Influence of Value-Based Pricing on Growth of Small and Medium Enterprises in Imenti North Sub-County, Kenya

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Abstract

SMEs should supply goods and services to clients in both wholesale and retail perspectives, to earn profits. Nevertheless, Kenyan SMEs have been facing poor market access. The purpose of the study was to examine the influence of value-based pricing on growth of small and medium enterprises in Imenti North Sub-County, Kenya. The study adopted a descriptive research design whereby quantitative data was collected using close-ended questionnaires. The target population was 25 SMEs, with 58 managers and 234 officers in marketing, procurement, and finance who were the respondents. Notably, the study adopted a simple random method to identify the sample size from the population to get 30% of the 25 SMEs resulting in 8 SMEs from which the respondents was drawn. Further, the study collected quantitative data in form of a closed-ended questionnaire from 13 marketing managers, 9 procurement managers, 9 finance managers, 39 marketing officers,19 procurement officers, and 13 finance officers making a total of 102 respondents. Further, the study conducted a pilot study at Fairlymatt supermarket and Happy Foods farms limited in Imenti South Sub-County. SPSS software was used for analysis process to provide descriptive and inferential analysis. The results from the questionnaire indicated that 40(49%) participants strongly agreed and 19(23%) agreed that customers had become loyal due to considerations given on every complaint they made (mean-4.24). However, 26(32%) strongly disagreed and 17(21%) disagreed that there were clear communication systems that allowed information to swiftly reach the top management in less time (mean-2.66). Additionally, the correlation of value-based pricing r=0.628 at α < 0.000 and 99% significance level. The study concluded that there was a short turnaround time taken by SMEs to address the various pricing complaints from the clients. That notwithstanding, most value-based pricing decisions made by the senior management did not have a window for discussion with junior staff. The recommendations on value-based pricing are that there should be a policy framework established to expose staff to processes used to determine various prices.

Keywords: *Value-Based pricing, Growth of SMEs, Imenti North Sub-County, Kenya*

1.0 Introduction

Value-based pricing is a type of pricing strategy whereby an SME sets prices based on what the customer acknowledges as the worth of the product or service (Christen et al., 2022). This is whereby a customer approaches an SME and specifies that they would want a product within Kshs 1000 to 10,000. It is then up to the SME to deliver samples of products for the client to select their choice.

Growth in an SME is its ability to begin operations that run successfully for a long period while at the same time ensuring that it consistently becomes profitable and established as a going concern (Ministry of Industrialization, Trade and Enterprise Development [MITED], 2020). Globally in Virginia-America, there has been a lack of qualified staff that can develop pricing models for SMEs (World Bank, 2020). In Arizona, stiff competition from large enterprises who use the advantage of economies of scale to produce goods and services at a much cheaper price in if SMEs were to offer competitive prices, they would close down (Prasanna et al., 2019).

Additionally, in China, there has been low training and development of management teams to develop strategies related to competitive prices (Watts, 2020). In European nations such as Italy, there has been a lack of policy structure in SMEs that provides guidelines on how prices are to be set and their implementation process (British Business Bank, 2019; Masroor & Asim, 2019). Regionally in South Africa, SMEs are now diversifying their products and services ranges to have fair prices that can competitively survive in the market. There have been clear set targets on how prices should be reviewed to be improved annually in Ghana (Kissi et al., 2019). In Tunisia, there have been losses incurred due to inflation hence affecting fixed value of products and services that have overstayed without being sold in cost-based pricing; low-quality products which are excessively priced hence attracting few clienteles (OECD, 2019.

In East African nation such as Ethiopia, there have been an introduction of customer feedback options whereby their preferences on the value of the products are ascertained on time (Zhang & Hagos, 2020). Locally in Kenya there is lack of funding to cater for all production costs hence producing low quality goods whose price is extremely high (International Trade Center [ITC], 2019). Additionally, there have been inefficient marketing structure that have responsible teams of staff to improve sales based on different pricing strategies implemented (Osnao, 2019).

1.1 Problem Statement

SMEs should supply goods and services to clients in both wholesale and retail perspectives, to earn profits (Nagode et al., 2022). Notably, consideration of the target clients, the demand, and the cost of supplying should be keenly attributed when offering competitive prices that are value-based and dynamic (Xu, 2021). This would eventually lead to improved sales and consequently consistent improved growth of the operations (Sirumba, 2019; Tanyi, 2021).

Nevertheless, Kenyan SMEs have been facing poor market access, particularly on their exports due to low quality of products and services that have volatile extortionate prices that are not value-based, competition-based, cost-plus, or dynamic, as compared to other SMEs in other nations (MITED, 2020). As a result, this has led to significant poor growth of SMEs which has been evidenced by the declined deposits at financial institutions such as commercial and microfinance banks. According to CBK (2021), the cash deposits made to commercial banks by SMEs cumulatively had a Kshs 8.2 billion decline from Kshs 585.8 billion in 2017 to Kshs 577.6 billion in 2020. In Microfinance banks, the deposits made by SMEs also declined by Kshs 1.8 billion from Kshs 27.5 billion in 2017 to Kshs 25.7 billion in 2020. Past studies were done on various pricing strategies in SMEs located in Nairobi, Kwale, and Kenya in general with less emphasis on the pricing strategies in SMEs located in Imenti North Sub-County.

1.2 Purpose of the Study

To examine the influence of value-based pricing on growth of small and medium enterprises in Imenti North Sub-County, Kenya.

1.3 Research Hypothesis

H_0: There was no significant effect of value-based pricing on growth of small and medium enterprises in Imenti North Sub-County, Kenya.

2.0 Literature Review

2.1 Theoretical Review

The theory of pricing was initiated by Marshall (1990) and it stated that an equilibrium on market price could be derived at once the demand and supply forces are in perfect competition model assumption. That is, for a specific price to work effectively, it had to come from a point of competition in the market whereby various economic forces are suitably working with each other. The prices set for every demand result in the value equilibrium effect on the supply. The demand could be in terms of price change due to high-quality products, customer loyalty, value communication channels, and diverse brand values. All these elements had a resultant effect on changing the supply nature of any product. In regards to the revelation, it was of significant value that SME staff understood what factors caused a shift in prices such that it would increase the demand for a particular product. If they could regularly create a way to increase the demand resulting in high prices, it was a method that was applied to ensure sustained sales quantities.

2.2 Empirical Review

Christen et al. (2022) examined the applicability of pricing based on value of e-platforms in accommodation industry in the United Kingdom and Austria. The study had a goal of assessing how clients can use different e-platforms to have historical information of the seller and channel brand related to pricing elements, before booking a room, to dictate whether the pricing is high or low. Signal theory was used to explain the concept of the study whereby, Christen et al. (2022) advised that when there was a channel that could provide this limited information, it improved the decision-making ability such that clients are always vigilant in predicting the pricing of the rooms. That notwithstanding, Christen et al. (2022) did not assess the applicability of pricing based on value of e-platforms in manufacturing, food, and processing industries.

Additionally, Zhang and Hagos (2020) conducted a study to examine how the use of a marketing mix improved the competitive ability of Ethiopian SMEs in Bole district. The study randomly selected two hundred SMEs with a seventy-five-response rate. Among the variables assessed, pricing was discussed at length whereby demand (value-based), cost-plus, and competitive pricing were included. Therefore, Zhang and Hagos (2020) established that when SMEs were introducing new products or services, they should maximize the use of demand pricing which was charging a higher price than the normal market rate to attract high-worth clients. However, this was a pricing strategy used only for SMEs that were already in business for a long time and hence wanted to attract high-worth customer loyalty and also make higher profits. For the new SMEs, Zhang and Hagos (2020) suggested use of a penetration pricing strategy. Regrettably, Zhang and Hagos (2020) admitted that the pricing strategies on products and services assessed from Bole could not be replicated in other regions due to influence of culture dynamic marketing environment.

Notably, Ndumia et al. (2020) analyzed how performance of sixty-eight SMEs affiliated with printing in Nairobi was affected by strategies related to marketing. The participants who answered questionnaires were a hundred and thirty-six managers and supervisors in charge of marketing. The results related to value-based pricing indicated that when the SMEs applied value-based pricing by enhancing branding, design, and quality of printouts, it improved the

volume of sales made. However, Ndumia et al. (2020) consulted managers and supervisors and did not include officers.

3.0 Methodology

The study adopted a descriptive research design whereby quantitative data was collected using close-ended questionnaires. The target population was 25 SMEs, with 58 managers and 234 officers in marketing, procurement, and finance who were the respondents. Notably, the study adopted a simple random method to identify the sample size from the population to get 30% of the 25 SMEs resulting in 8 SMEs from which the respondents was drawn. Further, the study collected quantitative data in form of a closed-ended questionnaire from 13 marketing managers, 9 procurement managers, 9 finance managers, 39 marketing officers,19 procurement officers, and 13 finance officers making a total of 102 respondents. Further, the study conducted a pilot study at Fairlymatt supermarket and Happy Foods farms limited in Imenti South Sub-County whose responses were assessed using Cronbach Alpha coefficient to test the reliability of the questionnaires. SPSS software was used for analysis process to provide descriptive and inferential analysis.

4.0 Results and Discussion

4.1 Response Rate

The study sampled 13 marketing managers, 9 procurement managers, 9 finance managers, 39 marketing officers,19 procurement officers, and 13 finance officers making a total of 102 respondents.

Table 1: Response Rate

Respondents	Sampled	Response	Percentage
Marketing Managers	13	9	69%
Procurement Managers	9	7	78%
Finance Managers	9	6	67%
Marketing Officers	39	34	87%
Procurement Officers	19	16	84%
Finance Officers	13	10	77%
Total	102	82	80%

As per Table out of 102 sampled respondents, there were 82 returned questionnaires which is 80%. Therefore, this shows that the study had a high response rate as guided by Mugenda and Mugenda (2003) that when a study has a response rate that is above 70%, they are excellent.

4.2 Reliability Results

The study conducted a pilot study at Fairlymatt supermarket and Happy Foods farms limited in Imenti South Sub-County. Table 2 provides results.

Table 2: *Reliability Results*

Instrument	Cronbach's Alpha	N of Items
Value-Based Pricing	0.845	5
Growth of SMEs	0.869	5
Average	0.857	5

Table 2 shows that the average Cronbach Alpha coefficient was 0.857, which exceeded 0.7. According to Taber (2018), a coefficient of 0.7 to 1 suggests that the instruments are very reliable, whereas a range of less than 0.7 indicates that the instruments are unreliable. As a

result, the questionnaires utilized in the study were reliable, as proved by their coefficient of 0.857.

4.3 Descriptive Results of Growth of SMEs

Growth of SMEs was the dependent variable and it had indicators such as revenue, customer numbers, staff turnover, organization assets, management structure, and pricing policies. The tables had an ordinal Likert scale whereby 1 represented strongly disagree; 2 disagree; 3-neutral; 4-agree and 5 strongly agree. Table 3 provides the results.

Table 3: Descriptive Statistics of Growth of SMEs

Statements N=82	1	2	3	4	5	Mean
Increase of revenue	5 (6%)	9 (11%)	9 (11%)	28 (35%)	30 (37%)	4.61
Customers increase due to competition-based pricing	0 (0%)	9 (11%)	13 (16%)	31 (38%)	28 (35%)	4.58
Robust management structure	7 (9%)	25 (31%)	15 (18%)	18 (22%)	16 (20%)	3.25
Multiplication of organization assets	7 (9%)	10 (12%)	15 (18%)	27 (34%)	22 (27%)	3.94
Quality pricing policies	11 (13%)	18 (22%)	23 (28%)	21 (27%)	9 (11%)	2.88

Table 3 indicates that 30(37%) strongly agreed and 28(35%) agreed that value-based pricing had increased revenue in the SMEs (mean-4.61). Further, 28(35%) strongly agreed and 31(38%) agreed that the number of customers had increased due to competition-based pricing (mean-4.58). Nevertheless, 11(13%) strongly disagreed and 18(22%) disagreed that there were quality pricing policies that guided the pricing structure which led to growth of SMEs (mean-2.88).

The results mean that as a result of implementing value-based pricing in SMEs, they were able to generate more income from sales. Additionally, the SMEs were able to acquire more clientele since they offered best competitive prices. Regardless, the changes instigated in the pricing structure did not follow a specific plan hence to be implemented in the structure as a guideline for future business decisions. According to Nagode et al. (2022), most SMEs rely on the owners to make price changes which could happen impromptu and without a clear strategic pricing plan.

4.4 Descriptive Statistics of Value-Based Pricing

Value-based pricing was the first independent variable and it had indicators such as high-quality products and services, customer loyalty, value communication channels, diverse brand values, pricing policies service, and consistent review of prices. Table 4 provides the results.

Table 4: Descriptive Statistics of Value-Based Pricing

Statements N=82	1	2	3	4	5	Mean
Production of high-quality products and services	15 (18%)	17 (21%)	14 (17%)	22 (27%)	14 (17%)	3.04
Loyalty of customers	2 (2%)	0 (0%)	21 (26%)	19 (23%)	40 (49%)	4.24
Clear communication systems	26 (32%)	17 (21%)	11 (13%)	15 (18%)	13 (14%)	2.66
Availability of qualified personnel and quality machinery	8 (11%)	27 (33%)	15 (18%)	15 (18%)	16 (20%)	3.02
Consistent review of prices	23 (28%)	21 (27%)	10 (12%)	15 (18%)	13 (16%)	2.68

Table 4 indicates 40(49%) strongly agreed and 19(23%) agreed that customers had become loyal due to considerations given on every complaint they made (mean-4.24). However, 26(32%) strongly disagreed and 17(21%) disagreed that there were clear communication systems that allowed information to swiftly reach the top management in less time (mean-2.66). Additionally, 23(28%) strongly disagreed and 21(27%) disagreed there were consistent reviews of prices to ensure that value was delivered in the produced products and services (mean-2.68).

The findings imply that most SMEs had succeeded in clinching a niche in the business environment which was categorized by the loyalty from the customers. This was closely associated with their short turn-around time in handling pricing-related and other complaints from the clientele. Comparatively, Gikera and Bula (2023) established that getting the attention of management by junior staff was hard in SMEs since any comments regarding prices were not entertained and attracted disciplinary measures such as suspension and job termination.

4.5 Pearson Correlation of Value-Based Pricing

The study had a research hypothesis which states that there was no significant effect of value-based pricing on growth of small and medium enterprises. Table 5 provides the results of correlation analysis.

Table 5: Pearson Correlation of Value-Based Pricing

		Growth of SMEs	Value-based pricing
Growth of SMEs	Pearson Correlation	1	.628
	Sig. (2-tailed)		.000
	N	82	82
Value-based pricing	Pearson Correlation	.628	1
	Sig. (2-tailed)	.000	
	N	82	82

**. Correlation is significant at the 0.01 level (2-tailed)

As per Table 5, the correlation coefficient for value-based pricing r=0.628 at α < 0.000 and 99% significance level. Therefore, since the correlation coefficient was less than 1 and p-value was less than 0.05, the study rejected the null hypothesis. Similar results were established by Moller (2020) who pointed out that value-based pricing increased the growth pattern of an institution, especially after the introduction of a new product to the market.

4.6 Summary

The results from the questionnaire indicated that 40(49%) participants strongly agreed and 19(23%) agreed that customers had become loyal due to considerations given on every complaint they made (mean-4.24). However, 26(32%) strongly disagreed and 17(21%) disagreed that there were clear communication systems that allowed information to swiftly reach the top management in less time (mean-2.66). Additionally, 23(28%) strongly disagreed and 21(27%) disagreed there were consistent reviews of prices to ensure that value was delivered in the produced products and services (mean-2.68). Additionally, the correlation of value-based pricing r=0.628 at α < 0.000 and 99% significance level.

5.0 Conclusion

The study concluded that there was a short turnaround time taken by SMEs to address the various pricing complaints from the clients. That notwithstanding, most value-based pricing decisions made by the senior management did not have a window for discussion with junior staff. This was mainly attributed to the fact that price review was not consistently done despite the changes in the value of products and services offered to a variety of clients.

6.0 Recommendation of the Study

The recommendations on value-based pricing are that there should be a policy framework established to expose staff to processes used to determine various prices. This is because, with correct exposure to decision-making, the potential skills hidden within the staff would provide invaluable in spurring growth of SMEs. Additionally, there should be provision of bonuses to outstanding staff as a measure of encouraging them to serve the clients even better.

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