

Pricing Practices in Very Small Businesses

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Source: Entrepreneurial Executive (2011), **16**(1): 35-48.

ABSTRACT:

This paper studies the pricing policies and practices by small business managers/owners in northeast Louisiana. In particular, the question whether small businesses follow the same well-established economic principles and marketing practices as large businesses is examined. Five hypotheses were developed and analysed. First, prices are set to maximize profits. There is no support for this hypothesis in the data. Second, prices are strongly influenced by competitors' pricing. There is very limited support for this hypothesis. Third, prices are strongly influenced by cost factors. Fourth, prices are changed in response to changes in cost or market conditions. Fifth, other options besides price changes are used to impact sales. There is strong support in the data for the third, fourth and fifth hypothesis. Thus, there is very strong evidence that small business managers and owners behave as economic theory would suggest when making pricing decisions except when it comes to trying to profit maximize. Managers are more concerned with making a "satisfactory" profit, then with making the maximum profit.

KEY FINDINGS:

Key finding from this study are:

- Small businesses were not found to set their prices to maximise their profits.
- Small business price setting is not strongly influenced by competitor pricing.
- Small business pricing is strongly influenced by cost factors.
- Small businesses change their pricing in response to changes in costs or market conditions.
- Small businesses use ways other than price changes to impact on their sales.

IMPLICATIONS FOR MANAGERS:

- The micro-businesses examined in this study suggest that such firms generally set pricing strategies based on the cost of their supplies and other inputs and seek to compete in ways not related to price.
- Although owners from micro-businesses profess to set profits in order to maximise profits, they actually set pricing in response to the need they have to cover fixed and variable costs in the operation of their firms.