UNIVERSITY OF CAPE COAST

ASSESSING THE PRICING METHODS USED BY SMALL AND MEDIUM-SIZED ENTERPRISES IN THE CAPE COAST METROPOLIS

KOFI YEBOAH ASARE

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UNIVERSITY OF CAPE COAST

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BY

KOFI YEBOAH ASARE

Dissertation submitted to the Centre for Entrepreneurship and Small Enterprise Development of the School of Business, College of Humanities and Legal Studies, University of Cape Coast in partial fulfilment of the requirements for the award of a Master of Business Administration degree in Entrepreneurship and Small Enterprise Development.

NOVEMBER, 2016
DECLARATION

Candidate’s Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate’s Signature: ……………………… Date: ………………………

Name: Kofi Yeboah Asare

Supervisor’s Declaration

I hereby declare that the preparation and presentation of this dissertation were supervised in accordance with the guidelines on supervision of thesis laid down by the University of Cape Coast.

Supervisor’s Signature: ……………………… Date: ………………………

Name: Prof. F.O. Boachie-Mensah
ABSTRACT

Prices are a key determinant of demand which influences revenue and in turn the business’ profits. A business may fail if products and services are priced incorrectly. Pricing decision is, therefore, one of the critical success factors of a business, including SMEs. Studies on pricing in organisations have progress from past decades. However, these studies have focused on the bigger companies and have neglected the issues in the context of SMEs. This study sought to assess the pricing methods used by SMEs in the Cape Coast Metropolis. The methodology applied is quantitative in nature and the descriptive study design was used. The simple random sampling technique was adopted in selecting 103 SMEs after which purposive sampling was used to select the managers of the sampled firms. Questionnaire was used to collect the data and the analyses of the data was done using descriptive statistics tools namely: mean, frequency count and percentages. The study revealed that pricing technique and practices were very relevant to SMEs in the Cape Coast Metropolis, helping them to stay competitive to survive. It was established that pricing methods used by SMEs in the Cape Coast Metropolis were consciously considered with different context such as costs, demand, revenue, profits, survival, government regulations and market share. It also came out that owner managers were mostly responsible for the pricing products among the small and medium-sized enterprises in the Metropolis. Pricing was considered as the highest revenue earner and very important to the SMEs. Pricing is a challenging area to most SMEs. Owner managers should complement their knowledge and experience with that of experts in the field of pricing.
ACKNOWLEDGEMENTS

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DEDICATION

To my wife and daughter.
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<tr>
<td>BAC</td>
<td>Business Advisory Center</td>
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<td>CCMA</td>
<td>Cape Coast Metropolitan Assembly</td>
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<td>GSS</td>
<td>Ghana Statistical Service</td>
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<td>NBSSI</td>
<td>National Board for Small Scale Industries</td>
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CHAPTER ONE

INTRODUCTION

Background of the Study

Micro and small enterprises (MSEs) play a significant role in the socio-economic development of many countries over the world. MSEs have contributed to the socio-economic development in both industrialised and developing countries (Carree & Thurik, 2008; Nichter & Goldmark, 2009). In developing countries, the bulk of MSEs are in the informal sector and are the major sources of employment and income, especially for the poorest members of society (Nichter & Goldmark, 2009). During the past years there has been a remarkable interest in the small and medium-sized enterprise (SMEs) in most countries, including Ghana. This interest can be attributed to the capacity of SMEs to create jobs and absorb the unemployed youth, alleviate poverty, help in economic growth and development.

According to Singh, Garg, and Deshmukh (2008), small and medium enterprises are considered as a backbone of economic growth in all countries. Kouzetsov and Dass (2010) also shared the same view when they stated that growing role of small and medium-sized enterprise (SMEs) in the world economy cannot be ignored and receive ever-increasing attention from the research community. According to Griffin, Hall and Watson (2005), the SME sector contributes up to 90% of the gross national product in Europe. The Confederation of British Industry estimates that there were 3.7 million SMEs in the United Kingdom (UK) at the start of 1999. The majority of these (98%) had less than 50 employees. It has been estimated that SMEs provide
employment for over 74.5 million people and are responsible for around two thirds of total employment in the UK.

Rahman (2001), as cited in Singh, Garg, and Deshmukh (2008), states that SMEs are defined by a number of factors and criteria, such as location, size, age, structure, organization, number of employees, sales volumes, worth of assets, ownership through innovation and technology. The Bolton Report (1971) recognised that the size of the company should be interpreted flexibly according to industrial sector and other market environment factors. The measure of size could be, for example the number of employees, the size of turnover or market share (Wiesner, McDonald, & Banham, 2007). The European Commission (2003), and the National Technology Agency of Finland (2003), defined SME as an enterprise that employs fewer than 250 persons and has an annual turnover and/or annual balance sheet total that does not exceed €43 million. Partner enterprises hold 25% or less of the capital or voting rights of the small enterprise. The National Board for Small Scale Industries of Ghana uses number of employees and fixed assets (excluding land and buildings) to define small scale enterprise as one with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Cedis (US$ 9506, using 1994 exchange rate) (Kayanula & Quartey, 2000)

It is worthy to note that most SMEs have simple systems and procedures, which allow flexibility, immediate feedback, short decision making chain, better understanding and quicker response to customer needs than larger organizations (Singh et al., 2008). In the same context, Audretsch (2001), as cited in Murphy and Ledwith (2007), argued that many SMEs have
a greater potential flexibility and closeness to the customer and an edge towards customization and innovation.

SMEs particularly seek out market where their advantages count and they are not in direct competition with larger organizations. However, they are handicapped when it comes to economies of scale, scope and learning (Murphy & Ledwith, 2007). It can be deduced of SMEs that they are tremendously pressured to sustain their competitiveness (Singh et al., 2008). One major area where SMEs are pressured is pricing of their products against that of their larger competitors (companies) (Winers, 2009). However, one of the critical success factors of a business, including SMEs, is pricing decision making (Avlonitis & Indounas, 2005).

Avlonitis and Indounas (2005) have underlined the importance of pricing decisions for every company's profitability and long-term survival. They point out that if effective product development, promotion and distribution sow the seeds of business success, effective pricing is the harvest. Although effective pricing can never compensate for poor execution of the first three elements, ineffective pricing can surely prevent those efforts from resulting in financial success. The manager may do everything else in the business correctly; however, a business may fail if products are priced incorrectly. Throughout most of history, prices were set by negotiation between buyers and sellers, but nowadays the company draws the pricing policy in different ways based on many factors inside and outside the organization. Effectively designing and implementing pricing strategies depend upon managers understanding of customer psychology and systematic approach to setting, adapting and changing prices (Lovelock, 2011).
There are widely several pricing strategies used in marketing, according to Paul (2010), and all of those strategies are conceptualized into four levels of pricing situations: new product, competition, cost and product mix or line for each manager to develop strategy in low or high prices. Inferring from other points of view, they can build pricing strategies based on Monroe (2003) and Winers (2009) models that includes three Cs (cost, competitors and customer). Consequently, once the pricing objectives are understood, the pricing strategies can be described in three dimensions: cost to the supplier, rival's prices and customer value.

Any pricing strategy should be built on a clear understanding of company's pricing objectives that are most shared and related to revenue, profit as well as building demand and market share from customer base. In general, pricing decisions are viewed in two ways: pricing as active instrument of accomplishing marketing objectives, or pricing as a static element in business decision depends on the market situation. Kotler and Armstrong (2006) indicates that the clearer a firm is about its objectives, the easier it is to set price. The typical pricing strategy has a long-term orientation and requires periodic choices between maximizing profit margins and increasing/protecting market share (Keller, 2009). To increase market share, companies may choose the fast approach of buying market share through deeply discounting the price, or the slower approach of gaining and holding market share by adding value or service at no additional charge to the customer (Shipley & Jobber, 2001).

Although it can be argued that the performance of SMEs is adversely affected in the global market, most of the enterprises in this sector in Ghana, adopted some marketing strategies that have enabled them to survive the stiff
international competition (Li, Kinman, Duan, & Edwards, 2000). Owners of these businesses have understood the role that marketing strategies play in enhancing the performance of enterprises (Akinyele, 2010). The SMEs in Ghana and Cape Coast specifically have recognize the need to incorporate various market mix elements to improve their market coverage especially with the use of price positioning (Johne & Davies, 2002).

**Statement of the Problem**

Different firms want to accomplish different things with their pricing strategies. For example, one firm may want to capture market share, another may be solely focused on maximizing its profit and another may want to be perceived as having products with prestige. Pricing decisions are not only important, they are also complicated. These are objectives that a manager should try to achieve. He should maximise investor objectives, contribute to brand integrity, minimise the effect of product perishability and also incur minimal administrative costs. According to Shipley and Jobber (2001), pricing management is a critical element in marketing and competitive strategy and a key determinant of performance.

Consultants at the Boston Consulting Group, Morel, Stalk, Stanger, and Wetenhall (2003), outline what they see as some of the core pricing problems facing managers. First, because of a strong cost focus and short sightedness, managers underestimate their power to manage pricing and therefore accept current industry levels, instead of focusing their efforts on other areas such as cost reductions, productivity and sales growth. This practice, according to Morel et al. (2003), leads to a significant difference between firm prices and what customers are actually willing to pay.
However, Forman and Hunt (2013) argued that specific training or education in pricing is not available to managers. Hence, pricing knowledge tend mostly to be acquired on the job. According to Carson, Gilmore, Cummins, O’Donnell, and Grant (1998), the pricing practices of SMEs lead to less than optimal financial results despite the fact that pricing is the critical success factor in this business sector. SME managers are more likely to take pricing decisions in a haphazard and apparently chaotic way as opposed to any orderly, sequential and structured fashion.

Some studies have been done to understand the pricing strategies adopted by service and other bigger manufacturing companies (Avlonitis & Indounas, 2005; Balakrishnana & Sivaramakrishnana, 2002; Cavusgil, Chan & Zhang, 2003). Most of these studies have focused on countries that either fall within developed economies (examples include a study on price setting in Canada by Amirault, Kwan and Wilkinson (2006), a study on price setting behaviour in the Euro Area by Fabiani et al. (2006) and a similar study on price setting in the United Kingdom (UK) by Greenslade and Parker (2010) or developing economies outside the African continent, for example a study on Pakistan’s price setting behaviour undertaken by Malik, Satti, and Saghir (2010).

In spite of the importance of pricing to SMEs, there seems to be a lack of interest among researchers, which has brought Nagle and Holden (1995) to suggest that pricing is the most neglected element of the marketing mix for SMEs. Within this context, research that has been conducted in the field of pricing for SME is very limited and pricing practices by SMEs has not been sufficiently answered by researchers, while this is even worse in the case
of Africa (Govender, 2012) and for that matter Ghana and the Cape Coast Metropolis specifically. This unfortunate situation has resulted in the collapse of many promising enterprises, because they are unable to stay competitive. This research, therefore, sought to establish the pricing methods used by SMEs.

**Objectives of the Study**

The main purpose of the study was to investigate the pricing methods used by SMEs in the Cape Coast Metropolis. Specifically, the study sought to:

1. Identify who is responsible for pricing decisions in the SMEs
2. Describe the importance of the factors influencing pricing in SME’s.
3. Examine the pricing methods used by SMEs in the Cape Coast Metropolis.
4. Analyse the importance of pricing to SMEs in the Metropolis.

**Research Questions**

The specific objectives are framed into the following research questions;

1. Who is responsible for making pricing decisions in the SMEs?
2. What are the importance of the influencing factors in pricing?
3. What pricing methods are used by SMEs in the Cape Coast Metropolis?
4. What are the importance of pricing to SMEs in the Metropolis?
Significance of the Study

The issue under investigation was assessing the pricing methods used by SMEs, with a close look at pricing objectives and strategies in the Cape Coast Metropolis. This research would add to the existing knowledge relevant to the SMEs in line with marketing with respect to pricing methods. In addition, this research would make suggestions for SMEs in particular, to stay competitive, survive and/or grow given the importance of pricing decisions as will be highlighted in this dissertation. It would also serve as a reference material for researchers, policy makers, as well as individuals who are about starting their business. For the authors, this dissertation is a pre-requisite to the award of a Master of Business Administration degree in Entrepreneurship and Small Enterprise Development once successfully completed.

Delimitation

This study seeks to investigate empirically the pricing methods used by SMEs with a close look at pricing objectives and strategies. Geographically, the study was undertaken in the Cape Coast Metropolis of the Central Region, Ghana. A number of factors influence the pricing methods a firm adopts. However, the study was delimited to certain variables, namely profit, cost, market share and market forces.

Limitations of the Study

Like any other study, this study was not devoid of limitations. Time constraint was an obstacle to an extensive study. Also, some of the SME managers were reluctant to take part in the study due to lack of adequate time considering the detailed nature of the questionnaire and detailed response or
information that was needed from them. Some SMEs managers were also reluctant to participate in a study on pricing due to fear of taxation. The researcher was able to deal with these challenges by explaining extensively the purpose of the study to the SME managers. An introductory letter was also issued the School of Business which also helped. With respect to the managers who complained of time constraint, additional time was allowed them to take the instrument over to the weekend for completion.

Organisation of the Study

The study report is presented in five chapters. The first chapter presents the introduction of the study. It looks at the background of the study, problem statements, and purpose of the study, research questions, and significance of the study, delimitation, limitations and the organization of the study. The organisation of the study is also presented in this chapter. The second chapter also presents a review of literature on pricing, pricing approaches, pricing objectives and strategies within the context of the research objectives. The third chapter presents the methodology for the study. Chapter four presents the results of the study and the discussion of the findings. The last chapter contains the summary, recommendations and conclusions drawn from the study.
CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

The previous chapter provided the research background, problem statement, objectives, research question, the scope of the research and the significance of the study. The aim of this chapter is to provide insight into the research area and establish the context for this study with regard to relevant literature on pricing. The first section deals with the theoretical underpinnings for pricing in SMEs. The second section dwells on the conceptual review and discusses; the meaning of price, pricing methods, pricing objectives and strategies and the importance of pricing. The third section looks at the empirical literature on pricing for SMEs.

Theoretical Review

Traditional economic theory has concentrated on the price and output of companies under various market structures, such as competitive, monopoly and oligopoly, concentrating on demand, supply and cost functions. The key assumptions underlying rational price decision making have been profit maximization and marginalism where marginal costs and marginal revenue are equated. While marginalism may be a useful way of analysing the decision makers' thoughts about pricing, it suffers from a number of limitations when it comes to the analysis of individual firm behaviour (Cunningham & Hornby, 1993).
There are three main theoretical foundations that underpin this study. These theories help to understand how SMEs price their products. First, the study draws from the cost-principle theory where firms assessed full costs of a product and then add a profit margin to it to arrive at the price (Hall & Hitch, 1939). Second, the organization behavioral theory of the firm which sees the firm as a coalition of stakeholders that negotiate about objectives in order to arrive at a price was used (Cyert & March, 1963, Hague, 1971). The last theory that support the study is marketing strategy (Udell, 1964).

**Cost-Principle Theory**

The discovery of pricing practice can be attributed to Hall and Hitch (1939). Other writers on the theory included; Pearce (1956), Haynes (1964), Foxall (1972), Lee (1984) and Mongin (1992). Hall and Hitch (1939) recognized the difference between economic theory and pricing practice, because their interviews with managers suggested a mode of entrepreneurial behavior which economic doctrine tends to ignore. On the basis of interviews in 38 firms, they discovered that pricing in firm practice deviated from the pricing theory. In particular, they found that firms assessed full costs and then added a profit margin. In these practices, information on demand curves was sometimes neglected by decision-makers or it got lost somewhere in the process. Hall and Hitch’s finding suggested that firms were not profit-maximizing entities.

Companies confronted by high competition intensity attach relatively high degrees of importance to this theory. Also, pricing based on this theory generally requires less information and less precise data than the rule of setting
price at the output level at which the marginal revenue equals marginal cost (Martimort & Piccolo, 2007). The theory is however criticised on a number of occasions. First, it may prove to be extremely difficult in practice to identify the true costs of a product. Second, such a cost-plus approach to pricing ignores the demand sensitivity of the marketplace. It may be that a price determined on a cost-plus basis is higher than the market place will accept, or perhaps it may be even lower than the price that the market will tolerate. The basic problem with any cost-based approach to pricing is that it implicitly assumes that the customer is interested in the company's costs, whereas in reality the customer is only concerned with their own costs (Christopher & Juttner, 2000).

**Theory of Organizational Behavior**

In an attempt to theorize on the organizational behaviors of firms’ managers, Cyert and March (1963) developed the behavioral theory of the firm. The behavioral theory of the firm sees the firm as a coalition of stakeholders that negotiate about objectives. These objectives are thus satisfying rather than maximizing in nature. Over time, simplifying rules of thumb emerge within the firm that may yield satisfactory results. According to the behavioral theory of the firm, (cost-based) pricing practices are included among such routines. With this theory in mind, Hague (1971) started to examine in more detail the organizational decision process by which prices are set in firms in descriptive case studies. The theory argue that pricing is not a costless activity, but one that requires resources such as information, skills and knowledge to arrive at a price decision.
Marketing Strategy Theory

The dominant role of price in mainstream economic theory challenged Udell (1964) to show that price is not all that dominant in marketing practice. Using a survey approach, he examined the perceived relative importance of marketing mix elements. Other researchers who have contributed to the theory are Piercy (1981), Abratt and Pitt (1985) and Samiee (1987). According to the proponents of this theory, price must be one of the key elements in the marketing mix and be manipulated sensitively and often creatively. Firms must view pricing as central to success in relation to decisions on products, promotions or distribution. The marketing mix, product, promotion, and distribution provide an opportunity to create value in the market place while pricing is the firm's chance to capture some of that value.

Conceptual Review

Definition of Price

George (2001) defines price as the amount of money consumers pay for the exchange of benefits of having or using an offering and may also incorporate goods exchanged. It is clear from the definitions that although a monetary equivalent or value may be assigned, prices may incorporate goods exchanged. For example, computers may be traded in for similar deals. The price of a product is, therefore, what a seller expects to receive in exchange for a product which the buyer may use or derive value from.

Price has a wide meaning in different situations. For example, similar to a price of a product is the rent for an apartment, fee for a doctor, toll on a road, commission to a broker and taxes for the government (Jobber, 2001). Price may be seen differently by parties of the deal. For example, price
informs the suppliers, manufacturers, service providers or retailers whether their accounting methods are appropriate enough and how much profit they are going to make. It also tells the purchaser what the cost will be to them, though cost is not necessarily evaluated purely in terms of immediate cash payment (Wilmshurst & Mackay, 2002).

Importance of Price

Pricing is often regarded as being the most important decision variable in a company's marketing strategy. Pricing decisions draw from many sources and are vitally important to the competitive success of enterprises (Hornby & Macleod, 1996). According to Cant, Brink, Jooste, and Machado (1999), price is important because, it is the only element in the marketing mix that generates revenue. It is also important because it affects the enterprise in a direct way, namely the profitability of the business. Jain (2001) states that pricing is an important decision in any business, be it domestic or international, because it directly affects revenue and thus profitability. Marx et al. (1998) state that price is of critical importance to management, because it represents a large portion of the revenue of an enterprise.

Dempsey and Pieters (1999) mentioned that actual selling price and pricing of inventory play a role in determining the actual gross profit of an enterprise. According to Doyle (2002), pricing is the key to an enterprise's profitability in both the short and long-run. Suri, Manchanda, and Kohli (2002) state that price has a direct impact on a company's profitability. Successful pricing is a key to the success of the business (Czinkota & Ronkainen, 2003). The role of pricing in generating revenue, determining breakeven point, profitability, success and failure of the business, show how
critical it is to an enterprise. Price also helps management to achieve the overall company's objectives. It provides invaluable information to all parties involved in a transaction.

Inflation is measured as the rate of increase of the average price level during a specified period; normally, one year (Fourie, 2001). A decline in the rate of price increases helps make the country more competitive. Price is a comprehensive term in interpreting the economy. It conveys critical economic information. It helps the public to understand economic activities. Terms like inflation and GDP are expressed in terms of prices. Factors of production are expressed in terms of price. Rent is the price paid for using natural resources, interest for capital, wages for labour and profit for entrepreneurship. Increase in price reduces purchasing power, while price decrease increases purchasing power. When the importance of pricing to an enterprise’s success is considered, one wonders why pricing has not received more attention by researchers.

Pricing Objectives

It is essential for a company to study the external and internal factors that influence the setting of price. External factors, such as governmental regulations, cannot be influenced by the company. On the other hand, internal factors, such as the mission statement of a firm, are to a large extent determined by the company itself. According to Bygrave (1997), many entrepreneurs fail to focus on pricing objectives. Pricing objectives are specific quantitative and qualitative operating targets that reflect the basic role of pricing in the marketing plan. Strydom, Cant, and Jooste (2002) state that
the ultimate objective with pricing is to actualise the objectives of the enterprise, a predetermined profitability and certain social responsibilities. The choice of pricing objectives is influenced by the business objectives and the prevailing market conditions.

Avlonitis and Indounas (2004) state that while pricing policies and methods refer to the explicit steps that a company has to follow in order to set its everyday prices, the main purpose of pricing objectives is to guide these steps. According to Tzokas, Hart, Argouslidis and Saren (2000), to have pricing objective is to know what is expected and how the efficiency of the operations is to be measured. Diamantopoulos (1991) suggest that pricing objectives can fall under three main headings relating to their content (i.e. nature), the desired level of attainment and the associated time horizon. As far as their nature is concerned, a major distinction can be made between quantitative and qualitative objectives. The quantitative objectives can be measured easily and include those objectives that are related to the firm’s profits, sales, market share and cost coverage. On the other hand, the qualitative ones are associated with less quantifiable goals such as the relationship with customers, competitors, distributors, the long-term survival of the firm and the achievement of social goals.

Regarding the desired level of attainment, pricing objectives may be divided into these objectives that endeavour to achieve maximum results (i.e. in terms of profits or sales) vis-à-vis those ones that pursue satisfactory results. However, it is interesting to indicate in this point that the objective of “profit maximisation” has been criticised by a number of different authors in the existing literature as being rather unrealistic to achieve. This may be attributed
to the limited information that pricing managers might possess the lack of communication inside the company or even the avoidance of government intervention that an excessive profitability could cause (Keil, Reibstein, & Wittink, 2001).

With reference to the time horizon of attainment, pricing objectives may be distinguished between short-term and long term ones. The short-term objectives endeavour to satisfy specific goals in a short time period, whereas the impact of the long-term objectives may only be realised after a long period of time. Short-term and long-term objectives could be defined in connection with capacity (i.e. as the capacity increases or decreases, one move from short-term to long-term objectives). Moreover, authors, such as Shipley and Jobber (2001), have suggested that an excessive emphasis on short-term objectives may risk the long-term position of a firm in the market.

Regardless of the above classification of pricing objectives, the complexity of pricing decisions imposes the need to pursue more than one objective at a time (Smith, 1995). This could be even related to the concept of a hierarchy where low-hierarchy objectives are related with high-hierarchy ones (e.g. customers’ needs satisfaction might be associated with also trying to retain these customers, while market share related objectives might be related to profit based objectives). Moreover, not all pricing objectives are compatible with each other, since the objective of sales maximisation for example could lead to lower profits, while an excessive emphasis on profits could be in contrast with the achievement of social goals.

SME managers need to understand that pricing objectives guide the pricing strategies, policies and approaches. Pricing objectives provide
directions for action. They should flow from and fit in with the company and marketing objective. Zimmerer and Scarborough (2005) state that, when pricing any new product, small business owners should try to satisfy three objectives, which are: getting the product accepted, maintaining market share as competition grows and earning a profit. It is important for SME managers to make sure that their prices will elicit the required demand of the products. The revenue should be enough to pay for total costs and make profit. This is important for the SMEs, because pricing may sometimes be the main, if not the only, revenue source that may help the business to grow to its potential. It is also important to maintain or gain market share even in stiff competition. Gaining market share may, in the long-run, bolster revenue and profit of the business.

**Pricing Strategy**

Pricing methods and policies are sometimes referred to as pricing strategies. However, the strategies referred to in this research are those that are used to skim or penetrate the market. New product pricing creates a unique opportunity to build a price umbrella and to skim price. Skimming pricing works when the new product is highly differentiated, not easily copied, and sold to a quality-sensitive market, and when competitor entry and intensity are not serious threats. When the opposite conditions exist, a penetration strategy may be needed in order to build a cost advantage (Holden & Nagle, 1995). Both skimming and penetration pricing are cost and market-oriented. Their pricing approaches are cost-based, market-based and competition-based with the view to gaining profit. SME managers may use the strategies to take
advantage of the new products before competitors enter the market and to attract customers through value and price. Nagle and Holden (2011) state that, before setting a price, an enterprise should identify the role that price may play in the product's overall marketing strategy.

The generic pricing strategies include skim, penetration and neutral pricing. Managers should decide on whether the price should serve to restrict the enterprise's market to an exclusive segment of buyers, whether it serves as the primary tool for attracting buyers or if it serves a neutral function, secondary to other aspects of marketing. While pricing objectives provide general directions for action, pricing policies are the particular actions necessary for reaching the final price (Jobber, 2001). Referring to the classification of pricing strategies presented by Tellis (2002), pricing strategy has been empirically addressed in industrial markets by Noble and Gruca (2002), in the framework of international markets by Forman and Lancioni (2002), and as a comparison of pricing strategies in different countries by Chia and Noble (1999).

The concept of pricing strategy has been defined as “a reasoned choice from a set of alternative prices (or price schedules) that aim at profit maximization within a planning period in response to a given scenario” (Tellis, 2002). According to Noble and Gruca (2002), pricing strategy refers to how the firm will tackle its pricing objectives, and thus, the way by which a pricing objective is to be achieved. Hence, a certain pricing strategy will imply a certain price or price schedule relative to the costs of the selling firm. The choice of pricing strategies is, as stated above, seen as contingent on certain conditions, termed determinants, which implies that a firm’s degree of
success in pricing is determined by whether chosen pricing strategies are properly adapted to the conditions facing the firm Sezen (2004), states that the success of a pricing strategy largely depends on the implementation of the right price at the right time.

*Skimming and Prestige Pricing*

Price skimming strategy tries to sell the top of a market at a high price before aiming at more sensitive customers. Skimming may maximise profits in the market introduction stage for an innovation, especially if there is little competition. Some critics argue that enterprises should not try to maximise profits by using a skimming policy on a new product that has important social consequences (Perreault & McCarthy, 2002). Prestige pricing is setting a rather high price to suggest high quality or high status. Some target customers want the best, so they will buy at high price. Prestige pricing is most common for luxury products such as jewelry and perfume. It is also common in service industries where the customer cannot see the product in advance and relies on price to judge its quality (Perreault & McCarthy, 2002).

An enterprise should have some source of competitive protection to ensure long-term profitability by preventing competitors from providing lower-priced alternatives. Patents or copyrights are one source of protection against competitive threats (Nagle & Holden, 2011). SME managers should exercise care when using skimming pricing. They should guard against the possibility of competitors selling the same product or substitute at a lower price. However, what is important is the communication of value of the product in relation to the price (Nagle & Holden, 2011).
Penetration Pricing

Penetration pricing is where a relatively low price is set in order to gain maximum entry to the market as quickly as possible. A necessary condition of successfully applying this strategy is, of course, that reducing the price will substantially increase the demand. When a company has gained dominance of the market by penetration pricing, it can be very difficult for a competitor to enter successfully (Wilmshurst & Mackay, 2002). When pricing in SMEs, Kuratko and Hodgetts (2004) state that the price should be appropriate in order to penetrate the market, maintain a market position and produce profits. A number of pricing strategies should be considered for use. This pricing strategy should be compared with the strategies of the major competitors.

Pricing Approaches

According to Zeithaml, Bitner, and Gremier (2009), there are three pricing structures typically used to set prices, and these are: (a) cost-based, (b) competition-based, and (c) demand-based pricing. The above narration was also backed by Avlonitis and Indounas (2005), when they argued that according to the review of related literature the pricing of services would fall under three large categories namely cost based, competition based and demand based. It should, therefore, be noted that these pricing structures are the same bases on which goods prices are set but adaptations must be made in services (Zeithaml et al., 2009).
Cost-Based Pricing Structure

Zeithaml et al. (2009) argued that, in cost-based pricing, a company determines expenses from raw materials and labour, adds amounts or percentages for overhead and profit, and thereby arrives at the price. This method is widely used by industries such as utilities, contracting, wholesaling, and advertising. And the basic formula for it is: \[ \text{Price} = \text{Direct costs} + \text{Overhead costs} + \text{Profit margin}. \]

According to Avlonitis and Indounas (2005), the cost-plus method is arrived at when a profit margin is added on the service's average cost.

The cost-based pricing approach has been criticised on several occasions. First, it may prove to be extremely difficult in practice to identify the true costs of a product. Second, such a cost-plus approach to pricing ignores the demand sensitivity of the marketplace. It may be that a price determined on a cost-plus basis is higher than what the market will accept, or perhaps it may be even lower than the price that the market will tolerate. The basic problem with any cost-based approach to pricing is that it implicitly assumes that the customer is interested in the company's costs, whereas in reality the customer is only concerned with their own costs (Christopher & Juttner, 2000). Although cost-based pricing is simple and straightforward, it ignores current demand and competition. The ignorance of these factors may be detrimental to the sales volume of the company. The price may not be affordable to the consumers and this may affect the demand and the profit of the organisation. SME managers should avoid pricing the product out of the market by failing to recognise the impact of competition and the market demand.
According to Zeithaml et al. (2009), some examples of cost-based pricing would include: Target return pricing: The price is determined at the point that yield the firm's target rate of return on investment. The target pricing method is used most often by public utilities, like electric and gas companies, and companies whose capital investment is high, like automobile manufacturers. Target pricing is not useful for companies whose capital investment is low, because, according to this formula, the selling price will be understated. Also, the target pricing method is not keyed to the demand for the product, and if the entire volume is not sold, a company might sustain an overall budgetary loss on the product.

Break-even analysis: This price is determined at the point where total revenues are equal to total costs (Lovelock, 1996). In breakeven pricing or target profit pricing, the enterprise tries to determine the price at which it will break-even or make the profit it requires. A breakeven chart shows the total cost and total revenue expected per sales volume levels (Baker, 2003). On the other hand, contribution analysis is a deviation from the breakeven analysis where only the direct costs of a product are taken into consideration (Bateson, 1995).

Marginal pricing: Here the price is set below total and variable costs so as to cover only marginal cost (Palmer, 1998). According to Palmer, a special kind of cost-based pricing occurs where enterprises choose to ignore their fixed costs. The charge to any individual customer is based not on the total unit cost of producing it, but only on the additional costs that will result directly from servicing that additional customer. In business, this is the practice of setting the price of a product to equal the extra cost of producing an
extra unit of output. By this policy, a producer charges, for each product unit sold, only the addition to total cost resulting from materials and direct labour.

*Competition-Based Pricing Structure*

Competition is one of the factors that influence pricing decision. It is, therefore, necessary for SME managers in a competitive market environment to know what competitors are doing and understand the different strategies they apply in pricing their products. SME managers who do environmental scanning and identify the strengths and weaknesses of competitors in pricing may have a competitive edge on pricing strategy as these may be used to either match or outdo competitors. As forwarded by Zeithaml et al. (2009), the competition-based pricing approach focuses on the prices charged by other firms in the same industry or market. In the same way, Avlonitis and Indounas (2005) also suggested that competition-based method is where the pricing is similar to competitors or is set according to the market's average prices.

It follows, therefore, that competition-based pricing does not always imply charging the identical rate others charge, but rather using others prices as a base for the firm's price (Zeithaml et al., 2009). They again remarked that this approach is used predominantly in two situations: when services are standard across providers, such as in the dry cleaning industry and in oligopolies with a few large service providers, such as in the airline or rental car industry. In addition, the difficulties involved in provision of services sometimes make competition-based pricing less simple than it is in goods industries (Avlonitis & Indounas, 2005). According to Zeithaml et al. (2009), some examples of competition-based pricing in services industries would include:
Going-rate pricing: This involves charging the most prevalent price in the market and it is common with car rental companies, because the rental car market is dominated by small number of large companies. It also follows that for the years, Hertz, the largest car rental brand in the world, has always set the price which the rest of other rental car companies have followed and, as such, prices in different geographic markets, even cities, depend on the going rate in that location (Perreault & McCarthy, 2002). According to Palmer (1998), in some markets which are characterised by a fairly homogeneous product offering, demand is so sensitive to price that an enterprise would risk losing most of its business if it charged just a small amount more than its competitors. On the other hand, charging any lower price may result in immediate retaliation from competitors.

Price leader: Price leadership is the style of pricing in which one enterprise regularly announces price changes that other enterprises then match. Sometimes a pattern is established whereby one enterprise regularly announces price changes and other enterprises in the industry follow suit. This pattern is called price leadership. One enterprise is implicitly recognised as the leader while the other enterprises, price followers, match its prices. This behaviour solves the problem of coordinating price. Everyone simply charges what the leader is charging (Pindyck & Rubinfeld, 2001). Yohe (2004) also state that price leadership is the behaviour where one or few enterprises set the price and the rest follow its lead.
Demand-Based Pricing Structure

This pricing structure involves setting prices consistent with customer perceptions of value, which, literally, implies that the prices are based on what customers will pay for the services provided (Zeithaml et al., 2009). Avlonitis and Indounas (2005), in the same way, categorized demand-based pricing as perceived-value pricing, where the prevailing price is based on the customer's perceptions of value. Nieman and Bennett (2002) state that, in some instances, where consumers find it difficult to evaluate the quality of a product prior to purchasing it, the consumers use price as an indicator of quality. Perceived-value pricing uses consumers’ perceptions of value as the main input in the calculation of the basic price. Costs and competition are seen as less important and, in order to increase the price as much as possible, the organisation has to spend large amounts of money on advertising and personal selling to increase consumers' perceptions of value.

According to Ge (2002), value pricing is also a demand-based pricing, which refers to a pricing principle that prices a product according to the value it brings to the customers or users. When one use a pricing method based on demand, you place more emphasis on the influence of customer needs and interests than on the influence of costs, profits or competitive forces. Below is a list of some other pricing strategies in Service Organisations, as cited in Avlonitis and Indounas (2005).

**List pricing:** Setting one price without differentiating it according to the different market segments that the company might target (Schlissel & Chasin, 1991; Langeard, 2000).
Differentiated pricing: Offering different prices to different customers on the basis of a number of criteria such as the time of the purchase, the place of the purchase or consumption of the service and the customers’ personal characteristics (Bateson, 1995; Hoffman & Bateson, 1997).

Geographical pricing: Offering different prices to customers that are located in different geographical locations (Cannon, 1996).

Negotiated pricing: Prices are determined on the basis of individual agreements between the company and its customers (Berry & Yadav, 1996).

Quantity discounts: Discounts for those customers that purchase large quantities (Langeard, 2000; Morris & Fuller, 1989).

Cash discounts: Discounts for those customers that pay their total amount within a pre-determined time period (Langeard, 2000).

Trade discounts: Discounts to agents and distributors in order to promote and support the product or service (Langeard, 2000).

Image pricing: Setting a high price in order to convey an exclusivity image (Rao & Monroe, 1996; Gendall et al., 1997; Gendall, 1998).

Pure bundling: A type of price bundling, where two services that cannot be purchased independently are offered at a reduced price (Guiltnan, 1987; Kurtz & Clow, 1998; Munger & Grewal, 2001).

Mixed bundling: It is a type of price bundling, where two services that can be purchased independently are offered at a reduced price (Guiltnan, 1987; Kurtz & Clow, 1998; Munger & Grewal, 2001).

Relationship pricing: A customer-oriented approach, which aims at developing long-term relationships with customers, understanding their needs and pricing according to these needs (Berry & Yadav, 1996).
**Yield Management:** Managing the company’s existing capacity by monitoring the different market segments’ demand and charge maximum price to segments that are willing to pay (Weatherford & Bodily, 1992; Coulter, 2001).

**Efficiency pricing:** The effort to lower the company’s cost to a minimum level (e.g. through the adoption of sophisticated technologies) that will continually permit the determination of low prices for those customers that are price sensitive (Berry & Yadav, 1996).

**Pricing Approaches in SMEs**

Murphy (1996) states that SMEs should learn to think of pricing as a method whereby prices are set with regard to costs, profit targets, competition and the perceived-value of the products. According to Schaper and Volery (2004), there are several pricing options available to new and existing SMEs and include going-rate, cost-plus, perceived and loss leader pricing. SME managers should use different tactics in pricing their products. These tactics help to ensure that the business becomes more profitable. They may be used to achieve certain objectives like to gain market share, sustain business in stiff competitive environment, target return and maximise profit. Some of these objectives may be short-term, whilst others may be long-term. Pricing tactics may also be used to clear the old or obsolete stock by way of discount.

Tung, Capella, and Tat (1997) state that the fastest and most effective way for an enterprise to achieve maximum profit is to get its price right. It has been identified that cost-oriented pricing was the most popular approach used by SMEs. A common finding of the few studies conducted on pricing
strategies shows dominance of the cost-plus methods mainly due to its simplicity and easiness to use. Specifically, Forman and Hunt (2013) used more than 100 business managers in a study about the pricing objectives and found that SMEs followed the cost-plus method. Similarly, Goetz (1985), investigating the pricing methods of 56 dry-cleaning services in the USA, reached the conclusion that 36 companies in his sample (65 percent) adopted this method.

In practice, SME managers employ some form of cost-plus pricing, while bearing in mind a number of secondary effects. It has been suggested that most small businesses may base pricing on a combination of what the market will bear and cost-plus. It is also found that cost-plus percentage pricing was very much influenced by competition and demand (Nagle & Holden, 2011). SME managers should be familiar with what competitors are doing and offer something better which may be in the form of price, service or location, if they are going to succeed. The managers need to check which of the competitors seem to be doing well and find out whether price is the reason and, if not, what gives them the competitive edge (Schlisse & Chasin, 1991).

Zirmerer and Scarborough (2005) state that SME managers have three basic strategies to choose from in establishing the new product's price. These strategies include sliding-down-the-demand-curve, penetration and skimming pricing. Pricing tactics that entrepreneurs may use to set prices of established products involve price lining, leader, geographical, and multiple pricing. Small and medium-sized enterprises may use a variety of pricing methods and tactics in different situations. It should be remembered that when developing a pricing strategy in any circumstances it should be compatible
with the enterprise's overall marketing strategy. To remain competitive in the market, managers should use appropriate pricing methods to determine the right price.

Under-pricing has been a major factor in small business failures. It is always tempting for a small business to compete mainly on price. A small business may arouse a purchase by offering a product at a lowest possible price. Hatten (2012) states that even though the pricing decision is critical to the success of a business, many small business owners and managers make poor pricing decisions. The most frequent mistake made by new venture founders when they set a selling price for the first time is to pitch it too low. This mistake occurs either through failing to understand all the cost associated with making and marketing one's product or yielding to temptation to price below that of competitors (Bygrave, 1997).

According to Bontis and Chung (2000), there is no perfect generic pricing model. SMEs need to understand the value they provide to their customers and create a price structure that aligns pricing with value realisation, but more importantly facilitate their business objectives of the product. Katz and Green (2007) state that, for most small businesses, the early years are survival years and the tendency is to sell products for whatever price one can offer. While this may be necessary at a point in time, it should not be a firm's pricing objective. Maximising profits is a better option for the small firm.

According to Beaver (2007) small enterprises that survive, prosper and grow, exhibited most or all of the following characteristics; they had an enterprise grip on their finances. They also examined business forecasts
carefully and returned to the original business plan to check principal assumptions made about sales volume and cash flow. Also they reduced the money that debtors owed by implementing an effective credit management system. Lastly, many had a pricing plan and took a strategic view when setting price.

One of the important functional marketing strategies in SMEs is the pricing strategy. Developing a proper pricing strategy, along with an advertising strategy during the different stages of the product life cycle, may help SMEs to satisfy their customers and increase their profit. The price is the monetary value of the products in the market, which may affect buyer choice. Price is the weapon of choice for many companies in the competition for sales and market share. The main reason for that is the short process of pricing. In other words, no other marketing tool may be deployed as quickly or with such certain effect as a price discount. Small business managers should combine various criteria in setting prices rather than considering only product costs (Analoui & Karami, 2003).

Factors Affecting Pricing in SMEs

Prices are not set arbitrary. There is a way to determine the right price in small and medium-sized enterprises. Several factors need to be considered and they include cost, demand, competition and profit. These factors influence the pricing decision. The manager will consider the amount of profit he or she wants to earn when determining the price of the product. Perceived-value is important for a customer to make a decision to buy. Buyers will buy from the competitors if they deem your product to be expensive (Townsley, 2003).
Roux et al. (1999) state that SMEs usually base their price on the principle of costs, the idea being to recover costs and make a profit. Besides costs and profit, environmental factors, the type of product being offered, the target market and the competitors in the market need to be considered when setting the selling price. In developing a marketing strategy, SMEs should consider the cost structure of the enterprise, an assessment on what the market will bear and the desired image the company wants to create for its customers. There is a belief that the right price for a product depends on these three factors mentioned above (Analoui & Karami, 2003).

According to Kuratko and Hodgetts (2004), many entrepreneurs, even after conducting marketing research, are unsure of how to price their products. A number of factors affect this decision, and they include: the degree of competitive pressure, the availability of sufficient supply, seasonal changes in demand, distribution costs, the product's life-cycle stage, changes in production costs, prevailing economic conditions, the amount of promotion done and the market's buying power. Awareness of the various factors is important, although all of them cannot be catered for in a firm's final price.

Empirical Review

Tzokas, Hart, Argouslidis and Saren (2000) studied industrial export pricing practices in the United Kingdom. The focus of the study was on pricing, objectives, methods and policies. Survey of 178 UK exporting firms sampled randomly in chemical, metal and plastic-rubber industries were used for the study. It was found that, generally there is a higher importance of market information over costs information in pricing by the sampled firms,
even though production costs was the most important single factor. Firms with a high pricing competence followed a customer orientation in their general approach to pricing, their pricing objectives, and methods.

Forman and Lancioni (2002) studied the determinants of pricing strategies for industrial products in international markets and their determinants. A survey of 190 industrial export firms were sampled randomly for the study. Questionnaires were used to collect data and descriptive statistics were used to analyze the data. The study revealed that determinants from the international environment in which firms operate (such as government intervention and country of origin) significantly affect firms’ choices for international pricing strategies. Smaller firms used more standardized pricing strategies, while larger firms used more adaptive strategies.

Pricing objectives have been addressed by Avlonitis and Indounas (2004) in an empirical study of service firms. The study showed that customer-related objectives, such as customers’ needs satisfaction, attraction of new customers, long-term survival, quality leadership, and creation of a prestige image for the company and cost coverage, were important regardless of type of market. Although conducted in a specific setting (service firms), the study shows an interesting tendency of firms in the sample to adhere to pricing objectives other than profit maximization, which is normally adopted as the generic objective of firms. David and David (2012) also conducted exploratory research using questionnaire based on marketing-orientated pricing strategies. It was found out that firms pursued varied set of goals such
as increasing market share, achieving a fair return on investment, maintenance of market share, stabilisation of price and matching competitor’s price.

Contrasting the above study, Some few empirical studies conducted on the issue of pricing objectives in the services sector have also shown that quantitative objective tend to be regarded as more important than qualitative ones with a particular emphasis being placed on profit considerations. Forman and Hunt (2013) used more than 100 business managers in a study about the pricing objectives used by SMEs and the findings suggest that the most popular objective was profit maximization, followed by the achievement of a satisfactory profit. Similarly, Meidan and Chin (1995) investigated the pricing practices of 45 building societies operating in the UK and concluded that more than 80% of the companies in their sample considered the objectives associated with cost (such as the cost coverage) as being the most important ones.

**Lessons Learnt**

The studies reviewed were undertaken based on the quantitative research method and also the probability sampling technique was used to draw the sample. It could be deduced from the literature that effective pricing, involve the three elements. First, sound analysis of the customer is essential. Customers base their decisions on the perceived value to themselves of the transactions, and are not concerned with the company's need to cover costs. Companies must therefore ascertain what the customer values in their products; either be quality, quick delivery or personal service. Second, managers involved in pricing should analyse the past behaviour of their
competitors, ascertaining what price changes they are likely to make and, more importantly, how their competitors will respond to their own price changes. The last element involved in effective pricing is a sound understanding of the company's costs. After the study of the available literature, it came out that empirical evidence on pricing methods used by SMEs have not received attention from researchers.

**Conceptual Framework**

The study perceived pricing methods as a mechanism that a firm choices in putting a value on it product which could either be; cost-based, competition-based, and/or demand-based pricing. The owner/managers experience, objective of the firm, industrial similarities influence the choice of pricing method. These factors are however mediated by market research either formally or informally. Figure 1 provides a pictorial view of the conceptual framework used for the study.
**Figure 1:** Conceptual framework

Source: Author’s construct based on literature, (Asare, 2015)
Summary

The chapter provides overview of the theoretical and empirical literature on pricing methods. It starts with the theoretical section where three theories were reviewed to explain how enterprises may opt to price their products. This was preceded by an overview of the traditional price theory whereby price decision making have been built around profit maximization and marginalism to ensure that marginal costs and marginal revenue are equated. The cost principle theory, the organization behaviour theory and market strategy theory were reviewed. With the conceptual review, the meaning of price, pricing methods, pricing objectives and strategies and the importance of pricing were considered. The available literature also points that empirical studies on pricing practices for SMEs continue to be scarce and only inadequate knowledge exists on that of large and export oriented companies.
CHAPTER THREE

RESEARCH METHODS

Introduction

This chapter focuses on the empirical part of the study. It presents the techniques and approaches used to collect data for the study. It is made up of the research design, the target population, and the sampling technique(s) that was employed. The chapter also discussed about the sample that was used in the study, the data collection method that was employed and the data collection instrument that was used. The chapter also looks at the data analysis method that was used.

Research Design

Considering the nature of the research problem and purpose of this study, the quantitative approach was used. Quantitative methods emphasize objective measurements and the statistical, mathematical, or numerical analysis of data collected through polls, questionnaires, and surveys, or by manipulating pre-existing statistical data using computational techniques (Muijs, 2010). Quantitative research focuses on gathering numerical data and generalizing it across groups of people or to explain a particular phenomenon (Babbie & Benaquisto, 2009).

Specifically, the Cross Sectional survey design was employed in the study in lieu of the limited time and inadequate funds to embark on extensive survey. The cross sectional survey is usually designed to study a phenomenon, situation or issue by taking a cross section (representative) of the population at one point in time (Muijs, 2010). Using a survey design implies that the
researcher has a clear view of the phenomena being investigated before the data collection was done. A major strength of using a survey design according to Krosnick, Presser, Fealing, Ruggles and Vannette (2015) is that, a survey work can be used for both exploratory and descriptive purposes and also allows for direct contact between the researcher and the respondents of the study during the process of data collection. It further helps in obtaining detailed and precise information from the respondents. It was therefore the most appropriate approach to use to investigate the pricing methods used by SMEs in the Cape Coast Metropolis since it allowed data collection from a sample which is statistically representative.

Though the survey design comes with these advantages, it has also got its weakness. Respondents might not give true responses to some or all of the questions posed. This is due to the fact that survey design depends on reports of behaviour rather than observation of the behaviour. Sometimes respondents find it difficult to give answers to questions they find sensitive such as income, age and sexual behaviour. According to Singleton, Straits & Straits (1993) the result of this problem is that of measurement error brought about by respondents lack of truthfulness, not understanding the questions or worse of all not able to recollect past events and situations accurately.

Study Area

The Cape Coast Metropolis is bounded to the South by the Gulf of Guinea, to the West by the Komenda-Edina-Eguafo Municipality (Iture bridge), to the East by the Abura-Asebu-Kwamankese District and on the North by the Twifo-Heman-Lower Denkyira District. It occupies an Area of
approximately 122 square kilometers, with the farthest point at Brabedze, located about 17 kilometres from Cape Coast, the capital of the Metropolis as well as the Central Region. The Metropolis has two sub Metropolitan District Councils (CCMA, 2015). The strategic location of Cape Coast, between the major cities in the country, namely Kumasi, Accra and Takoradi as well as the educational institutions within the Metropolis and its tourism potential provide opportunities for investment (NBSSI, 2014).

The Metropolis has a total population of 169,894 consisting of 82,810 males (48.7%) and 87,084 females representing 51.3% (Ghana Statistical Service, 2010). Out of this, 121,654 persons made up of 54.7% are economically active. However, the daily influx of people from other towns makes the figure higher than estimated. The Cape Coast Metropolis is a major centre for manufacturing, marketing, finance, insurance, transportation and tourism (CCMA, 2015). The sectors of the Cape Coast Metropolis economy consist of primary sector (farming and fishing), secondary sector (manufacturing, water, construction) and tertiary sector (Wholesale trade, retail trade, hotel, restaurant, transportation, communication, financial intermediation, public administration, education, health and other social services) (CCMA, 2015).

The wholesale and retail industry is the largest in the Metropolis, engaging a quarter (25.1%) of the employed population. The education and manufacturing industries each employ one out of seven people. The accommodation, food services and other service activity industries together also engage one out of six employed persons. As a Metropolitan area with a coastal settlement, the predominant primary economic activities are fishing
and agriculture which engages 7.4% of the employed population. The real estate industry is yet to penetrate the Metropolis (GSS, 2014).

**Population**

The target population of any particular study includes all people or items with the characteristics of interest to the researcher. In this study, the target population was the entire SMEs, which operate in the formal sector in the Cape Coast Metropolis. This comprise 140 firms registered with the Business Advisory Centre (BAC) of the NBSSI, Cape Coast. Therefore, the unit of enquiry of the study comprises the managers of the various SMEs of interest.

**Sample and Sampling Procedure**

Sampling is a procedure of selecting a part of a population on which a research or study can be conducted. These samples are normally supposed to be selected in such a way that conclusions or inferences drawn from the study can be generalized for the entire population. Singleton et al. (1993) simply defines sampling as the process of choosing from a much larger population, a group about which a generalized statement is made, so that selected parts represents the total group. In order to obtain a sample size, which is representative of the target population in the Metropolis, a sample frame of the 140 registered SMEs in the formal sector was obtained from the BAC of the NBSSI, which is in the Cape Coast Metropolis. According to the BAC, they had information on these enterprises because they have been granted loan by their outfit.
The sample size of 103 was determined by using Krejcie and Morgan’s (1970) table out of 140 enterprises registered with the BAC. The sample was drawn using the simple random sampling technique (lottery method). Having selected the SMEs, the purposive sampling method was used to select the managers of each of the selected SMEs for the study. Purposive sampling was used because the managers of the SMEs were deemed the appropriate respondents who were knowledgeable and well abreast of the subject matter of interest (Sarantakos, 2006).

Data and Sources

Data for the study were obtained from primary source. The primary data were obtained by the researcher through fieldwork, using the questionnaires which were administered to respondent SMEs.

Data Collection Instrument

Questionnaire was the data collection instrument used to collect data for the study. The reason for using questionnaire is that it affords respondents the opportunity to express their views or opinions regarding pricing methods in SMEs. Besides, questionnaires are known to be quite valid and reliable for data collection, if well-constructed (Sarantakos, 2006). The questionnaire had structured questions. The first part related to the number of employees, form of business, and the position of the person responsible for pricing. The nominal scale method, where the person completing the questionnaire has to choose only one answer that is applicable to his or her business, was used for this part. The rest of the questionnaire focused on the pricing matters such as pricing objectives, pricing strategies, importance of pricing, cost-based
pricing, buyer-based pricing, competition-based pricing, different views regarding pricing. Other questions needed either 'yes' or 'no' answers or selecting one out of two or more possible answers.

**Ethical Concerns**

A great deal of attention must be given to ethical concerns when collecting data from the field. Ethical concerns that were addressed in this study include the following: In order to have the informed consent of the respondents, the researcher identified himself to respondents to avoid any false impression that was likely to be created in the minds of respondents. Furthermore, the purpose of the study was also explained to respondents for them to get clear understanding of the study. The nature of the questionnaires was also made known to the respondents for them to have a clear picture and an idea about how to answer the questionnaires fully.

To assure respondents of confidentiality, respondents were informed and assured that the information given by them would solely be used for the purpose of the study. Furthermore, respondents were informed that the information given would not be revealed to any third party for any purpose. Lastly, all forms of identification of respondents, including respondents’ names, addresses and telephone numbers, were avoided on the questionnaires during the study, in order to assure respondents of anonymity.
Data Processing and Analysis

The data collected was edited and cleaned to remove errors and inconsistencies. The raw data was cleaned and then processed, using the Statistical Product and Service Solutions (SPSS version 21) for windows. The data were analysed using descriptive statistics tools namely: mean, frequency count and percentages. The analysis were done according to the objectives of the study. The results of the study were presented in frequencies, percentages and tables for discussion.
CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The previous chapter looked at the methodology for the study. This chapter seeks to interpret the data analysis and subsequently discuss the findings of the survey as presented in the frequency tables. This will help explain the quantitative and qualitative analysis for easy comprehension.

Background characteristics of SMEs

This section presents results and discusses the background characteristics of the respondents including line of business and years of establishment. Table 1 indicates that the largest number of business ownership in the study is the sole proprietorship. It accounts for 70.9% of the businesses in study area. Companies and partnership constitute 16.5% and 12.6% respectively.

Table 1

<table>
<thead>
<tr>
<th>Forms of business ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>Sole proprietor</td>
</tr>
<tr>
<td>Partnership</td>
</tr>
<tr>
<td>Company</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)
Table 2 presents results of the classification of the businesses into sectors. From the study, majority of the respondents were in the wholesale/retail sector.

Table 2

*Classification of businesses into sectors*

<table>
<thead>
<tr>
<th>Sector</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale/Retail</td>
<td>71</td>
<td>68.9</td>
<td>68.9</td>
</tr>
<tr>
<td>Accommodation/Restaurant</td>
<td>3</td>
<td>2.9</td>
<td>71.8</td>
</tr>
<tr>
<td>Construction</td>
<td>3</td>
<td>2.9</td>
<td>74.8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9</td>
<td>8.7</td>
<td>83.5</td>
</tr>
<tr>
<td>Fuel/Gas</td>
<td>1</td>
<td>1.0</td>
<td>84.5</td>
</tr>
<tr>
<td>Transport</td>
<td>5</td>
<td>4.9</td>
<td>89.3</td>
</tr>
<tr>
<td>Finance/Business Services</td>
<td>11</td>
<td>10.7</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>103</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

The analysis revealed that wholesale/retail sector dominates the entire business in the study. Wholesale/retail businesses form up to 68.9% of all the businesses under the study. Next, in terms of dominance, is the finance/business service, which accounts for 10.7% of the market under study. The manufacturing sector accounts for 8.7%. The transportation sector follows with 4.9%, whereas accommodation/restaurant and constructions sectors
accounts for 2.9% each. The fuel/gas sector lies at the bottom with just 1%. This confirms report that the wholesale and retail industry is the largest in the Metropolis, engaging a quarter (25.1%) of the employed population (GSS, 2010).

The number of years the businesses had existed is presented in Table 3. The analysis depicts that most of the businesses in the study have existed within 1 to 5 years. The percentage of such businesses is 35.9% followed closely by businesses that have been in existence for 6 to 10 years who account for 34%. Businesses that have existed for 11 years and above were 23.4% out the sampled businesses. The least were businesses that have existed for less than a year, which accounted for 6.8%.

Table 3

*Number of years business has existed*

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 1 year</td>
<td>7</td>
<td>6.8</td>
<td>6.8</td>
</tr>
<tr>
<td>1 - 5 years</td>
<td>37</td>
<td>35.9</td>
<td>42.7</td>
</tr>
<tr>
<td>6 - 10 years</td>
<td>35</td>
<td>34.0</td>
<td>76.7</td>
</tr>
<tr>
<td>11 years &amp; above</td>
<td>24</td>
<td>23.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>103</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)
Price Related Results

Table 4 shows results of price setters in the organisation. The study shows that owner managers were most often responsible for setting prices in the organization. According to the respondents, 54.9% of all prices set in their organizations were done by the owner managers.

Wholesaler/producers/suppliers accounted for 26.5% of persons responsible for setting prices. Managers account for 12.7% and government had the least option of 5.9%.

Table 4

Price setters in the organization

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager</td>
<td>13</td>
<td>12.7</td>
<td>12.7</td>
</tr>
<tr>
<td>Owner Manager</td>
<td>56</td>
<td>54.9</td>
<td>67.6</td>
</tr>
<tr>
<td>Wholesalers/Producers/Supplier</td>
<td>27</td>
<td>26.5</td>
<td>94.1</td>
</tr>
<tr>
<td>Government</td>
<td>6</td>
<td>5.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>102</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

To get an insight into how SMEs price their products, it is paramount to know the person who is responsible for the pricing in the various organisations. The price setter in the organization must have an understanding of how significantly price and pricing decisions impact on the organization. According to Hornby and Macleod (1996), Pricing decisions draw from many
sources and are vitally important to the competitive success of enterprises. Owner managers are the people who double as owners as well as managers in the organization. Majority of the owners of the SMEs used in the study manage their own businesses and so they are solely responsible for setting prices in the organization.

The results on the impact of market forces on SMEs pricing are presented in Table 5. Observably, most businesses allow market forces to determine prices of their products. According to the study, 52% of businesses used in the study allow market forces to determine prices. From economics perspective, prices set by the free hands of demand and supply is the efficient price for businesses operated.

Table 5

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>52</td>
<td>52.0</td>
<td>52.0</td>
</tr>
<tr>
<td>No</td>
<td>48</td>
<td>48.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

Most of the SMEs used in the survey operate in the competitive market and so they rely on market forces to set prices. As shown above, another large portion of respondents, making 48%, do not allow market forces to determine price. According to Barrow et al (2005), this mistake occurs as a result of SMEs yielding to temptation to price below that of competitors.
The importance of cost factors in pricing was investigated in the study. Table 6 shows that majority of the respondents in the study deem the cost factor in pricing products as very important. More than half (55.3%) of the respondents in the study said that the cost factor in pricing products were very important. Also, 36.9 percent of the respondents indicated that the cost factor in pricing products were important. However, 1% of the respondents in the study indicated that the cost factor in pricing products was not important at all.

Table 6

Importance of the cost factor in pricing products

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important at all</td>
<td>1</td>
<td>1.0</td>
</tr>
<tr>
<td>Least important</td>
<td>7</td>
<td>6.8</td>
</tr>
<tr>
<td>Important</td>
<td>38</td>
<td>36.9</td>
</tr>
<tr>
<td>Very important</td>
<td>57</td>
<td>55.3</td>
</tr>
<tr>
<td>Total</td>
<td>103</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

The cost factor in pricing products encompasses adding a markup to the cost price to arrive at a selling price. This was quite easy for most of the SMEs in the study to adopt in setting their prices. The outcome was confirmed by literature, as Avlonitis and Indounas (2005) state that SMEs usually base their
price on the principle of costs, the idea being to recover costs and make a profit.

Results on the importance of competitors' price factor in pricing of SMEs products are presented in Table 7. Competitors' price was considered useful in pricing decisions.

Table 7

<table>
<thead>
<tr>
<th>Importance</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important at all</td>
<td>11</td>
<td>11.3</td>
<td>11.3</td>
</tr>
<tr>
<td>Least important</td>
<td>17</td>
<td>17.5</td>
<td>28.9</td>
</tr>
<tr>
<td>Important</td>
<td>25</td>
<td>25.8</td>
<td>54.6</td>
</tr>
<tr>
<td>Very important</td>
<td>44</td>
<td>45.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>97</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

The study showed that 45.4 percent of the respondents in the study accepted that the competitors' price factor in pricing products was very important. Only 25.8 percent of the respondents in the study also claim that the competitors' price factor in pricing products is important. In contrast, 17.5 percent of the respondents believe that the competitors' price factor in pricing products was least important. The competitors' price factor in pricing products was seen as not important at all by 11.3 percent of the respondents in the study. The abundance of SMEs in every niche of the economy, coupled with...
consumers’ broadened knowledge of products and prices, due to advancement of information communication technology, has undoubtedly created a keen competition among SMEs across the globe. Singh et al (2008) asserted that SMEs are tremendously pressured to sustain their competitiveness. One major area where SMEs are pressured is pricing of their products as against that of their larger competitors (companies). The implication of this phenomenon is that SMEs cannot afford to lose sight nor ignore the prices of their competitors when setting their own prices.

Results of importance of buyers’ behavior in pricing products are presented in Table 8. Majority of the respondents, representing 70.9 percent, saw the buyer behavior in pricing products as very important or important. However, 10.7 percent of the respondents in the study responded that the buyer behavior in pricing products was not important at all.

Table 8

*Importance of the buyer behaviour in pricing products*

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important at all</td>
<td>11</td>
<td>10.7</td>
<td>10.7</td>
</tr>
<tr>
<td>Least important</td>
<td>19</td>
<td>18.4</td>
<td>29.1</td>
</tr>
<tr>
<td>Important</td>
<td>38</td>
<td>36.9</td>
<td>66.0</td>
</tr>
<tr>
<td>Very important</td>
<td>35</td>
<td>34.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>103</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)
Buyers or consumers have become very much aware of products’ value and prices of similar products on the markets across the globe. This is due to the advancement of information communication technology, and the end result is that the behaviour of consumers has become highly unpredictable. SMEs need to understand the buyers’ behaviour in order to stay in business.

Table 9 presents results of the importance of economic factors in pricing products in SMEs. The results showed that 71.9 percent of the respondents in the study accepted that economic climate factor in pricing products were very important or important. Conversely, 8.7 percent of the respondents rated it as not important at all.

Table 9

<table>
<thead>
<tr>
<th>Importance of economic climate factor in pricing products</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important at all</td>
<td>9</td>
<td>8.7</td>
<td>8.7</td>
</tr>
<tr>
<td>Least important</td>
<td>20</td>
<td>19.4</td>
<td>28.2</td>
</tr>
<tr>
<td>Important</td>
<td>25</td>
<td>24.3</td>
<td>52.4</td>
</tr>
<tr>
<td>Very important</td>
<td>49</td>
<td>47.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>103</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

A booming economy is good for business, especially SMEs, whereas the opposite applies when the economy is in recession. SMEs cannot afford to worsen their plight by setting the wrong prices during a recessionary period. It,
consequently, becomes an appropriate approach for SMEs to set prices by taking into account the reigning economic climate.

Results on the importance of government regulation factor in pricing in SMEs are presented in Table 10. According to the study, 45.6% of the respondents believe that the government regulation in pricing products is very important, while 29.1 percent of the respondents also hold the view that the government regulation factor in pricing products is important.

Table 10

<table>
<thead>
<tr>
<th>Importance of the government regulation factor in pricing products</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important at all</td>
<td>7</td>
<td>6.8</td>
<td>6.8</td>
</tr>
<tr>
<td>Least important</td>
<td>19</td>
<td>18.4</td>
<td>25.2</td>
</tr>
<tr>
<td>Important</td>
<td>30</td>
<td>29.1</td>
<td>54.4</td>
</tr>
<tr>
<td>Very important</td>
<td>47</td>
<td>45.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>103</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

Respondents that believe that the government regulation factor was least important was 18.4 percent, and 6.8 percent of the respondents asserted that the government regulation factor in pricing products was not important at all.

Table 11 presents results of the pricing objectives used by the respondents. The study shows that 37.4% of the businesses in the study area use market share target as their pricing objective, thus, gaining market share
by increasing sales volume. This means that majority of the businesses’
pricing objective is market share target. The next pricing objective that most
of the businesses in the study area used was target return on investment,
accounting for 31.3%.

Table 11

<table>
<thead>
<tr>
<th>Pricing objectives</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target return on investment</td>
<td>31</td>
<td>31.3</td>
<td>31.3</td>
</tr>
<tr>
<td>Target markup on cost</td>
<td>15</td>
<td>15.2</td>
<td>46.5</td>
</tr>
<tr>
<td>Price stabilization</td>
<td>14</td>
<td>14.1</td>
<td>60.6</td>
</tr>
<tr>
<td>Market share target</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Gaining market share by increasing sales volume)</td>
<td>37</td>
<td>37.4</td>
<td>98.0</td>
</tr>
<tr>
<td>Matching competitors</td>
<td>2</td>
<td>2.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>99</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

Target markup on cost and price stabilisation was used by 15.2% and
14% of the businesses in the study area. The least used pricing objective, per
this study, was matching competitors, which accounts for 2%. Most of the
SMEs used in the study seek to increase sales volume in order to widen their
market share and future profit. The few empirical studies that have been
conducted on the issue of pricing objectives in the services sector show that
quantitative objective such as increasing market share tend to be regarded as
more important than qualitative ones (Schaper & Volery, 2004).
Results of the price tactic used SMEs are presented in Table 12. Pricing relative to competitors was the most preferred tactics used by the SMEs.

Table 12

Price tactics

<table>
<thead>
<tr>
<th>Price tactic</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing relative</td>
<td>38</td>
<td>90.5</td>
<td>90.5</td>
</tr>
<tr>
<td>to competition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quantity discount</td>
<td>1</td>
<td>2.4</td>
<td>92.9</td>
</tr>
<tr>
<td>Trade discount</td>
<td>2</td>
<td>4.8</td>
<td>97.6</td>
</tr>
<tr>
<td>Cash discount</td>
<td>1</td>
<td>2.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

Pricing relative to competition is the most widely used pricing tactics deployed by the businesses in the study area with 90.5%. Some of the businesses also use trade discount as their pricing tactics. Trade discount was the second widely used price tactic with 4.8%. On the other hand, cash discount and quantity discount were not popular, as they accounted for 2.4% each. It is tactically prudent to make the prices of competitors the pivot around which the prices of the products and services of the business are set. According to Kuratko and Hodgetts (2004), many entrepreneurs, even after conducting marketing research, are unsure of how to price their products. Key among the reasons for this is the degree of competitive pressure. Keen competitions among SMEs as well as unfavourable competition staged by
giant companies make it imperative for any SME seeking to survive and grow to deploy a pricing tactic that is highly centered on the prices of competitors.

Table 13 presents results of pricing strategies deployed by SMEs when launching new products. The study revealed that 61.6% of the respondents businesses in the study deploy both skimming and penetration pricing when launching new products. Also, 32.3% of the respondents claim that they used only penetration pricing as a pricing strategy when launching a new product. Those who used skimming pricing when launching a new product were 6.1% of the respondents studied.

Table 13

<table>
<thead>
<tr>
<th>Pricing strategy deployed when launching a new product</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charge the highest price possible (Skimming)</td>
<td>6</td>
<td>6.1</td>
<td>6.1</td>
</tr>
<tr>
<td>Charge the lowest price possible (penetration)</td>
<td>32</td>
<td>32.3</td>
<td>38.4</td>
</tr>
<tr>
<td>Both skimming and penetration pricing</td>
<td>61</td>
<td>61.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>99</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

A major factor that contributes to the acceptance of a new product ushered into the market is the price along which the price comes. Majority of SMEs in the survey uses both pricing strategies when launching new product in the market. This is in contrast to Kuratko and Hodgetts' (2004) view that the
penetration price should be used by SMEs in order to maintain a market position and produce profits.

Opinions on the highest revenue earner for the business were investigated, and the results are presented in Table 14. Majority of the respondents in the study assert that price is the highest revenue earner of the business. This assertion is claimed by 95.1% of the respondents in the study, as they accepted price as being the highest revenue earner of the business. However, 2.0% of the respondents in the study believe that price being the highest revenue earner of the business is not important at all.

Table 14

<table>
<thead>
<tr>
<th>Price is the highest revenue earner of the business</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important at all</td>
<td>2</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Least important</td>
<td>3</td>
<td>2.9</td>
<td>4.9</td>
</tr>
<tr>
<td>Important</td>
<td>45</td>
<td>44.1</td>
<td>49.0</td>
</tr>
<tr>
<td>Very important</td>
<td>52</td>
<td>51.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>102</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

The findings support claims in the literature. Jain (2001) state that pricing is an important decision in any business, be it domestic or international, because it directly affects revenue and thus profitability. Marx et al. (1998) also state that price is of critical importance to management, because it represents a large portion of the revenue of an enterprise.
This section of the paper sought to assess whether price helps contribute to the overall strategy of the business. The results in Table 15 show that majority of the respondents acknowledge that price helps contribute to the overall strategy of the business. This assertion is self-evident, as 87.2 percent of the respondents selected very important or important as their responses.

Table 15

<table>
<thead>
<tr>
<th>Price helps contribute to the overall strategy of the business</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important at all</td>
<td>1</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Least important</td>
<td>12</td>
<td>11.8</td>
<td>12.7</td>
</tr>
<tr>
<td>Important</td>
<td>45</td>
<td>44.1</td>
<td>56.9</td>
</tr>
<tr>
<td>Very important</td>
<td>44</td>
<td>43.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>102</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

Nonetheless, 12.8 percent of the respondents did not support that price contribute to the overall strategy of their business. Pricing decisions are drawn from many sources and are vitally important to the strategy and competitive success of any enterprises (Hornby & Macleod, 2010).

Results of an assessment done to find out whether price could be used to prevent competitors from entering the industry are presented in Table 16. The study shows that 51.5 percent of the respondents think price is an important tool to prevent competitor from entering the industry. Also, 26.3 percent of respondents consider it as very important.
Table 16

*Price could be used as a tool to prevent competitors from entering the industry*

<table>
<thead>
<tr>
<th>Importance</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important at all</td>
<td>10.1</td>
<td>10.1</td>
</tr>
<tr>
<td>Least important</td>
<td>12.1</td>
<td>22.2</td>
</tr>
<tr>
<td>Important</td>
<td>51.5</td>
<td>73.7</td>
</tr>
<tr>
<td>Very important</td>
<td>26.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

This indicates that a majority of the respondents acknowledge that price could be used as a tool to prevent competitors from entering the industry. Few of the respondents in the study hold an opposing opinion. These respondents accounted for 22.2 percent.

Table 17 presents results on the importance of cost-based pricing factor being used for the recovery of all cost of a product. The results show that 95.9 percent of the respondents in the study deem cost recovery as very important or important in their pricing decision. A small section of the respondents, constituting 3.8 percent, indicated that it was either least important or not important at all.
Table 17  
*Importance of Cost-based pricing factor: Recovery of all cost*

<table>
<thead>
<tr>
<th>Importance</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important at all</td>
<td>2</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Least important</td>
<td>2</td>
<td>2.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Important</td>
<td>33</td>
<td>33.3</td>
<td>37.4</td>
</tr>
<tr>
<td>Very important</td>
<td>62</td>
<td>62.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>99</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

The finding is confirmed by Meidan and Chin's (1995) investigation of the pricing practices of 45 building societies operating in the UK, which concluded that more than 80% of the companies in their sample considered the objectives associated with cost recovery as being the most important ones.

The importance of cost-based pricing factor used to determine profit or loss are presented in Table 18. The study revealed that 70.4% of the respondents considered profit or loss motives as an important factor in cost based pricing. A small section of respondents, constituting 1.0 percent, however, consider it as least important.
Table 18

*Importance of Cost-based pricing factor: Determination of profit or loss*

<table>
<thead>
<tr>
<th>Importance</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Least important</td>
<td>1</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Important</td>
<td>28</td>
<td>28.6</td>
<td>29.6</td>
</tr>
<tr>
<td>Very important</td>
<td>69</td>
<td>70.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

Avlonitis and Indounas (2005) state that the fastest and most effective way for an enterprise to achieve maximum profit is to get its price right. The above finding, however, contrasts Hatten’s (1997) view that small businesses arouse purchase by offering a product at a lowest possible price even though the pricing decision is critical to the success of a business.

Results of an assessment of price as an indicator of customers’ perceived value are presented in Table 19. The results revealed that 79.6 percent of the respondents ranked it as either very important or important. They felt that price could influence customers’ perception of the value of a product.
Table 19

Importance of Buyer-based pricing factor: Indication of customer’s perception of value

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important at all</td>
<td>5</td>
<td>5.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Least important</td>
<td>15</td>
<td>15.3</td>
<td>20.4</td>
</tr>
<tr>
<td>Important</td>
<td>37</td>
<td>37.8</td>
<td>58.2</td>
</tr>
<tr>
<td>Very important</td>
<td>41</td>
<td>41.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

However, 5.1% said that it was not important at all. According to Nieman and Bennett (2002), in some instances, where consumers find it difficult to evaluate the quality of a product prior to purchasing it, the consumers use price as an indicator of quality.

Table 20 presents results on the importance of ruling price to the respondents. The results showed that 88.7 percent of the respondents consider it as very important or important factor to pricing in their business. In contrast, 7.2 percent of the respondents said it was least important and 4.1 percent said that it was not important at all.
Table 20

Importance of Competition-based pricing factor: Make pricing easier as there is ruling price

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important at all</td>
<td>4</td>
<td>3.9</td>
<td>4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Least important</td>
<td>7</td>
<td>6.8</td>
<td>7.2</td>
<td>11.3</td>
</tr>
<tr>
<td>Important</td>
<td>48</td>
<td>46.6</td>
<td>49.5</td>
<td>60.8</td>
</tr>
<tr>
<td>Very important</td>
<td>38</td>
<td>36.9</td>
<td>39.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>97</td>
<td>94.2</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey, Asare (2015)

The results support the opinion shared by Palmer (1998) that, in markets which are characterised by a fairly homogeneous product offering, demand is so sensitive to price that an enterprise would risk losing most of its business if it charged just a small amount more than its competitors.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This presents a summary of the study, conclusions drawn from the findings, and provides recommendations aimed at enhancing the approach used by SMEs in pricing their products in the country at large.

Summary

The study sought to assess the pricing methods used by SMEs in the Cape Coast Metropolis. Related literature was reviewed and the views of owners and/or managers of SMEs were sought through administered questionnaires. A questionnaire was designed and administered to 103 SMEs in the formal sector within the Cape Coast Metropolis. Data gathered from the field was processed with SPSS version 21 and the results presented in frequencies, percentages and tables. Based on the results of the study discussed in the previous chapter, the following key findings were made.

The first objective sought to identify who was responsible for pricing in the SMEs. The study found out that in most of the firms, owner managers were solely responsible for pricing their products.

The second objective also sought to describe the importance of the factors influencing pricing in SME's. The study revealed that majority of the SMEs considered market forces, economic climate, cost factors and government regulations as major determinant and important factors considered when determining the price of their products. Most of the respondents
however, considered competitors' price and buyer behaviour as least important in determining the price of their products.

With the pricing methods used by the SMEs in the Metropolis, the study further established that market share target was the most used pricing method by the respondents, followed closely by target return on investment. Majority of the respondents used both skimming and penetration pricing as their strategy. The least used pricing strategy by the respondents was the skimming price only.

The last objective sought to analyze the importance of pricing to SMEs. Majority of the respondents considered pricing as the highest revenue earner and very important to their businesses. The majority further indicated that pricing helped to prevent competitors from entering the industry, helped their businesses to launch new products, helped their businesses to establish brand differentiation, helped their businesses to meet its objectives, and helped their businesses to implement its overall tactics. With respect to cost, majority of the respondents indicated that pricing helps their business in recovering their cost.

Conclusions

The findings revealed that owner-managers are most often responsible for setting prices in the organization. This can be attributed to the fact that most SME owners manage their own businesses. Then, again, the findings of the study also showed that some SMEs have managers who are in charge of the day-to-day running of the business. These managers work for and on behalf of the owners and are also allowed to take pricing decisions.
The study also revealed that SMEs allow the free hands of demand and supply to determine prices on the market. Competitors, economic and government regulations were among the factors most of the firms considered as important in taking pricing decisions. Majority of the respondents, according to the findings of the research, asserted that the most widely pricing approach employed is the cost factor. According to the respondents, it was easy because they just add a profit margin to the cost of the product to arrive at the price. However, for the best results, businesses must consider blending all the available pricing approaches. This will ensure that the weakness of a particular pricing approach is catered for by the other. Sticking to a particular pricing approach does not guarantee a successful pricing method in this dynamic business environment.

In respect to the pricing methods, the study showed that majority of the SMEs aim at increasing market share. Gaining market share by increasing sales volume is the driving force of their pricing objective. Next was target return on investment. To successfully achieve any of the pricing objectives, the business requires a well thought through pricing decision that can create a compatible price for their products. According to the findings of the survey, SMEs combine both penetration and skimming pricing when launching a new product.

The study established the importance of pricing to SMEs, especially with regard to revenue. Majority of the respondents in the study believe that price is the highest revenue earner of their business. Among the numerous activities undertaken by SMEs, pricing was the major contributor to revenue. The survival, sustainability and growth of most business depend on its ability
to generate enough revenue to cover its cost. It also came out strongly that most of the firms use price as a strategy to prevent competitors from entering the business. Price can be said to improve the customer’s perception of the firm’s product. It can be concluded that price ensures the continuous existence of businesses as the empirical findings of the study established that price help the business to recover its cost.

**Recommendations**

Based on the findings and conclusions of the study, the following recommendations were made: Managers should complement their knowledge and experience with that of experts in the field of pricing. The support of experts such as cost management experts or financial accountants should be sought when setting prices. The right price will always trigger positive response from customers.

Managers should not only stick to one particular pricing approach. They should ensure that decisions on pricing approach incorporates the cost factor, competitors price factor, and not forgetting the consumer behavior. Due to the ever-changing nature of the business environment, a single pricing approach may not be effective and efficient in attaining the business’ objectives. Managers must consider the prices of nearby competitors when setting their own prices, especially for products that are identical in all respect. It is also very prudent for managers to ensure that the prices they set do not significantly deviate from the industry’s average prices. Businesses should also, try to differentiate their products from that of their competitors. Product differentiation is particularly essential when products offered by the business
are very identical to that of competitors. A unique product can attract a higher but justifiable price.

Customers are the lifeblood of every business and so their satisfaction should be treated as a priority. SMEs are, therefore, entreated not to over-emphasize price as a channel for revenue generation, but see to it that customers’ needs are met. This can be achieved by giving customers value for their money. A satisfied customer is automatically compensated regardless of the price he or she paid.

**Suggestions for future research**

This study leads to some major future research areas. This study has assessed the pricing methods used among SMEs in the Cape Coast Metropolis. Future research should focus on the impact of knowledge of customers on pricing and pricing decisions.
REFERENCES


APPENDIX

QUESTIONNAIRE FOR SMES

This questionnaire is part of a research study undertaken to assess the pricing methods used by Small and Medium-Sized Enterprises. I will be grateful if you could provide answers to the questions below. Please be sincere in your response because information provided will be used only for academic purpose and confidentiality is ensured.

SECTION A: Background characteristics of SMEs

1. What form of business are you in?
   A. Sole Proprietor (   )
   B. Partnership (   )
   C. Company (   )
   D. Other (Specify) (   )

2. Which of these sectors would you classify your business?
   A. Agriculture (   )
   B. Wholesale /Retail (   )
   C. Accommodation / Restaurant (   )
   D. Construction (   )
   E. Manufacturing (   )
   F. Fuel/ Gas (   )
   G. Transport (   )
   H. Finance / Business Services (   )
   I. Other (Specify) (   )

3. How long has your business existed?
   A. Below 1 year (   )
B. 1-5 years ( )
C. 6 – 10 years ( )
D. 11 years & above ( )

SECTION B: Pricing related questions.

4. Who is responsible for pricing in your organization?
   A. Manager ( )
   B. Owner Manager ( )
   C. Wholesalers/ Producers / Supplier ( )
   D. Consultant(s) ( )
   E. Government ( )
   F. Other (Specify) ( )

5. Does your business have a documented pricing policy?
   YES [ ] NO [ ]

6. Do you allow market forces (demand & supply) to determine prices?
   YES [ ] NO [ ]

7. Which of the following are your pricing objectives?
   A. Target return on investment ( )
   B. Target markup on cost ( )
   C. Price stabilization ( )
   D. Market share target(Gaining market share by increasing sales volume) ( )
   E. Matching competitor’s ( )
   F. Other (Specify) ( )
8. Which of the following price tactics do you use in your business? You may tick more than one, if applicable to you.

A. Pricing relative to competition ( )
B. Uniformity of prices to different buyers ( )
C. Quantity discount ( )
D. Trade discount ( )
E. Cash discount ( )
F. Geographical pricing ( )

9. Please indicate by ticking in a scale of 1 to 4 (where 1= not important at all and 4 = very important) how important are the following factors in pricing your products.

<table>
<thead>
<tr>
<th></th>
<th>Not important at all 1</th>
<th>Least Important 2</th>
<th>Important 3</th>
<th>Very Important 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B Competitors price</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C Buyer behavior</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D Economic climate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E Government regulation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. What pricing strategy does your business use when launching a new product?

A. Charge the highest price possible (Skimming) ( )
B. Charge the lowest price possible (penetration) ( )
C. Both skimming & penetration pricing

D. Other (Specify)

11. Please indicate by ticking in a scale of 1 to 4 (where 1 = not important at all and 4 = very important) the degree of importance of the following factors to pricing in your business.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Not important at all 1</th>
<th>Least important 2</th>
<th>Important 3</th>
<th>Very Important 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Price is the highest revenue earner for the business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B Price helps contribute to the overall strategy of the business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C Price helps the business to recover its cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D Price could be used as a tool to prevent competitors from entering the industry.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. Please indicate by ticking in a scale of 1 to 4 (where 1 = not important at all and 4 = very important) the degree of importance cost recovery as a cost- based pricing factors to your business.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Not important at all 1</th>
<th>Least Important 2</th>
<th>Important 3</th>
<th>Very Important 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recovery of all cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
13. Please indicate by ticking in a scale of 1 to 4 (where 1 = not important at all and 4 = very important) the degree of importance of customers perception of value as a buyer-based pricing factors to your business.

<table>
<thead>
<tr>
<th></th>
<th>Not important at all 1</th>
<th>Least Important 2</th>
<th>Important 3</th>
<th>Very Important 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indication of customers perception of value</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

14. Please indicate by ticking in a scale of 1 to 4 (where 1 = not important at all and 4 = very important) the degree of importance of ruling price as a competition-based pricing factors to your business.

<table>
<thead>
<tr>
<th></th>
<th>Not important at all 1</th>
<th>Least Important 2</th>
<th>Important 3</th>
<th>Very Important 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Make pricing easier as there is ruling price.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>