Price Strategies and Strategic Management: An Analysis of Successful SMEs in Nigeria

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Abstract- The essence of a pricing strategy is to create a good first impression and influence customers to purchase a brand. Having an ideal price convinces consumers to choose a brand's product over its competitors. This article investigates the current state of pricing strategies existing among SMEs. The study used qualitative data. The study will employ a cross-sectional design. The interview questionnaire was self-constructed. The setting of the research was in Lagos State, at Ikeja and Surulere. We analyze two pricing models (business services and products) from two different industries as well as the nature of the business in order to recommend pricing strategies that are compatible with the pricing models. The study used content analysis to analyze the data. 40 SME owners and managers were interviewed. Future studies can concentrate on the pricing strategies of SMEs in the manufacturing sector.

I. INTRODUCTION

There have been a lot of young SMEs that have grown out of the centers for technology incubation. These SMEs have made significant efforts to attract customers by utilizing a variety of methods and pricing strategies, but they have not been successful. A lot of small and medium-sized businesses (SMEs) have started using different strategies to try to get a bigger share of the market for the products they sell. Setting prices for goods and services can be challenging. If a company has prices that are too high, they will lose out on valuable sales opportunities. If you set them too low, the company will lose out on potentially lucrative revenue. The encouraging news is that setting prices does not require making a sacrifice or taking a shot in the dark. Customers use to identify prices in a valued and perceived manner as a result of the influence of customer purchasing decisions (Dong, Jiang, & Jiao, 2017). Price is always one of the most important things to customers when they are deciding whether or not to buy something, as shown by a number of studies, including Constantinides' (Constantides, 2006) study.

There are a lot of different pricing models and strategies that can help businesses understand and set the right price for their target audience and their revenue goals. Business owners need to learn how to price their products, services, and events correctly if they want to make money and bring in customers. Competition, high production costs, high customer demand, strict industry standards, and low profit margins can all make it hard to figure out how to set prices. There is no requirement that business owners and marketers of SMEs master all of these factors. Even so, figuring out the business's most important goals will help choose the best pricing strategy. Pricing is iterative, which means that it takes a lot of tries and research to figure out what the best price for a product should be. It is not possible for every company to implement every pricing strategy. There are certain approaches that are more successful with physical products than with SaaS.

There are many different pricing strategies, and they are not always considered independent pricing strategies. When determining prices, they can be combined. Business services can be hard to price because they are intangible and don't have direct production costs. This makes it hard for small and medium-sized businesses that focus on providing these services. A significant amount of the value of the service is determined by the capacity of the provider to fulfill their obligations as well as the quality of the work that is typically expected from them. Freelancers and contractors need to stick to a pricing strategy for their services. This could be pricing by the hour, pricing by the project, or pricing based on value.

The pricing strategy looks very different for businesses that deal in product sales. Unlike digital goods or services, physical products have real costs like shipping, production, and storage, all of which can affect how much they cost. A product's pricing strategy should take all of these costs into account and come up with a price at which the product will make the most money, help the company with research and development, and stay competitive. Different pricing strategies, such as cost-plus pricing, competitive pricing, prestige pricing, and value-based pricing, are suggested for figuring out the prices of real goods.

A large number of studies have found that pricing has a direct and large effect on how much money a business makes. According to these studies, even relatively minor shifts in price can affect a company's bottom line by anywhere from 20 to 50 percent (Hinterhuber, 2004; Nagle & Holden, 2002). According to what Liozu and Hinterhuber (2013) found, the way a company sets its prices can have a big effect on how much profit it makes. In spite of the fact that pricing strategy is critical to the success of businesses, most only give it a minimal amount of attention. Less than five percent of the Fortune 500 companies have full-time employees whose sole responsibility is pricing, according to the Professional Pricing Society, which is the largest organization in the world that is solely focused on pricing.

McKinsey & Company says that less than 15% of businesses do organized research on the topic of this article. Pricing is taught in about 9% of business schools around the world, according to the Association to Advance Collegiate Schools of Business. Studies have shown over and over again that the price of a good or service has a direct and significant effect on how much money a business makes. So, this makes no sense. According to a number of studies, slight shifts in pricing can affect a company's profitability by as much as twenty or fifty percent (Hirschberger&Liozu, 2012). So, the goal of this study is to describe and analyze the strategies that SMEs use to set prices.

II. RELATED WORKS

A. Price Strategy

There is more to a price than the simple number that is printed on the packaging of goods or services. It is possible for it to take on a variety of forms and to serve a variety of purposes. For instance, transportation, education, food, clothing, and other items are just some of the services and products that we pay for in order to make use of them. According to the straightforward explanation that is provided by Nykiel (2003), the term "price" refers to the monetary value of a good or service that is being offered for sale. The price is a direct reflection of the image of the company, its position in the market, and the perceived value of the brand of the products or services that the company provides. According to Toni, Milan, Sacilito, and Larentis (2017), determining the price policy for a company is one of the most important management decisions. This is because a company's profitability and its ability to compete in the market are both impacted by this decision.

According to Kotler and Keller (2012), for the majority of human history, the process by which prices have been established has consisted of negotiations between buyers and sellers. This tradition of "bargaining" is still practised in some facets of commercial exchange today. The practise of charging the same price to each individual consumer is a relatively recent innovation in the world of business. The proliferation of large-scale retail sales in the latter half of the 1800s contributed to the rise in its level of popularity. One of the most important skills for a person who owns their own business is the ability to set prices in a way that is both fair and profitable (Cornelisse, Graziani, & Berntsen, 2020). Recent studies have shown that the process of determining prices for products is one that is both time consuming and costly, and different businesses may have varying capabilities when it comes to putting pricing strategies into action (Hallberg, 2017).

In an environment of intense competition in the business world, pricing strategies are the most important factors that influence the desired outcome for the industry (Azad & Singh, 2019). At each stage of the product's life cycle, a different pricing strategy is appropriate. The process of determining prices for new products is by far the most difficult and challenging of all stages of a product's life cycle, despite the fact that each stage of a product's life has its own peculiarities and challenges. A pricing strategy is a method that is used to determine the most appropriate price for a product or service. It assists in the setting of prices that are designed to maximise profits and shareholder value while also taking into consideration the desires of customers and the market. When determining prices, pricing strategies take a wide range of business considerations into account, including revenue goals, marketing goals, target audiences, brand positioning, and product attributes. They are also influenced by external factors such as the demand of consumers, the prices of competitors, and the trends of the market and the economy in general. It is not unusual for business owners and entrepreneurs to gloss over the pricing of their products and services. They frequently evaluate the cost of goods sold (COGS), think about the prices offered by their rivals, and then adjust the selling price of their own product by a few dollars. Even though the cost of sales and the number of competitors are both significant considerations, they should not be the focal point of a pricing strategy. The most effective method of pricing will maximise both profits and sales.

Pricing decisions are primarily determined by one of three factors: premium pricing, discount pricing, or dynamic pricing (Feng, Hu, Yang, & Liu, 2019). The pricing of the new products is still of the utmost significance. The prices of the company's goods have an effect not only on how likely customers are to buy those goods, but also on how much they believe those goods are worth to them. This, in turn, has an effect on the total amount of profit the company makes (Cornelisse, Graziani, and Berntsen, 2020). Therefore, pricing and advertising strategies are utilised by businesses as two of the most important ways to convince customers to accept new products (Bruce, 2014).

There are many different pricing strategies that are used by different companies, and each one is based on the norms of that company. There are many different pricing strategies that are used by different companies, and each one is based on the norms of that company. It is imperative that businesses stick to a plan that has been broken down into several stages (Herlin, 2011). Recent research shows that the first step in making a strategy is to look at the market. After that, product positioning, audience targeting, and product segmentation should be done. Khoja's (2015) research shows that the strategy should be in charge of choosing each part of the marketing mix. It is essential to devise a strategy, and the first step in this process is to devise a marketing strategy for the products and services in question. According to research done by Kovács (2011), this is the time when the company needs to decide how it will target the market and position the product. According to the findings of the research, this state will contribute to the definition of how the product is going to be sold, and it will also serve as an example for determining the pricing of other items (Kovács, 2011).

According to the findings of some researchers, if the cost of the product is low, it will be simple to determine the price, and either profit or revenue maximization will be much simpler to accomplish (Burnham, 2003). The profit margin, on the other hand, talks about how to come up with a pricing strategy that will help you get the profit margins you want and how to figure out those margins (Kelly, 2004). In addition to this, it will take into account the price of the components that make up the product. After deducting all of the costs that are associated with the product, one can arrive at the net profit (Kotler, 2001). A pricing strategy known as a penetrating pricing strategy is a type of pricing strategy in which the organization places an emphasis on maintaining a price that is on the lower end of the available range. It is essential to carry out a market analysis before settling on a price for a product in order to arrive at a price that is competitive in the market (Kelly, 2004).

According to what researchers have found, this type of marketing mix will put a lot of thought into choosing the price. This kind of pricing strategy brings the total cost of the item into very close proximity to its market value, and the profit margins are extremely slim but stable (Khoja, 2015). The costs of these kinds of products will be lower due to the fact that they do not place as much emphasis on innovation. (Kotler, 2001) Because of this, the company will be able to keep making enough money and keep doing so consistently. Premium pricing, also known as prestige pricing, is another name for premium pricing. Using a premium pricing strategy will give the product or service a competitive edge, and it will also help the company keep its position on the market as a high-end product. Aaker (2008) says that the company can keep its presence on the market and in its stock by charging higher prices.

According to Kotler and Armstrong (2017), price is one of the four components that make up what is known as the market mix (4Ps). This component is responsible for 20% of a client's ongoing maintenance costs. Every organization, whether it's in a developed country like the U.S. or an agricultural country like Tanzania, needs to figure out how to value systems that keep clients happy. However, just as the degree of use varies from one country to the next or from one industry to the next, so do the types of estimating methodologies used by associations reflect the uniqueness of the economy in which the association is located.

Demand-based pricing includes pricing based on perceived value, pricing based on value, and pricing that meets the needs of the customer. Perceived-value pricing is focused on customers' perceptions of value. On the contrary, value pricing is for a low price with high-quality service. Lastly, pricing based on what customers want means that the price is set to meet the needs of customers (Avlonitis&Indounas, 2005). Additionally, three pricing methods have been discussed in this chapter; cost-based method, competitor-based, and demand-based.

Cost-based methods include cost-plus, target return, breakeven, contribution, and marginal pricing. With the cost-plus method, the typical cost of providing the service is added to a profit margin. Second, target return pricing provides the organization with the ability to determine the rate of return that it wishes to strive for. The point at which total revenues are equal total costs is the focal point of the break-even analysis. In this regard, contribution analysis is somewhat distinct from break-even analysis in that it focuses solely on the direct costs of the good or service being analyzed. In contrast, break-even analysis takes into account all costs, including indirect costs. Last but not least, marginal pricing is set at a level that is lower than total and variable costs.

Pricing strategy that is based on the value to the customer: The offering of benefits to the purchaser of a product or service that are of equal or superior value to the sacrifices incurred by the purchaser in order to acquire the product or service is an example of value-based marketing. In addition to the possible punishments, there is also the monetary penalty, which is determined by the amount of money that will either be charged to the customer or actually paid by them (Juran& De Feo, 2010; Porter, 1986; Zeithaml, 1988).

In addition, the path to significant value settlement incorporates the shift in results derived from the authoritative methodology on programs that are anticipated to liberate and convey value to the organization's customers. In addition to this, it examines the benefits and costs (or losses) of things and experiences that are brought about as a direct result of the relationship that exists between the customers and the company. According to Payne and Frow (2014), the best value proposition for customers is one that adds more value or solves a problem in a better way than what similar competitors offer. In other words, the best value proposition differentiates itself from the competition.

III. THEORETICAL FRAMEWORK

The Resource-Based View, also known as the RBV, was initially conceived of and developed by Barney (1986) and Wernerfelt (1984). The theory of the growth of the firm and the theory of the expansion of firms were both significantly advanced by the work that Penrose (1959) and Rubin (1973), who are credited with laying the groundwork for this theory, respectively. According to the RBV, the valuable, limited, and difficult to replicate or replace resources that a company possesses are what give it a competitive market share advantage, which in turn can help the business do better. This advantage can help a business stay ahead of its competitors (Barney, 1991).

The RBV of the firm is a well-known theory in the field of strategic management. This theory examines the organisations' internal assets, resources, and capabilities in order to explain how organisations function. It explains and predicts why some companies are able to get a competitive advantage that lasts and leads to higher profits or economic rents. In other words, it shows why some businesses are more successful than others. In addition to this, it views the company as a "one-of-a-kind collection of resources and capabilities, where the primary responsibility of management is to maximize value" (Grant, 1996).

Barney (1991) says that resources are company-specific assets that are usually rare, can't be copied, and can't be swapped for anything else. They add value to business operations by letting companies use strategies that make them more effective and efficient. According to Helfat and Peteraf's (2003) definition, capabilities are an organization's capacity to accomplish a unified set of objectives by making use of its own resources to achieve the desired outcomes. According to Amit and Schoemaker (1993), this overarching idea can be broken down into two distinct concepts: sources and capabilities. They defined capabilities as non-tradable, firm-specific ways to integrate, deploy, and use other firm resources, while sources were assets that could be traded and were not specific to the firm. To put it another way, resources are what go into production processes, whereas capabilities are the ability to use organisational processes to move resources around an organisation (Amit &Schoemaker, 1993).

According to Amit and Schoemaker (1993), capabilities are typically developed by combining various resources across strategic, functional, and sub-functional domains. These resources can include physical assets, human capital, and technological advancements. Even though there is no predetermined functional relationship between a company's resources and its capabilities (Grant, 1991), Makadok (2001) made a useful distinction: a resource is an observable but not necessarily tangible asset that can be independently valued and traded; on the other hand, a capability is not observable and therefore necessarily intangible; it cannot be independently valued; and it only changes hands as part of its whole unit.

Makadok (2001) also stated that economic rents are created when firms are better than their competitors at picking and using resources to build capabilities, and that picking resources and building capabilities are not necessarily separate activities, but rather activities that go hand in hand. Economic rents are created when firms are better than their competitors at picking and using resources to build capabilities. The organisational embeddedness of a capability is the primary distinction between it and a resource. This suggests that a capability cannot be easily purchased from the external factor market because it is embedded within the organisation and must be built or cultivated over the course of time. Even though resources can be looked at on their own as a basic unit of analysis, businesses build their skills by putting these resources together in different ways to get the results they want.

IV. METHODOLOGY

The study will employ a cross-sectional survey design. The study made use of qualitative data. The setting of the research was in Lagos State, at Ikeja and Surulere. The 40 SME owners and managers who were interviewed for the study were put through a content analysis. The study looks at four main ways to set prices: premium pricing, pricing based on customer value, pricing based on demand, and cost-based methods. The interview questionnaire was self-constructed. We look at two pricing models (for business services and products) from two different industries and the business's nature to come up with pricing strategies that work with the pricing models.

V. CONCLUSION AND FURTHER WORKS

This study seeks to evaluate the pricing strategies used among thriving SMEs. The various prices Marketers and strategic managers are concerned about how and when different businesses should use what types of pricing strategies. Different prices have different features and characteristics. When introducing a new product with a competitive advantage, businesses use premium pricing. Premium pricing works best during the product's initial launch.

Premium pricing is appropriate for sellers of one-of-a-kind items. A low-cost strategy generates a small profit. Marketing and promotion budgets are shrinking. The sale of a large number of goods and services at low prices is critical to economic pricing. Businesses use bundle pricing to reduce the cost of selling multiple products. This is a viable way to sell unsold items. Bundling gives consumers the impression that they are receiving a discount. Bundled pricing is advantageous for complementary products. Some pricing strategies work well for new products, while others work better for popular older products. Future studies can concentrate on the pricing strategies of SMEs in the manufacturing sector.

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