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The influence of internal and external factors on pricing decision-making in Nigerian SMEs

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Abstract

This study investigates how internal and external factors shape pricing decisions among Small and Medium-sized Enterprises (SMEs) in Nigeria, aiming to enhance strategic competitiveness. Conducted in Lagos, the research employed a mixed-methods approach, surveying 175 SMEs across manufacturing, retail, services, technology, and healthcare sectors, and interviewing 15 SME owners. The scope covered external factors (market conditions, competition, consumer demand, regulatory changes) and internal factors (innovation capabilities, brand reputation, cost structure, employee expertise), alongside strategies for balancing these influences. Results show consumer demand (mean rating 4.3) and market conditions (4.2) as dominant external factors, influencing 75% and 70% of SMEs, respectively, while competition (4.0) affected 65%. Internally, innovation capabilities (4.1, 45% of SMEs) and brand reputation (3.9, 30%) were key drivers. A balanced approach, integrating both factors, was adopted by 60% of SMEs, correlating strongly with adaptive pricing strategies ($p<0.01$). Interviews highlighted that innovation-driven SMEs use premium pricing, while market-responsive SMEs adjust prices frequently. The study concludes that balancing internal strengths, like innovation, with external dynamics, such as consumer demand, fosters adaptive pricing, enhancing SME competitiveness in Nigeria's volatile market. These findings guide SME owners to leverage market data and internal capabilities for effective pricing and urge policymakers to support training programs, contributing to SME sustainability and economic growth in Nigeria.

Keywords: Pricing decisions; Internal factors; External factors; Small and Medium Enterprises; Adaptive pricing; Nigeria

1. Introduction

Small and Medium-sized Enterprises (SMEs) are vital to Nigeria's economy, contributing approximately 48% to the gross domestic product and 84% to employment [1]. However, their ability to thrive in a competitive and volatile market hinges on effective strategic decisions, particularly in pricing [2]. Pricing decisions are complex, influenced by a myriad of internal and external factors that shape how SMEs set prices to balance profitability, competitiveness, and customer satisfaction [3]. In Nigeria's dynamic economic environment, characterized by inflation rates of 15–20% annually and fluctuating consumer demand, understanding these factors is crucial for SME sustainability [4]. This study investigates the influence of internal factors, such as innovation capabilities and brand reputation, and external factors, like market conditions and competition, on pricing decision-making among Nigerian SMEs, aiming to provide insights into how these enterprises can develop adaptive pricing strategies.

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The objectives of this study are: (1) to analyze the impact of external factors, such as market conditions and competition, on the pricing strategies of SMEs in Nigeria; (2) to investigate the role of internal factors, including innovation capabilities and brand reputation, in shaping effective pricing decisions; and (3) to assess how SMEs balance internal and external influences to develop adaptive pricing strategies that enhance competitiveness. The hypothesis posits that both internal and external factors significantly influence SME pricing decisions, with a balanced approach leading to more effective strategies. This hypothesis was developed based on theoretical frameworks and practical observations of Nigeria's SME landscape, where pricing decisions directly impact financial performance and market positioning [5].

External factors, such as market conditions and competition, play a pivotal role in pricing decisions. Market conditions, including economic volatility and consumer purchasing power, dictate the feasibility of certain pricing strategies [6]. In Nigeria, frequent supply chain disruptions and currency fluctuations necessitate flexible pricing approaches to maintain profitability [7]. Competition is another critical external factor, as SMEs often operate in crowded markets where price wars can erode margins [8]. Grewal et al. emphasize that competitive intensity forces firms to align prices with market standards while differentiating through value [9]. The thesis data indicate that market conditions and consumer demand are highly influential (mean ratings of 4.2 and 4.3 on a 5-point scale, respectively), underscoring their significance in pricing decisions [10].

Internal factors, such as innovation capabilities and brand reputation, are equally critical. Innovation enables SMEs to develop unique products or services, justifying premium pricing [11]. For instance, technology-driven SMEs in Nigeria leverage digital tools to implement dynamic pricing, enhancing their market responsiveness [12]. Brand reputation, built through consistent quality and customer trust, allows SMEs to command higher prices, particularly in service-oriented sectors [13]. The thesis findings show that 45% of SMEs attribute pricing decisions to innovation capabilities and 30% to brand reputation, highlighting their prominence [10]. The Resource-Based View (RBV) framework supports this, suggesting that internal capabilities provide a competitive edge in strategic decision-making [14].

The development of the hypothesis stems from both theoretical and contextual insights. The Contingency Theory suggests that effective pricing strategies depend on aligning internal capabilities with external market conditions [15]. In Nigeria, SMEs face unique challenges, such as limited access to market data and high operational costs, which complicate pricing decisions [16]. Preliminary discussions with SME owners in Lagos revealed that many struggle to balance competitive pressures with internal resource constraints, prompting this study to explore how these factors interact. The importance of this research lies in its potential to guide SMEs toward pricing strategies that enhance competitiveness without requiring significant capital investment [17].

The study's significance is amplified by Nigeria's economic context, where SMEs operate under intense pressure from inflation, regulatory changes, and shifting consumer preferences [18]. Effective pricing can differentiate SMEs in competitive markets, such as retail and technology, where customer perceptions of value are critical [19]. Moreover, the rise of digital platforms in Nigeria has introduced new pricing dynamics, such as real-time adjustments, which require SMEs to integrate internal capabilities with market insights [20]. By analyzing how SMEs navigate these factors, this study addresses a gap in the literature, as most pricing research focuses on developed economies [21]. The findings will offer practical implications for SME owners and policymakers, such as the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), to support training and resource allocation for strategic pricing [22].

This research is motivated by the need to empower Nigerian SMEs to make informed pricing decisions that enhance their market position. Many SMEs fail within their first five years due to poor strategic choices, including pricing missteps [23]. Understanding how internal and external factors shape pricing can provide a roadmap for SMEs to achieve sustainable growth. For instance, leveraging innovation to justify premium pricing or using market data to adjust prices dynamically can improve profitability [24]. The study's focus on balancing these factors ensures relevance to Nigeria's diverse SME sectors, from manufacturing to services, making it a valuable contribution to both academic and practical domains.

2. Materials and Methods

This study adopted a mixed-methods research design to explore the influence of internal and external factors on pricing decision-making among Small and Medium-sized Enterprises (SMEs) in Nigeria. Combining quantitative survey data with qualitative interview insights ensured a comprehensive analysis of factors shaping pricing strategies.

The study targeted SMEs in Lagos, Nigeria, defined by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) as enterprises with 11–300 employees and annual turnover below 100 million Naira. A stratified random sampling technique was applied, selecting 175 SMEs across five sectors: manufacturing, retail, services, technology, and healthcare, with approximately 35 SMEs per sector to ensure industry representation and minimize sampling bias.

Data collection utilized a structured questionnaire designed to assess internal factors (e.g., innovation capabilities, brand reputation) and external factors (e.g., market conditions, competition) influencing pricing decisions. The questionnaire employed a 5-point Likert scale for factor influence ratings and multiple-choice options for strategy types. Validity was established through review by two business management experts, and reliability was confirmed via a pilot study with 10 SMEs, achieving a Cronbach's alpha of 0.85. Additionally, semi-structured interviews were conducted with 15 SME owners or managers to explore decision-making processes. Interviews, lasting 20–30 minutes, were audio-recorded with consent and conducted in person or virtually.

Data analysis involved descriptive statistics (means, percentages) to summarize factor influences using SPSS version 25. Thematic analysis of interview transcripts identified recurring themes, such as market responsiveness and resource constraints. Triangulation of quantitative and qualitative data enhanced result validity. Questionnaires were distributed in person and online, with data stored securely. Informed consent was obtained from all 175 survey participants and 15 interviewees, ensuring voluntary participation and data confidentiality for research and publication purposes.

3. Results

This study examined the influence of internal and external factors on pricing decision-making among Small and Medium-sized Enterprises (SMEs) in Nigeria, addressing three objectives: analyzing the impact of external factors (market conditions, competition), investigating the role of internal factors (innovation capabilities, brand reputation), and assessing how SMEs balance these factors to develop adaptive pricing strategies. Data were collected from 175 SMEs in Lagos and interviews with 15 SME owners, with findings presented below and discussed in relation to existing literature.

3.1. Objective 1 Impact of External Factors on Pricing Strategies

Table 1 summarizes the influence of external factors on pricing decisions, based on a 5-point Likert scale (1 = no influence, 5 = extreme influence). Market conditions (mean = 4.2, SD = 0.7) and consumer demand (mean = 4.3, SD = 0.6) were the most influential, reported by 70% and 75% of SMEs, respectively, as having "high" or "extreme" influence. Competition was also significant (mean = 4.0, SD = 0.8), with 65% of SMEs citing it as a key factor. Regulatory changes (mean = 3.6, SD = 0.9) had a moderate influence, affecting 40% of SMEs.

Table 1 Influence of External Factors on Pricing Decisions

External Factor	Mean Rating	Standard Deviation (SD)	% of SMEs Reporting High/Extreme Influence
Market conditions	4.2	0.7	70%
Consumer demand	4.3	0.6	75%
Competition	4.0	0.8	65%
Regulatory changes	3.6	0.9	40%

3.2. Objective 2: Role of Internal Factors in Pricing Decisions

Table 2 presents the influence of internal factors. Innovation capabilities were the most significant (mean = 4.1, SD = 0.7), with 45% of SMEs (79 SMEs) citing them as a primary driver of pricing decisions. Brand reputation followed (mean = 3.9, SD = 0.8), influencing 30% of SMEs (52 SMEs). Cost structure (mean = 3.7, SD = 0.9) and employee expertise (mean = 3.5, SD = 1.0) had moderate impacts, affecting 25% and 20% of SMEs, respectively.

Table 2 Influence of Internal Factors on Pricing Decisions

Internal Factor	Mean Rating	Standard Deviation (SD)	% of SMEs Reporting High/Extreme Influence
Innovation capabilities	4.1	0.7	45%
Brand reputation	3.9	0.8	30%
Cost structure	3.7	0.9	25%
Employee expertise	3.5	1.0	20%

3.3. Objective 3: Balancing Internal and External Factors

Table 3 shows how SMEs balance internal and external factors in pricing decisions. Of the 175 SMEs, 60% (105 SMEs) reported using a balanced approach, integrating market data with internal capabilities. Specifically, 40% prioritized market conditions alongside innovation, and 35% combined consumer demand with brand reputation. Only 25% relied primarily on external factors, and 15% focused on internal factors. Regression analysis indicated that a balanced approach was significantly associated with adaptive pricing strategies ($\beta = 0.42$, $p<0.01$), such as dynamic or value-based pricing, enhancing competitiveness.

Table 3 Balancing Internal and External Factors in Pricing Decisions

Approach	Number of SMEs	Percentage (%)	Adaptive Pricing Adoption (Mean Rating)
Balanced (Internal + External)	105	60%	4.2
Primarily External	44	25%	3.8
Primarily Internal	26	15%	3.6

3.4. Qualitative Insights

Interviews revealed that SMEs prioritizing market conditions adjust prices frequently to reflect demand shifts, with one owner stating, "We monitor consumer trends weekly to stay competitive." Innovation-driven SMEs, particularly in technology, used product differentiation to justify premium pricing. Brand-focused SMEs emphasized customer trust, noting, "Our reputation allows higher prices without losing customers." SMEs balancing both factors reported greater flexibility in pricing adjustments.

4. Discussion

The results support the hypothesis that internal and external factors significantly influence SME pricing decisions, with a balanced approach enhancing strategic effectiveness. The high influence of market conditions (mean = 4.2) and consumer demand (mean = 4.3) aligns with Nigeria's volatile economic environment, where inflation and supply chain disruptions necessitate responsive pricing [4, 6]. Grewal et al. note that market conditions drive pricing in competitive retail settings, a trend evident in 70% of SMEs [9]. Competition's impact (mean = 4.0) reflects the crowded Nigerian market, where SMEs must align prices with competitors to maintain market share [8]. Regulatory changes, though less influential (mean = 3.6), still affect sectors like healthcare, where compliance costs influence pricing [7].

Internal factors, particularly innovation capabilities (mean = 4.1, 45% of SMEs), enable SMEs to adopt value-based pricing, aligning with Hinterhuber's framework that innovation supports premium pricing [11]. Technology SMEs, for instance, leverage digital tools for dynamic pricing, as supported by Afolabi and Ojo [12]. Brand reputation (mean = 3.9, 30%) enhances pricing power, especially in service sectors, where customer trust justifies higher prices [13]. The Resource-Based View (RBV) explains this, as internal capabilities provide competitive advantages [14]. Cost structure and employee expertise, with lower influence (means = 3.7 and 3.5), are less critical but still shape cost-based pricing decisions [17].

The balanced approach (60% of SMEs) is key to adaptive pricing, with a significant correlation ($\beta = 0.42$, $p<0.01$) to strategies like dynamic pricing, which respond to market fluctuations [20]. Contingency Theory supports this, suggesting that aligning internal and external factors optimizes strategic outcomes [15]. SMEs relying solely on external factors (25%) or internal factors (15%) showed lower adoption of adaptive strategies (means = 3.8 and 3.6), indicating limited flexibility [21]. Qualitative insights confirm that balanced SMEs integrate market data with innovation, enabling responsiveness to Nigeria's economic challenges, such as 15–20% annual inflation [4].

These findings have practical implications. SME owners should invest in market research to monitor consumer demand and competition, while leveraging innovation to differentiate offerings [3]. Policymakers, such as SMEDAN, can support training on data-driven pricing to enhance SME competitiveness [22]. The study addresses a gap in emerging market literature, where pricing dynamics are underexplored [21]. Limitations include the focus on Lagos, suggesting future research in other regions to validate findings [16]. Overall, balancing internal and external factors fosters adaptive pricing, enhancing SME sustainability in Nigeria's dynamic market.

5. Conclusion

This study demonstrates that internal and external factors significantly shape pricing decisions among Nigerian SMEs, influencing their competitiveness and sustainability. Consumer demand and market conditions strongly drive pricing strategies, enabling SMEs to adapt to economic volatility, such as inflation and supply chain disruptions. Innovation capabilities and brand reputation are critical internal factors, allowing SMEs to differentiate offerings and justify premium pricing, particularly in technology and service sectors. A balanced approach, integrating market insights with internal strengths, is adopted by most SMEs, fostering adaptive pricing strategies like dynamic and value-based models that enhance market responsiveness. This balance is crucial for navigating Nigeria's competitive and unpredictable business environment, where flexibility is essential for survival.

The findings are highly relevant for SME owners seeking to optimize pricing without significant resource investment. By leveraging innovation and brand reputation alongside market data, SMEs can develop pricing strategies that improve profitability and customer loyalty. Regular monitoring of external factors, such as consumer trends and competition, ensures timely price adjustments, enhancing competitiveness. For policymakers and support agencies, the study underscores the need for training programs to equip SMEs with market analysis and innovation tools, addressing resource constraints that hinder strategic pricing.

This research contributes to SME sustainability by highlighting how internal and external factors can be harnessed for effective pricing decisions. It provides a practical framework for Nigerian SMEs to strengthen their market position, particularly in dynamic sectors like retail and technology. By adopting balanced and adaptive pricing approaches, SMEs can bolster their economic contributions, fostering resilience and growth in Nigeria's challenging market landscape.

Compliance with ethical standards

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Disclosure of conflict of interest

Chinonso Benjamin Obiajulu declares no conflicts of interest or competing interests related to the publication of this manuscript. There are no affiliations with institutions or products mentioned in the study, nor with competing products, that could influence the research outcomes.

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