

# **T**HE IMPACT OF PRODUCT AND PRICING STRATEGY ON SELECTED SMALL AND MEDIUM ENTERPRISES IN KADUNA STATE.

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## **ABSTRACT**

**T**he purpose of the study is to explore the effect of pricing and product strategy on performance of Small and medium enterprises in Kaduna State Nigeria. A total of 75 managers were used in data analysis through a survey questionnaire. The study is cross sectional in nature. Smart PLS 3.0 was used in testing the measurement and structural model. The findings revealed that service price and service product is significantly related to small and medium enterprise performance. The findings of the study is important to researchers and policy makers. It will go a long way in assisting producers that will come up with durable and high quality product so as to be competitive and gain competitive edge.

**Keywords:** product strategy, Price strategy, SME performance. Managers, PLS

## **Introduction:**

### **Background to the study**

Small and medium enterprises (SMEs) are the engine of economy growth and development globally, Nigeria inclusive. By their very nature, SMEs constitute the most viable and veritable vehicle for self-sustaining industrial development (Oyebamiji, Kareem, & Ayeni, 2013). SMEs in developing countries, like Nigeria are struggling to survive under intense competitive environments both domestic and international. Oyebamiji et al. (2013) discover that Small and

**M**edium Enterprises (SMEs) in Nigeria have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development of Nigeria. They note that the situation has been of great concern to the government, citizenry, operators, and practitioners. These challenges could be as a result of perceived ineffective marketing strategy which is having negative effect on the organization's performance, product quality, customer satisfaction and profitability. Small and medium enterprises (SMEs) operators need to provide a quality product with good packaging that satisfies customer needs, offering affordable price and engaging in wider distribution and back it up with effective promotion strategy in order to survive the pressure from global market competitive environment (Oyebamiji et al., 2013).

Researchers and scholars have identified many of the antecedents to organizational performance; they have equally examined both conceptually and empirically, the relationship between the antecedents and organizational performance. From a critical literature review, examples of antecedents to organizational performance include: product strategy, pricing strategy, promotional strategy, place strategy, total quality management, workers' motivation, external environment, organizational culture, personnel training and development, compensation, organizational capabilities and resources, corporate entrepreneurship, service quality, and market orientation and cooperate branding (Abidemi, 2019; Abidemi, Halim, & Alshuaibi, 2017; Akroush, 2011; Barczak, 1995; Tajeddini & Ratten, 2020).

A substantial amount of research has been conducted on the relationship between the antecedents and organizational performance. But extant literature shows that many of the researches were carried out in developed economies while few of the researches were conducted in developing economies (Abidemi et al., 2017). On the other hand, there is a paucity of similar research carried out in the Nigerian context.

Thus, there is a need to study the relationship between the antecedents and organizational performance in the Nigerian context, with samples taken from the small and medium enterprises in particular with a view to bridging the gap in the literature.

More importantly, the construct of pricing and product strategy plays an important role in the performance of SMEs, however there is limited studies showing the relationship between pricing, product and performance of SMEs.

### Research Questions

1. Is there a positive relationship between?
  - a) Product and organizational performance?
  - b. pricing and organizational performance.

### 1.3 Objectives of the study

1. To determine the relationship between product strategy and the performances of small and medium enterprises.
2. To determine the relationship between pricing strategy on the performance of small and medium enterprises.

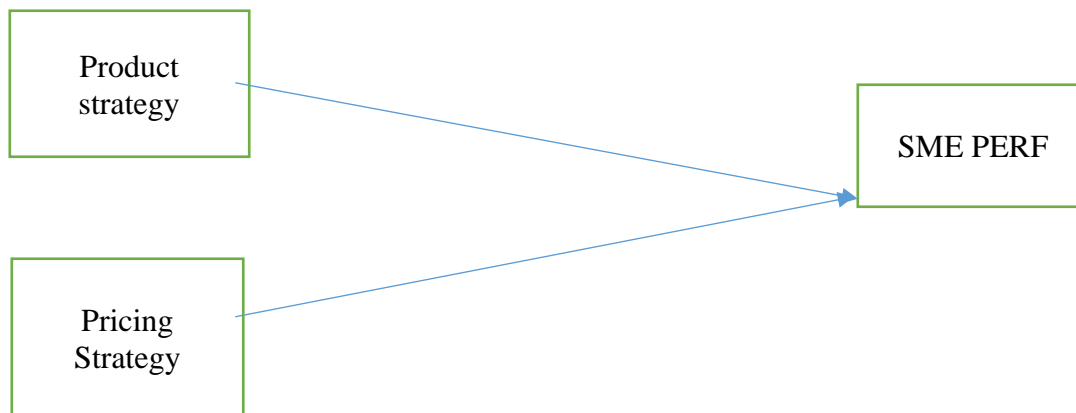


Figure 1: conceptual framework

### PRODUCT STRATEGY

Kotler and Armstrong (2006) define a product as anything that can be offered to a market for attention, acquisition, use, or consumption that

might satisfy a want or need. They further define a consumer product as the product bought by the final consumer for personal consumption. Consumers buy products frequently, with careful planning, and by comparing brands based on price, quality and style. Borden, (1984) sees a product as about quality, design, features, brand name and sizes. Mohammad et al, (2012) also say that product is the physical appearance of the product, packaging, and labeling information, which can also influence whether consumers notice a product in-store, examine it, and purchase it. Past researchers have clearly suggested that product influences have a significant impact on business performance (GbolagadeAdewale & Oyewale, 2013; Ogunmokun & Li, 2014; Sharma & Sharma, 2016). While some studies revealed no association between service product and firm performance (Khan, 2014). The inconsistencies in the literature and also lack of studies in Small and medium industry relating product to performance is a research gap which the present study wants to fill. Thus,

H1: there is a significant relationship between service product and SME performance.

### **Price Strategy**

The price you set for your product or service plays a large role in its marketability. It is further clarified by Jones and Richardson (2007) as Pricing for products or services that are more commonly available in the market is more elastic, meaning that unit sales will go up or down more responsively in response to price changes. The impact of pricing strategy on performance has been validated in prior studies as expounded by (Akroush, 2012) where empirical results confirmed the relationship between pricing strategy and firm performance, showing a strong positive link between pricing strategy and overall performance (Akroush, 2012). Pricing strategy may vary market to market because of many reasons associated with the PESTEL model such as political, economic, social, technological, environmental and legal forces. Therefore, the present study hypothesis that

H<sub>2</sub>: there will be a positive relationship between pricing strategy and SME performance.

### Resource Based View

This study is anchored resource based view and dynamic capability theory. Resource based view theory has its origin from the work of Penrose (1959), though inadvertently the view was formerly presented by Wernerfelt (1984) (J. Barney, 1991; J. B. Barney, 1986). A resource based view (RBV) emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance. The model assumes first that firm's within an industry (or within a strategic group) may be heterogeneous with respect to the bundle of resources that they control (Bridoux, 2004). Second assumption is that resource heterogeneity may persist over time because the resources used to implement firm's strategies are not perfectly mobile across firms.

A resource based view (RBV) is one of the most widely accepted theories of strategic management (Powell, 2001). New organizational resources may increase the flexibility in strategic choices, by allowing firms to benefit from new opportunities (Rangone, 1999)). The RBV could be considered as an "inside-out" process of strategy formulation: starting from the internal resources of the firm, their potential for value generation has to be assessed in order to define a strategy allowing the firm to achieve the maximum value in a sustainable way (J. B. Barney, 1986). In this way, the firm product development strategy and price for the product is determined by the resources available and the capability to deploy them in the best way to obtain a good performance.

### Method of Data Collection

The data collection instrument used was a questionnaire. The study utilized the scales of Akroush (2011) in measuring product and pricing strategy while the works of Powell (2004) was used in measuring SME performance. The questionnaire was distributed to only 75 owners and managers operating in Kaduna State.

## Method of Data Analysis

The present study employed partial least squares structural equation modeling (PLS-SEM). The PLS-SEM was employed in this study for the following reasons. First, unlike the traditional regression approach using SPSS Statistics, PLS-SEM can simultaneously estimate the relationships between latent constructs, as well as the relationships between indicators and their corresponding latent constructs (Hair Jr, Sarstedt, Hopkins, & Kuppelwieser, 2014). Second, PLS-SEM has become a useful tool for researchers to reliably estimate moderating effects with composite variables based on bootstrapping techniques, which employ standard errors for path coefficients (Fassott, Henseler, & Coelho, 2016).

## Measurement Model

This study evaluated the measurement's individual item reliability, internal consistency reliability, convergent validity, as well as discriminant validity in order to establish the measurement's reliability and validity (Henseler, Ringle, & Sarstedt, 2012; Sarstedt, Hair, Ringle, Thiele, & Gudergan, 2016). The results are presented in Table I. Individual item reliabilities were evaluated by examining the outer loadings of each construct's measure (Hulland, 1999). Following Hair *et al's* (2013) benchmark for retaining items with loadings between .40 and .70, only 2 of the 15 items were deleted. Hence, in the whole model, the 12 items with loadings between 0.600 and 0.880 were retained.

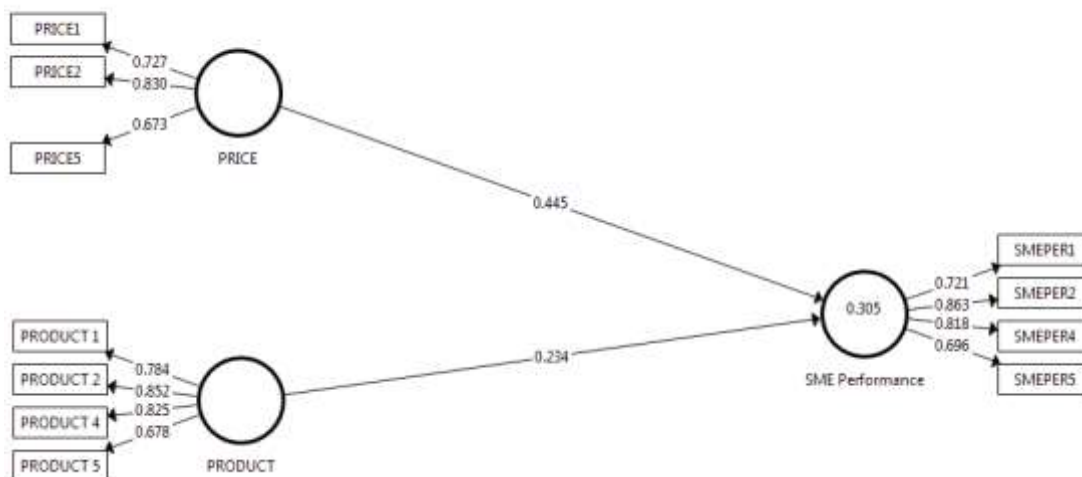


Table 1: Results of the Measurement Model  
CROSSLOADING

	PRICE	PRODUCT	SME Performance
PRICE1	0.727	0.147	0.326
PRICE2	0.83	0.21	0.453
PRICE5	0.673	0.195	0.331
PRODUCT 1	0.25	0.784	0.277
PRODUCT 2	0.194	0.852	0.324
PRODUCT 4	0.191	0.825	0.282
PRODUCT 5	0.135	0.678	0.17
SMEPER1	0.354	0.255	0.721
SMEPER2	0.463	0.35	0.863
SMEPER4	0.386	0.282	0.818
SMEPER5	0.35	0.155	0.696

Table 1b: Results of the Measurement Model Composite *Reliability*  
*Average Variance Extracted (AVE)*

PRICE	<b>0.789</b>	<b>0.556</b>
PRODUCT SME	0.866	0.62
Performance	<b>0.859</b>	<b>0.605</b>

As shown in Table 1, the composite reliability coefficients, which range between 0.789 and 0.866, demonstrate adequate internal consistency reliability. The Average Variance Extracted (AVE) for each latent construct was analyzed to ascertain the convergent validity. Generally, the AVE for each latent construct should exceed 0.50 (Bagozzi & Yi, 1988; Hair, Ringle, & Sarstedt, 2013). As shown in Table 1, the AVE for each latent construct has exceeded the threshold value of 0.50, hence, suggesting a satisfactory convergent validity. Finally, Fornell-Larcker's criterion was used to ascertain the discriminant validity of the measures.

The results can be seen in Table 2. According to Fornell and Larcker (1981), discriminant validity is established only if the AVE for each latent construct is statistically significant and exceeds its squared correlation with any other construct. In Table 2 and table 3, the squared correlations among the latent constructs were compared with the square root of the AVEs (values in bold face). Table 2 suggests that there is adequate

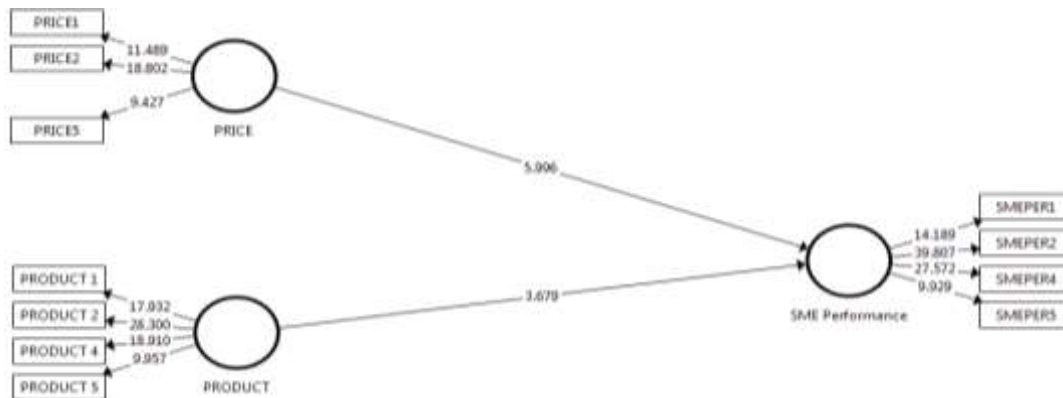
discriminant validity as the AVE for each latent construct exceeded its squared correlation with any other construct (Fornell & Larcker, 1981).

Table 2: Results of Discriminant Validity of Measures

	PRICE	PRODUCT	SME Performance
PRICE	0.746		
PRODUCT	0.248	0.787	
SME Performance	0.504	0.345	0.778

DV FORNELL

	PRICE	PRODUCT	SME Performance
PRICE			
PRODUCT	0.349		
SME Performance	0.717	0.412	



	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV)	P Values
PRICE -> SME Performance	0.445	0.451	0.074	5.996	0
PRODUCT -> SME Performance	0.234	0.242	0.064	3.679	0

DISCUSSION

The significant positive relationships between price and SME performance are also consistent with the previous studies results (Akroush, 2011, 2012; Kasabov, 2015; Khan, 2014). To this end, it is evidently enough to establish that it is both theoretically and empirically supported that pricing strategy exact influence on the performance of SMEs in Kaduna State. The study



shows that SMEs can perform better by either setting price through skimming strategy or penetration strategy depending on the market segments they intend to serve. The price of a product to a large extent determines the quality of the product as consumers and customers mostly perceive while some feel a product with a low price is an inferior good/product some feel buying a product at a high price is outrageous spending and feel they should purchase a different product that offers similar characteristics and benefit with the higher price. The positive relationship between product strategy and SME performance is also consistent with previous empirical studies such as (Akroush, 2011; Kasabov, 2015).

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