Course: BBA Part I
Paper: IV
Topic: Objectives of Pricing Policy
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Objectives of Pricing Policy

Five main objectives of pricing are: (i) Achieving a Target Return on Investments (ii) Price Stability (iii) Achieving Market Share (iv) Prevention of Competition and (v) Increased Profits!

Before determining the price of the product, targets of pricing should be clearly stated.

Objectives of a properly planned pricing policy should be logically related to overall managerial goals.

(i) Achieving a Target Return on Investments:
This is the most important objective which every concern wants to achieve. The objective is to achieve a certain rate of return on investments and frame the pricing policy in order to achieve that rate. For example, the concern may have a set target of 20% return on investment and 10% return on investments after taxes. The targets may be a short term (usually for a year) or a long term. It is advisable to have a long term target.

Sometimes, it is observed that the actual profit rates may be more than the target return. This is because the targets already fixed are low and new opportunities and demand of the product exceeding the return rate already fixed.

(ii) Price Stability:
This is another important objective of an enterprise. Stability of prices over a period reflects the efficiency of a concern. But in practice, on account of changing costs from time to time, price stability cannot be achieved. In the market where there are few sellers, every seller wants to maintain stability in prices. Price is set by one producer and others follow him. He acts as a leader in price fixation.

(iii) Achieving Market Share:
Market share refers to the share of the company in the total sales of the product in the market. Some of the concerns when introduce their product in the competitive market want to achieve a certain share in the market in the initial stages. In the long run the concern may aim at achieving a sizeable portion of the market by selling its products at lower prices.

The main objective of achieving larger share in the market is to enjoy more reputation and goodwill among the people. The other consideration of widening the markets by lowering prices is to eliminate competitors from the market.

It has been observed that companies may not like to increase the size of their share on account of fear of Govt, intervention and control. General Motors, America, capturing about 50% of the automobile market, passed through this situation. Some companies like General Electric and Johns-Mauville preferred to have relatively small market say 20% rather than 50%.

(iv) Prevention of Competition:
Modern industrial set up is confronted with cut throat competition. Pricing can be used as one of the effective means to fight against the competition and business rivalries. Lesser prices are charged by some firms to keep their competitors out of the market. But a firm cannot afford to charge fewer prices over a long period of time.

(v) Increased Profits:
Maximisation of profits is one of the main objectives of a business enterprise. A firm can adopt such a price policy which ensures larger profits. However, such enterprises are also expected to discharge certain social obligations also.