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THE EFFECT OF PRICE HARMONIZATION ON PROFITABILITY OF SELECTED BANKS IN CROSS RIVER STATE, NIGERIA

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ABSTRACT: *This research evaluated the extent to which price harmonization affects companies' profitability level and to know if there was a significant difference between price discrimination and price harmonization on companies' profitability. Survey research design was adopted to elicit data from 274 respondents of five Commercial Banks in Calabar, Cross River State Nigeria. Correlation coefficient and independent t-test were used for the hypothetical tests. The findings revealed that, price harmonization significantly affects companies' profitability level and, there was a significant difference between price discrimination and price harmonization on profit of the selected firms; in that, where consumers' resentments abound, price discrimination might increase profit in the interim, but would pose the organization as an exploiter leading to customers desertions in the long run; whereas, with the adoption of price harmonization, the organization will be doing something nobler and would invoke increased patronage and maximize the present value of future cash flows.*

KEYWORDS: Price harmonization, Price discrimination, Consumer resentment, Profitability

INTRODUCTION

Businesses today face a host of challenges to remain competitive and agile in the volatile market. Effectively priced products and/or services can be a tremendous competitive weapon if done well, or a liability if poorly executed. Okwandu & Ekerete, (2001) opined that, different types of pricing strategy such as: price discrimination, price penetration; skim pricing and price harmonization etcetera, have different significance to different companies in the peculiar market they intend to serve.

The preponderance of price harmonization among other strategies, to maximize profit in a business environment in which consumers have similar elasticity of demand is indispensable. Price harmonization can also be used to cushion the effect of consumer resentment that was occasioned by competitors underselling the company in the segment being charged the higher price and/or where a buyer buys cheap in one segment and resell at the higher priced segment as was the case in many Nigerian market. According to Beredugo & Mefor (2012), managers must monitor the marketplace to determine prices that customers are willing to pay for products or service, if they must succeed. While, Agbonifoh, Ogwo, Nnolim & Nkemnebe (2007) added that, they should embrace prices that would not bring about acrimony among buyers.

To Roth (2007), the price you assign will impact how consumers view your product and whether they will purchase it. A price which is considered unusually high, significantly different in the same firm (price discrimination), under same circumstances of exchange, in the same state or country, may confer unpleasant image of exploiter on a seller. On the contrary, uniformity of prices (price harmonization) in a homogenous and same circumstances of exchange, though with different branches may give a seller the image of a fair trader.

Horngren, Datar, Foster, Rajan & Ittner (2008) opined that, discriminating a product price in a homogenous market could dissuade purchase - causing buyers to look for alternatives – leading to depletion of turnover and profitability, despite product-quality, awareness creation and product-availability.

Statement of problem

Profiteering has often been the watch word of most organizations in Nigeria, leading to the indiscriminate application of marketing strategy (price discrimination) regardless of the effect, to achieve their well-articulated maxim - profit maximization. Their equivocation on dispersed pricing on a product (tangible or intangible) based on exigencies of making huge profit, irrespective of the socio-economic disposition of the market, has left some consumers to doubt organizations in delivering value as expected without necessarily posing as exploiters. The Price discrimination which entails charging different people at different prices based on value they get and their willingness to pay, has been misapplied by practitioners and evoked so much negative feelings that it is hard to justify if price discrimination is legal, ethical and fair.

Presently, the practice of charging different customers, with different prices have instigated considerable outcry in the news media and in the social media, as they unanimously question this strategy while asking 'what will become of organization if they charge unison price or adopt price harmonization for a product'. The advantages of price harmonization on organization's profitability has been left in abeyance by extant literature, whereas the policy of price discrimination has persistently breed customer resentment and refusal to buy, leading to less patronage, loss of market share to decreased profitability level despite product-availability and product-quality. It is against this backdrop, this study inclined to answer the following research questions:

1. To what extent does price harmonization affect company's profitability?
2. Is there a significant difference between price discrimination and price harmonization on corporate profitability?

LITERATURE REVIEW

Pricing strategy is one of the most difficult areas of marketing decision making (Roth, 2007). It deals with the methods of setting profitable and justifiable prices. A firm's pricing strategies may be based on costs, demand, or the prices of competing products. However, where knowledge is required on product that would provide the highest profits, the manager must be interested in assigning costs incurred in the entire value chain to the different products before a meticulous

determination of the overall profitability of the products (Horngren, Datar, Foster, Rajan & Ittner, 2008).
Too many businesses have been lost because they priced themselves out of the marketplace (Gregson, 2008). Consumers' standard of living is closely tied to the reigning prices of goods and services, while in some other cases the price of a commodity may confer some prestige or feeling of importance or superiority on the buyer or consumer of the product (Agbonifoh, Ogwo, Nnolim & Nkamnebe, 2007).

Determination of prices
It is paramount to take into consideration the multiplicity of variables, such as the cost of the product —its inputs—including the cost of product development, testing, and packaging (Tanner Jr., 1996). Before price is fixed, the entire cost incurred must be critically evaluated and the profit margin reviewed to see if it meets consumers' socio-economic prevalence. Cost evaluation is inextricably linked with revenue and profit planning. As such pricing evaluation and fixture are expected to take cognizance of customers' ability and willingness to pay for the products. Where the product is overpriced beyond the customer's ability, sales would be affected and competitors will creep in to take advantage of the moment. Firms are therefore expected to set their prices to match those of established industry price leaders, competitors and also focus on non-price variables (Anyanwu, 2003).

Pricing objectives
Price is not end in itself but a means to an end and should be seen as such. Companies set prices for a variety of reasons. Price affects and is affected by the other three elements of the marketing mix: product, promotion, and place (distribution).

Moderandi (2009) however specified that, Pricing is a complex subject – there are many factors to consider, both short- and long-term. For example, your prices need to, reflect the value you provide versus your competitors, considers what the market will truly pay for your offering, enable you to reach your revenue and market share goals and maximize your profits. While pricing objectives vary from firm to firm, most organizations are profit oriented, hence, the adoption of profitability objective among others such as: sales volume objectives and customer satisfaction objectives (Anyanwu, 2003).

Profitability Objectives
When pricing strategies are determined by profit objectives, the focus is on a target level of profit growth or a desired net profit margin. A profit objective is important to firms that see profit as what motivates shareholders to invest in a company. Theoretically, accountants use marginal costing to identify the price that maximizes profits. Profit is maximized when marginal cost is equal to marginal revenue. Relatively, few firms actually hit this elusive target, however. Consequently, marketers commonly set target-return objectives, short-run or long-run pricing objectives of achieving a specified return on either sales or investment. This return is usually stated as percentages of sales or investment. ICAN (2010) added that, the major underpinning of profitability objectives is the maximization of the present value of future cash flows as a measure to ascertain organization's survival and perpetual existence.

Pricing Methods

Pricing method are techniques by which organization decides on how much to sell its product. Such determination requires critical evaluation of different costing methods available to meet the company's desired objectives. Agulanna & Madu (2003) opined that, strategy and technique adoption could only be effective, if it rests on the company's policy. To this end, some types of pricing methods available are discussed below:

Price discrimination

This is the sales of good and services of a particular commodity at two or more prices that do not reflect a proportion difference between in marginal cost (Okwandu & Ekerete, 2001). Agbonifoh, Ogwo, Nnolim & Nkamnebe (2007) specified it as a situation where companies charge different prices for the same product. Price can be discriminated on the basis of the customers, product version place and time (Kotler, 1988). Price discrimination on customer basis is quite common for example, barber charge different prices. A customer who is good at bargaining or haggling can get a service or buy a product at a lower price, while others may buy the same product, getting it at a higher price (Kotler & Keller, 2006). Hence the tendency of being able to bargain is being influenced by ones knowledge with the prevailing market price, his social status, experience and purchasing power (Anyanwu, 2003).

Price discrimination on product version is not new in the Nigerian context, as a new version of car, handsets, clothing are highly priced compared to their old version even though, the differences are difficult to justify. Price discrimination by place is visible in the airline industry where we have economic class and the first class paying different prices because of the different location of seat. Same can be said of price discrimination in cinema, stadia and relaxation spots. Price discrimination is permissible if differences in prices can be justified by differences in cost (Glautier, Underdown & Morris, 2011). And it is illegal only if the intent is to lessen or prevent competition.

Price harmonization

According to Morley (2012) 'Price harmonization' is what the retailers call it, while some consumers may see it instead as 'anti-price gouging' or 'fair pricing'. It is a system, particularly used by marketers, whereby all form of different pricing strategies - adopted by it different segment or department to different/similar social class of customers of the organization are leveled up. It is resolution of inequalities in prices paid for goods and services that are offered by an organization within a state, region or nation.

Vendavo (2009) opined that harmonizing pricing processes across an organization means establishing a standard process while allowing a managed degree of variation from the standard. This practice ensures greater visibility, commonality of metrics and lower operating costs. It also requires diligent focus because too much harmonization reduces flexibility to support local market conditions, and can be both expensive and time consuming to deploy. The right level of harmonization will depend on the individual business. For example, a manufacturing company that sells primarily to customers that out-source, needs a high degree of pricing consistency, and should therefore be highly centralized with limited local variability. A more regionally-oriented customer base is best served with a less centralized approach, where global processes and tools are harmonized in one model, but also allow local variations.

According to Pricing2b (2012) the Project goals of Harmonization of prices include: a. Optimize prices levels across regions (b) Optimize profits across regions (c) Minimize parallel imports. Price Harmonization has a nice positive ring (harmony) to it and is cryptic enough that it conveys nothing about the true intention of the marketer. Harmony does not have to mean homogeneity, it just has to mean “compatible, consistence, coincide in their characteristics”. You can look at it as making price compatible with customer willingness to pay. By extension, price harmonization appears to be doing something nobler than one practicing price discrimination.

Harmonization of prices of goods and service can also be seen as an innovative means of responding to consumers’ plights, who having raised objectives as to variations in the prices of goods and services to customers with similar socio economic standings or intensity of demand, and some privileged buyers taking the ‘spur of the moment’ to buy cheap in one segment and resell at the higher segment. Prices have been recognized as one of the major reasons why many organizations lose their customers to competitors (Kleyn & Issenmann, 2011). Price harmonization is the result of marketing managers looking at overseas, other regions, states or segments competitors and their prices, before lowering or convincing their suppliers to lower *their* prices (Morley, 2012).

Consideration of customers’ price expectations must not be taken lightly, as it is the only variable that generates revenue and where effectively managed, helps in improving an impoverished dispersed pricing system that had a negative hold on firms’ profitability level. Price harmonization also focuses on selling products and services, retaining current customers, acquiring new customers, improving processes and/or managing costs which in this case, has much correlation with value based pricing in which customers’ expectations and willing to pay, forms a key driver in determining product (or service) value and hence its price (Kleyn & Issenmann, 2011).

Price harmonization can ensure minimization of pricing conflicts and caters for consumers’ resentments and cutting down unnecessary cost of multiple pricing techniques. To Moderandi, (2009), if you use multiple channels, carefully map out the price for each step in your channel and include a fair profit for each type of partner. Then compare the price that the end-user will pay; if a customer can buy from one channel at a lower price than another, your partners will rightfully have concerns. Pricing conflict is common but it can jeopardize your entire strategy, so do your best to map out the price at each step and develop the best solution possible which in some cases is harmonization of prices. Since in today's business environment, organizations simply can't afford to operate without a strategic approach to regional pricing for some obvious reason, hence the price discriminations be harmonize within local markets to cater for customers expectation and willing to pay and not to see the organization posing as an exploiter.

METHODOLOGY

The study adopted the survey research design, as inference about relations among variables is made without direct intervention from concomitant variation of independent and dependent variables. The population of the study is made up of the management and staff (main branches only) of the banking sector in Calabar metropolis, Cross River State; while the anticipated respondents are estimated at two hundred and seventy four (274). They were considered appropriate for the study because of their relevance and on the assumption that they understood the instrument for data collection. The sampling technique adopted for this study was the stratified sampling techniques. Samples were drawn from management and staff of five banks namely; Sterling Bank, First Bank, Keystone Bank Limited, Union Bank and Wema Bank Plc. The hypotheses were tested using Pearson Product Moment Correlation Coefficient (PPMCC) and independent t-tested.

RESEARCH RESULTS AND FINDINGS

The data elicited from the respondents on price harmonization and company's profitability are presented in table below:

Table 1: Price harmonization and company's profitability

Questions	SA	A	D	SD	Total
1. Price harmonization aligns prices of goods and services with value proposition and what the market is willing to offer.	98 35.8%	82 29.9%	74 27.0 %	20 7.3%	274 100 %
2. Price harmonization makes sales and profits compatible with organization's prestige.	97 35.4%	84 30.7%	70 25.5 %	23 8.4%	274 100%
3. Increased profit can rests on being noble in harmonizing prices of goods and services and preventing consumer resentment.	98 35.8%	88 32.1%	64 23.4 %	24 8.8%	274 100%
4. Profit maximization is achievable through maintenance of operational efficiency in pricing based on product cost, consumer's objections and their propensity to consume.	85 31.0%	88 32.2%	68 24.8 %	33 12.0%	274 100%
5. Price discrimination is permissible regardless of differences in cost.	87 31.8%	73 26.6%	83 30.3 %	31 11.3%	274 100 %
6. Price discrimination makes it possible for some customers to avail themselves product and service that would not have been possible with single price.	79 28.8%	89 32.5%	85 31.0 %	21 7.7%	274 100%
7. There is a significant difference between price harmonization and price discrimination on the profitability in Cross River State	34 12.4%	119 43.4%	90 32.8 %	31 11.3%	274 100%

Field survey, 2013

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Hypothesis one

H_0: Price harmonization does not significantly affect company's profitability

H_1: Price harmonization significantly affects company's profitability

With a due application of PPMCC, using information from item 1 to 4 on table 1 above, the result of the hypothesis test is as follows:

Table 2: Pearson correlation coefficient result of price harmonization and profitability level

Variable Cal	$\sum X$ / $\sum Y$	$\sum X^2$ / $\sum Y^2$	$\sum XY$	r–cal.	t-cal.	t-cri.
Price harmonization	1609	10373	10109	0 .894	11.95	1.96
Profitability level	1581	9989				

Source: SPSS analysis 2013

From the above analysis it was discovered that, the calculated t-value of 11.95 was found to the greater than the critical t-value of 1.96 needed for significance at 0.05 level with 2 degree level of freedom. Hence, the acceptance of the alternative hypothesis which stated that, Price harmonization significantly affects company's profitability.

Hypothesis two

H_0: There is no significant difference between price discrimination and price harmonization on profitability level of selected firms in Cross River State.

H_1: There is a significant difference between price discrimination and price harmonization on the profitability level of selected firms in Cross River State.

Using information from item 7 on table 1, with the application of independent t test on the above hypothesis, the result is as follows:

Table 3: Group Statistics

	VAR00002	N	Mean	Std. Deviation	Std. Error Mean
PRICING_STRATEGY	Price Discrimination	136	1.9926	.82099	.07040
	Price Harmonization	138	3.1377	.34582	.02944

Field survey, 2013

Table 4: Independent samples test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
PRICING STRATEGY	Equal variances assumed	12.013	.001	-15.083	272	.000	-1.14503	.07592	-1.29449	-.99558
	Equal variances not assumed			-15.006	180.890	.000	-1.14503	.07631	-1.29560	-.99447

Field survey, 2013

The result of the independent samples t-test conducted to compare the difference between price n and price harmonization on profitability level of the selected firms shows a significant value of 0.001 with a F-value of 12.013, while the result shows a significant difference in price discrimination (M= 1.9926, SD= .82099), and price harmonization (M= 1.9926, SD= .82099); t (272) = -15.083, p=.000.; leading to an outright acceptance of the alternative hypothesis which states that, there is a significant difference between price discrimination and price harmonization on the profitability level of selected firms in Cross River State.

DISCUSSION

It was discovered that price harmonization significantly affects company's profitability and there is a significant difference between price discrimination and price harmonization on the profitability level of the selected firms in Cross Rivers State. Price harmonization can be used as a means of resolving consumer resentment occasioned by price discrimination that has conferred unpleasant image of exploiter on the organization. This is in corollary with the adjudication of Morley (2012) who specified that 'Price harmonization' is a 'fair pricing 'that brings resolution of inequalities in prices paid for goods and services and could spur continuous and increased patronage and profitability for being noble.

IMPLICATION TO RESEARCH AND PRACTICE

Price discrimination is permissible if differences in prices can be justified by differences in cost and in some cases where egocentric customers would want to avail themselves products/services that they would not have bought under a single price (Horngren, Datar, Foster, Rajan & Ittner, 2008). But where prices are significantly disproportionate within a group with similarity in propensity to consume, it would lead to consumer desertion in the long run, reduced patronage and decreased profitability level, while the use of price harmonization would provoke long term sales and persistent inflow and increased profit in a growing economy like Nigeria, that is mostly characterized with rational consumers of not too dispersed socio-economic status.

CONCLUSION

Profit maximization could be achieved through maintenance of operational efficiency in pricing based on product cost, environmental exigencies, consumers' objections and their propensity to consume; and management practicing price harmonization would appear to be doing something nobler, as it establishes a standard pricing process while allowing a managed degree of variation from the standard where possible. This practice ensures greater visibility, commonality of metrics and lower operating costs.

It is therefore recommended that, Managers must always monitor the marketplace to determine prices that customers are willing to pay for products or service, if they must succeed, and that, price harmonization should be adopted on product for a group with similar propensity to consume, and where consumers resentment abound on price discrimination; and that if price discrimination must be adopted, it must be justified by cost of the product, heterogeneity in the market, free of resentments and competitors should not be able to undersell in the segment charged with higher prices otherwise the best pricing technique to be used is the price harmonization that would present the organization as a fair trader and would energize increased patronage, increased profit, customers' satisfaction and maximization of the present value of future cash flows.

FUTURE RESEARCH

In view of the limitations of this study, the following suggestion is recommended for further research: "The Significance of Price Harmonization on Customers' Objections among Commercial Banks in Nigeria".

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