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PRICING STRATEGY AND CUSTOMER RETENTION PROPENSITY IN SMALL AND MEDIUM-SCALE ENTERPRISES IN SOUTH-WEST NIGERIA

Kehinde Anthony Afolayan[1*], Nurudeen Bello Ahmed[2] & Ismaila Yusuf[3]

[1,2,3]Department of Business and Entrepreneurship, Kwara State University, Malete, Kwara State, Nigeria

*kehinde.afolayan@kwasu.edu.ng

ABSTRACT: This study examines the influence of pricing strategies on customer retention propensity among Small and Medium Enterprises (SMEs) in South-West Nigeria. Pricing, a crucial determinant of customer behaviour and firm profitability, was explored through three strategic lenses: cost-based, customer-based, and competition-based pricing. Employing a descriptive survey design, 384 questionnaires were distributed to SME owners and managers drawn from a population of 132,749 manufacturing SMEs, of which 312 usable responses were analysed, representing an 81.3% usable response rate. Multiple regression analysis indicated that the three pricing strategies jointly explained 49.3% of the variance in customer retention propensity ($R = .702$, $R^2 = .493$, adjusted $R^2 = .488$), and the overall model was statistically significant, $F(3, 308) = 99.832$, $p < .001$. At the predictor level, customer-based pricing had a positive and statistically significant association with customer retention propensity ($B = .467$, $\beta = .461$, $t = 2.302$, $p = .022$), whereas cost-based pricing ($B = .072$, $\beta = .071$, $t = .404$, $p = .686$) and competition-based pricing ($B = .136$, $\beta = .143$, $t = 1.330$, $p = .185$) were positive but not statistically significant. The findings underscore the importance of aligning prices with perceived customer value while recognising that cost and competitor considerations may not independently predict retention when the three approaches are considered simultaneously. The study recommends that SMEs strengthen customer-value assessment and integrate cost and competitive information into broader pricing decisions.

Keywords: Pricing Strategy; Customer Retention Propensity; Customer-Based Pricing; Small and Medium Enterprises (SMEs); South-West Nigeria.

INTRODUCTION

Small and Medium Enterprises (SMEs) are pivotal to economic growth and development, particularly in emerging economies like Nigeria. They contribute significantly to employment generation, innovation, and the diversification of economic activities (Adebiyi & Babatunde, 2017). However, SMEs often face challenges in sustaining customer retention, a critical factor for long-term success. Pricing strategies play a vital role in influencing customer retention propensity, as they directly impact customer perceptions of value and satisfaction (Monroe, 2003; Nagode et al., 2022).

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In South-West Nigeria, SMEs operate in a dynamic market environment where the choice of pricing strategy can significantly influence customer loyalty and business viability. Thus, understanding the impact of different pricing strategies on customer retention is crucial for these businesses to thrive (Nagode et al., 2022; Phung et al., 2024). Research focusing on this region can provide valuable insights into how SMEs can optimise their pricing approaches to enhance customer loyalty and sustain growth. On this note, three traditional pricing methods have been suggested for SMEs to thrive in a competitive market. These include cost-based pricing, customer-based pricing, and competition-based pricing (Hinterhuber, 2017; Nagle & Müller, 2018; Simon & Fassnacht, 2019). These pricing strategies have been suggested to enhance customer loyalty by aligning prices with customer expectations and perceived value (Nagode et al., 2022).

Furthermore, cost-based pricing involves setting prices by adding a mark-up to the cost of producing a product or delivering a service (Nagode et al., 2022; Phung et al., 2024). This straightforward approach ensures that all costs are covered while securing a profit margin. However, it may not always align with customer perceptions of value, potentially affecting retention. A study on the Nigerian National Petroleum Corporation (NNPC) retail outlets in South-West Nigeria highlighted that while cost-based pricing ensures profitability, it may not necessarily enhance customer satisfaction or retention (Nagode et al., 2022). This is because customers are more inclined towards pricing that reflects the perceived value of the product or service rather than just covering costs.

Customer-based pricing sets prices primarily based on the perceived value to the customer rather than the cost of production (Phung *et al.,* 2024). This strategy requires a deep understanding of customer needs, preferences, and their willingness to pay. In the context of South-West Nigerian SMEs, adopting a customer-centric approach has proven beneficial (Osano & Lutego, 2022). For instance, research indicates that social media marketing efforts, which often involve understanding and delivering customer value, have a positive effect on customer retention (Adejuwon & Lawal, 2022). Thus, by engaging customers and tailoring offerings to their preferences, SMEs can enhance loyalty and retention rates (Osano & Lutego, 2022).

More so, competition-based pricing entails setting prices based on competitors' strategies, costs, and market offerings (Osano & Lutego, 2022). This approach is particularly effective in highly competitive markets where price is a critical factor in customer decision-making. For Nigerian SMEs, competitive pricing can be a double-edged sword. While aligning prices with competitors can attract price-sensitive customers, it may also lead to price wars, eroding profit margins (Kienzler & Kowalkowski, 2017). Therefore, it is crucial for SMEs to balance competitive pricing with value addition to maintain profitability and customer loyalty (Osano & Lutego, 2022). Although prior Nigerian evidence has considered pricing and customer outcomes in specific settings such as petroleum retailing, that evidence does not resolve how the three pricing orientations operate simultaneously among independently managed manufacturing SMEs. Manufacturing SMEs differ from petroleum retail outlets in ownership structure, product differentiation, competitive discretion and the extent to which managers can combine cost information, customer value judgements and competitor prices. The present study therefore addresses an outcome- and context-specific gap by estimating the unique association of each pricing

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orientation with customer retention propensity while the other two approaches are held constant in the South-West Nigerian manufacturing SME context.

Statement of the Problem

Customer retention is central to the continuity of SMEs, yet pricing decisions are frequently made under simultaneous pressures from production costs, competitor prices and customers' perceptions of value. Existing evidence does not provide a sufficiently clear account of the unique contribution of these three pricing orientations to customer retention among manufacturing SMEs in South-West Nigeria. Studies conducted in other sectors or organisational contexts cannot automatically be generalised to manufacturing SMEs because the discretion available to owners and managers in setting prices, differentiating products and responding to local competition may differ substantially. Consequently, SME managers lack context-specific evidence on whether cost-based, customer-based and competition-based pricing each retain an independent association with customer retention when examined within the same model. This study addresses that problem by testing the three pricing orientations simultaneously among manufacturing SMEs in South-West Nigeria.

Objectives of the Study

The specific objectives of the study are to investigate the effect of cost-based pricing strategy on customer retention propensity in SMEs; examine the effect of customer-based pricing strategy on customer retention propensity in SMEs; and determine the effect of competition-based pricing strategy on customer retention propensity in SMEs.

Research Questions

The study addresses the following research questions: (i) What is the effect of cost-based pricing strategy on customer retention propensity in SMEs? (ii) What is the effect of customer-based pricing strategy on customer retention propensity in SMEs? (iii) What is the effect of competition-based pricing strategy on customer retention propensity in SMEs?

LITERATURE REVIEW AND HYPOTHESES FORMULATION

Pricing Strategy

Pricing strategy constitutes a very important part of marketing and overall business strategy of a firm, which has a direct impact on profitability, market share, and brand perception. Good pricing policies help companies to move through competitive markets, fulfil consumer expectations, and attain financial goals. As always, the profitability of small and medium-sized enterprises (SMEs) is directly associated with their pricing policies (Lasoi & Robert, 2020; Nagode et al., 2022). Pricing is one of the most controllable as well as influential factors of the marketing mix, enabling the companies to directly influence the customer behaviour. The pricing decisions should be strategic and should support financial goals and business goals as stressed by Kanini (2021). A good pricing

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strategy must indicate the value of the product or service as perceived by consumers and this will directly influence the consumer behaviour and perceptions.

In this regard, pricing strategies are supposed to inform not only the fundamental activities of an organisation, but also how it communicates to the target markets (Kawira, 2021). According to Mattos et al. (2021), effective pricing does not imply that the price should be adjusted; it involves an in-depth analysis of the market dynamics and customer behaviour to find the most effective solutions. According to Kotler and Armstrong (2008), pricing involves knowing what the customers are willing to pay in consideration of a product or service.

Dolgui and Proth (2010) also add that pricing strategies are meant to ensure that pricing levels remain stable and that the profits and the volume of sales achieved are maximised. When the quality of products becomes equal among the providers in the market, price is one of the significant factors to maintain the customer loyalty and competitive advantage (Mohammad & Mojtaba, 2015; Nagode et al., 2022). In the event that SMEs pursue a strict price policy of cost-based pricing without adapting to the environment or market demands, they risk losing their customers to more dynamic firms. On the other hand, a combination of cost-based pricing and customer feedback and value perception has been proven to enhance higher retention (Liozu, 2021). To illustrate, SMEs which conduct benchmarking of prices or provide a tiered-pricing system are more likely to retain value-conscious customers in the region (Tijani & Fadeyibi, 2022).

The market competitiveness of a company highly depends on pricing decisions (Kotler & Armstrong, 2008; Lasoi & Robert, 2020). This requires goal-oriented data-driven pricing strategies that adapt to the changing business conditions (Kawira, 2021). The pricing strategy must show a stable structure of prices that supports the objectives of the company by emphasising the distinctiveness of its products and services in comparison with the offers of the rivals (Kawira, 2021; Sven et al., 2019). Pricing strategies are also determined by such key factors as geographic segmentation, discount structure, sensitivity of the customers to price changes, and their awareness of alternative products. The other factors are the shared or sunk costs, end-use benefits and the total spending capacity, which also affect customer negotiation power (Lasoi & Robert, 2020; Oladipo & Adesanya, 2023).

Hinterhuber (2008) groups the pricing strategies into three broad categories: the cost-based, competition-based and customer value-based models. Such strategies differ significantly, depending on the segment of customers, industry peculiarities, market situation in the region. The choice of pricing objectives and models is therefore an important part of the business strategy and planning (Akinbode & Ojo, 2021; Dudu & Agwu, 2014).

Pricing research has also developed beyond descriptions of individual pricing techniques towards the capabilities and organisational processes that support pricing decisions. Kienzler and Kowalkowski's (2017) review of 515 pricing studies shows that pricing strategy research increasingly considers demand-side information and more rigorous empirical designs, while Liozu and Hinterhuber (2013) demonstrate that pricing orientations differ in the way they relate to pricing capabilities and firm performance. This broader evidence suggests that cost, competition and

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customer value should be treated as distinct strategic orientations rather than as interchangeable price-setting rules. For SMEs, the distinction is important because each orientation relies on a different information base and may therefore have different consequences for customer relationships and retention.

Customer Retention Propensity

Customer retention is described as the power to sustain a faithful customer base in the long run (Kotler & Keller, 2019). Research has indicated that customer retention is much cheaper than customer acquisition, especially in an environment where customers have low buying capabilities (Kotler & Keller, 2019). Customer loyalty in South-West Nigeria is largely dependent on affordability, service quality and relationship marketing since there is high informal competition and low switching costs (Abogunrin et al., 2024; Ajayi & Banmeke, 2022).

Customer retention is an important aspect of the sustainability and growth of the Small and Medium-sized Enterprises (SMEs). SMEs have different strategies and practices that determine their tendency to retain customers with the aim of improving customer satisfaction and loyalty. Research helps SMEs to understand the market dynamics and also the preferences of customers to enable them to customise their offerings accordingly. According to Amadi and Ikechi (2016), there is a significant correlation between market-oriented research and customer retention in Nigerian food product manufacturing SMEs, hence the research improves the customer retention capacity of a firm (Phung et al., 2024). Some of the ways of ensuring that the best practices are developed to maximise the retention of customers include learning and welcoming new ideas. Nnko and John (2022) determined that learning orientation is a positive contributor to customer retention practices adopted in Tanzanian agro-processing MSEs and the necessity of a common vision concerning learning.

The ability to maintain a loyal clientele base over a prolonged period is referred to as customer retention (Kotler & Keller, 2019). Studies have shown that it is very costly to acquire a customer compared to retaining the customer, particularly in a setting where the customers possess low purchasing power (Kotler & Keller, 2019). In South-West Nigeria, affordability, the quality of services offered and relationship marketing significantly determine customer loyalty because there is strong informal competition, and switching costs are low (Abogunrin et al., 2024; Ajayi & Banmeke, 2022).

The sustainability and growth of the Small and Medium-sized Enterprises (SMEs) is a serious consideration in the retention of the customer. There are various strategies and practices that SMEs adopt thus deciding whether to retain a customer or not with the intention of enhancing customer satisfaction and loyalty. Research assists SMEs in appreciating the market forces and also the needs of customers so that they are able to tailor their products to the needs of the customers. Amadi and Ikechi (2016) note that the relationship between market-oriented research and customer retention in Nigerian food product manufacturing SMEs is high; therefore, the research enhances customer retention ability of a company (Phung et al., 2024). Some of the methods of ensuring that the best practices are established in the increase of customer retention are through learning and welcoming

of new ideas. Nnko and John (2022) determined that learning orientation positively influences customer retention practices applied in the Tanzanian agro-processing MSEs and the necessity to share the vision on learning.

Approaches to Pricing Strategy

Pricing strategies differ in different businesses, but most business organisations prefer to use one of three basic strategies, namely, cost-based, competition-based, or customer value-based pricing (Hinterhuber & Liozu, 2012; Kotler & Armstrong, 2008; Nagle & Holden, 2003). Such models are popularly known as the 3Cs of pricing, namely Cost, Competition, and Customers, and imply that there must be a healthy balance between internal and external variables to find optimal prices (Nagle & Müller, 2018). Insights regarding such aspects should be managed effectively to enhance consistency between pricing decisions and organisational goals and market conditions.

Although there are certain limitations inherent to each of the pricing models, they may be used flexibly in relation to both the existing products and the new ones, being rather versatile across industries and market segments (Mattos et al., 2021). Besides, recent literature indicates that the value of customer behaviour analytics and competitive intelligence in pricing frameworks is increasingly becoming important to maximise long-term profitability and customer loyalty (Liozu, 2015). In the case of small and medium-sized enterprises (SMEs), strategic pricing is one of the key competencies that can be used to retain customers and continue developing the business in a dynamic market.

Cost-Based Pricing Strategy and Its Influence on Customer Retention in SMEs

Pricing strategies are critical in the competitive business environment in determining the rates of customer retention. Cost-based pricing is one of the basic methods of pricing among others whereby pricing is done mainly according to the costs of production and an added margin of profit. Cost-based pricing entails the pricing of products or services by adding a markup to the total cost of production so that the total cost is recovered and a desired level of profit margin can be attained.

This technique is frequently used in the case of Nigerian SMEs because of low market research capacities, financial limitations, a lack of exposure to different pricing models (Oladimeji & Abiola, 2020). Most SME owners are of the opinion that they are protecting their businesses by concentrating on the internal cost structure instead of the market conditions. Nevertheless, the cost-based pricing constraint is that it is inward-looking and tends to disregard customer perception of value (Simon & Fassnacht, 2019). In South-West Nigeria, this gap is especially problematic because the consumer behaviour is motivated by price sensitivity, perceived value, and brand trust (Adelaja & Oladele, 2021). In case of the prices being above customer expectations or perceived value, there are chances of customer churn even when the product is of high quality.

Osano and Lutego (2022) examined the impact of pricing policies on customer retention with respect to small-scale metal mechanics and fabricators in Mwanza City, Tanzania. In their study, they found out that cost-based pricing practice poses a considerable positive influence on customer

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retention and hence, it could be possible that transparent and consistent pricing may increase customer trust and loyalty. On the other hand, Phung et al. (2024) investigated the pricing in small-medium auditing companies in Vietnam. Their results showed that the cost-plus pricing did not play a significant role in the retention rates of clients. This indicates that some service-related industries might be willing to accept value and quality pricing rather than cost based pricing mechanisms.

Nagle et al. (2016) also state that cost-based pricing is one of the most popular strategies among SMEs because it does not require a lot of effort and is internally consistent. But the effects it has on customer retention especially in the dynamic business environment in South-West Nigeria is a complex and under-researched field. Accordingly, the first hypothesis is as follows, *Ho1: Cost-based pricing strategy has a significant impact on customer retention propensity in SMEs.*

Value-Based Pricing and Its Influence on Customer Retention in SMEs

This strategy determines the prices using the perceived value to the customer and not necessarily on the costs of production (Osano & Lutego, 2022). Liozu and Hinterhuber (2013) define customer-based pricing also known as value-based pricing as a method of pricing that places a strong emphasis on the perceived value of a product or service by the customer. The customer based pricing moves the emphasis away to external value perception of internal costs structures. Instead of the question being, what price will guarantee profitability? The SMEs question is, what is the price that the customer is willing to pay to receive the perceived benefits (Simon & Fassnacht, 2019). This strategy is directly related to customer satisfaction, perceived fairness, and emotional value, which is why it becomes a more and more popular model of retention-based businesses.

Phung et al. (2024) concluded that the value-based pricing positively affected the client retention in auditing companies and emphasised the need to match prices with customer-perceived value. The pricing policies that have been receiving attention as a possible means of increasing customer satisfaction and loyalty are customer-based pricing strategies, especially value-based pricing (Nagode et al., 2022; Osano & Lutego, 2022).

The strategy requires a thorough customer knowledge of the needs, likes and the value that they get out of the offering. Through the pricing to customer-perceived value, the businesses want to increase customer satisfaction and have long-lasting relationships (Phung et al., 2024). Phung et al. (2024) hypothesise that the high competitive markets could require the competition-based pricing to retain the market share, however, excessive use of this approach can result in price wars and a loss of profitability.

This is because in the Nigerian context of SMEs especially in the South-West, the rising middle class, urbanisation, and a higher degree of exposure to digitalisation have created more knowledgeable and value-sensitive customers (Adelaja & Oladele, 2021). When SMEs match their prices to the perception of customers, they tend to have a more favourable loyalty than when they use the cost-based or competition-based approaches (Oladipo & Adesanya, 2023).

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Value-based pricing is one of the customer-based pricing strategies that are very important in improving customer retention in SMEs. In a study conducted by Osano and Lutego (2022) of small-scale metal mechanics and fabricators in Mwanza City, Tanzania, it was found that the competition-based pricing strategy plays a significant role in customer retention. The study recommends that matching the prices with the rivals can lead to increased customer loyalty especially in the markets where price is one of the main competitive areas. Therefore, when the prices are aligned with the customer perceived value, SMEs can achieve customer satisfaction, loyalty, and long-term relations.

Even more, in South-West Nigeria, the consumers respond to the prices and perceived value well, and customer-based pricing allows SMEs to distinguish their products and create an emotional bond with their market (Ajayi & Banmeke, 2022; Akinbode & Ojo, 2021). According to a study by Tijani and Fadeyibi (2022), SMEs that use flexible and customer-oriented pricing models in Lagos and Ibadan achieved a 24 per cent increase in customer retention as compared to those that use rigid cost-based pricing models. The customers tend to be loyal when they perceive that their expectations of prices and benefits are met. Nonetheless, such strategies might not be as effective as they may have to do with industry context and need to be combined with other strategies such as cost-based and competition-based pricing. Thus, the second hypothesis: *customer-based pricing strategy significantly influences customer retention propensity in SMEs.*

Competition-Based Pricing and Its Influence on Customer Retention in SMEs

Competition based pricing refers to pricing of products or services largely based on the pricing of the competitors and not merely based on the internal cost structure or on the perceived customer value. It is the most widespread approach in the markets where the differentiation of the product is low and price is one of the main factors that defines the decision made by the consumers. The SMEs pursuing this approach monitor prices applied by direct competitors and make their own interesting without being cheap or expensive (Nagle & Müller, 2018). Such pricing is characteristic of the industries in which the product is very substitutable such as retail, consumer goods, transport, and services (Tijani & Fadeyibi, 2022).

Competition-based pricing highly relies on the benchmarking of prices on competitors within the market. Though this strategy has the advantages of quick market fit and low price exposure, its effectiveness in generating long-term customer loyalty is no better than the degree of the integration of quality, branding and service differentiation.

As a result, SMEs can employ the strategy to remain competitive in the market, retain customers who are price sensitive, and also make sure that they remain relevant to the market (Phung et al., 2024). The pricing of products can also be used to relate customer retention by setting prices to be proportional to competitors. As Osano and Lutego (2022) explain, competition-based pricing mechanisms significantly contributed to customer retention among metal fabricators, which implies that a business can enhance the customer loyalty by becoming competitive in the market.

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However, as it has been suggested in the literature, pricing did not always ensure loyalty. According to Oladipo and Adesanya (2023), competition-based pricing may assist in the acquisition of new customers, whereas it may not be able to retain them unless it is supplemented by other value propositions. Customers are mostly loyal to the brands that offer a mix of a low price and a high degree of experience or perceived value.

Ajayi and Banmeke (2022) stressed that SMEs that occasionally change the price according to market trends are likely to remain relevant yet still lose brand identity when the price is the only distinguishing factor. Here, consumers can easily defect to other brands in case cheaper substitutes are introduced. Thus, the third hypothesis: *Competition-based pricing strategy significantly influences customer retention propensity in SMEs.*

Theoretical Background

Behavioural Pricing Theory

The theory looks at the way customers react and interpret the prices on the basis of psychological and situational conditions as opposed to the economic rationality (Monroe, 2003). Reference prices, perceived fairness of price, and perceived gains or losses affect the customers. Economic volatility in South-West Nigeria, where spending behaviour is affected, SMEs in that region should be keen to balance price sensitivity and fairness perception to promote retention (Oladipo & Adesanya, 2023). This theory implies that with the help of effective pricing (e.g., using value-based pricing or discounts) perceived value and satisfaction can be affected, which will result in the likelihood of repeat patronage.

Customer Perceived Value Theory

The Customer Perceived Value (CPV) theory assumes that retention is based on how customers evaluate the trade-off between what they get (product quality, brand experience, service) and what they lose (price) (Kotler & Keller, 2019). Customers are more likely to remain with an SME based on the value they get per money spent whether using the cost-based pricing, competition-based pricing or customer-based pricing.

CPV in the Nigerian context is influenced by more than price to include reliability, consistency, and emotional satisfaction. It is essential to SMEs that rely extensively on repeat buying and word-of-mouth advertising (Ajayi & Banmeke, 2022).

Resource-Based View (RBV)

Resource-Based View, as postulated by Barney (1991), highlights that companies attain a competitive edge with the help of internal distinctive capabilities. Pricing capability, which is the strategic capability to set and manage prices, is an important internal resource to SMEs. The ones who come up with dynamic pricing models that are based on realities and expectations in the market can improve their competitive advantage and keep their customers longer. This school of thought

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substantiates the notion that pricing is not just a reaction of the market, but a strategic resource particularly when coupled with marketing, operations, and customer engagement activities (Barney, 1991; Wernerfelt, 1984).

The paper is an adaptation of the RBV theory in the analysis of the relationship between pricing strategy and customer retention propensity among SMEs. It is on this note that, Rao and Brown (2024) outline that companies that match their marketing plans with their internal resources are in a better position to react to the changes in the market especially in the digital era. They add that the use of digital assets and data marketing has become of paramount importance in maintaining competitive advantage (Rao & Brown, 2024).

The RBV lens may be used in SMEs pricing strategy by examining internal firm capabilities and resources:

i. Cost-Based Pricing: Companies that use their own internal cost structure as the basis of pricing can stay profitable and still provide low prices. The same study by Osano and Lutego (2022) shows that the practice of cost-based pricing also plays a major role in customer retention, which means that internal cost management is a resource that can affect the process of pricing (Osano & Lutego, 2022).

ii. Value-Based Pricing: This is a pricing strategy that uses perceived customer value in pricing a product or service, which is pegged on what the firm knows about the customer needs and preferences. According to Osano and Lutego (2022), value-based pricing plays a significant role in customer retention among small-scale metal mechanics and fabricators in the Mwanza City in Tanzania. It implies that customer retention can be improved with the help of adequate pricing by SMEs that have the potential to evaluate and provide customer value (Osano & Lutego, 2022; Rao & Brown, 2024).

iii. Competition-Based Pricing: Although this strategy is externally-oriented, the capacity of a company to carry it out successfully is predetermined by internal factors, including the capacity to analyse the market and strategic flexibility. According to Osano and Lutego (2022), competition-driven pricing strategies play a major role in retaining customers, which is why SMEs have to build internal competencies in market intelligence (Osano & Lutego, 2022; Rao & Brown, 2024).

Also, customer retention has been directly associated with internal resources and capabilities of a firm. Adejuwon and Lawal (2022) investigated how customer retention in SMEs in the South-West of Nigeria is influenced by a resource-intensive approach such as social media marketing. Their results show that the elements of customer engagement, customisation, and social interaction have a considerable influence on customer retention, which makes it essential to utilise internal digital marketing tools (Adejuwon & Lawal, 2022). In the same way, Olugbenga and Bamidele (2024) examined the effect of customer retention on the profitability of organisations in the FMCG industry in Nigeria. They established a strong positive correlation between profitability and customer retention strategies, which emphasised the importance of internal resources such as personalised marketing, and good customer support in customer retention (Olugbenga & Bamidele, 2024).

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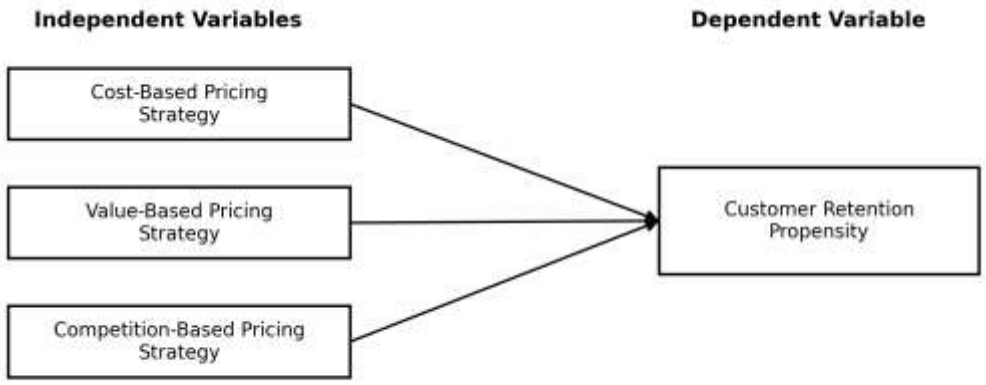
SMEs in the South-West Nigeria setting have special challenges and opportunities. The market in the region is dynamic and diverse and this requires the SMEs to come up with internal resources and formulate effective pricing policies and improve customer retention. According to Adejuwon and Lawal (2022), the use of social media marketing among SMEs in this region is beneficial as this resource, in case of effective management, can result in the growth of customer loyalty and customer retention.

Thus, the theory offers a useful model of how SMEs can utilise their internal resources to come up with viable pricing strategy and increase customer retention. Hence, SMEs can develop sustainable competitive advantages by concentrating on distinctive capabilities, like value evaluation, cost control, market investigation, and online promotion. The South-West Nigeria has shown evidence of the significance of these internal resources in the survival of the competitive environment of the region and the attainment of business success.

The relationship between the dependent and independent variables for the study is conceptualised in Figure 1.

Figure 1: Conceptual Framework



Source: Author's Design, 2025

METHODOLOGY

The main argument of the study is to analyse how pricing strategies influence the customer retention propensity of small and medium-sized enterprises (SMEs) in South-West Nigeria. In line with this, the study is geographically restricted to the SMEs that are based in this particular region, as it will be contextually relevant and specific. A survey research design was implemented because such a method is especially suitable when it comes to describing, analysing, and interpreting the links between variables in social science studies (Creswell & Creswell, 2018). Since the study is descriptive, it will allow collecting empirical data, which is needed to answer the research questions

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and empirically test the mentioned hypotheses (Creswell & Creswell, 2018). The research design increases the reliability and validity of the results because it will allow the researcher to gain a detailed picture of the relationship between pricing strategy and customer retention in the SME industry in the chosen area.

However, the study focuses on owners and managers of SMEs as well as marketing executives in the six states of South-West Nigeria, namely Lagos, Ogun, Oyo, Osun, Ondo, and Ekiti, representing a substantial concentration of SMEs in the region. The total population of SMEs in these states is reported by the SMEDAN (2021) to be 132,749, of which Lagos State contributes the largest number of SMEs, at 48,943 enterprises, followed by Oyo and Ogun with 30,170 and 26,818 enterprises, respectively. Osun and Ekiti jointly account for 16,761 SMEs, while Ondo has 10,057 SMEs. The study only targets the manufacturing enterprises within these states. Using Cochran's (1977) sample-size formula for a large population at a 95% confidence level and 5% margin of error, a target sample of 384 respondents was obtained. A total of 384 questionnaires were distributed and 312 usable questionnaires were returned and analysed, representing an 81.3% usable response rate.

Primary data were collected through a self-developed closed-ended questionnaire using a five-point Likert scale, measuring responses from strongly agree to strongly disagree. The questionnaires went through expert validation, and piloting was conducted with 30 SME owners to establish reliability using Cronbach's Alpha, and an acceptable threshold of 0.70 is considered. Reliability was assessed through the test-retest method and Cronbach's Alpha, which yielded a reliability index shown in Table 1, indicating high consistency and reliability.

Ethical considerations were observed throughout data collection. Participation was voluntary, respondents were informed that their responses would be used solely for research purposes, and confidentiality was maintained. Voluntary consent to participate was indicated by completion and return of the questionnaire. No personally identifying information was required in the analysis or reporting of the findings.

Table 1: Reliability Statistics of Research Variables

S/N	Variables	No. of Items	Cronbach's Alpha	Composite Reliability	Remark
1	CuRePr	4	0.887	0.867	Reliable
2	Cos	4	0.773	0.711	Reliable
3	Cus	4	0.877	0.827	Reliable
4	Com	4	0.763	0.721	Reliable

Source: Pilot Survey, 2025

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Descriptive and inferential statistical analyses were employed to present and analyse the data collected from the field study, utilising IBM Statistical Package for Social Sciences (IBM SPSS version 27.0). Descriptive statistics were used to provide a comprehensive overview of the respondents' demographic characteristics. Regression analysis was used to examine the effect of pricing strategies on customer retention propensity. Significant relationships were determined based on p-values: if the p-value was below 0.05, the null hypothesis was rejected; if above, it would not be rejected. This approach clarified the strength and significance of the relationships among the variables.

Hypothetical Model Specification

CuRePr = f(Cos, Cus, Com)

The model to achieve test of hypotheses was specified below;

$CusRePr=\beta o+\beta iCos+\beta iiCus+\beta iiiCom+Ɛ$

Where:

CusRePr=Customer Retention Propensity (Dependent variable)

Cos= Cost Based Pricing Strategy (Independent variable)

Cus= Customer Based Pricing Strategy (Independent variable)

Com= Competition Based Pricing Strategy (Independent variable)

β_o = Intersection point

Ɛ= Error term

The a priori expectation was that the regression coefficients for the three pricing strategies would be positive ($\beta1, \beta2, \beta3 > 0$). A null hypothesis was rejected when $p < .05$; where $p \geq .05$, the null hypothesis was not rejected.

RESULTS AND DISCUSSION

Descriptive Statistics of Variables

The study's constructs, including customer retention propensity (CuRePr), cost based pricing strategy (Cos), customer based pricing strategy (Cus); and competition based pricing strategy (Com) were subjected to descriptive statistical measurements. The computed values include mean (M), standard deviation (SD), skewness, and kurtosis. These measurements assess the normality distribution and degree of asymmetry for each construct. The results are presented in Table 2 below.

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Table 2: Descriptive Statistics

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
CuRePr	312	4.33	.654	-1.300	.115	3.723	.210
Cos	312	4.15	.819	-1.669	.115	4.133	.210
Cus	312	4.08	.927	-1.655	.115	3.123	.210
Com	312	4.10	.907	-1.525	.115	3.010	.210
Valid N (listwise)	312						

Source: Field Study, 2025

Table 2 depicts the summary of descriptive statistics in respect to effect of pricing strategy and customer retention propensity in SMEs in South-West Nigeria as independent and dependent variables included in the study. The table depicts that the Mean and Standard Deviation values for the four items (CuRePr, Cos, Cus, and Com) representing customer retention propensity, cost based pricing strategy (Cos), customer based pricing strategy (Cus); and competition based pricing strategy criterion were within the statistical acceptable range.

Moreover, the reported Skewness and Kurtosis values for customer retention propensity (CuRePr), cost based pricing strategy (Cos), customer based pricing strategy (Cus); and competition based pricing strategy respectively, were not outside the range of normality, so the distribution of the values was considered to be statistically appropriate for the study.

Test of Hypotheses

Multiple regression analysis was used to test the effect of pricing strategy on customer retention propensity, with the table showing R^2 values indicating explained variance in customer retention propensity as a result of unit changes in pricing strategy.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.702[a]	.493	.488	.330

a Predictors: (Constant), Cos, Cus, Com

Source: Researcher's Computation, 2025

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The model summary presented in Table 3 shows a multiple correlation coefficient of R =.702 between the set of pricing strategy predictors and customer retention propensity. The coefficient of determination (R^2 =.493) indicates that the three pricing strategies jointly account for 49.3% of the variance in customer retention propensity. The statistical significance of the overall regression model is assessed in the ANOVA results rather than inferred from R alone.

The R-square value of.493 indicates that cost-based pricing strategy (Cos), customer-based pricing strategy (Cus), and competition-based pricing strategy (Com) jointly explain 49.3% of the observed variance in customer retention propensity (CuRePr). The adjusted R^2 of.488 corrects this estimate for the sample size and number of predictors, indicating that the model retains substantial explanatory power after adjustment. The standard error of the estimate is.330. These statistics describe model fit and explained variance; they do not imply that every individual predictor is statistically significant.

Table 4: ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	32.612	3	10.871	99.832	< .001
	Residual	33.541	308	.109		
	Total	66.153	311			

a Predictors: (Constant), Cos, Cus, Com

b Dependent Variable: CuRePr

Source: Researcher's Computation, 2025

Table 4 shows that the overall regression model is statistically significant, F(3, 308) = 99.832, p <.001. This indicates that cost-based, customer-based and competition-based pricing, considered jointly, significantly predict customer retention propensity. The overall F-test, however, does not establish that each pricing strategy has a statistically significant unique effect; the individual coefficients in Table 5 are used for that purpose.

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Table 5: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	p
		B	Std. Error	Beta		
1	(Constant)	.451	.143		3.162	.002
	Cos	.072	.179	.071	.404	.686
	Cus	.467	.203	.461	2.302	.022
	Com	.136	.102	.143	1.330	.185

a Dependent Variable: CuRePr

Source: Researcher's Computation, 2025

The estimated equation of the hypothesis is expressed as CusRePr=βo+βiCos+βiiCus+βiiiCom+Ɛ

As shown in Table 5, customer retention propensity (CuRePr) would be equal to 0.451 when all other variables are held to zero. However, it would increase by 0.072, 0.467 and 0.136 when there is unit increase in cost based pricing strategy (Cos), customer based pricing strategy (Cus), and competition based pricing strategy (Com), while other variables remain constant.

Further, when the other pricing strategies are held constant, cost-based pricing has a positive but statistically non-significant coefficient (B =.072, β =.071, t =.404, p =.686). The first null hypothesis is therefore not rejected: the data do not provide sufficient evidence that cost-based pricing independently influences customer retention propensity at the 5% significance level.

Additionally, customer-based pricing has a positive and statistically significant coefficient when the other predictors are held constant (B =.467, β =.461, t = 2.302, p =.022). The second null hypothesis is therefore rejected, indicating that customer-based pricing has a statistically significant positive association with customer retention propensity in the model.

Lastly, competition-based pricing has a positive but statistically non-significant coefficient (B =.136, β =.143, t = 1.330, p =.185). The third null hypothesis is therefore not rejected. Although the coefficient is positive, the evidence is insufficient to conclude that competition-based pricing independently predicts customer retention propensity at the 5% significance level.

Discussion of Results

The regression results indicate that the three pricing strategies, when considered jointly, are significantly associated with customer retention propensity among SMEs in South-West Nigeria. The multiple correlation coefficient (R =.702) shows a strong overall relationship, while R^2 =.493

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indicates that 49.3% of the variance in customer retention propensity is explained collectively by cost-based, customer-based and competition-based pricing. This joint model result is consistent with the broader pricing literature, which treats pricing as a strategic capability that can shape firm outcomes rather than merely an accounting decision (Kienzler & Kowalkowski, 2017; Liozu & Hinterhuber, 2013). Nevertheless, the individual coefficients show that the three pricing orientations do not contribute equally once their overlapping effects are controlled.

Cost-based pricing shows a positive but statistically non-significant unique association with customer retention (B =.072, β =.071, p =.686). This finding suggests that recovering production costs and applying a mark-up may provide internal pricing discipline, but cost information alone may not be sufficient to influence whether customers remain with an SME. The result is broadly consistent with Phung et al. (2024), who reported that cost-plus pricing did not make a significant contribution to client retention in their small and medium-sized auditing-firm setting. It also accords with Hinterhuber's (2008) argument that cost-based approaches are internally focused and may underrepresent customers' perceptions of value. The non-significant coefficient in the present study therefore indicates that, when customer- and competition-based pricing are simultaneously considered, cost-based pricing does not explain additional variation in retention at the conventional 5% level.

The overall significance of the model is confirmed by $F(3, 308) = 99.832$, $p < .001$, demonstrating that the three pricing orientations collectively provide meaningful explanatory information for customer retention propensity. Importantly, this omnibus significance should not be interpreted as evidence that every predictor is individually significant. The pattern instead shows a significant customer-based pricing coefficient alongside non-significant cost-based and competition-based coefficients. This distinction strengthens the interpretation of the findings and is consistent with pricing research that treats cost, competition and customer value as distinct orientations with different strategic consequences (Hinterhuber, 2008; Liozu & Hinterhuber, 2013).

Conclusion and Recommendations

The study concludes that pricing strategy, considered as a set of cost-based, customer-based and competition-based orientations, is significantly related to customer retention propensity among manufacturing SMEs in South-West Nigeria. The three predictors jointly explain 49.3% of the variance in retention propensity. However, the predictor-level results show an important distinction: customer-based pricing is positively and significantly associated with retention, whereas cost-based and competition-based pricing have positive but statistically non-significant unique coefficients. The findings therefore support greater managerial attention to customers' perceived value and willingness to pay, while cost and competitor information should be treated as complementary inputs rather than as independently established drivers of retention. The results do not imply that cost control or competitor monitoring is unimportant; rather, their separate contribution to retention was not statistically established in the present model.

To enhance performance the following are the suggestions that are proposed:

i. Strengthen Customer-Based Pricing: SMEs should place greater emphasis on understanding customer-perceived value, willingness to pay and price fairness because customer-based pricing was the only pricing orientation with a statistically significant unique association with retention. Regular customer feedback, market research and segmentation can help managers align prices more closely with the benefits customers perceive.
ii. Use Competitor Prices as Supporting Information: SMEs may continue to monitor competitors' prices for market-positioning purposes, but the non-significant coefficient found in this study suggests that competitor benchmarking should not be relied upon as a stand-alone retention strategy. Competitive information should be combined with customer value and internal cost considerations.
iii. Integrate Cost Management with Customer Value: Cost-based pricing remains useful for ensuring that prices cover operating costs and support financial sustainability, but its non-significant unique relationship with retention indicates that internal cost calculations should be integrated with customer-value information. SME-support programmes may therefore include practical training in customer value assessment, segmentation and pricing analytics, while recognising that the present cross-sectional survey does not establish a universal policy effect.

Limitations and Directions for Future Research

The findings should be interpreted in light of several limitations. First, the cross-sectional design captures pricing practices and retention propensity at one point in time and therefore does not establish causal direction. Second, customer retention was measured perceptually through respondents' questionnaire reports rather than through observed repeat-purchase or transaction records. Third, the study is confined to manufacturing SMEs in South-West Nigeria, which may limit direct generalisation to other sectors and regions. Fourth, the pricing variables and customer retention propensity were reported by the same respondents in a single questionnaire, creating the possibility of common method variance. Future studies could address these limitations through longitudinal designs, objective retention indicators, multi-source data and replication across sectors and geographical areas.

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