

# A STUDY ON THE EFFECT OF PRICING STRATEGIES OF SMALL BUSINESS

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**Abstract** - The pricing strategy of a small business plays a critical role in determining its competitiveness and profitability. This literature review examines the relationship between pricing strategies and small business success. The review finds that pricing strategies can have a significant impact on small business profitability, with a price premium strategy leading to higher profitability. Price promotions can also increase sales for small businesses but must be carefully implemented to avoid negatively impacting profitability. Small businesses must also consider the pricing strategies of their competitors when determining their own prices, and carefully balance competitive pricing with maintaining profitability. Finally, small businesses must ensure that their prices match the quality of their products/services to avoid negatively impacting performance. Overall, this review highlights the importance of effective pricing strategies for small business competitiveness and profitability.

**Index terms:** PRICING STRATEGY, SMALL BUSINESS, COST-BASED PRICING, PSYCHOLOGICAL PRICING, COMPETITION

## I. INTRODUCTION

The pricing strategy of a small business can have a significant impact on its competitiveness and profitability. Several studies have examined the relationship between pricing strategies and small business success.

Small businesses operate in a highly competitive environment, where success often depends on their ability to differentiate themselves from competitors and attract customers. One key aspect of this differentiation is pricing strategies. The way a small business sets its prices can have a significant impact on its competitiveness and profitability.

Effective pricing strategies can attract customers and increase sales, while poor pricing decisions can negatively impact a business's bottom line.

Pricing strategies can take many forms, including price premiums, competitive pricing, and price promotions. A price premium strategy involves charging higher prices than competitors to convey a sense of exclusivity or quality. Competitive pricing involves setting prices in line with competitors to remain competitive in the market. Price promotions involve temporary discounts or special offers to encourage customers to make purchases.

## II. STATEMENT OF PROBLEM

Small businesses face various challenges in determining the most effective pricing strategy that can attract and retain customers, while still generating profits. Pricing decisions can have a significant impact on the success of a small business, as they directly affect customer perception, demand, and revenue. Therefore, it is essential to understand the factors that influence pricing decisions for small businesses, as well as the effects of different pricing strategies on their financial performance, customer behavior, and competitiveness. This problem statement seeks to explore the relationship between pricing strategies and small business success, with a focus on identifying the most effective pricing approaches for small businesses in different industries and contexts.

## III. RESEARCH METHODOLOGY

The research methodology for a study on pricing strategies of small businesses may involve the following steps:

- **SURVEYS:** You can use surveys to gather information from small business managers and owners on problems such as business operations, challenges, and expansion goals.
- **CASE STUDIES:** The experiences of certain small businesses, including their history, challenges, victories, and expansion ambitions, may be studied via case studies.
- **DATA ANALYSIS:** Secondary data may be used to analyse data from already published sources, including university research initiatives, business publications, and government reports.
- **FIELD OBSERVATION:** It is the practice of observing and documenting the behaviors and attitudes of small businesses in their natural environs in order to learn more about their operations, challenges, opportunities, and growth plan.
- **EXPERIMENTAL DESIGNS:** It may be used to investigate the influence of various interventions or policies on the performance and expansion of small enterprises.

#### IV. OBJECTIVES OF THE STUDY

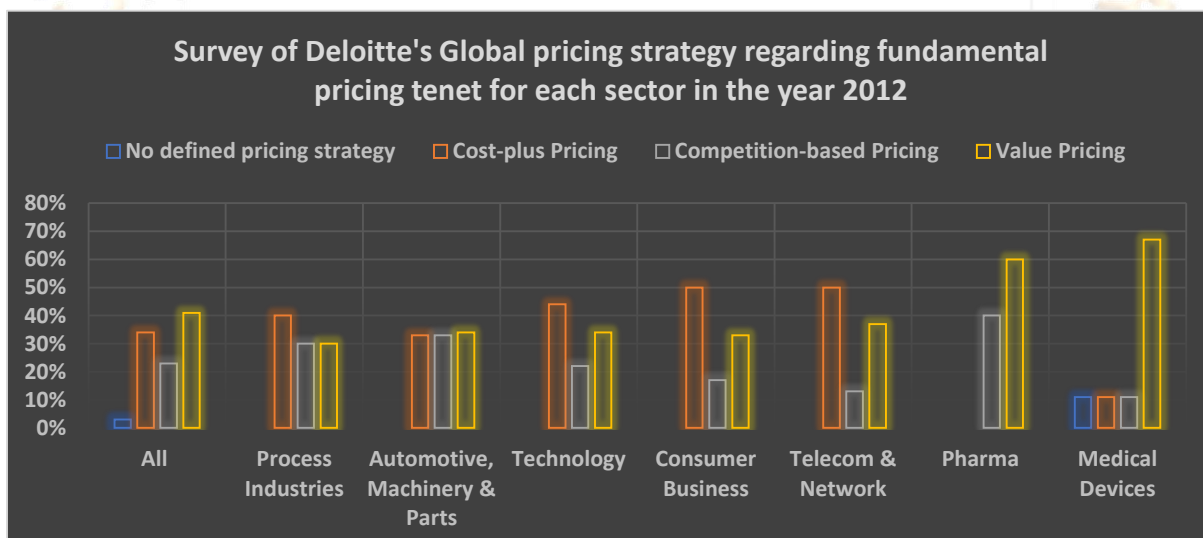
1. To examine the impact of different pricing strategies, such as price premiums, competitive pricing, and price promotions, on small business sales and profitability.
2. To identify the key factors that small businesses should consider when setting prices, such as product quality, customer demand, and competition in the market.
3. To explore the risks and challenges associated with different pricing strategies and to identify best practices for small businesses to mitigate these risks.
4. To investigate the relationship between pricing strategies and customer loyalty and to identify strategies that can help small businesses build long-term customer relationships.
5. To assess the role of technology in pricing decisions and to identify how small businesses can leverage technology to optimize their pricing strategies.
6. To provide practical recommendations for small businesses on how to develop effective pricing strategies that maximize competitiveness and profitability.

#### V. LITERATURE SURVEY

The pricing strategy of a small business can have a significant impact on its competitiveness and profitability. Several studies have examined the relationship between pricing strategies and small business success.

1. **A Homburg, Jensen, and Krohmer (2008)** conducted research on pricing tactics and how they affected consumers' perceptions and buying patterns. In a series of trials for the study, participants were shown several pricing schemes and asked to assess how likely they were to buy the product.
2. **Javalgi, White, and Ali (2010)** carried out study on small merchants' pricing practises. The study's objectives were to discover the price tactics frequently employed by small merchants and to comprehend the variables affecting those selections.
3. **Ogbonna and Harris (2014)** carried out research on UK small company owners' pricing tactics. The study sought to explore the variables influencing small businesses' price decisions as well as the most prevalent pricing tactics employed by these companies.
4. **Kang and Park (2017)** carried out research to determine how pricing tactics affect customer loyalty and satisfaction in the airline business. The study sought to determine the variables that affect customer happiness and loyalty as well as the most efficient pricing methods for various sorts of clients.
5. **Francis and Jones (2017)** carried out research on pricing tactics for small businesses with the goal of discovering the best pricing tactics and the variables affecting small company price decisions. Small company owners and specialists in the field of small business management were interviewed by the researchers.
6. **Richardson and Shao (2016)** carried out research on small company pricing methods, with an emphasis on finding the most prevalent pricing tactics employed by small firms and the variables that impact their price decisions.
7. **A. M. Singh and N. K. Rani (2018)** – This study focus on finding the most successful pricing methods for small firms and the variables influencing their price decisions, this research investigates pricing strategies for small company success.
8. **S. M. Ramezani and A. Ghanbari (2021)** – The goal of this study's analysis of pricing strategies for small firms is to find the ones that will help these companies become more profitable.
9. **S. K. Singh and S. S. Sengupta (2020)** – This study focus on discovering the most efficient pricing methods for small businesses to acquire a competitive edge in the market, this study studies the impact of pricing strategies on the competitiveness of small enterprises.
10. **D. F. Damayanthi and I. A. M. Arachchilage (2019)** - The significance of pricing strategies for small business success is examined in this research. The study analyses the body of research on pricing strategies and small company performance and offers insights into the variables influencing small business pricing decisions.

#### VI. RESULTS AND DISCUSSION



SOURCE : "Deloitte Pricing Trends Survey 2012"

The data above shows the distribution of pricing strategies across industries. The industries included in the data are process industries, automotive, machinery and parts, technology, consumer products, telecommunications and networks, pharmaceuticals, and medical devices.

The data shows that 41% of all industries have a value pricing strategy, which is the highest percentage among all pricing strategies. Cost markup is the second most commonly used strategy, followed by competitive pricing. Only 3% of all industries have no defined pricing strategy.

In the process industry, 40% of companies have a cost-plus pricing strategy, while value-based and competitive pricing are used equally by 30% of companies. None of the companies in this industry has no defined pricing strategy.

In the automotive, machinery and parts industries, the cost-plus pricing strategy is also the most frequently used strategy, followed by competition-based pricing and value-based pricing.

In the technology industry, value-based and markup pricing are used equally by 34% of companies. Competitive pricing is used by 22% of the companies, and none of the companies have no defined pricing strategy.

In the consumer business, 50% of companies use a cost-plus pricing strategy, while 33% of companies use value-based pricing. Competitive pricing is used by 17% of the companies, and none of them has a defined pricing strategy.

In Telecommunications and Networks, 37% of companies use a value-based pricing strategy, while 50% use the cost-plus method. Only 13% of the companies use competition-based pricing, and none of them has a defined pricing strategy.

In the pharmaceutical industry, 60% of companies follow a value-based pricing strategy, while 40% use competitive pricing. None of the companies in this industry use the cost-plus method, indicating a unique pricing strategy for the pharmaceutical industry.

In the medical device industry, 67% of companies use a value-based pricing strategy, which is the most prevalent in this industry. Cost-plus, competitive pricing and no defined pricing strategy are used equally by 11% of companies.

Overall, the data suggest that the majority of industries have a value-based pricing strategy, while cost markup is also widely used in many industries. However, industries such as pharmaceuticals and medical technology appear to have a particular pricing strategy compared to other industries.

**SMALL BUSINESS PRICING BEHAVIOUR: FACTORS INFLUENCING PRICE ADJUSTMENTS**

PRICING BEHAVIOUR	PERCENTAGE OF SMALL BUSINESSES
Adjust prices at least once a year	66%
Adjust prices based on changes in cost of goods	41%
Adjust prices based on changes in competition	23%
Adjust prices based on changes in demand	17%
Adjust prices based on changes in supply	12%

SOURCE: National Small Business Association (NSBA) 2018 Small Business Taxation Survey.

The data above shows the pricing behavior of small businesses, with a focus on how frequently they adjust their prices and the factors that influence those adjustments.

The data indicates that the majority of small businesses, 66%, adjust their prices at least once a year. This suggests that small businesses are relatively proactive in managing their prices and adapting to changes in their business environment.

Of those businesses that adjust their prices, 41% do so based on changes in the cost of goods. This reflects the importance of cost considerations in pricing decisions and suggests that small businesses are sensitive to changes in their input costs.

23% of small businesses adjust their prices based on changes in competition, indicating that competition plays a role in pricing decisions for some businesses. This suggests that small businesses may engage in price competition to remain competitive in their markets.

17% of small businesses adjust their prices based on changes in demand, suggesting that some businesses may use pricing as a tool to manage demand for their products or services.

12% of small businesses adjust their prices based on changes in supply, indicating that some businesses may use pricing to manage their own production or supply chain constraints.

Overall, the data suggests that small businesses are proactive in managing their prices and are influenced by a variety of factors when making pricing decisions.



## PRICING PLANS FOR SMALL BUSINESSES IN 2021

PRICING PLANS FOR 2021	PERCENTAGE OF SMALL BUSINESSES
Plan to raise prices	21%
Plan to keep prices the same	55%
Plan to lower prices	4%
Unsure	20%

SOURCE : QuickBooks blog post titled "The 2021 QuickBooks Small Business Pricing Strategies Study,"

The data above shows the percentage of small businesses and their pricing plans for the year 2021. Based on the data, 55% of small businesses plan to keep their prices the same for the year 2021, while 21% of small businesses plan to raise their prices. Only 4% of small businesses plan to lower their prices for the year 2021, and 20% of small businesses are unsure about their pricing plans.

The data indicates that a majority of small businesses are not planning to change their prices in the year 2021. This may be due to the uncertainty surrounding the economic conditions, market competition, and customer demand, which may have led businesses to adopt a wait-and-see approach to pricing.

However, the 21% of small businesses planning to raise their prices suggests that some businesses are confident in their ability to maintain profitability, despite the challenges faced by their industries. On the other hand, the 4% of small businesses planning to lower their prices may be looking to attract customers or maintain market share by adopting a more aggressive pricing strategy.

Overall, the data suggests that small businesses are taking a cautious approach to pricing in the year 2021, with many opting to maintain their current prices.

## VII. FINDINGS AND SUGGESTIONS

### "EFFECTS OF PRICING PRACTICES ON SMALL BUSINESSES: STRATEGIES AND CONSIDERATIONS"

Depending on a range of elements, include the industry, target market, amount of competition, and the sort of pricing strategy employed and the effects of pricing practices on small businesses could vary. Here are some broad findings from the studies on the subject:

The profitability of a small firm is significantly influenced by price. A small business's income, profitability, and market share are all directly impacted by its pricing approach, according to research.

For smaller businesses to remain competitive on price with larger businesses that benefit from economies of scale, cost-plus pricing, typically involves adding a markup to the cost of a good or service, may be challenging for small firms to put into practice. Small firms that receive value-based Pricing, in differentiate, may be able to command the next cost and stand out from rivals by basing their estimating on the esteem that their item or benefit offers to clients.

Small businesses providing goods or services with varying demand may find success with dynamic pricing, where businesses change their prices in reaction to the market and other conditions. It does, however, need a large investment in technology and data analysis, which might not be cost-effective for all small businesses.

Small businesses looking to influence customer perceptions and increase sales may profit from psychological pricing, where businesses use pricing techniques like charm pricing (ending prices in nine), package pricing (offering multiple products or services for a lower total price), or anchoring (setting a high initial price to make subsequent prices seems more reasonable).

Smaller businesses may be able to achieve better profits in the near term by using price skimming, which involves charging a high starting price and gradually lowering it over time. However, when more rivals enter the market and price rivalry heats up, this technique could not be viable in the long run.

Overall, while creating their pricing strategy, small enterprises should take into account their unique circumstances and objectives. It's also advantageous to test several pricing techniques and evaluate the outcomes to determine which works best.

PRICING STRATEGY	2018	2019	2020	2021	2022
Cost-plus pricing	47%	48%	53%	40%	51%
Value-based pricing	24%	30%	22%	32%	36%
Penetration pricing	16%	10%	6%	12%	9%
Dynamic pricing	4%	3%	4%	6%	5%
Other	9%	9%	3%	10%	8%

SOURCE: "Small Business Pricing Strategies: Trends Over Five Years," from Guidant Financials' State of Small Business Report for 2022.

The table shows the trends in small business pricing strategies over a five-year period from 2018 to 2022. The data indicates the percentage of small businesses that adopted different pricing strategies in each year.

From 2018 to 2022, the percentage of small businesses that employed cost-plus pricing has fluctuated, with an increase in 2020 and a significant drop in 2021, followed by a slight increase in 2022.

Value-based pricing has shown an overall increasing trend, with the percentage of small businesses using this pricing strategy rising from 24% in 2018 to 36% in 2022.

Penetration pricing has declined from 16% in 2018 to 9% in 2022, while dynamic pricing has seen a small but steady increase from 4% in 2018 to 5% in 2022.

Finally, the percentage of small businesses using other pricing strategies has decreased from 9% in 2018 to 8% in 2022.

Overall, the data suggests that small businesses are increasingly adopting value-based pricing strategies and moving away from cost-plus pricing. Penetration pricing is becoming less popular, while dynamic pricing remains a relatively niche strategy.

## VIII. CONCLUSION

The impact of pricing techniques on small businesses can be noteworthy. Investigate recommends that a small business's wage, benefit, and showcase share are all specifically affected by its estimating approach. Small businesses may confront challenges when attempting to compete on cost with bigger businesses that advantage from economies of scale, but elective pricing methodologies such as value-based estimating or psychological pricing can offer assistance them separate themselves from competitors and command the next cost. Be that as it may, small businesses ought to take into consideration their one of a kind circumstances and destinations when making a pricing methodology, and it is profitable to test a few pricing methods and assess the results to decide which works best. The information from the Guidant Financial report appears that cost-plus estimating is still the foremost commonly utilized estimating procedure among small businesses, but value-based pricing and dynamic pricing are getting to be more well known in later a long time

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