

# The Impact of Product Price Changes on the Turnover of Small and Medium Enterprises in Nigeria

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## Abstract

Pricing decision has been a crucial decision made by all business enterprises at all levels and has posed a great challenge for Small and Medium Enterprises in Nigeria. This research work treats the impact of change in price on the sales turnover of organizations, a study of SMEs in Nigeria. The methodology adopted was the survey and empirical approach, with the administration of questionnaires to some SMEs in Nigeria, evaluating the effect change in product price has on turnover. Primary and secondary sources were used to in collecting data. It was discovered that there is a relationship between change in cost of sales and turnover. Recommendations were made for the close monitoring of SMEs and that SMEs should employ the service of price experts when making pricing decisions.

**Keywords:** Price Changes, Turnover, Small and Medium Enterprises.

## 1. Introduction

For any organization that is involved in the production of goods and rendering of services, after answering the question what to produce, and who to produce for, there is need to answer the question how much will our potential customers be willing to pay for the good? This difficulty of price fixture and the other various intervening variables such as cost, competitors price, demand, political factors, environmental factors, involved in fixing price for goods and services, has posed a sense of concern to most small and medium enterprises in Nigeria. This work is aimed at finding an answer to some probing questions in the mind of manufacturers and managers of small and medium enterprises about how to set prices effectively, combining all the various factors, as well as meeting the organizational overall objective, which is profit maximization. Given the macroeconomic function of:  $\max(\pi) = f(x_1, x_2, \dots, x_n)$ , where  $\pi$  represents the profit and  $x_i$  the exogenous variables of the function of profit, which consists of effective pricing, cost minimization, high turnover, amongst others.

Pricing decision is a crucial decision every organization has to make, because this will eventually affect their corporate objectives, either directly or indirectly (Monroe 2003:8). For every business entity, irrespective of their line of business and objective, cost minimization and profit maximization -are the general factors to be considered and for non-profit making organizations, there will always be the need to reduce cost at all means and to maximize output. A business whether small or big, simple or complex, private or public, is created to provide competitive prices (Ayozie 2008:10). According to Hilton (2005:634), setting the price for an organization's product or service is one of the most crucial decisions a manager faces, and one of the most difficult, due to the number of factors that must be considered. Some of the factors that influence pricing decision are demand, competitors, cost, political, environmental, legal and image-related issues. Horngren, et al (1996:428), buttresses this point by stating that managers are frequently faced with decisions on pricing and profitability of their products.

Some of the objectives of business enterprises vary from maximization of profit, minimization of cost, maximization of shareholders fund, to becoming a market leader,. From the various objectives of business organizations, the primary objective of any business enterprise is to maximize profit and minimize cost, except for charity organizations that are set up primarily not to make profit, but there will be need to minimize cost by all means, therefore the need to set prices, which therefore connotes that pricing decision arises in virtually all types of organizations,

irrespective of their level of activities. According to Lovelock & Wirtz (2004:151), the principal approach to an effective pricing strategy is to manage revenues in ways that support the firms' profitability objectives, which leads to the question; how well can we complement the various factors that influence pricing decision, to achieve our overall objective, which is maximization of profit.

Small scale business in Nigeria constitute over 80 percent of all registered companies, occupying positions in agro based and allied industries, rubber based, leather shoes industries, chemical, electronics, general merchandising, restaurants, dress making, hair dress making, cane-chairs, leather products, pomade and toiletries, animal feeds and husbandry, printing. They have accounted for a large percentage of all businesses and a favorable percentage of the nations' gross national product. This fact is more relevant in the developed countries of Great Britain and United Kingdom where proper accounting system is kept (Ayozie 2008:10-15).

This study is aimed at evaluating the various factors that influence pricing decision and how well an organization can manage these factors effectively to maximize profit. The study focuses on the pricing policy decision of Small and Medium Enterprises in Nigeria, with a study of some selected Small and Medium Enterprises in Ogun, and Lagos State Nigeria. There are various definitions to the word Small and Medium Enterprises (SMEs), but for the sake of this study, SMEs are business enterprises with a maximum manpower of 300 workers, and Working Capital of ₦10million.

We have relation (1):

$$\text{Max}(\pi) = \sum_i q_i p_i - \min(\sum_i C t_i) \quad (1)$$

where:

$q_i$  represents the product,  
 $p_i$  the price and  $C t_i$  the cost per unit  $i$

Thus to maximize profit, total sales turnover (price of the product per unit multiplied by the quantity sold) less total cost of sales.

This research work is divided into five sections, with the first section introducing the research work, section two reviews some of the related literatures that will help in the theoretical and conceptual analysis of the problem at hand, section three looks at the research methodology adopted as well as the statement of the research design. Section four of the work looks at the data analysis and presentation, while section five gives a brief summary of the research work and gives a concluding remark on the research work.

## 1.2. Statement of Research Problem

Decision is a choice between alternatives, having all the necessary information about the various alternatives available. Pricing decision is a decision that must be taken carefully, because of its nature and its effect on the overall goals and objectives of the organization, which is mainly profit maximization. Hilton (2005:633) reporting on the interview held with President Winston Darrough III, stated that the President noted that pricing is a sticky wicket, in which you keep an eye on the costs as well as the competitors. The competition will always be driving the price down, and there will be need to respond appropriately. You can't sell the same product for more than the other bloke does. But at the same time, there's need to cover costs of production. Nobody can indefinitely sell a product at less than its cost of production, because it doesn't work that way. The stage of the product in its life cycle will determine the pricing decision for the product at hand. For new products, the target costing approach is used, in which the company estimates what they think consumers will pay for a new product, and then back out the cost that is in excess of it in order to sell at that price. This aspect of an organizations activity (pricing decision), is handled with mere guess work by most SMEs in Nigeria, with little consideration for some factors, which thereafter

influences their decision making without weighing the cost and benefit of the decision made on pricing. This paper is aimed at looking at the various factors that influences pricing decisions, their effect on price and what the end result will be on profit appropriately.

### **1.3. Objectives of the Study**

At the end of the work, it is expected that the following objectives, which serves as the driving force behind the topic at hand will be achieved.

1. Evaluate some of the factors that influence the product pricing policy an organization will adopt.
2. Evaluate the role of quantity demanded for a product on the pricing policy adopted by an organization
3. Evaluate the role cost play in the pricing of products

Some of the questions posed by the researchers in this study include; will change in product price lead to a significant change in sales turnover? What is the effect of change in price on profitability? This paper is structured such in a way that section two that follows introduction presents the literature review and the theoretical framework. Methodology is section three, section four presents the survey results and the discussion of the results while section five is conclusion and recommendations.

## **2. Literature Review and Theoretical framework**

### **2.1.0. Pricing**

Every multinational business entity is set up with the primary objective of making profits and several considerations underlying their profit motive come to bear in determining the pricing of their goods between associated parties. A business, whether small or big, simple or complex, private or public is created to provide competitive prices. Most Nigerian small business owners lack the knowledge and skills of basic marketing ingredients, such as marketing research, market segmentation and market planning and control, which thereafter leads to poor quality products, unawareness of competition, poor distribution, and poor pricing methods. The poor pricing methods thereafter lead to poor product pricing, which will eventually affect sales (demand) and finally the profit of the business. In a developing country like Nigeria, with low income and high level of poverty, a company that wants to succeed should offer its product at the price the consumers can bear. But often, small manufacturers set prices of their products arbitrarily without regard to consumer characteristics in the environment (Ayozie 2008:10-12).

### **2.1.1. Basic Concepts in SMEs**

There is no universally accepted definition of Small and Medium Enterprises, as a term, many scholars and researchers have defined the term Small and Medium Enterprises from different angles and perspective. The definitions even change with time depending on the level of development of the country (Akinbinu 2003:8). The Central Bank of Nigeria (CBN) defines a small scale enterprise as an enterprise whose total cost, excluding cost of land but including working capital, is above ₦1.0 million but does not exceed ₦10.0 million (Aregbeyen 1999:7; CBN:1996:7). The Small and Medium Industries and Equity Investment Scheme (SMIEIS) defines Small and Medium Enterprise (SME) as any enterprise with a maximum asset base of ₦200 million excluding land and working capital and with the number of staff employed not less than 10 or more than 300. Small and Medium Enterprises (SME) have been defined along a broad range of size and type. In terms of size, measures used to classify SMEs include employment, assets and revenue. Below is a summary of the various definitions from different organizations and on different basis of classification (Tables 1 and 2).

Table 1. SMEs Employment-based Classification

Organisation	Micro-Enterprise	Small Enterprise	Medium Enterprises
International Finance Corporation (IFC)	< 10	10 – 50	50 – 100
Central Bank of Nigeria (CBN)	-	< 50	< 100
National Association Of Small Scale Industries (NASSI)	-	< 40	-
Accenture	-	< 50	<500
Centre for Industrial Research and Development (CIRD)	-	< 50	

Source: Various texts consulted by researcher (2008)

Table 2. SMEs Asset-Based (excluding Real Estate) Classification

Organisation	Small Enterprise	Medium Enterprise
IFC	< \$2.5 million	-
CBN	< ₦1 million	< ₦150 million
NASSI	< ₦40 million	-
Federal Ministry of Industry	< ₦50 million	< ₦200 million
National Economic Reconstruction Fund (NERFUND)	< ₦10 million	-
The Nigerian Industrial Development Bank (NIDB)	< ₦750,000	₦750,000-3.0 million
National Council on Industry 1992	> ₦1,000,000 < ₦10,000,000	

Source: Various texts consulted by researcher (2008)

### 2.1.2. Importance of Small and Medium Enterprises

Historical facts show that prior to the late 19th century, cottage industries, mostly small and medium scale businesses controlled the economy of Europe, and prior to Nigerian Independence, the business climate was almost totally dominated by the Colonial and other European Multinational companies such as United African Company (UAC), GB Olivant, Unilever Plc, Patterson Zechonics or Leventis, These companies primarily engaged in bringing into the country foreign made products, thus rendering our resources idle, and those who use the materials export them to their various home countries for production. The industrial revolution changed the status quo and introduced mass production, while the twin oil shocks during the 1970s undermined the mass production model, which triggered an unexpected reappraisal of the role and importance of small and medium sized enterprises in the global economy. It is worthy of note that the introduction of the Structural Adjustment Programme (SAP) during the Babangida regime made matters worse for employers of labour and created a veritable ground for self employment, after which many industries and companies sprang up in every sector of the economy, thus marking a new beginning in the industrialization of Nigeria (Ekpeyong 2002:40). Beyene (2002:132) citing Fadahunsi & Daodu (1997) stated that the role SMEs play in development of countries is acknowledged universally. Countries like USA, where big corporations dominate, SMEs still play enormous role in the country's economy. In the U.S, of the 6,200,000 small businesses, 5,400,000 employ less than 20 employees each, while small businesses employ 72,000,000 people. In Asia, small enterprises make up more than 90 percent of the industries in Indonesia, Philippines, Thailand, Hong Kong, Japan, Korea, India & Sri Lanka. They account for 98 percent of the employment in Indonesia, 78 percent in Thailand, 81 percent in Japan and 87 percent in Bangladesh.

Findings by economists over the years show that small firms and entrepreneurs play a much more important role in economic growth and development. Countries that have made economic breakthroughs in the last two decades demonstrate beyond doubt that the development of entrepreneurship has been the engine room of economic growth and development. The private sector which in the past played a modest role in development is now being recognized as an engine

of growth and encouraged to spear head the development process (Beyene 2002:131). SMEs are referred to as the engine room for the development of any economy, because they form the bulk of business activities in a growing economy like that of Nigeria. This is manifested in the following ways:

- **Employment Generation:** The problem of unemployment has reduced, as a lot of youths, retired workers and out of school graduates are now gainfully employed, thus becoming a job creation avenue. The introduction of the entrepreneurial development program in schools has also sensitized most students of the need to have their own business and not rely solely on the white collar jobs.
- **2. Rural Development :** The need for space and nearest to source of raw materials, has led many business owners into the rural areas, which thereafter results into the development of the host community. SMEs constitute major avenues for income generation and participation in economic activities in the lower income and rural brackets of developing societies especially in agriculture, trading and services, and the employment opportunities offered apparently reduces rural-urban migration and allows for even development.
- **Economic Growth and Industrialisation:** SMEs are the vibrant tool for the economy, as national economic development prospects hinge on entrepreneurial energy of vibrant SMEs as most big business enterprises grew from small scale to become big icons, and as they grow, they protect nations from the geographical cost-benefit permutations of a few multinationals who are ever prepared to close up their businesses and relocate at the slightest provocation or appearance of economic downturn.
- **Better Utilisation of Indigenous Resources:** There are many untapped human and physical resources, which can only be harnessed through the establishment of small and medium enterprises. The considerable low capital outlay required for setting up SMEs enables them to convert minimal resources into productive ventures, they also offer veritable outlets for technological advancement especially in businesses with rudimentary technology requirements.

### *2.1.3. Challenges faced by Small and Medium Enterprises in Nigeria*

SMEs in Nigeria have faced a lot of challenges, which despite their potentials and the benefits they have to offer has impaired their growth and development. These challenges vary from keen competition, to high cost of infrastructure, demand, which has thereafter led to the closure of some of these companies. Before the Structural Adjustment Programme, the problem was mainly finance, but after the introduction of SAP and various programmes by the government to sensitise the people on the need for industrialization, the challenges changed considerably, from finance to demand and other problems. Specifically, successive governments in Nigeria have in the last three decades shown much interest in ensuring adequate financing for Small and Medium Enterprises (SMEs), by establishing various schemes and specialized financial institutions to provide appropriate financing to the subsector. The failure of most of these schemes revealed that the problem of SMEs in Nigeria is not limited to lack of long-term financing, but also inadequate management skill and entrepreneurial capacity (Sanusi 2003:2). As part of the effort of the Nigerian government, to help the Small and Medium Enterprises in Nigeria, the Industrial Development Centres (IDCs) were established to provide consultancy and extension services for small and medium industries in the country. Industrial Development Centres provide basic functions, which include giving marketing counsels regarding pricing, packaging, sales strategy, advertising and marketing methods for the promotion of sales of their products. The first IDC was established in Owerri, in Imo state in 1962 by the Eastern Nigerian governments' Ministry of Trade and Industry. It was later taken over by the federal government in 1970. Today, there are over 21 IDCs in the country, with just about six of them operating minimally (NISER 2005:5, Sanusi 2003:4). Institutions such as the Industrial Training Fund (ITF), Raw Materials Research and Development Council (RMRDC), Federal Institute of Industrial Research, Oshodi (FIIRO), Project Development

Agency (PRODA), and Centre for Management Development (CMD) have in their activities supported the promotion of SMEs in the country through technical, training and extension services programs.

Taking a close look at some of the challenges faced by SMEs in Nigeria, it was deduced that finance is not the main problem, but poor management of the available fund. Sanusi (2003:11) stated that many SMEs do not keep proper accounts of transactions, which has hindered effective control and planning of most Small and Medium Enterprises in Nigeria. According to ECA (2001:1), from the report generated from an evaluation of 13 African countries (Nigeria inclusive), it was discovered that for most industrial enterprises in developing countries, the 1990s are different in two respects from previous decades: competition is more intensive and it is waged over a wider range of factors. While price continues to be important, quality, speed and flexibility matter more than before, thus a need for close emphasis at the pricing strategy adopted by small and medium enterprises.

#### ***2.1.4. Small and Medium Enterprises and Pricing***

For an organization, to compete favorably with its peer in the same industry, it must be able to meet the demand of the people, as well as set the right price for the right product. Low cost and high quality infrastructure service tends to improve price competitiveness (Beyene 2002:140). In the same vein, Uzor (2004: 30-31) noted that governmental policies should be directed to overall production efficiency of the SMEs, which will in turn lower costs at the same time increasing the purchasing power of the consumers, when the prices are reduced. Besides reducing costs, increasing the efficiency will also position the SMEs in the cluster to compete effectively in an open economy. The efficiency gained in local market will project them as well towards an export oriented production system and possibly help to integrate them effectively into the global economy.

#### ***2.2.1. Pricing and Organizational Objectives***

Without a goal, it is said that a man will live like a goat, so also without an organizational goal, a company will only be moving round the circle without direction, and it is the overall organizational goal set by the management of a company that serves as the driving force, towards which everyone in the organization will drive towards. In every organization, there is always the general organizational goal, as well as the departmental goal, and the various departmental goals are framed in line with the overall organizational goal. Various goals are set by the organization and these directly and indirectly affect the pricing policy of the organization, which is expected to be tailored in line with the overall goal. A nonprofit making organization will always look forward to satisfying its customers only, therefore the pricing policy will be towards minimizing cost and customer satisfaction. Some of the objectives and goals set by organizations and the various ways in which they affect pricing decision are as stated below:

- **Increase Sales:** Organizations that want to increase the turnover of their product may need to fix price at a level that the consumer will accept it as being commensurate with the benefits of the product.
- **Increase Market:** Organizations may set price because of the need to reach out to a particular part of the market, thereby increasing their market size. When this objective is set, price should be set in a competitive manner to attract new customers and retain old customers.
- **Profit Maximization:** Profit maximization is the main organizational goal for any profit making organization. To achieve this objective, price must be set strategically in such a way that maximizes revenue and minimizes cost.
- **Market Penetration:** When a producer wants to enter the market, he can adopt this strategy, by setting price below or at par with the price of existing or similar products, not considering the effect it may have on profit.

- **Company Image:** An organization might want to build up its organizational image, by setting price in such a way that it provides an insight into the quality of the product.

### ***2.2.2. Factors Affecting Pricing Decision***

When pricing decision is to be made, some factors have to be put into consideration, so that the decision will not affect the overall objective of the company. Some of the factors which must be considered among other things include:

- **Cost of Production:** For effective pricing, the total cost of production must be fully ascertained, leaving no stone unturned. The fixed cost as well as the variable cost must be determined and all the various costs that may be incurred in the marketing process must be inculcated e.g. advertising expense, transportation, etc. When cost is not fully ascertained, pricing decision becomes faulty and when the price is wrong, it will definitely affect the income of the company and eventually may affect the survival of the business, especially for the new business and also the small and medium enterprises. Alongside with the other factors that affect pricing decision, cost is a factor that must be looked into critically.
- **Nature of market competition:** The nature of market competition must also be considered when pricing decision is made. For a business that is in a monopolistic market, competition may not really affect the pricing decision, but a business in the oligopolistic market or a free market, where competition is tense, this has to be considered before price is set. In a situation where the market leader dictates the price and others follow, the price of the market leader must also be considered and in a situation where the price of substitute goods will affect the price of the product, this is very important.
- **Customers and market segment:** When a producer knows his customers, he will be able to set his prices accurately. The market segment must be carefully identified and the amount they will be willing to pay for the product identified. For the producers of cars, there are different models for different set of people, thus producing varieties for different set of people. There are some products which are mainly for the elites, while some are for the masses. A producer of products for the masses will need to consider the per capita income of the people before making his pricing decision.
- **Demand:** For a new product, there is need to price such product strategically in such a way that it penetrates the market, even if it will be at par with the total cost, while for a highly demanded product, an increase in price may not really have a high effect on the demand for such products, so is the need for management when making pricing decisions to consider the demand for the product. Some companies who receive order from customers may decide to reduce their price per unit or increase their discount, when it is noted that demand from a customer is high, and this may be on the other way round, depending on other factors considered by the management.
- **Consumer behavior and perception:** Consumers attitude and perception about the product must be considered, when making pricing decisions. The company should consider if an increase in price will lead to an increase or a decrease in demand, and vice versa.
- **Channel of distribution:** The cost of distribution and the channel of distribution must also be considered when the price of a product is to be set. It must be considered if the product will be supplied directly to the final consumer or has to pass through the various channels of distribution. For a product that has to pass through the wholesaler, to the retailer and then to the final consumer, the profit of these middle men as they are called must be considered, so that the final price set by the retailer will not affect demand negatively. In some situations, the producer may need to set a standard price, which is known by the wholesaler, the retailer as well as the consumer. For example the Nigerian Bottling Company has set a standard price for the sale of a 35cl bottle of Coca Cola in Nigeria to ₦40 as at this date, thus both the consumers and the retailers are aware of the standard price.

- **Macroeconomic trends:** The macroeconomic trends of the country must also be put into consideration when pricing decisions are made. In an unstable economy, where cost of living increases, without a change in the income of the people, an increase in the price of a product may affect demand for that product, so also when there is an increase in the income of the people, increase in the price of a product may not necessarily affect the demand for that product at that point in time.
- **Company Objective:** When pricing decisions are made, they must be in line with the overall company objectives, as this is what will inform what the pricing objective really is, so that the pricing decisions made will not be against the company objective.

### *2.2.3. Pricing Strategies*

The pricing strategies to be adopted by a company differ and are influenced by some of the factors stated earlier in this study. Some of the pricing strategies that may be adopted when pricing decision is made include among others:

- **Market penetration strategy:** This is the process of setting a considerable price, which will be affordable for the customer, thus there may be need for price reduction in order to gain acceptance and thus create speed for the product in the market.
- **Market skimming:** This involves setting a product price high initially and later reducing the price to improve sales. It is used mostly for newly introduced products so that consumers will not react negatively to an increased price to meet cost or make profit. When the price is reduced, consumers may see it as an advantage for more patronage. However, this strategy may not work for some products where increased price is attributed to greater prestige and products with numerous substitutes in the market.
- **Loss leader pricing:** Where a product is sold at a lower price probably at a loss in order to attract customers who might then buy other items at normal price. It is used when consumers resist prices charged by sellers and thus encourage sales of other products by the producer.
- **Promotional pricing:** Short term reduction in prices intended to attract increase sales. It may be used during dull seasons e.g. the price of soft drinks during rainy seasons are reduced to increase sales
- **Demand oriented:** This strategy has to do with setting prices on the basis of demand for the product. When this strategy is adopted, changes in demand will have an effect on the price that that product.
- **Competitive pricing:** This involves setting prices on the basis of activities of competitors. When using this strategy, the company must be sensitive to changes in the market.
- **Cost oriented pricing:** This is a strategy that is based on cost of production. With this strategy, the full cost of production is considered plus the margin, before price is set.

### *2.2.4. Pricing Decision and Cost*

In any organization, profit making, nonprofit making, private enterprise, public enterprise, manufacturing or service rendering, before the price of a product or service is set, the cost of putting it in a sellable condition must be considered. Cost is the total amount expended to bring certain products or services to its present condition. It can also be termed as the amount expended to transform raw materials into finished goods.

According to Monroe (2003:257) "Indeed, cost is probably the least important factor to consider when setting product or services prices." Looking at it from the accountants' point of view, it is noted that there is no direct relationship between selling price and product costs, because of competition and elasticity of consumer demand (ICAN 2006:469, Lucey 1997:306). Cardinaels et al (2004) observed that the more accurate cost data means that participants with activity based costing would be more likely to detect and filter competitors' prices when these prices are a poor reflection of actual costs than would participants with biased cost data. Consequently, prices under activity

based costing are likely to be based on more accurate cost data (Ashton 1976; Briers et al. 1997) rather than on less relevant market feedback.

### ***2.2.5. Product Price and Competitors Price***

Dockner et al (2004:3) stated that when firms are engaged in strategic competition, a higher speed of diffusion causes the individual firm to decrease the price, thus competition either directly or indirectly has an influence on the price of products, but vary from company to company, depending on the nature of the product and the industry in which the company operates. In an industry where there are few producers of the product or few market leaders, competition may not be the main factor to consider when setting price, but for small and medium enterprises, who operate in an industry where there are market giants already, their pricing policy will be influenced by the competitors price. An example is the case of Nigerian Bottling Company, amongst the producers of other products in Nigeria, this company indirectly regulates the price of soft drinks in Nigeria, therefore the 7-Up Bottling company has to either set its price at par or below the price per unit of the products of the Nigerian Bottling Company, so also any company that wants to operate in that industry, for them to remain in business. In a study carried out by Dockner et al (2004), the result of the analysis conducted shows that, in the case of strategic (oligopolistic) competition, the speed of diffusion have an important influence on the optimal pricing policy. It can be said therefore that in a monopolistic market, when essentials are sold, competition is not considered when setting price.

### ***2.2.6. Ways of Changing Prices***

There are various ways of changing price, with respect to changes in cost of production and changes in other intervening variables, which may at the long run affect the long term objectives of the company, if not changed. Most organizations only pay attention to the amount of money to be received from the customer, without taking a close look at the quantity of goods delivered. One way to change price is to change the quantity of money or goods and services to be paid by the buyer. Another way is to change the quantity of goods or services provided by the seller (Monroe 2003:5). This a major approach adopted by most of the producers of biscuits in Nigeria. When the cost of production increased, an attempt was made to increase the price of a pack of biscuit, from ₦5 to ₦10, and after discovering that the attitude of buyers changed negatively, these producers resolved to reduce the quantity of biscuit and thereafter introduced new products that sold for ₦10. The third way is to change the quality of goods and services provided. This is a method adopted by most large companies in Nigeria, who introduce new products with lower quality and at reduced price, thereby increasing the price of the existing products, giving different categories of buyers the opportunity to choose. When you need to determine what to charge for your products and services, there are some common mistakes management should avoid. Some of these mistakes include:

- **Underselling:** To set realistic prices, you need to be aware of all costs involved in producing your product or service. This includes easy to track costs such as the price of parts and supplies, as well as less tangible costs associated with the skills and knowledge you bring to the Table. Some entrepreneurs set prices that do not account for all of these expenses. They may forget to add in overhead such as utilities or rent, or have difficulty putting a price tag on the value of their time. One approach service-based businesses use to determine a fair rate for their offerings is to set an hourly wage to charge for services. They then multiply this figure by the total number of hours it takes to complete a job to determine a project's overall price.
- **Following the competition:** Basing your pricing structure on the competition's can be dangerous because the costs competitors use to calculate prices may have little relation to your own. They may pay suppliers less or more than you do, buy different technology, and have larger or smaller marketing budgets. That said, it does pay to know how much competitors charge so you can confirm that your prices are realistic for the market. If you

notice your figures are much lower than competitors', check to be sure you haven't left something out of the pricing equation.

- **Competing on price:** Setting prices solely to beat the competition is a shaky proposition. You're bound to attract buyers this way, but they are unlikely to be loyal customers. If low cost attracted them to your business, they may abandon your company when a less expensive option comes along. A better approach is to differentiate your business from competitors in other ways, such as superior customer service, enhanced product features, or finer quality.
- **Waiting too long to raise prices:** Increased demand or the rising cost of supplies may put you in the position of having to decide whether or not to raise prices. Some business owners avoid increases because they fear customers will react negatively. In many cases it's a better strategy to make regular, small price increases than to hit customers with one large increase. In other words, a 10 percent price increase is likely to draw more negative attention than two 5 percent increases.
- **Dropping prices without changing delivery:** Some clients may try to negotiate a better deal from your company. This can put you in a difficult position, especially if you run a service-based business. Delivering an agreed-upon order for a lower price can inadvertently send the message that your initial prices were too high, and all future business is open to price negotiation. A better approach is to agree to a lower price, but change the delivery terms slightly. For example, if you're negotiating the price for a three-month long technical installation, you might agree to a lower project cost if the number of weekly meetings is reduced or monthly reports are streamlined. Another option that makes sense for large orders is to position lower rates as volume discounts.
- **Setting random prices:** Some customers may insist upon having an understanding of how your pricing structure is designed, so it is critical to be able to justify the prices you charge. In addition, unless you have a clear sense of how costs relate to your prices, it will be difficult for you to identify when the right time is to adjust the amount you charge.
- The hypotheses below will be tested and conclusions drawn from the outcome.
- H1: The change in price of a product is significantly influenced by cost.
- H2: The change in price of a product has a negative impact on the sales turnover of the product
- For the purpose of this study, pricing will be looked at from the accountants' point of view, which looks at how a relationship can be established between price and the various factors that affect it.

### 3. Methodology

The main objective of this research is to find out the effect of change in product price on the sales turnover of that product and the overall profit of the organization, using Small and Medium Enterprises in Nigeria as a study focus. In applying the general framework of the accounting pricing theory, this study focused on providing answers to the following research questions: will change in product price have a significant impact on the sales turnover of the product? Is the change in the cost of raw material the only factor responsible for change in product price changes? What is the effect of product price changes on the profitability of companies?

#### 3.1. Measures

To measure the relationship between the change in product price and the sales turnover, the questionnaire was structured to contain respondents' occupational level and position in the organization, as well as the respondents' involvement in price changes in the organization. Also the financial report of the sample company was measured to examine the effect of price change on sales turnover. Check for the validity and reliability of the instrument was provided by ensuring that items that most related to independent and dependent variables are built into the instrument in line

of the advices of several experts. The respondents were made to indicate the degree of their agreement with the statements on the questionnaire about themselves. Both open and close ended questions were asked (hybrid) thus a hybrid type of questionnaire was designed. Also close ended questions was used to ask the respondents if they have changed the price of their product before. Several items relating to both dependent and independent variables form part of the contents of the instrument. The Student t-test analysis tool was used in testing the null hypothesis.

### 3.2. The sample

A sample size of 200 respondents was randomly selected from the population of the Small and Medium Enterprises in the Ogun and Lagos State Nigeria was used. Our target was on managers who have changed their product price before. A total number of 166 questionnaires were found useful for the study.

### 3.3. Data Collection and Variables

The variables used for this study are variables relating to pricing decision and sales turnover. These variables include cost of sales, demand, sales turnover, profitability, etc.

## 4. Survey Results

### 4.1. Demographic characteristics

The analysis of the sample includes the demographic characteristics of the managers and other aspects related to the research questions. All these were explored and showed below (Tables 3 and 4).

Table 3. Data from the sample company (Sales Reaction to Change in Price)

Product	January		February		May		July	
	Price	Sales (₦)	Price	Sales(₦)	Price	Sales (₦)	Price	Sales
Big Loaf	₦120	1,880,550	₦120	1,795,204	₦140	2,336,730	₦140	3,083,702.8
Medium Loaf	₦30	166,785	₦30	45,090	₦40	70,125	₦40	124,197.5
Small Loaf	₦25	152,640	₦25	205,535	₦30	134,395	₦30	195,310
Mini Loaf	₦20	524,920	₦20	87,160	₦25	159,455	₦25	164,900
Big Fruit Loaf	₦140	102,890	₦140	141,970	₦150	402,580	₦150	786,720
Small Fruit Loaf	₦70	183,370	₦70	128,770	₦80	272,600	₦80	377,630

Source: Data collected by Researcher (2008)

Table 4. Data from the sample company (Effect of change in Cost of Sales on Price)

Month	Cost of Sales	Price
January	2,185,969	Big Loaf
		Medium Loaf
		Small Loaf
		Mini Loaf
		Big Fruit Loaf
February	1,846,470	Big Loaf
		Medium Loaf
		Small Loaf
		Mini Loaf
		Big Fruit Loaf
		Small Fruit Loaf
May	3,588,141.88	Big Loaf
		Medium Loaf
		Small Loaf
		Mini Loaf
		Big Fruit Loaf
		Small Fruit Loaf
July	3,779,177.02	Big Loaf

		Medium Loaf	₦30
		Small Loaf	₦25
		Mini Loaf	₦20
		Big Fruit Loaf	₦140
		Small Fruit Loaf	₦70

Source: Data collected by Researcher (2008)

#### 4.2. Data Analysis - Preliminary

In Table 5 we have the cost per production, and in Table 6 the change in price.

Table 5. Cost Per Production

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	127	76.5	76.5	76.5
	No	39	23.5	23.5	100.0
	Total	166	100.0	100.0	

Source: Data collected by Researcher (2008)

Table 6 - Change in Price

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	153	92.2	92.2	92.2
	No	13	7.8	7.8	100.0
	Total	166	100.0	100.0	

Source: Data collected by Researcher (2008)

**Interpretation:** From Table 5 and Table 6, it can be analysed using percentages ratio method that the ratio of respondents that agreed to the statement that they consider the cost of production when pricing and that they have changed the price of their products before is higher than those who have not changed the price of their products before and those that do not consider the cost of production when fixing price. There is a ratio of 76.5:23.5 and 92.2:7.8 respectively. Therefore, there is a relationship between change in price and the use of cost of production for price changes by small and medium enterprises in Nigeria.

In Table 7 we have the reaction of sales to change in price, and in Table 8 we have the change in price.

Table 7. Reaction of Sales to Change in Price

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Increase	48	28.9	32.7	32.7
	Decrease	69	41.6	46.9	79.6
	Non-reactive	30	18.1	20.4	100.0
	Total	147	88.6	100.0	
Missing	System	19	11.4		
Total		166	100.0		

Source: Data collected by Researcher (2008)

Table 8. Change in Price

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	153	92.2	92.2	92.2
	No	13	7.8	7.8	100.0
	Total	166	100.0	100.0	

Source: Data collected by Researcher (2008)

**Interpretation:** From Table 4.2.3 and Table 4.2.4, it can be analysed using percentages ratio method that the ratio of respondents that agreed to the statement that sales reacted to the change in price and that they have changed the price of their products before is higher than those who have not changed the price of their products before and those that disclosed that sales was non-reactive to change in the price of their product. There is a ratio of 79.6:20.4 and 92.2:7.8 respectively. Therefore, there is a relationship between change in price and the reaction of sales to change in price of products by small and medium enterprises in Nigeria.

### 4.3. Data Analysis - Advance

Table 9. Cost Per Production

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	127	76.5	76.5	76.5
	No	39	23.5	23.5	100.0
	Total	166	100.0	100.0	

Source: Data collected by Researcher (2008)

Table 10. Change in Price

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	153	92.2	92.2	92.2
	No	13	7.8	7.8	100.0
	Total	166	100.0	100.0	

Source: Data collected by Researcher (2008)

Table 11. Correlation of Price Changes and Cost of Production

		Changed Price	Cost per production
Changed Price	Pearson Correlation	1	.156(*)
	Sig. (2-tailed)		.045
	N	166	166
Cost per production	Pearson Correlation	.156(*)	1
	Sig. (2-tailed)	.045	
	N	166	166

\* Correlation is significant at the 0.05 level (2-tailed).

Source: Data collected by Researcher (2008)

The analysis above shows that there is a significant correlation between change in price and the cost per production at 0.05 significant level.

Table 12. One-Sample test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
ChangedPrice	51.556	165	.000	1.07831	1.0370	1.1196
Costperproduction	37.416	165	.000	1.23494	1.1698	1.3001

Source: Data collected by Researcher (2008)

A further student t-test was carried out to measure the degree of significance that exists between the two variables (price and cost of production). The result of the test shows that there is a significant relationship between change in price and cost per production.

Table 13. Change in the Cost of Sales and Price Changes

Month	Cost of Sales	Price
January	2,185,969	Big Loaf ₦120
		Medium Loaf ₦30
		Small Loaf ₦25
		Mini Loaf ₦20
		Big Fruit Loaf ₦140
		Small Fruit Loaf ₦70
February	1,846,470	Big Loaf ₦120
		Medium Loaf ₦30
		Small Loaf ₦25
		Mini Loaf ₦20
		Big Fruit Loaf ₦140
		Small Fruit Loaf ₦70
May	3,588,141.88	Big Loaf ₦140
		Medium Loaf ₦40
		Small Loaf ₦30
		Mini Loaf ₦25
		Big Fruit Loaf ₦150
		Small Fruit Loaf ₦80
July	3,779,177.02	Big Loaf ₦120
		Medium Loaf ₦30
		Small Loaf ₦25
		Mini Loaf ₦20
		Big Fruit Loaf ₦140
		Small Fruit Loaf ₦70

Source: Data collected by Researcher (2008)

From the table above, there was an initial decrease in the cost of sales from January to February, but when the change was effected in February, the cost of sales increased by a magnitude of 0.943244 in May of the same year.

Table 14. Correlation of Price Changes and Sales Reaction

		Pricing profit	Sales reaction
Pricing profit	Pearson Correlation	1	-.130
	Sig. (2-tailed)		.116
	N	166	147
Sales reaction	Pearson Correlation	-.130	1
	Sig. (2-tailed)	.116	
	N	147	147

Source: Data collected by Researcher (2008)

Table 15. One-Sample test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
pricingprofit	43.530	165	.000	1.12651	1.0754	1.1776
salesreaction	31.594	146	.000	1.87755	1.7601	1.9950

Source: Data collected by Researcher (2008)

From the tables above, there is a significant negative correlation between the two variables (Profit and Sales Reaction) at 0.05 level of significance. It can be decoded that there is a negative significant relationship between change in price and sales reaction.

Table 15. Data from the sample company (Sales Reaction to Change in Price)

Product	January		February		May		July	
	Price	Sales (₦)	Price	Sales(₦)	Price	Sales (₦)	Price	Sales
Big Loaf	₦120	1,880,550	₦120	1,795,204	₦140	2,336,730	₦140	3,083,702.8
Medium Loaf	₦30	166,785	₦30	45,090	₦40	70,125	₦40	124,197.5
Small Loaf	₦25	152,640	₦25	205,535	₦30	134,395	₦30	195,310
Mini Loaf	₦20	524,920	₦20	87,160	₦25	159,455	₦25	164,900
Big Fruit Loaf	₦140	102,890	₦140	141,970	₦150	402,580	₦150	786,720
Small Fruit Loaf	₦70	183,370	₦70	128,770	₦80	272,600	₦80	377,630

Source: Data collected by Researcher (2008)

Table 16. Data from the sample company (Sales Reaction to Change in Price)

Month	Gross Profit (₦)	Net Profit (₦)	Operating Expenses (₦)	Sales (₦)
January	3,061,050.91	2,824,408.91	356,343.96	5,738,160
February	2,455,971.20	2,068,965.20	506,707.96	4,771,884
May	2,191,552.20	1,800,630.85	510,623.31	6,141,000
July	3,154,538.32	2,987,176.82	287,063.46	7,336,429.30

Source: Data collected by Researcher (2008)

From Table 15 and Table 16, it can be seen that there was an initial decrease in the sales revenue between the month of January and February, and in May, due to the increase in price there was an increase in sales revenue as well as the month of July, but this change can be said to be non-commensurate to the change in price. There was a change of 17%, 33.3%, 25% & 7.1% increase in

the price of the products. The change in revenue from the month of January to July is 27.9%, but quantity demanded as disclosed by the management of the company declined for some weeks, before there was a gradual increase in quantity demanded.

#### 4.4. Hypothesis Testing

##### Hypothesis 1:

H<sub>0</sub>: The change in price of a product is not significantly influenced by cost.

H<sub>1</sub>: The change in price of a product is significantly influenced by cost.

The above hypothesis will be tested by using both the primary data collected from the questionnaire, as well as the data collected from the sample company.

Table 17. Correlation of Price Changes and Cost of Production

		Changed Price	Cost per production
Changed Price	Pearson Correlation	1	.156(*)
	Sig. (2-tailed)		.045
	N	166	166
Cost per production	Pearson Correlation	.156(*)	1
	Sig. (2-tailed)	.045	
	N	166	166

Source: Data collected by Researcher (2008)

Table 18. One-Sample test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
ChangedPrice	51.556	165	.000	1.07831	1.0370	1.1196
Costperproduction	37.416	165	.000	1.23494	1.1698	1.3001

Source: Data collected by Researcher (2008)

From the Tables above, there is a positive correlation between the two variables (Price changes and cost of sales) at 0.05 level of significance. It can be decoded that there is a positive significant relationship between the cost of production and price changes of products.

Table 19. Change in the Cost of Sales and Price Changes

Month	Cost of Sales	Price
January	2,185,969	Big Loaf ₦120
		Medium Loaf ₦30
		Small Loaf ₦25
		Mini Loaf ₦20
		Big Fruit Loaf ₦140
February	1,846,470	Big Loaf ₦120
		Medium Loaf ₦30
		Small Loaf ₦25
		Mini Loaf ₦20
		Big Fruit Loaf ₦140
		Small Fruit Loaf ₦70
May	3,588,141.88	Big Loaf ₦140
		Medium Loaf ₦40
		Small Loaf ₦30

		Mini Loaf	₦25
		Big Fruit Loaf	₦150
		Small Fruit Loaf	₦80
July	3,779,177.02	Big Loaf	₦120
		Medium Loaf	₦30
		Small Loaf	₦25
		Mini Loaf	₦20
		Big Fruit Loaf	₦140
		Small Fruit Loaf	₦70

Source: Data collected by Researcher (2008)

From the Table above, there was an initial decrease in the cost of sales from January to February, but when the change was effected in February, the cost of sales increased by a magnitude of 0.943244 in May of the same year. Thus it can be said that because of the significant change in the cost of sales, there was need for change in price and this was carried out appropriately by the company in question.

**Conclusion**

From the two analyses above, it can be said conclusively that the null hypothesis is rejected and the alternate hypothesis accepted, thus product pricing policy of an organization is significantly influenced by cost.

**Hypothesis 2:**

- H<sub>0</sub>: Change in the price of a product does not have a significant effect on the quantity demanded
- H<sub>1</sub>: Change in price of a product has a significant effect on the quantity demanded

The above hypothesis will be tested by using both the primary data collected from the questionnaire, as well as the data collected from the sample company.

Table 20. Correlation of Price Changes and Cost of Production

		Pricing profit	Sales reaction
Pricing profit	Pearson Correlation	1	-.130
	Sig. (2-tailed)		.116
	N	166	147
Sales reaction	Pearson Correlation	-.130	1
	Sig. (2-tailed)	.116	
	N	147	147

Source: Data collected by Researcher (2008)

Table 21. One-Sample test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
pricingprofit	43.530	165	.000	1.12651	1.0754	1.1776
salesreaction	31.594	146	.000	1.87755	1.7601	1.9950

Source: Data collected by Researcher (2008)

From the Tables above, there is a significant negative correlation between the two variables (Profit and Sales Reaction) at 0.05 level of significance. It can be decoded that there is a negative significant relationship between change in price and sales reaction.

Table 22. Data from the sample company (Sales Reaction to Change in Price)

Product	January		February		May		July	
	Price	Sales (₦)	Price	Sales(₦)	Price	Sales (₦)	Price	Sales
Big Loaf	₦120	1,880,550	₦120	1,795,204	₦140	2,336,730	₦140	3,083,702.8
Medium Loaf	₦30	166,785	₦30	45,090	₦40	70,125	₦40	124,197.5
Small Loaf	₦25	152,640	₦25	205,535	₦30	134,395	₦30	195,310
Mini Loaf	₦20	524,920	₦20	87,160	₦25	159,455	₦25	164,900
Big Fruit Loaf	₦140	102,890	₦140	141,970	₦150	402,580	₦150	786,720
Small Fruit Loaf	₦70	183,370	₦70	128,770	₦80	272,600	₦80	377,630

Source: Data collected by Researcher (2008)

Table 23. Data from the sample company

Month	Gross Profit (₦)	Net Profit (₦)	Operating Expenses (₦)	Sales (₦)
January	3,061,050.91	2,824,408.91	356,343.96	5,738,160
February	2,455,971.20	2,068,965.20	506,707.96	4,771,884
May	2,191,552.20	1,800,630.85	510,623.31	6,141,000
July	3,154,538.32	2,987,176.82	287,063.46	7,336,429.30

Source: Data collected by Researcher (2008)

From Table 4.4.4 and Table 4.4.5, it can be seen that there was an initial decrease in the sales revenue between the month of January and February, and in May, due to the increase in price there was an increase in sales revenue as well as the month of July, but this change can be said to be non-commensurate to the change in price. There was a change of 17%, 33.3%, 25% & 7.1% increase in the price of the products. The change in revenue from the month of January to July is 27.9%, but quantity demanded as disclosed by the management of the company declined for some weeks, before there was a gradual increase in quantity demanded.

### Conclusion

From the two analyses above, it can be said conclusively that the null hypothesis is rejected and the alternate hypothesis accepted, thus the quantity demanded for a product has a significant effect on the price of the product fixed by an organization, which affects the profit and also the change in price has a significant effect on quantity demanded.

### 5. Discussions and Recommendation

In conclusion, it can be said that the price of a product will affect the profit of organizations, either positively or negatively, depending on how the price is fixed. A good product pricing will affect the profit of the organization positively, and thus when pricing is not effectively fixed, it will impair the profit of the organization. The following are some of the recommendations proffered by the researcher: The Nigerian Government should help the small and medium enterprises in providing advisory services, which will also improve their level of productivity and the nation at large, Small and Medium enterprises in Nigeria should take time out to conduct market research, because this is a toll that can be used for effective pricing, The organizational objective should be visited when making pricing policy, Management of small and medium enterprises should always have adequate information about the cost of production before changing price, The reaction of customers should be considered when fixing and after any significant change in the price of a product, Other methods of changing price, like reduction in quantity and quality, introduction of new products, etc. should be adopted by the managers of small and medium enterprises in Nigeria,

and small and medium enterprises should employ the service of price experts when making pricing decisions.

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