J.D. Women's College

Department of Management

Course name- PG Vocational MBA

1st Semester

Subject- Marketing Management

Faculty Name- Dr. Trishna

Topic- Pricing Decision- Pricing Objective (part 1)

Pricing is the second element of Marketing Mix and one of the most critical decisions of 4Ps. Price is the economic value or exchange value of a product expressed in the form of money. **To a marketer**, price of the product is the **value of total offerings** and it includes cost of physical product, cost of promotion, cost of related services and brand image.

To a consumer price is **perceived value of the total benefits** that he will derive out of the product. It includes price of the physical product, and other related benefits like, after sales service, installation, warranty, prestige of the company and the overall satisfaction derived from the product.

Pricing involves a number of decisions which a firm has to make related to setting the price of the product. The important pricing decisions are:

1. Pricing Objectives
2. Steps in Setting the Price
3. Pricing Methods
4. Factors Affecting Pricing Decision

Pricing Objectives

Pricing objectives act as benchmark for fixing price, framing policies and formulating strategies and can be related to sales volume, profitability, market share or competition. Some of the important pricing objectives are:

1. **Survival in the Market-** it is the most fundamental objective and is aimed at survival and continuation of company's business activities and operations. As long as the price covers the fixed and variable cost the company can continue to operate but it can be considered as a long term objective. In the long run the company has to learn ways to better itself or face extinction.

2. **Maximum current profit-**

   This objective is aimed at making as much profit as possible. The company estimates the demand and alternative prices that will produce maximum profit. The company ignores the effect of the marketing mix variables and the effect of competition. However it cannot set the price beyond a certain limit.

3. **Target Return on Investment-**

   Most companies want to earn a reasonable rate of return on their investment. Target return may be – **fixed percentage of sales, a fixed amount of rupee per unit sales** or fixed return on investment.

4. **Increase in Sales (Volume wise and value wise)-**

   The company sets the price in a way that maximum sales can be achieved. Sales growth has direct impact on profits therefore pricing decisions are taken in a way that maximum sales volume (sales in term of no. of units sold) and sales value (sales in term of money) is achieved. This way the companies aim to **maximize their market share**.

5. **Market Skimming-**

   if the company is offering a new technology product then it can keep the **initial pricing high to skim the cream from the market** (the high end customers who can pay high premium for a new product are known as cream of the market). The objective is to earn maximum profit in the initial stage of product life cycle. Since the product is new and offers new and superior advantage (the competitors don't offer such a product) therefore the company can charge premium price.

6. **Market Penetration-**

   This objective concerns with **entering deep into the market by charging lower prices** for the product to get as high market share as possible. Such a pricing is aimed at attracting the price sensitive buyers and by keeping the price low company can encourage for trail and repeat buying. Low pricing can also discourage competition to enter the market.

7. **Product Quality leadership**

   Product quality leadership may be achieved by companies by providing luxurious products at a price high enough not beyond the reach of customers. The products are perceived to be of high quality and superior than that of competitors. An image is created in the minds of consumers that high price is related to high quality.

8. **Satisfy and win the confidence of Customers-**

   To satisfy the customers is the prime objective of marketing efforts in totality and pricing is no exception to that. Companies should design their pricing (set, adjust and readjust) to attract and customers and provide maximum satisfaction.

9. **Maintaining Good image and reputation in the Market –**

by charging reasonable price and stabilizing price the company can create a good image and reputation in the market and in the minds of customers.

10. **Competition related objective**s-

Competition is a powerful factor affecting marketing performance. Companies use pricing as an important strategy to respond to competitors strongly and intensify competition. Sometimes companies keep their prices as low as possible to drive away competition and prevent the entry of new competitors.

11. **Other objectives-** non profit and public organizations may have some objectives like partial cost recovery or full cost recovery.