

## RESEARCH ARTICLE

DOI:10.26524/jms.12.69

## Smes Managers' Ratings of Pricing Policies for Marketing of Consumers' Goods in Abia State, Nigeria

Nwaukwa Faith Chukwudi <sup>1</sup>

### Abstract

The survival of SMEs in Abia State depends on their ability to dispose of goods produced. It is through marketing the goods that SMEs reach the customers, recover money used for production, and make profit in return. This study was carried out to determine the pricing policies adopted by SMEs managers in marketing consumers' goods in Abia State, Nigeria. Two research questions and two null hypotheses guided the study. Survey research design was adopted, and the population of the study consisted of 1,809 SMEs managers in Abia State. A sample size of 328 SMEs managers was selected using Taro Yamane formula. The sampling technique was a proportionate random sampling. A structured questionnaire which was validated by three experts in the field of education and marketing was used for data collection. Structured questionnaire titled "Utilization of Pricing Policies in Marketing Consumer Goods Questionnaire (UPP-MCGQ)", containing 15 items was used for data collection. The reliability of the instrument was established using pilot-testing and data collected were analyzed using Cronbach Alpha formula which yielded correlation coefficients of 0.86 and 0.91 for clusters B1 and B2 respectively with an overall value of 0.89. Data collected were analyzed using mean, standard deviation and ANOVA to answer the research questions and test the null hypotheses at 0.05 level of significance. Findings revealed that SMEs managers utilize value based pricing policies in marketing their goods to a small extent while they utilize dynamic pricing policy to a high extent. Years of experience were not significant factors on the extent SMEs managers utilize value based and dynamic pricing policies in marketing consumer goods. It was concluded that SMEs managers must ensure that their prices elicit the required demand of their products to cover business costs and make profit in the marketplace. The researcher recommended among others that, managers of SMEs should focus more on understanding customers' value of their goods to enable them effectively set prices that will stimulate sales and generate profit.

**Keywords:** SMEs, Pricing Policy, Value Based Pricing policy and Dynamic Pricing Policy.

**Author Affiliation:** <sup>1</sup>SMEs, Pricing Policy, Value Based Pricing policy and Dynamic Pricing Policy.

**Corresponding Author:** Nwaukwa Faith Chukwudi. SMEs, Pricing Policy, Value Based Pricing policy and Dynamic Pricing Policy.

**Email:** faithnwaukwa1136@gmail.com

**How to cite this article:** : Nwaukwa Faith Chukwudi , (2022). Smes Managers' Ratings of Pricing Policies for Marketing of Consumers' Goods in Abia State, Nigeria, 12(4) 82-87. Retrieved from <http://jms.eleyon.org/index.php/jms/article/view/626>

**Received:** 2 June 2022 **Revised:** 5 August 2022 **Accepted:** 21 September 2022

### 1. Introduction

Marketing is recognized as a path way through which produced goods and services reach the final consumer. The function of marketing to any business entity (small, medium and large scale) is enormous as it completes the production process by bringing products and services to potential consumers. Marketing-oriented organization takes its marching orders from its customers because production of goods and services are based on the needs, wants and satisfaction of customers. Business organizations aspiring to meet the challenges of today's rapidly changing markets urgently need strategic marketing decisions that are founded on well conceived marketing strategies. <sup>[1]</sup>

Marketing strategies refer to methods/techniques of focusing an organization's energy and resources on a course of action which can lead to increased sales of products and dominance of a targeted market niche. An effective marketing strategy designs how a business organization can successfully engage customers in the

market arena. Marketing strategies can be divided into marketing mix strategies, Marketing mix strategy, according to Kotler, is the unique blend of products, distribution, promotion and pricing strategies designed to produce successful marketing of goods in the market. Marketing mix consists of the four Ps' which include product, price, promotion and place strategies. <sup>[2]</sup>

Price is an important element of marketing mix as it helps in generating revenues for the firm. Price is regarded as the most flexible element of the mix in the sense that, pricing decisions can be implemented relatively quickly to the conditions surrounding the internal or external environment of a business entity. Bearden, Ingram and Larfforge defined price as the amount a customer is willing to pay for a product or the sum of the values that consumers' exchange for the benefits of having or using a product or service. Price means different things to different people; it is interest to lenders, commission on turnover charged by

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bankers, premium to the insurer, fare to the transporter and honorarium to the guest lecturer among others. Price is capable of determining a firm's market share and profitability. Although effective pricing policies can never compensate for poor execution of the first three marketing mix (product, promotion and place), ineffective pricing policies can surely prevent those efforts from resulting in financial success.<sup>[3]</sup>

Pricing policies refer to the process of setting a price for a product or service. Pricing policies are also fundamental in optimizing a product's true worth in the market place. They are used to support quality positioning of a product. In making a pricing policy, the marketing manager must follow such steps as: selecting the pricing objectives, determining demand, estimating costs, analyzing competitors' costs, prices and offers, selecting a pricing method and selecting the final price. Pricing policy is paramount to every organization involved in the production of consumer goods and services because it gives a cue about the company and its products. A company does not set a single price but rather a pricing policy that covers different types of its products. Choosing a pricing policy is an important function of the business owner and an integral part of the planning process of a business entity. It is more than simply calculating the cost of production and adding a markup. Pricing policies vary considerably across industries, products and customers. In respect to this study, pricing policies considered for effective marketing of consumer goods are value based pricing policy and dynamic pricing policy.<sup>[4]</sup>

Value based pricing policy uses the value that a product or service delivers to a segment of customers as the main factor for setting prices. Value based pricing is one of the best pricing policies because attaining profit maximization per customer is the only objective. The use of value based pricing makes business organizations more competitive and profitable than other pricing policies because it can be applied and adjusted in various stages of product development and management to maximize value for individual customer. Dynamic pricing policy also called surge pricing, demand pricing or time-based pricing is a strategy in which firms set flexible prices for products or services based on current market demands. In dynamic pricing policy, price is continually adjusted to meet the needs of individual customers and situations. The policy allows prices of products to change over time with consumers under certain circumstances. Price-posted mechanisms and price-discovery mechanisms are the determinants of dynamic pricing policy. With price-posted mechanisms, frequent price changes are offered at take or leave prices where the company is in charge of setting the price while in price-discovery mechanisms, consumers have input into setting the final prices of products.<sup>[5]</sup>

In small and medium enterprises (SMEs), prices of goods and services are often fixed by the manager. However, years of experience of the SMEs manager may determine the extent to which pricing policies are

utilized in marketing consumer goods. Accordingly, one of the key elements of ensuring SMEs' success in the market place is the selection of appropriate pricing policies through effective marketing structure. However, global market place competition confronts majority of SMEs whose products and sales are extremely localized. In this demanding business environment, the ability of SMEs managers in adopting appropriate pricing policies is critical to ensuring long-term sustainability of their firm in the market place. Therefore, managers of SMEs need to adopt effective and productive pricing policies to survive and maintain their relevance in the competitive business environment. Failure to do so will lead to loss of expected revenue which will amount to further waste of the meager resources available for running the enterprise.<sup>[6]</sup>

Moreover, a number of variables that could be used to determine the use of pricing policies for marketing consumer goods include gender and experience of SMEs managers. Rugut found that the use of pricing policies by managers of SMEs was not gender specific. Closely related to gender is years of experience. The extent of use of pricing policies by SMEs may depend on the years of experience of the managers. It is likely that the experienced managers (above 5 years) use pricing policies more in marketing their consumer products than the less experienced managers (below 5 years). This is supported by Onah who stated that experienced SMEs managers use more of pricing policies and therefore do better in marketing their products than inexperienced SMEs managers. The researcher seems to have observed that SMEs managers in the marketplace seem not to adequately use pricing policies in marketing consumer products. This stark observation intensifies the need for this study to determine the extent of use of pricing policies in marketing consumer goods by managers of SMEs in Abia State.<sup>[7]</sup>

## 2. Statement of the Problem

One of the key elements of ensuring SMEs' success in the market place is the selection of appropriate pricing policies through effective marketing structure. However, global market place competition confronts majority of SMEs whose products and sales are extremely localized. In this demanding business environment, the ability of SMEs managers in developing their own pricing policies is critical in ensuring long-term sustainability of their firm in the marketplace. Therefore, managers of SMEs need to come out with effective and productive pricing policies to survive and maintain their relevance in the competitive business environment. In SMEs, the choice to adopt or not to adopt a pricing policy lies on what the managers think. However, their inability to effectively use appropriate pricing policies in the process of marketing their products will lead to loss of expected revenue which will amount to further waste of the meagre resources available for running of the enterprise. The basic problem of operating managers

of SMEs lies in their inability to develop and utilize appropriate pricing policies. Most of the SMEs are run and controlled under the direct supervision of managers who seems to lack the expertise and competencies in using effective pricing policies in marketing their products. <sup>[8]</sup>

Consequently, the inability of SMEs managers in Abia State to develop and utilize appropriate pricing policies to cope with the high rate of competition from large business concerns, perhaps is the reason for their poor marketing of performance in the state. The problem of this study, therefore, is that, the inability of SMEs managers to use pricing policies in their marketing operations could be the major causes of business failures, low sales and low profit which impede growth and development of enterprises. Consequently, the extent to which managers' of SMEs in Abia State use pricing policies in marketing consumer goods is not clearly known. This knowledge is essential to the survival and success of SMEs. Hence, the study specifically sought to determine the extent (1) value based pricing policy is utilized in marketing consumer goods by SMEs managers in Abia State, (2) dynamic pricing policy is used in marketing consumer goods by SMEs managers in Abia State. <sup>[9]</sup>

### 3. Research Questions

The following research questions guided the study:

1. To what extent do SMEs managers utilize value based pricing policy in marketing consumer goods in Abia State, Nigeria?

2. To what extent do SMEs managers utilize dynamic pricing policy in marketing consumer goods in Abia State, Nigeria?

### 4. Hypotheses

The following null hypotheses were tested at 0.05 level of significance:

1. SMEs managers in Abia State do not significantly differ in their mean ratings on the extent of utilization of value based pricing policy in marketing their consumer goods based on years of experience.

2. There is no significance difference in the mean ratings of SMEs managers in Abia State on the extent of utilization of dynamic pricing policy in marketing their consumer goods based on years of experience. <sup>[10,11,12]</sup>

### 5. Method

Descriptive survey design was adopted for this study. The study was carried out in Abia State, Nigeria. The population for this study comprised of 1, 809 managers of small and medium enterprises registered

with the Ministry of Commerce and Industry in Abia State. A sample size of 328 SMEs managers with different years of experience in marketing of products was selected using Taro Yamane formula. The sampling technique was proportionate random sampling. The instrument for data collection is a questionnaire titled "Extent of Utilization of Pricing Policies in Marketing Consumer Goods Questionnaire (EUPP-MCGQ)". It consists of two sections; A and B. Section A elicits demographic information of the respondents such as years of experience while section B consists of two clusters B1 and B2. Clusters B1 and B2 were constructed on a five point scale of: Very High Extent (VHE), Highly Extent (HE), Moderate Extent (ME), Small Extent (SE) and Very Small Extent (VSE). <sup>[13]</sup>

Face validity of the instrument was established by three experts; two in the Department of Technology and Vocational Education and one expert in Measurement and Evaluation Unit from the Department of Educational Foundations both from Faculty of Education, Nnamdi Azikiwe University, Awka. The reliability of the instrument was established using pilot-testing by administering the draft copy of the questionnaire to 20 SME managers in Imo State who are not part of the population of the study. Data analyzed using Cronbach Alpha method yielded correlation coefficients of 0.86 and 0.91 for clusters B1 and B2 respectively and considered high enough for the instrument to be reliable. The researcher administered the instrument with the help of three research assistants in the state. Mean ratings and standard deviation was used to answer the research questions and determine the closeness of the respondents' means, while Analysis of Variance (ANOVA) was used to test the null hypotheses at 0.05 level of significance. A hypothesis was rejected where the p-value is less than the alpha value but accepted where the p-value is than the alpha value. All the analyses were done using SPSS version 23.

### 6. Results

#### 6.1 Research Question 1

To what extent do SMEs managers utilize value based pricing policy in marketing consumer goods in Abia State, Nigeria?

Data in Table 1 shows the cluster mean score of 2.39. This is an indication that the SMEs managers in Abia State, Nigeria utilize value based pricing policy in marketing consumer goods to a small extent. The item by item analysis shows that out of 7 listed on value based pricing policy, items 3 and 7 are utilized to a high extent with mean scores ranged between 3.58 and 3.61. Items 1, 2, 4 and 6 are utilized to a small extent

with mean scores ranged between 1.85 and 2.13 while the remaining one item is utilized to a very small extent. The standard deviations for all the items ranged from 0.68 to 0.93, indicating that the respondents are not wide apart in their ratings.

## 6.2 Research Question 2

To what extent do SMEs' managers utilize dynamic pricing policy in marketing consumer goods in Abia State, Nigeria?

Data in Table 2 shows a cluster mean score of 3.61. This is an indication that the SMEs managers in Abia State, Nigeria utilize dynamic pricing policy in marketing consumer goods to a high extent. The item by item analysis shows that out of 8 listed dynamic pricing policy, items 1, 2, 4, 6 and 7 are utilized to a high extent with mean scores ranged between 3.58 and 4.43. Item 3 is utilized to a moderate extent with mean scores ranged between 3.40 while the remaining two items are utilized to a small extent. The standard deviations for all the items are within the same range showing that the respondents are not wide apart in their ratings.

## 7. Hypothesis 1

SMEs managers in Abia State do not significantly differ in their mean ratings on the extent of utilization of value based pricing policy in marketing their consumer goods based on years of experience.

Data in Table 3 shows that f-ratio of 5.90 at 2/316 degrees of freedom with a p-value of 0.11 is greater than the criterion value of 0.05 ( $0.11 > 0.05$ ). This means that SMEs managers in Abia State do not significantly differ in their mean ratings on the extent of utilization of value based pricing policy in marketing their consumer goods based on years of experience. Therefore, the null hypothesis was not rejected.

## 8. Hypothesis 2

There is no significance difference in the mean ratings of SMEs managers in Abia State on the extent of utilization of dynamic pricing policy in marketing their consumer goods based on years of experience.

Data in Table 4 shows that f-ratio of 2.54 at 2/316 degrees of freedom with a p-value of 0.14 is greater than the criterion value of 0.05 ( $0.14 > 0.05$ ). This means that there is no significance difference in the mean ratings of SMEs managers in Abia State on the extent of utilization of dynamic pricing policy in marketing their consumer goods based on years of experience. Therefore the null hypothesis was not rejected.

## 9. Discussion of Findings

Findings of the study revealed that SMEs managers in Abia State utilize value based pricing policy in marketing consumer goods at a small extent.

The findings of this study could be attributed to poor marketing skills among SMEs managers covered in this study. It could also be that these managers are not aware of the importance of utilizing value based pricing policy to enhance their marketing of consumer goods. Additionally, value based pricing may be very challenging to SMEs managers because they need to understand their customers very well by exploring their minds and understanding their way of thinking in the marketplace. In this case, they may be impatient in carrying out thorough assessment of their customers' needs and preferences. The findings of the study further showed that years experience did not significantly affect the respondents mean ratings on the extent of utilization of value based pricing policy in marketing consumer goods. This findings is in consonance with Ingenbleek, Debruyne, Frambach and Verhallen that there was no significant difference in the use of value based pricing policy for marketing consumer goods as a result of years experience on the premise that value based pricing policy improves profit maximization of SMEs

Findings of the study revealed that SMEs managers in Abia State utilize dynamic pricing policy in marketing consumer goods at a high extent. This finding is in consonance with that of Iheagwam who reported that SMEs managers used dynamic pricing policy at a high extent as well as Anioke who discovered that managers of small and medium scale enterprises used dynamic pricing policy at a high extent. The most commonly cited criticism of pricing policy is that it is too often cost-based. As such, it often fails to reflect market conditions, consumer behaviour and organizational goal. Therefore, increasing importance is being attached to more dynamic pricing policy which, while based on cost, is responsive to current circumstances in the marketplace. More so, years of experience did not significantly affect respondents mean ratings in this regard. This finding is in consonance with Kotler and Armstrong that there was no significant difference in the use of dynamic pricing policy for marketing consumer goods as a result of years of experience on the premise that they charge different prices depending on individual customers and current market situations.

**Table 1: Respondents' mean ratings and standard deviation on the extent of utilization of value based pricing policy in marketing consumer goods (N = 319)**

S/N	Items on value based pricing policy	X	SD	Remarks
	I utilize value based pricing policy to:			
1	I increase sales revenue	1.85	0.92	Small Extent
2	Maximize profit margin	1.93	0.85	Small Extent
3	Sustain the profitability of the business	3.58	0.89	High Extent
4	Ascertain products that give customers value	2.13	0.91	Small Extent
5	Enhance positive consumer perceptions about the products	1.48	0.87	Very Small Extent
6	Ensure effective communication of the value of the goods to the consumers	2.12	0.84	Small Extent
7	Create high prices for consumer goods	3.61	0.90	High Extent
	Cluster Mean	2.39		Small Extent

**Table 2: Respondents' mean ratings and standard deviation on the extent of utilization of dynamic pricing policy (N = 319)**

S/N	Items on dynamic pricing policy	X	SD	Remarks
	I utilize dynamic pricing policy:			
1	because it is easy to implement	4.43	0.85	High Extent
2	helps in providing important information concerning current market conditions	4.40	0.86	High Extent
3	to obtain better profitability on consumer products	3.40	0.89	Moderate Extent
4	to stimulate the demand for consumer goods	4.47	0.93	High Extent
5	to maximize profit margin	2.44	0.91	Small Extent
6	to fix prices of goods based on types of target customers	3.75	0.92	High Extent
7	to set prices for goods based on increase in demand	3.58	0.91	High Extent
8	to minimize competition for my brand	2.37	0.91	Small Extent
	Cluster Mean	3.61		High Extent

**Table 3: Summary of Analysis of Variance (ANOVA) on SMEs managers' mean ratings on the extent of utilization of value based pricing policy in marketing consumer good based on years of experience**

Source of Variance	Sum of Square	df	Mean Squares	F-ratio	P-value	Sig
Between Groups	39.438	2	19.719	5.90	0.11	Not-significant

Blythe reported that dynamic pricing policy is adopted for marketing consumer goods among SMEs managers irrespective of years of experience due to the fact that they adjust prices instantly depending on demand and cost of goods.

**Conclusion**

In the light of the findings of this study, it could be concluded that SME managers should not ignore the complexity of adopting value based and dynamic pricing policies by only concentrating on the costs of production in order to make their enterprises becomes more profitable. SME managers must ensure that their prices

elicit the required demand of their products to cover business costs and make profit in the marketplace. Therefore, SME managers should remembered that when developing a pricing policy in any circumstances, it must be compatible with the enterprise's overall marketing strategy. Therefore, the researcher conclude that for SMEs managers to ensure effective marketing of their goods, there is more to be done in the area of utilization of value based pricing policies.

**Recommendations**

The following recommendations are made:  
 1. Managers of SMEs should involve people with

- necessary technical skills, costing and accounting skills in determining prices of consumer goods.
2. Managers of SMEs should focus more on understanding customers' value of their goods to enable them effectively set prices that will stimulate sales and generate profit.
  3. Managers of SMEs should communicate the value of the product to customers rather than justifying price tag which may give a wrong perception among customers in the marketplace.
  4. Managers of SMEs should always have their customers in mind and endeavour to adapt the prices of their products to their customers' need.
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### Acknowledgement

Nil

### Funding

No funding was received to carry out this study.

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