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Pricing Policy and Its Impact on the Profitability

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Abstract

This research project is mainly focused on analyzing pricing policy and its impact on company's profitability through collecting receipts from 3 different places in Kurdistan Region of Iraq/ Sulaimani to evaluate their pricing policy with having coins and its impact on generating profits and increasing sales while coins does not exist in the market on the one hand, and interviewing some accounting, and economy's experts on the other. A hypothesis has been developed in which pricing policy affects profits and sales. The results indicated that pricing policy has an impact on profits and sales. Hence, this pricing policy in these places may have influence on customer satisfaction, and further information has been provided in the research.

Keywords: *pricing policy, profitability, sales, money changes*

JEL classification*: G0; G1*

Introduction

As customers' willing to pay drives profit to the company, setting a good pricing policy will be significant for targeting profit, which requires keeping balance between customer's desire to pay at the good value and the company's cost covering and profit earnings (Nagle, & Müller, 2017).

Pricing policy is the company's policy to determine product or service prices which needs more than only changes in attitude. It demands changes in when, how, and who makes pricing decision. For instance, predicting price level before product development is one of the requirements of pricing policy. Another requirement is determining the product or service economic value which depends on the alternatives available for the customers to meet their necessities (Nagle, and Müller, 2017).

Profitability is a company's capability to utilize its resources to generate revenues in excess of its expenditures which recognized as one of the blocks for analyzing company's performance and financial statements. It has two key aspects, revenues and expenditures (Asche, et al, 2018).

There are many studies on pricing policy and profitability in various countries. Van der Rest, et al (2018) analyzed the determination of room rate prices in the European hotel group which involve in complex activity system that required reorganizing into four spanning processes: developing, determining, learning, and negotiating prices. Borio et. Al., (2017) investigated the relationship between the level of interest rates and the yield curve steepness against ROA. They discovered that this relationship is positive and enhances profitability. Modak, et al, (2016) studied pricing policy and coordination for distribution channel with suggestion from manufacturer and they revealed that in decentralized and centralized systems, the optimal pricing strategies can be proposed under two part tariff and trading process.

Although setting pricing policy in a way in which can provide money changes (coins) in the market, still customers cannot take benefit if coins do not exist in the country. This will raise a question: why some companies set a price with coins (changes) while it does not exist in the country market. Kurdistan Region of Iraq is one of these countries. Thus, the study was conducted in this region and more particularly in Sulaimani city.

This research discovered that the company's pricing policy has impact on company's profits and sales. Hence, this strategy can provide solution for the non-existence coins in the market which is the main problem in Kurdistan Region of Iraq/ Sulaimani.

Literature Review

Theories of Money, Prices and Value

The term value of money has been defined by many experts of accounting and economists differently. Some of them have defined the value of money as the value of a particular country's currency against foreign currencies. However, some others believed that the internal purchasing power of a nation has associated with the term value of money. Purchasing power means number of goods or services that can be achieved by a unit of money (Ozer; et al, 2012). Value has a number of aspects: technical, affective, social, situational, appreciative and functional in every cultural production (Friedman, 2017).

Price level and the currency value in a country are inversely related to each other. For instance, once the price level increases, the currency value decreases and vice versa (Ozer; et al, 2012). Money is used for three main purposes, for facilitating transactions, value saving, and facilitating measuring prices and value (Pham, 2018).

Some of the economists believed that the price of a product is determined by its value to the customer and some others assumed that it is production cost that determines the price. In fact a more logical relation between price, value, and cost is that price equals to both production cost and value to customer (Friedman, 2017).

Pricing Policy

Prices have been utilized by public sector to increase revenues instead of depending on taxes only in the countries which are struggling with lack of natural resources. For instance, in London, driving cars in crowded areas have been charged by government during peak times and high ways (Nagle, & Müller, 2017).

Managers must be trained in innovative pricing strategies. The pricing decision must be made based on its expectation rather than the reaction to change it. Nonetheless, unfortunately most companies still do not work based on this strategy. Thus, rapid adaptation in markets strategies is required (Nagle, & Müller, 2017).

Owing to marketing globalization and increasing technological changes, the number of competitors and new sources of value for customers has increased which not necessarily led to rises in profit for the producers (Nagle, & Müller, 2017).

Cooper et al. (2018) revealed that performance is the only instrument which results in success or failure of pricing. Hence, for making pricing decision international business executives did not utilize different objectives.

Cunha, and Rocha, (2015) conducted a study regarding to the use of information, strategic approach, and managerial control behavior in the export practices of 24 firms based in Austria, Norway, and United States.

They discovered that the source of information and price control are more sophisticated and varied in the internationalized companies. Hence, they established that price issues are universal and not culturally bound. However, they failed in providing behavioral understanding for pricing practices.

Burkert et al. (2017) observed the relationship between internal political system and interdepartmental coordination and competition of 125 firms listed in the Fortune 1000. They discovered that some of the departments considered being difficult to deal with regarding to improving pricing strategies. For instance, delays in providing cost information will bring difficulties for accounting department. Finance department will face problems by general inclination to control setting price. Independent will bring barriers for sales department. Production department in maintain large number of products once designing special promotions. Hence, they concluded that in order to remove all these barriers it is required to focus on pricing as a strategic activity and full cost recovery must be completed in the long period. Thus, the hypothesis has been developed in which:

H1: pricing policy will impact company's profitability and sales.

Profitability

There are some factors which affect company's profitability. Porto & de Abreu (2018) implemented a meta-analysis of 320 published studies which correlates financial performance to explanatory factors. They argued that profitability does not influence by company's size measured as total assets. Nevertheless, the profitability of the company is positively affected by its market share. Hence, industry barriers to entrance have positive effect (Asche, et al, 2018).

Sathyamoorthi et al. (2018) studied that performance affected by the financial level of the company. Likewise, operating leverage is a proxy for the combination of variable and fixed cost which means the total cost has a positive impact on performance.

Companies with high operating leverage have experiencing higher variability in ROS than companies with low operating leverage. It was noted that the performance of these companies is better than average in good times, and below average in bad times. Singh et al. (2017) studied that company's profitability affected significantly by successful working capital management.

Another research identified another factor that influences profitability which is liquidity (Pervan et al. 2019). They argued that liquidity ratio affect profitability positively because, high level of liquidity will reduce the risk of being unable to meet short term obligation. Liquidity can help companies to make adaptation regarding to changing circumstances and thus can affect profitability positively.

Nagle & Müller (2017) indicated that exceptional performers tend to spend more than competitors on research and development; and selling, general and administrative expenses. Their exceptional profitability ultimately will result in higher margins per sale, which assist revenues to grow without compromising those margins. Thus, the company's first priority should be making sales profitably not for a driving growth strategy. According to (De Grauwe, & Grimaldi, 2018) one of the factors that affects profits is exchange rate and this is determines by purchasing power.

Methodology

This research was conducted to study the influence of pricing policy on company's profitability. Thus, a few places and Malls in Sulaimani city have been selected to observe whether their pricing policy affect profitability or not, and a number of shopping-mall experts have been interviewed. To answer the research question, 107 receipts (with having the coins included) were gathered from three different places in the city, where coins do not exist. Investigating the consequences of pricing policy is the main purpose of the study. The information which has been used from the receipts is: (total amount, payment amount, and return coins), in order to discover the unknown victims which are caused by practically non-existent coins, there must be a loser in these circumstances, either customer or company. Thus, this study attempted to investigate the influence of coins as a pricing policy in most of the shopping-malls in Sulaimani city, while coins do not exist in the market.

Collecting 107 receipts proved a truth that among these receipts, there must be a loser, either the customers or the companies. Thus, ANOVA statistical analysis has been used to discover the significant statistical differences between customers and companies as a loser regarding to the pricing policy. ANOVA is a statistical way to analyze the difference between two groups. In this study the two groups are customers and companies as losers by using such pricing policy. For this purpose group statistics have been prepared to discover the mean of lose for both groups. Hence, to reveal any statistical significant difference between the mean of these two groups an Independent Sample test has been set. Then, one way ANOVA have organized to realize the difference of loss based on different brands such as: City Center, Carrefour and Pizza Hut. At the end, multiple comparisons have been made in order to discover which specific difference of loss is significant.

Data Analysis and Findings

In the research, ANOVA has been used to demonstrate the differences in losing rates between the customers and the companies based on their pricing policies.

Collected receipts have been analyzed based on the essential theories of money, in which the value of currency is strongly related to its purchasing power, and the purchasing power is determined by exchange rate. Obviously, one of the factors that affects company's profitability is the exchange rate (De Grauwe, & Grimaldi, 2018). Hence, coins have impact on purchasing power (Zhao, & Zhao, 2018). Thus, existing coins in the market will be beneficiaries for valuing purchasing power.

This research attempted to reveal that having coins in the market might influence purchasing power, owing to purchasing more products by the customers. Likewise, companies selling more products by providing coins to their customer. Consequently, sales will increase, then profits will increase and purchasing power of the currency will be more valued. Nevertheless, some amounts of coins still do not return to the customer and the company makes rounding for the prices. Accordingly, the problem will remain until the government develop a new monetary to solve it.

Table 1: Summary statistics

Group Statistics					
	Loss	N	Mean	Std. Deviation	Std. Error Mean
General Loss	Customer	62	65.7258	46.96534	5.96460
	Company	45	56.1333	37.59691	5.60462

The group statistics reveal that there are two groups of loser in this research due to non-existence of coins in the markets. The number of loser customer is 62 and the number of Loser Company is 45 as it is clear in table 1. Averagely, the mean of customers are about the mean of company. It can be concluded that the customers are losing more than companies. In order to prove that this difference is meaningful or not, the result of Independent Samples Test needs to be considered.

Table 2: Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
General Loss	Equal variances assumed	2.225	.139	1.132	105	.260	9.59247	8.47711
	Equal variances not assumed			1.172	103.938	.244	9.59247	8.18463

In this research, two different groups have been tested to discover which group is losing regarding to the pricing policy adopted in the Sulaimani shopping-malls. For this purpose, independent sample test has been used in order to determine whether there is a statistically significant difference between the means of these two groups or not, which has to be less than 0.05 and it is actually 0.260 and 0.244 which is more than 0.05 (see table 2). It can be concluded that both companies and customers are losing equally and there is no significant difference between the loss of customers and companies.

Table 3: One way ANOVA Results

General Loss								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
City Center	13	86.2308	58.96772	16.35470	50.5969	121.8646	10.00	180.00
Carrefour	83	56.9880	41.45626	4.55042	47.9357	66.0402	5.00	193.00
Pizza Hut	11	68.1818	25.22625	7.60600	51.2346	85.1290	50.00	100.00
Total	107	61.6916	43.34426	4.19025	53.3840	69.9992	5.00	193.00

ANOVA is proposed in order to understand the difference of loss based on different brands such as: City Center, Carrefour and Pizza Hut. It is clear from table (3) that in this study there are 13 receipts of City Center, 83 of Carrefour, and 11 of Pizza Hut which is totally is 107 receipts. Looking at these receipts, it is clear that the mean of loss of City Center is 86; Carrefour is 56; Pizza Hut is 68. Obviously, loss in City Center is more than loss in Carrefour and Pizza Hut regarding to customers and companies elaboration.

Table 4: Multiple Comparisons

Dependent Variable: General Loss						
Tukey HSD						
(I) Shop	(J) Shop	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
City Center	Carrefour	29.24282	12.71624	.060	-.9930	59.4786
	Pizza Hut	18.04895	17.46511	.558	-23.4784	59.5763
Carrefour	City Center	-29.24282	12.71624	.060	-59.4786	.9930
	Pizza Hut	-11.19387	13.67925	.693	-43.7195	21.3317
Pizza Hut	City Center	-18.04895	17.46511	.558	-59.5763	23.4784
	Carrefour	11.19387	13.67925	.693	-21.3317	43.7195

Table 4 demonstrates that which difference of loss is significant, obviously, the loss in City Center is more significant than loss in Carrefour. In order to understand this, it subjected the mean of City Center from mean of Carrefour. Then the result is plus 29, when mean difference became plus 29 it means that City Center is about Carrefour in loss and this illustrate that this difference is significant at 95% of Confidence Interval. And secondly, other differences between City Center and Pizza Hut in one side, Carrefour and pizza Hut in another side seems to be not significant. At this point it can be concluded that this hypothesis is partially supported and there are only difference between two brands which are City Center and Carrefour. There are more losses in City Center than in the others, people who go shopping in Carrefour are facing less losses compared to the other malls.

Discussion

The findings that have been presented in this research suggest that both customers and companies will lose and earn profit. In some cases customers are bigger loser when the coin amount is more than IQD 150, and companies are loser if the coin amount is less IQD 150. This has little importance regarding to affecting companies' profit, since both sides will be loser and achiever inversely. For this reason independent sample test has been used in order to reveal the significance of this difference. Accordingly, the result of the test demonstrates that there is no significant difference between the loss of the customers and the loss of the companies statistically. Hence, to understand the difference of loss based on the places where the receipts have been collected, one way ANOVA is one of the procedures which have been tested. Obviously, regarding to customers and companies elaboration, lose in City Center is more than lose in Carrefour and Pizza Hut, while the number of receipts in City Center is 13, in Carrefour is 83 and in Pizza hut is 11, because mean of loss of City Center is 86; Carrefour is 56; Pizza Hut is 68.

Finally, multiple comparisons between (City Center and Carrefour in one side; and City Center and Pizza Hut; Carrefour and pizza Hut in another side) have been conducted in order to understand which difference of loss is significant. Loss in City Center is more than loss in Carrefour, to clarify this, the mean of lose has been subjected. Consequently, mean difference became plus 29 which means that City Center is approximate to Carrefour in loss. This result proves that this difference is significant at 95% of Confidence Interval. Other differences seem to be insignificant regarding to multiple comparisons test.

This is quite different form previous study which has been conducted by (Burja, 2011). They revealed that increasing debt to a certain level that does not influence the financial independent of the company with utilizing combined sources to fund activities is another designed way to enhance assets' capability for generating profits. Although, a different factor to increase profits has been discussed, but still another way of generating profits has been designed. Hence, (Cao, et al, 2016) discovered that profits will increase if a company adds an online-to-store channel for distributing products to the customers. Likewise, (Hesse, & Poghosyan, 2016) studied the relationship between oil price shocks and bank profitability. They revealed that bank profitability will be influenced by oil price shock indirectly. Similarly, (Hechavarria et al. 2019) investigated the relationship between exchange rate instability and company's profitability. They exposed that how imperfect information about changes in the exchange rate influences this relationship. It has been predicted that uncertainty of the exchange rate has impact on the instability of the growth of company's profitability.

Conclusion

While this study does not offer a conclusive answer to the question of why some companies set a price with coins (changes) while it does not exist in the market? It does show the impact of pricing policy on profitability and sales. This research discovered that non existing coins (changes) in the market might not be a problem if good strategies to attract customers, generating profits, and increasing sales have been developed by the companies. Thus, pricing policy can influence profitability and sales. Likewise, companies will earn more profit by increasing sales through providing coins to the customers, and consumers can purchase more products via having coins. Subsequently, purchasing power will be valued more and this will influence companies' profitability. Hence, not existing coins in the market cannot bring barriers to companies for performing their business and attracting customers, if they have crucial pricing policy and consequently both companies and customers can be beneficiaries. However, according to this study, customers and companies are losing in some circumstances. This pricing policy should be shifted in a way both sides be beneficiaries instead of losing. Thus, government can develop a new monetary to improve the currency and to make this pricing policy more legal to provide benefits for both customers and companies and to overcome this losing. Furthermore, data collection from customers' receipts is a useful tool for evaluating the impact of pricing policy on profitability, but it has limitations which need to be stated. The results cannot be announced precisely, because the numbers which have been analyzed are estimated by the researcher and it is not an accurate taken number from the financial statements. Thus, further research about pricing policy's influences on profitability can be prepared by using financial ratios such as return on assets, financial leverage, gross margin, and sales to current asset ratio with an accurate number from the financial statements. Likewise, pricing policy's impact on increasing customers or customer satisfaction can be prepared through using the same samples of this research.

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