

volume oriented
- maximum sales volume
- maximum customer volume
- maximum market share

status quo.
- meeting competition
- Price stabilisation
- recovery of cost
- maintaining market share/image

1. **Survival.** Survival is the most fundamental objective in most cases. Organisations tolerate almost any kind of deficiency say, short-run losses, internal organisation, reduction in the size of operations and the like in order to continue in existence. Therefore, at least in the short-run, some organisations price products with objective of obtaining working capital for uninterrupted operations. However, survival price objective is a short-run or a temporary goal and is insisted only when the firm faces a survival crisis. Once, it turns the corner, it shifts to other price objectives.

2. **Target return on investment.** Pricing for profit is the most logical price objective. Pricing to attain predetermined profit involves the establishment of specific profit goals either as a percentage of sales or a R.O.I. or R.O.A.M. (Return of Assets Managed). Price decisions based on investment return are becoming very common both in private and public sector undertakings, these days. This objective expects a certain predetermined rate of return on capital employed over a period of time. That is, the sales revenue arrived at the end of financial year is enough to cover all the costs and leave desired margin equal to the rate of return. Most target return on investment price objectives are achieved by intuition or trial and error rather than by the use of predictable models to generate profit level.

3. **Market share.** Market share is really a meaningful measure of the success of a firms marketing strategy. A market share price objective can be either to maintain the market share, to increase it or some times to decrease it. The company uses the price as an input to enjoy a target market share. Target market share means that portion of the industry sale which a company aspires to attain. This market share is normally expressed as a percentage of the total industry sales. Price is typically one of the most important variables

in improving or maintaining market share. However, if the market share objective is pursued without regard to other objectives, it may not achieve the organisational goals. Price flexibility and, often, profits are linked to firm's market share position. In all developing countries, they prefer market share price objective to rate of return objective. This price objective helps to maintain and meet the restrictions laid down by the laws of the land. Thus, MRTP Act of 1969 says that no company is to develop to such an extent as to call it 'dominant'. The solution lies reducing the market share.

4. **Cash-flow management.** Product pricing decisions are extremely important to the financial manager. In the past, marketing plans did not, as a rule, make any major claim on a company's cash reserves. Today, the marketing world has changed drastically. The rapid expansion of new product research and decentralised distribution net-works and the explosions of aggressive selling have made it necessary to commit sums of money to marketing. Since, there are many other demands within the firm, it is quite imperative that the price objective is to retain as much cash possible within a given period of time. This is of particular importance in case of those firms that spend a lot on product research and development like chemicals; electronics, pharmaceuticals and so on. Even the consumer packaged goods marketers incur heavy product introduction costs in the form of advertising. These sunk costs are to be covered early at a faster rate.

5. **Price and profit stabilisation.** Stabilising prices and profits can be a long-term objective of a firm. Fluctuating prices having fluctuating profits bringing into play unwanted forces affecting the firm's economic health and status in market place. Stabilisation of prices and margins is more critical industries where oligopoly prevails. For example, in marketing of most basic metals, it is an accepted practice of the majority of the firms to follow the price-leader. The role of a price leader is generally that of maintaining stable prices in an industry in which erratic and irresponsible pricing moves would result in undesirable changes in market share and profits. Stable prices help in preventing price wars amongst the competitors. This stable price and profits objective can be set in motion by keeping the prices between the safe limits — not allowing them to fall below a norm during slump and not allowing them to rise above norm during boom.

6. **Resource mobilisation.** Mobilising the resources for either self-development or reinvestment else where can be another price objective. Prices are deliberately set high in certain cases so as to make not more profits but to generate more surplus for the purpose of reinvestment in the same firm or other firms. Thus, State Trading Corporation of India has been following this objective on all the imported stuff sold in Indian market. One such example is imported cars. Similarly, petrol rates are kept very high as it yields a good easy surplus because, gasoline automobiles depend fully on petrol. As a governmental exercise, it works well and to that extent the general public

escapes tax axe on their backs. This price objective is most commonly found in developing countries where it adds to the revenue ex-chequer for reallocation.

7. **Meeting killer competition.** Price can be used as a weapon to meet the competition or eliminate it. Matching or marring the competitors is the simplest strategy in case of those companies that are more interested in non-price strategies. Meeting of competition implies keeping more or less same prices as fixed by the competitors. Here, quality and cost considerations are to be taken more or less identical. In case of such price policy, consumers are at a loss to decide only by price. They go by other points such as weight, colour, dimensions, package, small, feel appearance etc. This can be called as maintenance pricing. As opposed to this, a firm is to follow destroyer policy followed in order to warm off possible entrants or to compel the competitors to leave the line. In latter case, such a policy is more successful if the competitor has the higher costs, so that he cannot afford lower prices.

8. **Profit maximistion.** Profit maximisation is the age-old objective of pricing. Here, price policy followed by the management helps the firm to maximise its earnings under given market conditions. Maximisation of profits is of the overall activities of the firm and not in case of each product item because, it means exploitation and goes against the concept of social responsibility of charging reasonable profit. Profit maximisation can be a long-term objective because, at the early stages of product life-cycle, there is need for building up minimum market share, sales volume which is possible with lower prices and lower margins. Many a times, a firm may wish to sacrifice some short-run profits by pricing lower than pricing higher so that it keeps out competitors, thereby maximising the profits in the long-run. However, long-run profit maximisation is very difficult to estimate because, the environment is hard to predict beyond the short-run.

9. **Maintaining the image.** Every company has an identity from the moment it opens its doors. It is an identity representing what it has done to convey the public. It is the sum-total of the impression that the people have about the firm. It is about its products — packages — trade marks — brand names — employees — graphics the marketing programme and the like. This image is deeply influenced by how the company handles the delicate and sharp weapon of pricing. For instance, a firm known for high quality and high priced products will lose its current clientele if it goes in for low quality and low priced products. As a result the high quality and high priced products are likely to lose their original image so far enjoyed. It is true conversely also. However, a company image well established will favour price policies of its choice because, the customers have accepted the company. Thus, in India, the Phillips, Hindustan Lever, Tatas and the like follow the price policy that is supported in the light of their long-standing reputation. Thus, pricing policy can build an image, make it or mar it, though image insulates the changes in price policies.