

Pricing transparency and innovative pricing models: Driving customer trust and retention in SMEs

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Abstract

This study examines how pricing transparency and innovative pricing models, such as subscription-based and freemium approaches, foster customer trust, acquisition, and retention among Small and Medium-sized Enterprises (SMEs) in Nigeria. Conducted in Lagos, the research employed a mixed-methods design, surveying 175 SMEs across manufacturing, retail, services, technology, and healthcare sectors, and interviewing 15 SME owners. The scope assessed the impact of transparent pricing on trust, the effectiveness of innovative models, and strategies for building long-term customer relationships. Results show that 65% of SMEs rated pricing transparency as highly impactful on customer trust (mean rating 4.3), particularly in retail and services (4.5). Subscription models, adopted by 40% of SMEs, and freemium models, used by 25%, were rated very positive for acquisition and retention (means 4.2 and 4.0, respectively), with technology SMEs leading adoption (60%). Combining transparency with innovative models (55% of SMEs) yielded the highest retention (mean 4.4). Interviews highlighted that transparency reduces customer skepticism, while innovative models attract diverse customers. The study concludes that transparent and innovative pricing enhances trust and loyalty, strengthening SME competitiveness in Nigeria's volatile market. These findings guide SME owners to adopt clear pricing and flexible models and urge policymakers to support training for digital pricing tools, contributing to SME sustainability and economic growth.

Keywords: Pricing transparency; Innovative pricing; Customer trust; Customer retention; Small and Medium Enterprises; Nigeria

1. Introduction

Small and Medium-sized Enterprises (SMEs) are critical drivers of Nigeria's economy, contributing 48% to gross domestic product and 84% to employment [1]. However, their success hinges on building strong customer relationships amidst competitive markets and economic volatility [2]. Pricing strategies play a pivotal role in fostering customer trust, acquisition, and retention, key determinants of SME sustainability [3]. This study explores how pricing transparency and innovative pricing models, such as subscription-based and freemium models, influence customer trust and retention among Nigerian SMEs. By examining these dynamics, the research aims to provide actionable strategies for SMEs to enhance customer loyalty in a challenging business environment characterized by inflation and shifting consumer preferences [4].

The objectives of this study are: (1) to evaluate the relationship between pricing transparency and customer trust among SMEs in Nigeria; (2) to examine the adoption and perceived effectiveness of innovative pricing models, such as subscription-based and freemium models, in enhancing customer acquisition and retention; and (3) to explore how

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SMEs can leverage transparent and innovative pricing strategies to build long-term customer relationships. The hypothesis posits that pricing transparency and innovative pricing models significantly enhance customer trust and retention, leading to improved SME competitiveness. This hypothesis is grounded in both theoretical frameworks and practical observations of Nigeria's SME sector, where customer-centric pricing is increasingly vital [5].

Pricing transparency, defined as clear and open communication of pricing structures, fosters customer trust by reducing uncertainty and perceived risk in purchasing decisions [6]. In Nigeria, where consumer skepticism is high due to market inconsistencies, transparent pricing can differentiate SMEs, particularly in retail and service sectors [7]. Yang and Huang highlight that transparency enhances perceived fairness, encouraging repeat purchases and loyalty [8]. The thesis data indicate that 65% of SMEs perceive pricing transparency as having a significant impact on customer trust, underscoring its relevance [9]. This is particularly critical in Nigeria's digitalizing market, where customers demand clarity in pricing amidst growing e-commerce adoption [10].

Innovative pricing models, such as subscription-based and freemium approaches, are transforming how SMEs engage customers. Subscription models, offering predictable payments for ongoing services, enhance retention by fostering long-term commitments [11]. Freemium models, providing basic services for free with premium upgrades, attract new customers and encourage upselling [12]. Li and Kannan note that such models are effective in digital markets, where SMEs can leverage technology to scale customer acquisition [13]. In Nigeria, technology-driven SMEs increasingly adopt these models, with 51.4% reporting positive impacts on acquisition and retention [9]. These strategies align with customer preferences for flexibility and value, critical in a market with diverse economic constraints [14].

The hypothesis was developed based on theoretical insights from the Trust-Commitment Theory, which posits that trust drives customer loyalty and retention [15]. Transparent pricing builds trust by ensuring fairness, while innovative models align with customer expectations, enhancing commitment [16]. Practically, preliminary discussions with SME owners in Lagos revealed that customers respond positively to clear pricing and flexible models, but many SMEs lack the expertise to implement them effectively [17]. Nigeria's economic challenges, including 15–20% annual inflation and limited consumer purchasing power, necessitate pricing strategies that prioritize trust and value [4].

The importance of this study lies in its focus on customer-centric pricing in an emerging market context. Nigerian SMEs face high failure rates, with many collapsing within five years due to poor customer retention [18]. Transparent and innovative pricing offers a cost-effective way to build trust and loyalty without significant capital investment [19]. For instance, subscription models can stabilize revenue streams, while freemium models attract price-sensitive customers, common in Nigeria's diverse market [20]. The rise of digital platforms, with 30% of SMEs adopting e-commerce, further amplifies the potential of these strategies [10]. By addressing a literature gap on pricing dynamics in Nigeria, this study provides insights for SMEs to strengthen customer relationships [21].

The research is motivated by the need to empower SMEs to compete in Nigeria's crowded markets. Retail and technology SMEs, in particular, can benefit from transparent pricing to counter competitive price wars, while innovative models can attract and retain diverse customer segments [22]. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) could leverage these findings to develop training programs, addressing SMEs' limited access to market research and digital tools [23]. The study's focus on trust and retention aligns with global trends, where customer-centric pricing drives long-term profitability [24].

2. Materials and Methods

This study utilized a mixed-methods design to explore the impact of pricing transparency and innovative pricing models on customer trust, acquisition, and retention among Small and Medium-sized Enterprises (SMEs) in Nigeria. By integrating quantitative survey data with qualitative interview insights, the research ensured a comprehensive analysis of pricing strategies.

The target population consisted of SMEs in Lagos, Nigeria, defined by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) as enterprises with 11–300 employees and annual turnover below 100 million Naira. A stratified random sampling technique selected 175 SMEs across manufacturing, retail, services, technology, and healthcare sectors, with approximately 35 SMEs per sector to ensure representativeness and reduce bias.

Data collection involved a structured questionnaire assessing pricing transparency (e.g., clarity in pricing communication) and innovative pricing models (e.g., subscription-based, freemium), as well as their impact on customer trust, acquisition, and retention. The questionnaire used a 5-point Likert scale for perception ratings and multiple-choice options for model adoption. Validity was confirmed through review by two marketing experts, and

reliability was established via a pilot study with 10 SMEs, yielding a Cronbach's alpha of 0.83. Additionally, semi-structured interviews with 15 SME owners or managers explored implementation challenges and customer responses. Interviews, lasting 20–30 minutes, were audio-recorded with consent and conducted in person or online.

Quantitative data were analyzed using SPSS version 25, employing descriptive statistics (means, percentages) to summarize transparency and model effectiveness. Thematic analysis of interview transcripts identified key themes, such as customer trust and retention barriers. No specialized materials were used, and data were stored securely. Informed consent was obtained from all 175 survey participants and 15 interviewees, ensuring voluntary participation and data confidentiality for research and publication.

3. Results

This study investigates the role of pricing transparency and innovative pricing models in fostering customer trust, acquisition, and retention among Small and Medium-sized Enterprises (SMEs) in Nigeria. Data from 175 SMEs in Lagos and interviews with 15 SME owners address three objectives: evaluating pricing transparency's impact on trust, examining the adoption and effectiveness of innovative pricing models, and exploring strategies for long-term customer relationships. Results are presented below, followed by a discussion linking findings to existing literature.

3.1. Objective 1: Relationship Between Pricing Transparency and Customer Trust

Table 1 shows the perceived impact of pricing transparency on customer trust, rated on a 5-point Likert scale (1 = no impact, 5 = extreme impact). Of the 175 SMEs, 65% (114 SMEs) rated transparency as "very much" or "extremely" impactful (mean = 4.3, SD = 0.6). Retail and service SMEs reported the highest impact (mean = 4.5), while manufacturing scored lower (mean = 4.0). Correlation analysis indicated a strong positive relationship between transparency and trust ($r = 0.48, p < 0.01$).

Table 1 Perceived Impact of Pricing Transparency on Customer Trust

Sector	Number of SMEs	Mean Rating	Standard Deviation (SD)	% Reporting Very Much/Extreme Impact
Manufacturing	35	4.0	0.8	55%
Retail	35	4.5	0.5	75%
Services	35	4.5	0.5	70%
Technology	35	4.3	0.7	65%
Healthcare	35	4.2	0.7	60%
Total	175	4.3	0.6	65%

3.2. Objective 2: Adoption and Effectiveness of Innovative Pricing Models

Table 2 summarizes the adoption and perceived effectiveness of innovative pricing models (subscription-based, freemium) on customer acquisition and retention, rated on a 5-point scale (1 = no impact, 5 = very positive). Subscription models were adopted by 40% of SMEs (70 SMEs, mean = 4.2, SD = 0.6), with 51.4% rating them "very positive" for acquisition and retention. Freemium models were used by 25% (44 SMEs, mean = 4.0, SD = 0.7), with 45% rating them "very positive." Technology SMEs showed the highest adoption (60%), followed by services (45%). Regression analysis confirmed a significant positive effect of innovative models on retention ($\beta = 0.39, p < 0.01$).

Table 2 Adoption and Effectiveness of Innovative Pricing Models

Pricing Model	Number of SMEs	Percentage (%)	Mean Effectiveness Rating	Standard Deviation (SD)	Percentage (Very Positive)
Subscription-based	70	40%	4.2	0.6	51.4%
Freemium	44	25%	4.0	0.7	45%
Other	61	35%	3.8	0.8	40%

3.3. Objective 3: Leveraging Transparent and Innovative Pricing for Customer Relationships

Table 3 illustrates strategies for building long-term customer relationships. Of the 175 SMEs, 55% (96 SMEs) combined transparency with innovative models, achieving a high retention rating (mean = 4.4, SD = 0.5). Transparency alone was used by 30% (52 SMEs, mean = 4.1), and innovative models alone by 15% (27 SMEs, mean = 3.9). SMEs integrating both reported the strongest customer loyalty ($p < 0.05$). Interviews highlighted that transparency builds trust, while innovative models attract diverse customers.

Table 3 Strategies for Long-Term Customer Relationships

Strategy	Number of SMEs	Percentage (%)	Retention Rating (Mean)	Standard Deviation (SD)
Transparency + Innovative Models	96	55%	4.4	0.5
Transparency Only	52	30%	4.1	0.7
Innovative Models Only	27	15%	3.9	0.8

3.4. Qualitative Insights

Interviews revealed that retail SMEs using transparent pricing noted, "Clear pricing reduces customer complaints and builds loyalty." Technology SMEs adopting freemium models reported, "Free trials attract customers, and upgrades boost retention." SMEs combining both emphasized long-term relationships, citing increased repeat purchases.

4. Discussion

The results confirm the hypothesis that pricing transparency and innovative pricing models significantly enhance customer trust and retention, aligning with the study's objectives. The strong impact of transparency (mean = 4.3, 65% of SMEs) supports Yang and Huang's findings that clear pricing fosters perceived fairness, critical in Nigeria's skeptical market [8]. Retail and service SMEs' higher ratings (mean = 4.5) reflect their direct customer interactions, where transparency reduces purchase hesitation [6]. The significant correlation ($r = 0.48$, $p < 0.01$) aligns with Trust-Commitment Theory, which posits that trust drives loyalty [5, 15]. In Nigeria's volatile economy, with 15–20% annual inflation, transparency mitigates consumer distrust, enhancing SME competitiveness [4, 7].

Innovative pricing models' effectiveness (subscription: mean = 4.2, freemium: mean = 4.0) underscores their role in customer acquisition and retention, particularly in technology SMEs (60% adoption). Subscription models stabilize revenue, as noted by Winer, fostering long-term commitment [11]. Freemium models, effective for 45% of adopters, align with Kumar's view that free offerings attract price-sensitive customers, common in Nigeria [12]. The significant effect on retention ($\beta = 0.39$, $p < 0.01$) supports Li and Kannan's findings on digital pricing strategies [13]. Afolabi and Ojo highlight that Nigeria's growing e-commerce adoption (30% of SMEs) amplifies these models' impact [10].

Combining transparency and innovative models (55% of SMEs, mean = 4.4) maximizes retention, as integrated strategies address both trust and value [16]. Interview insights confirm that transparency builds initial trust, while innovative models sustain engagement, particularly in digital markets [14]. SMEs relying solely on transparency or innovative models showed lower retention (means = 4.1, 3.9), indicating the need for a holistic approach [19]. Nigeria's economic challenges, including high failure rates, necessitate such strategies to ensure sustainability [17, 18].

These findings offer practical implications. SME owners should prioritize clear pricing communication and adopt innovative models tailored to their sector, such as freemium for technology SMEs [22]. Policymakers, like SMEDAN, can support training on digital pricing tools to overcome implementation barriers [23]. The study addresses a literature gap in emerging markets, where customer-centric pricing is underexplored [21]. Future research should explore rural SME contexts to generalize findings [20]. In conclusion, transparency and innovative pricing are critical for building trust and retention, enhancing SME viability in Nigeria's competitive landscape.

5. Conclusion

This study underscores the pivotal role of pricing transparency and innovative pricing models in fostering customer trust, acquisition, and retention among Nigerian SMEs. Pricing transparency significantly enhances trust, particularly in

retail and service sectors, by ensuring clear and fair pricing that mitigates consumer skepticism in Nigeria's volatile market. Innovative pricing models, such as subscription-based and freemium approaches, drive customer acquisition and retention, with technology SMEs benefiting most due to their alignment with digital market trends. Combining transparency with innovative models yields the strongest outcomes, fostering long-term customer relationships through trust and value alignment. This integrated approach enables SMEs to attract diverse customers and sustain loyalty, critical for competitiveness in Nigeria's challenging economic landscape.

The findings offer practical guidance for SME owners to adopt transparent pricing to build trust and implement innovative models like freemium to attract price-sensitive customers. These strategies are cost-effective, requiring minimal capital while enhancing customer loyalty and revenue stability. For policymakers and support agencies, the study highlights the need for training programs to equip SMEs with digital tools and market insights to implement these strategies effectively. By addressing barriers to adoption, such as limited expertise, SMEs can strengthen their market position.

This research contributes to SME sustainability by demonstrating how customer-centric pricing fosters resilience in Nigeria's dynamic market. It provides a framework for SMEs to leverage transparency and innovation, enhancing their economic contributions and supporting long-term growth in competitive sectors like retail and technology.

Compliance with ethical standards

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Disclosure of conflict of interest

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

Statement of informed consent

Informed consent was obtained from all individual participants included in the study.

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