



## Exploring the Internal and External Factors Influencing Pricing Strategies of SMEs in Northern Katutura, Windhoek, Namibia

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**ABSTRACT:** The study main objective was to explore the internal and external factors influencing pricing strategies of SMEs in Northern Katutura, Windhoek, Namibia. The study adopted an interpretivism paradigm which served as the philosophical foundation for this research, which adopted a qualitative approach. The study targeted population was drawn from SMEs in Northern Katutura operating in various sectors. The population also include managers/owners and general staff members in the SMEs. A sample size of 45 SMEs participated in the study which was deemed as a good sample size for the study. An open-ended questionnaire was used to collect data from participants, the data collected was analysed using thematic analysis. The study revealed that internal factors influencing pricing strategies of SMEs were organisational objectives, costs, promotional activities, degree of product differentiation and product life cycle. The study concluded that the pricing of goods and services offered by small and medium-sized enterprises (SMEs) in Northern Katutura, Windhoek, Namibia is significantly affected by both internal and external factors. The study recommended that government agencies should adhere to the guidelines provided by the SMEs when formulating pricing-related policies so that the resulting regulations can help the SMEs set prices for their products that will be profitable.

**KEYWORDS:** External factors, Internal factors, Northern Katutura, Pricing strategies; Small Medium Enterprises

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### INTRODUCTION

According to World Bank (2022) reported that Small and medium-sized enterprises (SMEs) are extremely important to most economies, especially those in emerging nations. SMEs make up most enterprises globally and play a significant role in employment creation and the expansion of the global economy. Significant threats to the world economy are posed by high and unstable commodity prices. Depending on whether a nation exports or imports the affected commodities, as well as how rising prices influence household, SMEs, and corporate income, the consequences on inflation and growth have varied widely between nations (Igan et al., 2022).

Since many SMEs have raised their prices of their goods and services to cover operating costs, the major changes in the global economy brought on by high prices have had a substantial negative impact on their operations and led to a loss of demand (Selassie & Kovacs, 2022). However, the general population's reduced spending due to job losses and poor wages has forced many SMEs and large businesses to compete for the few, thus those offering reasonable prices to the general population are to draw clients (Zeidy, 2022). Unknown, is how SMEs are setting their prices for goods and services in this unsettling environment to maintain the viability of their operations.

### Problem Statement

Pricing is a critical element of business strategy, especially for small and medium-sized enterprises (SMEs) operating in highly competitive markets. Setting the right prices for products and services has been a challenge for SMEs aiming for profitability and sustainable growth. However, the process of determining optimal pricing strategies is influenced by a myriad of internal and external factors.

The study delved into the internal and external factors influencing pricing strategies of SMEs, this study intends address the challenge faced by SME owners, managers, and practitioners with the development of a comprehensive framework for analysing

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pricing decisions. This framework will shed light on the factors that SMEs must consider, when they encounter challenges in developing effective pricing strategies.

### Research Questions

1. How do internal & external factors influence pricing strategies of SMEs?
2. What influence does product life cycle have on pricing of products?
3. Is Product Promotion linked pricing of products?
4. What is the role of government in determining pricing of products by SMEs?

### MATERIALS AND METHODS

The research in question followed an interpretivism paradigm and employed a qualitative approach to investigate the factors, both internal and external, that influence the pricing strategies of small and medium-sized enterprises (SMEs) in Northern Katutura, Windhoek business, Namibia. The target population for the study consisted mostly of 75 registered SMEs operating in various sectors within Northern Katutura, which included managers/owners and general staff members. A sample size of 45 SMEs responded making a response rate of 60%, which was considered appropriate for the study.

SMEs	Targeted Population	Sample Size	Response rate
Owners/Mangers and general staff members	75 Registered SMEs	45 SMEs	60%

Data collection was done using open-ended questionnaire which was administered to the participants. The collected data underwent thematic analysis, which resulted in the identification of various themes and subthemes that emerged from the responses. Throughout the study, ethical considerations were given due importance. This involved obtaining clearance from the Ethical Committee of the International University of Management and securing a research permit from the National Commission on Research, Science, and Technology.

In ensuring reliability the researcher ensured that there was accurate and careful phrasing of each question to avoid ambiguity, and leading participants of the study to a particular answer. In addition, the researcher had to ensure validity by double-checking all data gathering techniques to make sure they were accurate and successful in achieving the study's goals.

Furthermore, the research upheld key ethical principles, such as maintaining confidentiality of the participants' information, ensuring informed consent was obtained from all participants, and prioritizing the principle of beneficence, which aimed to maximize the potential benefits and minimize any potential harm to the participants. These ethical principles were carefully followed during the study to safeguard the rights and well-being of the participants involved.

### RESULTS AND DISCUSSION

The internal and external factors influencing pricing strategies of SMEs in Northern Katutura are presented below.

#### Internal factors influencing pricing strategies of SMEs

##### Organisational objectives

According to the participants' responses, small and medium-sized enterprises (SMEs) in the study acknowledged that they consider their organizational objectives when establishing their pricing structures. Given their status as SMEs, these businesses take into account their specific goals and objectives when determining the prices for their products and services. One participant indicated that, *"The organisational objectives are very important when pricing our products because they determine the direction in which our organisation is to take hence, we always match our pricing with the company objective."*

The findings of the study indicate that certain SMEs in Northern Katutura consider their organizational goals when determining pricing strategies for their products and services. This observation implies that organizational goals serve as a reflection of the motivations driving these SMEs, consequently influencing the pricing decisions they make for their offerings. These results are supported by Brassington and Pettitt, (2013), who indicated that addressing known client demands and wants, marketing plans and objectives must also reflect the goals and aspirations of the business.

The participants highlighted that the pricing decisions of SMEs are significantly influenced by the costs incurred in their operations. These small and medium-sized enterprises consider both fixed and variable costs when determining the appropriate pricing for their goods and services. A participant was quoted as saying, *"The variable costs and fixed costs are very important when pricing because without them you might be charging customers low prices hence you end up making a loss."* The findings indicate that both variable and fixed costs have a significant impact on the pricing strategies of SMEs in Northern Katutura. Neglecting to consider all costs when determining the price of a product or service can lead to unfavourable outcomes for these SMEs. Overcharging

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customers may result in a negative brand image, while undercharging customers can create a positive impression but negatively impact profitability, potentially leading to losses that could threaten the sustainability of the business.

Hence, careful consideration of all costs is crucial for SMEs to strike a balance between customer satisfaction and financial viability. These results are supported by Cant (2016) who indicated that organisations need to reflect on the variable costs and on the contribution towards fixed costs and base the estimated profit on the predicted levels of sales in order to ensure that in the long run, all costs are met and the accepted level of profit is made.

### **Promotional activities**

According to the participants, the pricing of goods is also influenced by the promotional activities conducted by the SMEs. The participants indicated that their pricing decisions take into account the impact of promotional strategies on the perceived value of their products. One of the participants explained that,

*“The promotional activities have a bearing on the overall costs incurred hence we need to compensate that with charging higher prices so as to recover those costs.”*

The results indicate that the promotional efforts of SMEs directly affect the pricing of their products and services. This suggests that as SMEs increase their promotional activities, they are more likely to charge higher prices for their goods and services. The findings highlight the relationship between promotional efforts and pricing decisions, indicating that SMEs perceive promotional activities as a factor that justifies higher pricing for their offerings. These results corroborate with that of Chand (2019) who indicate that prices of the product must be kept high to recover costs if the company spends a lot on advertising and sales promotion.

### **Degree of product differentiation**

According to participants' responses, on the degree of product differentiation the study employed pricing to differentiate their products from competitors. This product differentiation is primarily based on customers' perception of the quality of the offerings provided by the SMEs in comparison to similar products offered by their competitors. Another participant revealed that,

*“Product differentiation has an influence on how we price our products/service as the price is more linked to the quality of your product hence you need to price the product so that they are not regarded as inferior in the market.”*

These findings revealed that SMEs utilize pricing as a mechanism to highlight the superiority of their products or services over those of their competitors. Furthermore, the study suggested that product differentiation played a significant role in shaping the pricing strategies employed by SMEs with aim to convey the message that their offerings possess higher quality and value compared to the products or services offered by competitors. Thus, confirmed in their results which indicated that the pricing of a product is influenced by its perceived superiority and the desire to differentiate it from competing alternatives in the market.

### **Product life cycle**

Product life cycle stage determines the pricing of a product as various stages predicts what price to charge as SMEs adopt different pricing strategies to align with the characteristics and objectives of that stage. One participant pointed out that,

*“Well the price is more influenced by the life cycle as you can see those products which have reached their maturity stage such as wheelbarrows are no longer attractive hence their pricing is a bit lower than those product at growth stage.”*

The findings indicated that the pricing strategy adopted by SMEs is determined by the specific stage of the product life cycle in which their product resides. In the case of products at the launch and decline stages, SMEs tend to implement lower pricing strategies to attract customers and stimulate demand. Conversely, for products in the growth and maturity stages, SMEs may opt for higher pricing strategies to capitalize on the product's established market presence and perceived value.

The results future highlights the importance of aligning pricing decisions with the corresponding stage of the product life cycle to effectively meet market demands and optimize business outcomes. These results are supported by Khartit (2020) who indicated that the price of a product is also influenced by where it is in its life cycle. For instance, a company might charge a lesser price in the beginning to draw customers, and then throughout the growth stage, a company might raise the price.

## **External factors influencing pricing strategies of SMEs**

### **Consumers**

According to the participants' responses on the influence of external factors on pricing, SMEs consider the purchasing power and buying behaviour of their clients when establishing the prices for their goods and services. This indicates that SMEs take into account the financial capacity of their target customers and their preferences in terms of purchasing habits. One participant articulated that,

*“The purchasing power of majority of residences in Katutura is very low hence we consider such when we price these products so that it's affordable to them as these are our daily customers.” The findings demonstrate that SMEs consider both the purchasing power of customers and their sensitivity to pricing when determining the prices for their goods and services.*

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This indicates that SMEs take into account the customers' ability to afford the products as well as their responsiveness to price changes. By factoring in these aspects, SMEs aim to establish pricing strategies that cater to the customers' purchasing power and ensure that the prices remain within their acceptable range, thus maximising the likelihood of customer acquisition and retention. These results are supported by Schindler (2012) who indicated that the consumer's ability and willingness to pay a certain amount for a product should be considered when determining which price to set.

### **Government control**

As per the participants' disclosures, government agencies in Namibia have been established to oversee the pricing of goods and services. These governmental organisations play a crucial role in upholding laws and regulations that protect customers from any potential exploitation by merchants. Their primary objective is to ensure fair and ethical practices in pricing, aiming to safeguard the rights and interests of consumers in the market. A participant pointed out that,

*“The prices are guided by the NCC regulations hence we have to follow those regulations.”*

The findings strongly suggest that the government has implemented regulatory agencies, such as the NCC (Namibia Competition Commission), to monitor business operations in the market. These agencies are responsible for ensuring that businesses adhere to fair pricing practices and promoting healthy competition between retailers and wholesalers. The government's objective is to maintain a level playing field, where businesses charge reasonable rates and engage in fair competition, ultimately benefiting consumers and fostering a transparent marketplace.

These results are supported by Heaslip (2021) who indicated that the government may publish administered prices for some products, thus the SME must take this regulation into account when setting prices. On contrary, Stamate (2014) revealed that government regulations do not influence the prices of products/services but the cost disparities, market conditions, and competitive pricing by other providers are the ones which have great influence in determining the prices in the SMEs.

### **Competition**

According to the participants, SMEs take into consideration the prices set by their competitors when determining their own pricing strategies. The participants indicated that competitor prices serve as a valuable reference point, providing insights into the prevailing market conditions for pricing goods and services. A participant revealed that,

*“The prices in the market should not be too different so we need to check the quality and price of our competitors to determine ours.”*

The results indicate that certain SMEs consider the prices set by their competitors as a factor when establishing their own pricing strategies. This suggests that these SMEs recognize the influence of competitor pricing and take it into account when determining the prices for their own goods and services. By considering competitor prices, these SMEs aim to position themselves competitively in the market and respond effectively to the pricing dynamics of their industry.

The results are supported by Chand (2019) who indicated that the business must research the level of market competition. To effectively compete in a market with high levels of competition, prices may be kept low, and vice versa in a market with low levels of competition.

### **Supply of Raw Materials**

The participants disclosed that there exists a direct correlation between the prices of raw materials and the pricing of finished products. According to their responses, when the cost of raw materials decreases, it leads to a corresponding decrease in the price of the finished product. Conversely, if the price of raw materials increases, it results in an increase in the price of the finished product. A participant expressed that,

*“The prices of raw materials have an influence on the prices of our final product for example the prices of planks have risen hence we have also increased the price of chairs and beds we sell.”*

The findings indicate that an increase in raw material costs directly translates to an increase in the costs of end products. This implied that rising raw material costs have a direct impact on the overall pricing of finished products. The results highlight the significance of raw material costs as a determining factor in the pricing strategies adopted by SMEs, as they adjust their prices to accommodate the increased expenses associated with the procurement of raw materials. These results are supported by Thomas (2020) who indicated that when the cost of supplying raw resources rises, so do prices. Price reductions during a recession ensure that purchases will be simple. Prices rise dramatically during boom times because retailers can now turn a profit.

### **Economic conditions**

The participants revealed that pricing in Northern Katutura's SMEs is significantly influenced by the economy. A participant revealed that,

*“The economic condition has great impact on the whole business, during the Corona virus pandemic it was difficult for all of us as consumers had no money hence would make sure our prices are lower to accommodate everyone.”*

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The results revealed that economic factors, including recession, inflation, and the ongoing pandemic, influence the pricing decisions of SMEs for their goods and services. This implied that SMEs need to closely monitor the economic conditions in Namibia before making decisions to adjust their prices, especially considering the current instability in the country's economy.

The study further found out that SMEs could make informed pricing choices that reflect the prevailing economic situation, to ensure their pricing strategies remain responsive and aligned with the economic climate for the benefit of their business and customers. These results are like that of Chand (2019) who indicated that when setting prices, the marketer may also have to take the current economic situation into account. The consumer may have less money to spend during a recession, thus the marketer may lower prices to affect consumers' purchasing decisions.

### Demand of product/service

The participants revealed that a product's price in SMEs is directly impacted by the demand for that product. A participant explained that

*“The higher the demand of the higher the prices the lower the demand the lower the price.” The results indicate a noteworthy relationship between product demand and price.*

The findings demonstrate that SMEs consider the level of demand for a product when determining its price. Higher demand enables SMEs to set higher prices, while lower demand necessitates lower prices. This implies that SMEs adjust their pricing strategies in response to the demand for their products, aiming to find an optimal balance that maximizes profitability and customer interest.

The results highlight the importance of aligning pricing decisions with product demand to achieve competitive pricing and market success for SMEs. These results are like that of Thomas (2020) who indicated that when there is a higher demand for goods and there is a steady supply of those items, prices can be raised; however, if there is a reduction in demand for such things, prices must be lowered in order to remain competitive.

## CONCLUSIONS

The study findings indicate that the pricing of goods and services offered by small and medium-sized enterprises (SMEs) in Northern Katutura, Windhoek, Namibia is significantly affected by both internal and external factors. Therefore, it is crucial for SMEs in Namibia to carefully consider these factors to develop effective pricing strategies that can lead to profitability and long-term sustainability.

Furthermore, highlights the importance of recognizing the influence of internal factors on SME pricing strategies. These factors may include the costs involved in production, such as raw materials, labour, and overhead expenses. SMEs need to carefully assess these internal costs to determine appropriate pricing levels that allow for a reasonable profit margin. By understanding their own cost structures, SMEs can make informed pricing decisions that align with their financial objectives.

In addition to internal factors, the study emphasizes the significance of external factors on SME pricing. These external factors encompass market conditions, competitor pricing, customer preferences, and economic trends. SMEs operating in Northern Katutura, Windhoek, Namibia must be attentive to the dynamics of their specific market environment. By conducting market research and staying informed about industry trends, SMEs can adapt their pricing strategies accordingly to remain competitive and attract customers.

Considering both internal and external factors enable SMEs to develop viable pricing strategies that are tailored to their specific circumstances. By striking a balance between internal costs and external market dynamics, SMEs can ensure their pricing aligns with their profitability goals while remaining competitive. It is important for SMEs in Namibia to continuously monitor and evaluate these factors as they may change over time. Regular assessments of internal and external factors will enable SMEs to make necessary adjustments to their pricing strategies, ensuring their long-term viability in the market.

In conclusion, the study emphasizes the crucial role of internal and external factors in shaping the pricing strategies of SMEs in Northern Katutura, Windhoek, Namibia. By taking into consideration these factors, SMEs can develop pricing strategies that are profitable and sustainable in the long run. Constant monitoring and evaluation of these factors will enable SMEs to adapt their pricing strategies to the ever-changing business environment, ensuring their continued success.

## RECOMMENDATION

- Government agencies should adhere to the guidelines provided by the SMEs when formulating pricing-related policies so that the resulting regulations can help the SMEs set prices for their products that will be profitable.
- When advising the government on the best ways to help SMEs achieve profits in their operations, NCC should consider the factors that SMEs consider when pricing their goods and services.

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