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Strategic Pricing and Firm Success: A Study of SMEs in Zimbabwe

Faitira Manuere*, Edson Gwangwava and Mirriam Jengeta

Chinhoyi, off Chirundu Road, Zimbabwe
School of Business Sciences and Management
Chinhoyi University of Technology, 7724 Chinhoyi, Zimbabwe

**Corresponding author's email: manuerefaitira [AT] gmail.com*

ABSTRACT---- ***Small to medium enterprises in Zimbabwe face a number of challenges. Access to financing continues to be a significant impediment to the creation, survival and growth of SMEs. SMEs are perceived to be a high risk profile by financial institutions. Managerial skills in handling finances and other technical requirements are often limited. This study focuses on yet another critical factor that determines the success and viability of any business. It is strategic pricing. This factor has received very little attention from researches. SMEs have multiple costs such as licensing, property fees, electricity, administrative costs, mailings and advertising. Strategic pricing means analysing diverse factors and deciding on a price that will cover costs of goods, overhead and gross margin. To that end, this study wishes to show the relationship between strategic pricing and firm performance in the context of Zimbabwe. Thus the relationship between strategic pricing and firm performance is measured using the following business perspectives, namely, profit maximisation, sales maximisation, customer satisfaction, survival, liquidity achievement, price differentiation and cost coverage. The questionnaire approach was used to collect data from a convenient sample of 50 SMEs drawn from all sectors of the economy. The study was conducted in Gokwe District in the Midlands Province. The SPSS Version 20 Software was used to analyse data. The results of the study show that there is a positive relationship between strategic pricing and firm performance (r = 0,654, p = 0, 01).***

Keywords--- Strategic pricing, Firm performance, Customer satisfaction and Small to Medium Enterprises

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1. INTRODUCTION

Small to medium enterprises (SMEs) are important to almost all economies of the world, but especially those in developing countries, where employment and income distribution challenges are experienced most. SMEs contribute to output and to the creation of "decent" jobs and they are a nursery for the larger firms of the future. SMEs contribute directly and often significantly to aggregate savings and investment, and they are involved in the development of appropriate technology. However, the survival rate of most of the SMEs in Zimbabwe is very low as 80% of them die before the second generation (Megginson et al 2003). In some literature on SMEs causes of failure, it is stated that poor pricing strategies contribute significantly to the failure rate of SMEs (Culkin and Smith, 2000). Strategic pricing provides the direction for the improvement of business activities of the organisation (Deakens, 1999).

Effective pricing strategies are known to improve the performance of an organisation (Poister, 2010). Therefore strategic planning is critical to the development of a strong and vibrant SMEs sector in developing countries (Anderson and Sohal, 1999). Drejer, and Anders (2002) argue that strategic pricing is a core competency for the firm and as such it has a future context for the firm. Core competencies are capabilities or technologies in the firm, which when applied on corporate operational processes make a critical contribution to corporate competitiveness (Edgar and Lockwood, 2012).

Some authors suggest that firm prices must reflect the value – added content of the commodities, including the services that the company markets (Stock and Lambert, 1993). Thus the value added dimension in strategic pricing is described in four areas, such as, product availability, form utility, research level and quality (Stock and Lambert, 1993).

The steps in making a pricing policy are cyclical. The steps are, 1) crafting pricing objectives, 2) determining demand, 3) estimating costs, 4) competitive analysis, 5) selecting a pricing method and 6) setting the final price (Kotler and Armstrong, 2008).When the pricing policy has been crafted, the next stage is to craft pricing plan. The pricing plan is similar to the marketing plan. It takes time to develop and requires the effort and personal commitment of all stakeholders in the company (Dolan and Simon, 1996). The pricing strategy is part of the pricing plan and it is used to identify consumer segments and competitions at which pricing, strategies are directed (Kotler, 2008). Pricing strategies are complemented by the pricing objectives of the firm. Pricing objectives can be expressed as, percentage changes in overall prices for the coming year, profit margin goals, sales volume levels, return on investment, and market penetration gains for the following year (Hinterhuber, 2008). The final section in the development of the pricing plan is pricing control and review. Controls would include, cost recovery measures, product margin levels, sales level targets, and market share positions (Hinterhuber, 2008). Therefore strategic pricing is important for the success of any business. In fact, the high failure rate among SMEs is attributed to the lack of strategic pricing (Hinterhuber, 2008).

Literature Review

The first thing in pricing decisions is the creation of pricing objectives (Hinterhuber, 2008).Pricing objectives help management to make relevant decisions on developing pricing methods and strategies. Thus, a good understanding of price objectives helps management to create the necessary steps in the pricing process.

Perreault et al (2008), suggest three categories of pricing objectives. These are, profit oriented objectives, sales oriented objectives, and status-quo oriented objectives. Profit oriented objectives are meant to realise a target return on investment, sales objectives are meant to increase sales which status-quo objectives are meant to help the company to either match or exceed competition in the environment (Samiee, 1987; Myers et al, 2002). Pricing objectives are either quantitative or qualitative in nature. Quantitative objectives can be measured directly and refer to profits, sales and costs (Indounas, 2004). Qualitative objectives result in the achievement of customer satisfaction, company reputation and repeated purchases (Indounas, 2004).

Parity – pricing

The existence of international trade and globalisation has increased the need for quality products and services. SMEs have not been spared. They have to produce quality goods and services to survive global competition. Therefore SMEs are under pressure to consider and appreciate prices set by competitor firms. The doctrine behind parity-pricing is to come up with a prime regime structure comparable to the prices being charged by competitors. The firm's ultimate success or failure depends on its ability to position itself effectively vis-a-vis other firms seeking to serve the same market and in positioning itself the firm should be able to enter into relationships with partners that can enhance its competitiveness(Yan and Wang,2010). Thus competitive analysis allows the firm to identify the primary competitor.

Our price = Factor X key Competitor's price

The applied factor depends upon the entire marketing strategy of the company. Any factor less than 1, 0 means that the primary competitor is categorically being undercut. However, parity-pricing models have been known for creating and encouraging unnecessary price wars. A factor greater than 1, 0 may not generate the same volume of sales compared to the use of the factor below 1, 0. A hypothetical situation may be used to demonstrate the use of parity-pricing by companies. In our case, we are in the business of making computer hardware products. Our company is known by the name 'IT Mintos'. IT Mintos has isolated 'Manuere Digitales' as the primary competitor in the industry. Parity-pricing then determines all that should be charged following the changes effected by the primary competitor to its prices. The ratio of IT Mintos' price regime must be equal to the primary competitor's price regime. The factor to be applied is therefore:

$$\textbf{Factor} = \frac{\textbf{Our price last year}}{\textbf{Key competitor's price last year}}$$

In this case, the price would be computed as is shown in **Table1,** below:

	Market Share	**Price last year**	**Revised Price**
Company X	47 %	$700	$730
Company Y	21%	$600	$695
Company V(us)	7%	$500	$521
Company B	5%	$400	$400
Company C	3%	$800	$800

Source: Prepared for this study

$$\textbf{Factor} = \frac{\textbf{500}}{\textbf{700}} = \textbf{0,714}$$

Let us say that the primary competitor has adjusted her price to $730, our revised price is therefore calculated thus:

Our new price = 0,714 x 730 = $521

Suppose the primary competitor decides to increase her price, it means that we also increase our price. This approach has its own merits. If competitors follow price changes in the market place, it means that price wars are eliminated and differences in prices are insignificant. Parity-pricing models require that there is a primary competitor and that the primary competitor becomes the benchmark for other firms to consider as their primary competitor. The benchmark firm becomes the price leader and eventually the market share leader in the market place (Krishnan et al, 1999).

Strategic Pricing as a Business Model

The BusinessDictionary.com defines a business model as, "Description of means and methods a firm employs to earn the revenue projected in its plans. It views business as a system and answers the question, 'How are we going to make money to survive and grow?" Venkatraman and Henderson (1998) contend that, "Business model is a coordinated plan to design strategy along the customer interaction, asset configuration and knowledge leverage vectors." Amit and Zott (2001) argue that, "Business model depicts the content, structure and governance of transactions designed to create value through the exploitations of business opportunities." Therefore strategic pricing is a business model, since it involves capturing value for customers to create profits and customer equity.

The conceptual framework

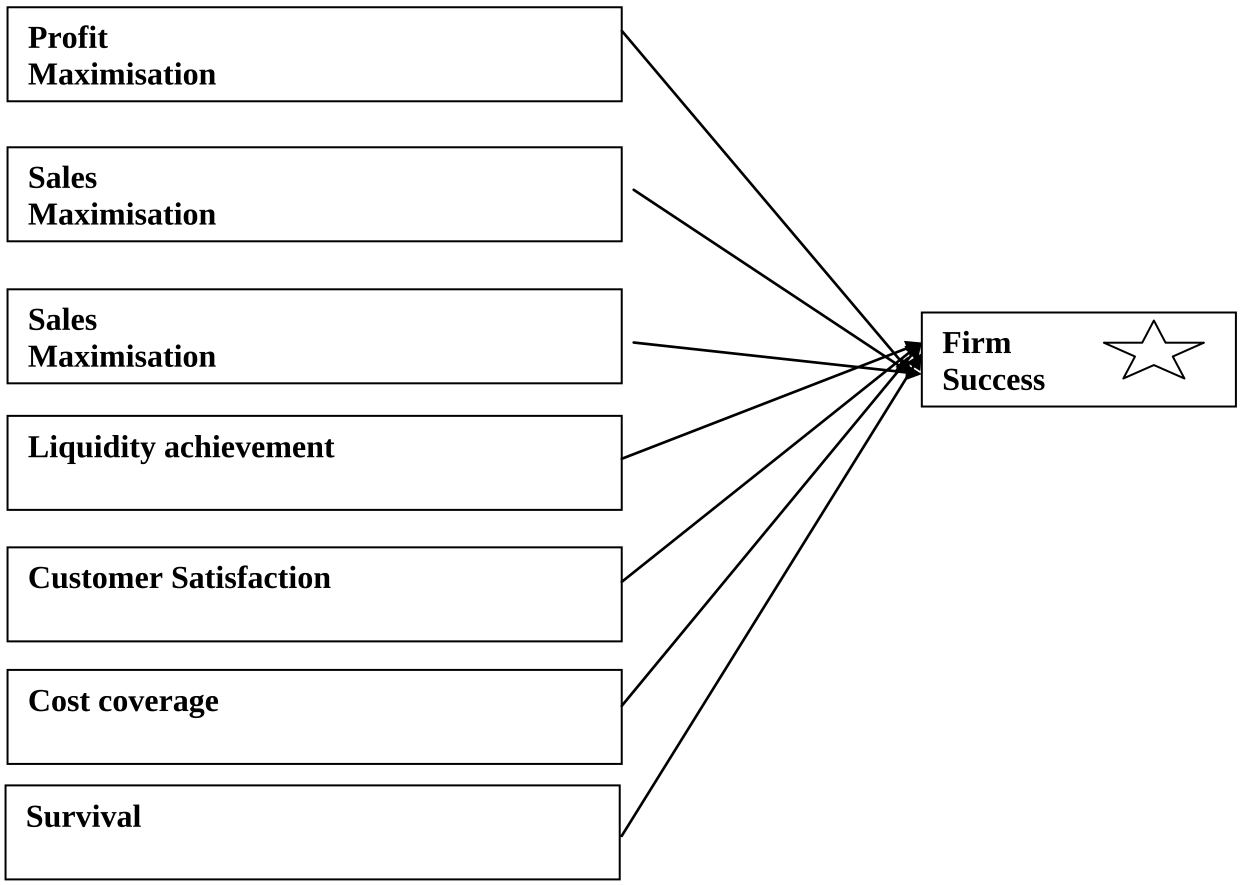

Figure 3: The conceptual framework for firm success.

2. THE RESEARCH METHODOLOGY

The quantitative methodology was used for this study. Accordingly, a questionnaire was constructed to collect data on the science of strategic pricing and the seven perspectives of firm success. The perspectives are; profit maximisation, sales maximisation, customer satisfaction, survival, liquidity achievement, price differentiation and cost average. A total of 50 questionnaires were administered to 50 respondents and a hundred percent response rate was achievable. The respondents were randomly selected from a list of 350 SMEs in Gokwe District. Data was analyzed using SPSS version20.

Table 1: Models' firm success; Means and Standard Deviations.

Models of Firm Success	**Mean**	**SD**
Profit maximisation	2.96	0.66
Sales maximisation	3.01	0.57
Customer satisfaction	2.87	0.78
Survival	3.20	0.82
Liquidity achievement	3.04	0.74
Price differentiation	2.99	0.67
Cost coverage	3.02	0.44
Firm Success	**3.01**	**0.67**

The measurement scale used was**; a**) strongly Disagree**, b**) Disagree**, c)** Neutral**, d**, Agree**, e**) Strongly agree. The SME average performance is**; mean = 3, 01 and SD = 0.67.** The performance is satisfactory. The survival approach tops the list with the **mean = 3.20** and SD = **0.82.**

The relationship between strategic pricing and firm success.

Table 2: Pearson's Correlation: Strategic pricing and firm success

	Firm Success	
Profit Strategic Pricing	Pearson Correlation	0.587**
	Sig. (2 - tiled)	0,00

**** Correlation is significant at the 0.01 level**

The results show and confirm that there is a significant relationship between strategic pricing and firm success (**r = 0.587, p = 0.00**).
The relationship is positive. This means that strategic pricing in firms is a core - competence and consequently a business model that helps a firm to either match or exceed competition in the industry. The relationship between strategic pricing and the seven business approaches is shown below in Table 3.

Table 3: Correlations: Strategic pricing and the seven business approaches.

		Profit Maximisation	**Sales Maximisation**	**Customer Satisfaction**	**Survival**	**Liquidity Achievement**	**Price differenti-ation**	**Cost Coverage**
STRATEGIC PRICING	**PEARSON CORRELATION**	**0.389****	**0.399****	**0.299****	**0.466****	**0.301**	**0.288**	**0.257***
	Sig (2 - tailed)	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.030**

*** Correlation is significant at the 0.05 level.**
**** Correlation is significant at the 0.01 level.**

The results of Table 3 show that the practice of strategic pricing helps to improve the seven business approaches and ultimately the firm success.

The Multiple Regression Analysis
The multiple regression analysis was carried out by regressing the seven business approaches on the dependent variable, firm success. The aim is to establish the importance of the seven business approaches to firm success. **Table 4,** shows the details.

Table 4: Standardised Coefficients of the Independent Variables.

Independent Variable	Beta	Rank
Survival	0.399	1
Sales maximisation	0.387	2
Profit maximisation	0.383	3
Liquidity achievement	0.257	4
Customer satisfaction	0.296	5
Price differentiation	0.287	6
Cost coverage	0.257	7

Table 4, shows that SMEs consider their survival as the most important variable to firm success (beta = 0.399) and this was ranked first, the second in rank is sales maximisation (beta = 0.387). The increase in sales guarantees the survival of SMEs. The third in rank is profit maximisation (beta = 0.383), fourth in rank, liquidity achievement (beta = 2.57), fifth in rank is customer satisfaction (beta = 0.296), sixth in rank is price differentiation (beta = 2.87) while the last in rank is cost coverage (beta = 0.257) Kaplan and Norton (1982) argue that SMEs are more interested in business survival.

3. CONCLUSION

The survival rate of most SMEs in Zimbabwe is not encouraging, despite the efforts being made by the government to fund and train SMEs managers to adopt the most effective business approaches. Thus, the findings of this study seem to encourage SMEs owners or managers to adopt strategic pricing models in the management practices in order to improve the performance of their business and ultimately to ensure a positive survival rate. SMEs lack technical innovation and managerial competence. They have problems in setting up viable pricing strategies. They have challenges in attracting, and maintaining profitable customers.

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