

The Mediating Role of Customer Loyalty in the Relationship between Pricing Strategy and SME Performance in Lagos, Nigeria

Dr. Olufemi Aladejebi

University of Lagos Business School Akoka Lagos Nigeria

Dr. Bamidele WALE-OSHINOWO

University of Lagos, Akoka Lagos Nigeria

Prof. Olufemi LAWAL

Lagos State University, Ojo, Lagos Nigeria

Correspondent Author: Dr. Olufemi ALADEJEBI

Abstract

Small and medium-sized enterprises (SMEs) anchor the Nigerian economy, yet many struggle to convert pricing decisions into durable performance. This study examines whether customer loyalty mediates the relationship between pricing strategy and SME performance in Lagos, Nigeria. Drawing on the Resource-Based View, Oliver's customer loyalty theory, and price-quality signalling theory, a cross-sectional survey obtained usable responses from 314 SME owners and managers across Lagos State. Five pricing typologies (cost-based, value-based, competitive, penetration and psychological pricing) were treated as predictors, customer loyalty (attitudinal and behavioural) as the mediator, and financial and market performance as outcomes. Measurement quality was confirmed through composite reliability, average variance extracted, the Fornell-Larcker criterion, and the heterotrait-monotrait ratio, while common method bias was assessed with Harman's single-factor test. Mediation was estimated using ordinary least squares path modelling with 5,000-sample bootstrapped bias-corrected confidence intervals and the variance-accounted-for (VAF) criterion. Pricing strategy significantly predicted customer loyalty and performance, and loyalty strongly predicted performance. The indirect path (pricing to loyalty to performance) was significant, with loyalty accounting for 73.1% of the total effect, indicating substantial partial mediation. Value-based pricing produced the strongest, near-complete loyalty-mediated effect, whereas competitive pricing exhibited a negative direct association with loyalty. The findings position customer loyalty as the principal mechanism through which pricing strategy shapes SME performance and advise Lagos SMEs to prioritise value-based pricing and relationship management over reactive price imitation.

Keywords: pricing strategy; customer loyalty; SME performance; mediation analysis; value-based pricing; Lagos, Nigeria

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I. Introduction

Micro, small and medium enterprises constitute the productive backbone of the Nigerian economy. The most recent national survey conducted by the Small and Medium Enterprises Development Agency of Nigeria and the National Bureau of Statistics reports that these enterprises contribute 46.32% of gross domestic product and account for 87.9% of national employment, with Lagos State hosting the country's densest concentration of firms (SMEDAN/NBS, 2021). Despite this economic weight, a large share of Nigerian SMEs fail within their first five years, and deficient pricing coupled with weak customer relationship management is repeatedly identified among the primary contributory factors (Ayanwale & Fasesin, 2020; Okonkwo, 2018).

In the intensely competitive and inflation-prone commercial environment of Lagos, the survival and sustainability of SMEs increasingly depend on their ability to retain existing customers and cultivate enduring customer relationships that support revenue stability, reduce customer acquisition costs, and strengthen competitive resilience. Recent evidence suggests that customer retention and relationship-oriented marketing practices are important to sustaining SME competitiveness and performance, particularly in challenging and resource-constrained business environments (Aladejebi et al., 2024; Aladejebi & Agbesuyi, 2025). Customer loyalty reflects customers' willingness to maintain a relationship with a business, continue purchasing its

offerings, and recommend the business to others, making it an important contributor to long-term business sustainability and performance (Rather & Hollebeek, 2021; Nagle & Müller, 2018). Recent studies further indicate that retaining existing customers can enhance business value through repeat patronage, positive word-of-mouth, and stronger customer relationships, thereby reducing firms' dependence on continuously acquiring new customers (Rather et al., 2021; Aladejebi & Agbesuyi, 2025). Consequently, cultivating customer loyalty represents an important strategic capability for SMEs seeking to maintain performance and competitiveness amid rising costs, inflationary pressures, and intense market competition, and recent emerging-market studies confirm that loyalty remains the decisive bridge between marketing effort and sustainable SME outcomes (Taştan&Soylu, 2023; Egala et al., 2024).

Pricing strategy is central to loyalty formation because it simultaneously shapes perceived value-for-money, signals product quality under information asymmetry, and communicates competitive positioning (Jaja, H. & Hamilton-Ibama, L. (2024)). Yet the dominant Nigerian evidence treats performance as a direct outcome of pricing decisions and largely overlooks the intervening mechanism through which pricing generates lasting results. Most Lagos SMEs continue to operate transactional, cost-anchored models that prioritise short-term margin over relationship building (Nwoye, 2019), even though large-scale evidence indicates that competition-based pricing is negatively associated with firm performance while value-based pricing is positively associated (Liozu & Hinterhuber, 2013). This mismatch between prevailing practice and established evidence motivates a mediation-based inquiry.

Accordingly, this study investigates whether customer loyalty mediates the relationship between pricing strategy and SME performance among firms in Lagos, Nigeria, and identifies which pricing approaches most effectively build loyalty in this market. The study contributes to knowledge in three ways. Theoretically, it integrates the Resource-Based View with loyalty and signalling perspectives to model loyalty as a market-based asset generated partly by pricing capability. Empirically, it provides the first mediation-based test of the pricing-loyalty-performance chain on primary Lagos SME data. Practically, it reframes SME support from a narrow pricing focus toward joint attention to pricing and customer relationship management.

Objectives and Hypotheses

The study pursues four objectives: to examine the effect of pricing strategy on customer loyalty; to assess the effect of customer loyalty on SME performance; to determine the direct effect of pricing strategy on SME performance; and to establish whether customer loyalty mediates the pricing-performance relationship. From these objectives, four hypotheses are advanced and tested at the 5% level of significance:

H1: Pricing strategy has a significant positive effect on customer loyalty among SMEs in Lagos.

H2: Customer loyalty has a significant positive effect on the performance of SMEs in Lagos.

H3: Pricing strategy has a significant positive effect on the performance of SMEs in Lagos.

H4: Customer loyalty significantly mediates the relationship between pricing strategy and SME performance in Lagos.

II. Literature Review

Conceptual Review

Pricing strategy refers to the systematic approach a firm adopts to set and adjust the monetary value of its offerings in pursuit of profit, market position, and customer relationships. Six typologies dominate the SME literature. Cost-based pricing derives price from production cost plus a target margin; it is administratively simple but internally focused and weakly connected to customer value. Value-based pricing sets price according to the benefit customers perceive, aligning price with willingness to pay. Competitive pricing benchmarks prices against rivals. Penetration pricing uses low entry prices to build share rapidly, while skimming pricing sets high initial prices to capture premium segments before descending the demand curve. Psychological pricing exploits perceptual cues such as charm endings, bundling, and reference prices to enhance attractiveness (Anderson & Simester, 2003; Tellis, 1986). Recent emerging-market evidence indicates that customer-value-based pricing improves loyalty, satisfaction, and revenue growth by synchronising price with perceived benefit, whereas rigid cost-plus rules can undermine competitiveness in resource-constrained firms (Deonir et al., 2021; Han et al., 2024).

Customer loyalty is a two-dimensional construct combining attitude and behaviour. Attitudinal loyalty captures preference, emotional attachment, perceived price fairness, and advocacy intention, whereas behavioural loyalty reflects repeat purchase, retention, share of wallet, and referral activity (Ogonu & Ihunwo, 2022); Njelita & Anyasor, 2020). The distinction matters because customers who return only for convenience (spurious loyalty) are far more vulnerable to competitor entry than those returning from genuine commitment (true loyalty). This study operationalises loyalty across both attitudinal and behavioural dimensions to capture its full economic meaning.

Empirical Review

Foundational international evidence links pricing orientation to performance through customer-side mechanisms. Surveying 1,812 pricing professionals across industries and countries, Liozu and Hinterhuber (2013) found value-based pricing positively associated, and competition-based pricing negatively associated, with firm performance. Herrmann et al. (2007) demonstrated that price fairness affected loyalty entirely through satisfaction, an affective mediating mechanism analogous to the loyalty pathway examined here, while Forgas et al. (2010) showed that price fairness predicted airline passenger loyalty both directly and indirectly. These studies establish the mediating logic that more recent work has refined and extended into emerging-market and SME settings.

Seven recent studies (2022-2026) sharpen the picture and frame the present contribution. First, in the most directly comparable work, Obiajulu, Azubuko and Okpanachi (2025) surveyed 175 Lagos SMEs across five sectors and found that, although cost-based pricing was the most commonly practised approach, value-based pricing produced the highest financial-performance rating and that owners explicitly attributed stronger customer loyalty to value-based rather than cost-anchored pricing; regression confirmed value-based and dynamic pricing as significant predictors of profitability.

Second, in a meta-analytic structural equation model synthesising fifteen years of loyalty research, So, Yang and Li (2025) established that perceived value influences loyalty largely through an intervening customer-side construct rather than directly, corroborating the mediated structure adopted here.

Third, Laradi, Amin and Benhabib (2024) analysed 323 respondents with partial least squares modelling and reported that brand loyalty and attachment serially transmit pricing effects into customers' willingness to pay a premium, evidencing loyalty as the conduit between pricing and value capture.

Fourth, Scholtz, Rambe and Dzansi (2026) sampled 132 South African SMEs and found a significant positive relationship between pricing strategy and enterprise growth, with value-based and segmentation-informed pricing outperforming rigid cost-plus rules.

Fifth, Israel and Kazungu (2025), studying furniture-manufacturing SMEs in Tanzania, confirmed that customer loyalty significantly mediates the relationship between competitor orientation and firm performance, directly validating loyalty's mediating function in an African SME context.

Sixth, Egala et al. (2024) collected 492 responses across Nigeria and showed that customer satisfaction and loyalty mediate the path from service quality to SME outcomes, reinforcing the intervening role of loyalty in Nigerian firms.

Seventh, Obiajulu, Azubuko and Esemokhai (2025) found among Nigerian SMEs that pricing transparency and innovative, value-oriented pricing models drive customer trust and retention, echoing the price-fairness mechanism central to this study's theoretical frame. Collectively, these studies converge on three points: value-based pricing consistently outperforms cost- and competition-based approaches; loyalty (or its antecedent, satisfaction) is the dominant intervening mechanism; and rigorous mediation evidence remains scarce for Nigerian SMEs. Table 1 summarises this recent evidence.

Table 1. Summary Matrix of Recent Empirical Studies (2022-2026)

Study	Context	N	Method	Key finding relevant to this study
Obiajulu, Azubuko&Okpanachi (2025)	Lagos, Nigeria SMEs	175	Mixed methods; regression	Value-based pricing gave highest financial performance and stronger loyalty than cost-based.
So, Yang & Li (2025)	Global (meta-analysis)	MASEM	Meta-analytic SEM	Perceived value affects loyalty mainly through an intervening customer construct, not directly.
Laradi, Amin & Benhabib (2024)	Algeria	323	PLS-SEM	Loyalty and attachment serially mediate pricing effects on willingness to pay a premium.
Scholtz, Rambe&Dzansi (2026)	South Africa SMEs	132	Survey; regression	Value-based pricing significantly raises SME growth and sustainability over cost-plus.
Israel & Kazungu (2025)	Tanzania (furniture SMEs)	N/A	PLS-SEM	Customer loyalty mediates competitor orientation – performance link.
Egala et al. (2024)	Nigeria SMEs	492	PLS-SEM	Satisfaction and loyalty mediate service quality – SME outcome path.
Obiajulu, Azubuko&Esemokhai (2025)	Nigeria SMEs	N/A	Survey	Pricing transparency and value-oriented models drive trust and retention.

Note. MASEM = meta-analytic structural equation modelling; PLS-SEM = partial least squares structural equation modelling; N/A = sample size not reported in the source abstract.

Two gaps emerge from this evidence. First, despite the recent Lagos study by Obiajulu, Azubuko and Okpanachi (2025), no published work has tested the full pricing-strategy-to-loyalty-to-performance chain on primary Lagos SME data using bootstrapped mediation and the variance-accounted-for criterion; existing Nigerian studies establish direct pricing-performance links or examine satisfaction rather than the deeper loyalty construct as mediator. Second, the negative competition-based pricing effect established internationally (Liozu&Hinterhuber, 2013) has not been examined in Lagos, where competitive imitation is a prevalent pricing habit. This study addresses both gaps.

III. Methodology

The study adopts a positivist philosophy, a deductive approach, and a cross-sectional quantitative survey design suited to mediation hypothesis testing (Creswell & Creswell, 2018; Saunders et al., 2019). The target population comprised registered SMEs operating in Lagos State, the state with the highest enterprise concentration in Nigeria (SMEDAN/NBS, 2021). A structured questionnaire was administered to owners and managers, and 314 usable responses were retained after screening for completeness. This sample comfortably exceeds the conventional minimum for the estimation method used, which requires at least ten observations per indicator on the most complex construct.

All latent constructs were measured with multi-item scales adapted from validated instruments and anchored on a five-point Likert format ranging from strongly disagree to strongly agree. Pricing strategy was captured by thirty items covering the six typologies (five items each). Customer loyalty was measured with twelve items spanning attitudinal and behavioural dimensions, and SME performance with ten items covering financial and market dimensions benchmarked against competitors over the preceding two years. Ethical protocols were observed throughout: participation was voluntary and anonymous, informed consent was secured, no personally identifiable information was collected, and data were stored securely and reported only in aggregate.

Analysis proceeded in two stages. The measurement model was first assessed for internal consistency using Cronbach's alpha and composite reliability, for convergent validity using average variance extracted, and for discriminant validity using the Fornell-Larcker criterion and the heterotrait-monotrait ratio. Common method bias was evaluated with Harman's single-factor test. The structural model was then estimated by ordinary least squares path analysis on standardised composites. Mediation was tested following the bootstrapping logic of Preacher and Hayes (2008): the indirect effect was computed as the product of the pricing-loyalty path and the loyalty-performance path, and 5,000-sample bias-corrected 95% confidence intervals were generated, with mediation confirmed when the interval excluded zero. The variance-accounted-for statistic classified mediation as absent (below 20%), partial (20-80%), or full (above 80%) following Zhao et al. (2010). Multicollinearity was checked using the variance inflation factor.

IV. Results and Analysis

Respondent and Firm Profile

The demographic and firm characteristics of the 314 respondents are presented in Table 2. Female respondents formed a slight majority (55.7%), and respondents were concentrated in the economically active 36-45 (34.1%) and 46-55 (25.8%) age brackets. Most were owners (52.2%) or managers (22.9%), and the overwhelming majority held tertiary qualifications, confirming respondent competence to report on firm pricing and performance. The firms were well established, with 72.6% trading for four years or more, and spanned all official revenue bands and the leading Lagos SME sectors, with retail and trade (29.0%) and professional services (21.3%) most represented. Over half (52.2%) served both consumer and business customers. The profile confirms a diverse and mature respondent base broadly representative of the Lagos SME landscape.

Table 2. Demographic and Firm Profile of Respondents (N = 314)

Characteristic	Category	Freq.	%
Gender	Female	175	55.7
	Male	132	42.0
	Prefer not to say	7	2.2
Age (years)	18-25	23	7.3
	26-35	74	23.6
	36-45	107	34.1
	46-55	81	25.8
	56 and above	29	9.2
Education	Secondary	30	9.6

	OND/NCE	59	18.8
	HND/B.Sc	162	51.6
	M.Sc/MBA	51	16.2
	Ph.D and other	12	3.8
Role in business	Owner	164	52.2
	Manager	72	22.9
	Owner-Manager	41	13.1
	Director	26	8.3
	Other	11	3.5
Business age (years)	Less than 1	11	3.5
	1-3	75	23.9
	4-6	87	27.7
	7-10	69	22.0
	More than 10	72	22.9
Industry sector	Retail/Trade	91	29.0
	Professional Services	67	21.3
	Food/Hospitality	58	18.5
	Manufacturing	38	12.1
	Technology	38	12.1
	Other	22	7.0
Annual revenue	Below ₦5M	90	28.7
	₦5M-₦20M	71	22.6
	₦21M-₦50M	82	26.1
	₦51M-₦100M	47	15.0
	Above ₦100M	24	7.6
Primary customer type	Both B2C and B2B	164	52.2
	Individual consumers (B2C)	79	25.2
	Business customers (B2B)	71	22.6

Note. Percentages may not sum to exactly 100 due to rounding. ₦ = Nigerian Naira.

Reliability and Validity of the Measurement Model

Table 3 summarises the reliability and convergent validity of the nine measured constructs. Every construct exceeded the 0.70 threshold for Cronbach's alpha and composite reliability, and all average variance extracted values exceeded 0.50, confirming strong internal consistency and convergent validity. Standardised item loadings ranged from 0.64 to 0.90, all above the acceptable floor.

Table 3. Construct Reliability and Convergent Validity

Construct	Dimension	Items	Cronbach's α	CR	AVE
Cost-based pricing	Pricing (IV)	5	0.878	0.912	0.675
Value-based pricing	Pricing (IV)	5	0.866	0.904	0.652
Competitive pricing	Pricing (IV)	5	0.865	0.903	0.650
Penetration pricing	Pricing (IV)	5	0.851	0.894	0.628
Psychological pricing	Pricing (IV)	5	0.855	0.898	0.639
Attitudinal loyalty	Loyalty (M)	6	0.901	0.930	0.691
Behavioural loyalty	Loyalty (M)	6	0.887	0.914	0.640
Financial performance	Performance (DV)	5	0.870	0.906	0.658
Market performance	Performance (DV)	5	0.867	0.904	0.654

Note. CR = composite reliability; AVE = average variance extracted; IV = independent variable; M = mediator; DV = dependent variable. N = 314.

Discriminant Validity

Discriminant validity was confirmed at the second-order level. For every pair of the three higher-order constructs, the square root of the average variance extracted exceeded the inter-construct correlation, satisfying

the Fornell-Larcker criterion (Table 4). The largest heterotrait-monotrait ratio across all measured constructs was 0.843, below the conservative 0.90 threshold, and no pair breached that ceiling. Harman's single-factor test produced a first factor explaining 37.5% of variance, well below 50%, indicating that common method bias was not a material threat.

Table 4. Discriminant Validity (Fornell-Larcker Criterion)

Construct	Pricing	Loyalty	Performance
Pricing	0.805		
Loyalty	0.694	0.816	
Performance	0.643	0.798	0.810

Note. Diagonal (bold) values are the square root of AVE; off-diagonal values are construct correlations. $N = 314$.

Descriptive Statistics and Correlations

Table 5 reports means, standard deviations, and the correlation matrix for the key composites. On the five-point scale, loyalty ($M = 3.80$) and performance ($M = 3.75$) were rated highest, and among pricing strategies cost-based pricing was the most widely practised ($M = 3.76$) while psychological pricing was the least ($M = 3.21$), consistent with the cost-anchored orientation reported for Nigerian SMEs. All pricing strategies except competitive pricing correlated positively and significantly with loyalty, and loyalty correlated strongly with performance ($r = 0.80$, $p < 0.01$), providing preliminary support for the mediation hypothesis. Skewness and kurtosis values fell within conventional limits, and all variance inflation factors were below 1.9, indicating no multicollinearity concern.

Table 5. Descriptive Statistics and Correlation Matrix

Variable	M	SD	1	2	3	4	5	6	7
1 Cost-based	3.76	0.93	1						
2 Value-based	3.44	0.96	.35	1					
3 Competitive	3.22	0.97	.42	.49	1				
4 Penetration	3.41	0.90	.45	.43	.49	1			
5 Psychological	3.21	0.97	.54	.47	.53	.49	1		
6 Loyalty	3.80	0.82	.60	.57	.37	.51	.57	1	
7 Performance	3.75	0.77	.55	.48	.36	.52	.53	.80	1

Note. $N = 314$. Correlations $\geq .15$ are significant at $p < .01$ (two-tailed). M and SD are on a 1–5 scale.

Structural Model and Hypothesis Testing

The regression of loyalty on the five pricing strategies was significant and explained 56.6% of the variance in loyalty ($F = 80.40$, $p < 0.001$), as reported in Table 6. Cost-based ($\beta = 0.35$) and value-based pricing ($\beta = 0.35$) were the strongest positive drivers, followed by psychological ($\beta = 0.21$) and penetration pricing ($\beta = 0.17$, all $p < 0.01$). Competitive pricing carried a significant negative coefficient ($\beta = -0.14$, $p < 0.01$), indicating that reactive price imitation eroded rather than built loyalty once other strategies were controlled. Taken together with the strong loyalty-performance path, these results support H1, H2, and H3.

Table 6. Multiple Regression of Customer Loyalty on Pricing Strategies

Predictor	β (std.)	t	p
Cost-based pricing	0.351	6.72	< .001
Value-based pricing	0.349	6.98	< .001
Competitive pricing	-0.143	-2.94	0.003
Penetration pricing	0.168	3.58	< .001
Psychological pricing	0.212	4.09	< .001

Note. Dependent variable: customer loyalty. $R^2 = 0.566$; adjusted $R^2 = 0.559$; $F(5, 308) = 80.40$, $p < .001$. All VIF < 1.9. $N = 314$.

Mediation was then tested for the aggregate model and for each pricing strategy. The overall indirect effect of pricing on performance through loyalty was 0.471, with a bootstrapped 95% confidence interval of [0.361, 0.577] that excluded zero, while the direct effect fell from a total of 0.643 to 0.173 once loyalty entered the model. Loyalty accounted for 73.1% of the total effect, denoting substantial partial mediation and confirming H4. Table 7 details the strategy-specific decompositions. Value-based pricing showed the strongest

mediation (VAF = 91.8%) with a non-significant direct path, indicating near-complete, or full, mediation; its influence on performance operated almost entirely through loyalty. Cost-based, penetration, and psychological pricing displayed strong partial mediation (VAF 71.6-81.0%), and competitive pricing, although positively mediated at the strategy level, remained the weakest performer, consistent with its negative multivariate association with loyalty.

Table 7. Bootstrapped Mediation Results (Pricing → Loyalty → Performance)

Path (X)	a	b	c'	Indirect	95% BCI	VAF
Overall pricing	0.694	0.678	0.173*	0.471	[0.361, 0.577]	73.1%
Value-based	0.573	0.775	0.040 ^{ns}	0.444	[0.330, 0.561]	91.8%
Cost-based	0.602	0.736	0.104*	0.443	[0.335, 0.551]	81.0%
Psychological	0.574	0.735	0.111*	0.422	[0.316, 0.530]	79.2%
Competitive	0.369	0.770	0.077*	0.284	[0.170, 0.407]	78.8%
Penetration	0.512	0.723	0.147*	0.370	[0.265, 0.480]	71.6%

Note. Standardised coefficients; 5,000 bootstrap resamples. $a = X \rightarrow \text{loyalty}$; $b = \text{loyalty} \rightarrow \text{performance}$; $c' = \text{direct effect of } X \text{ on performance}$. * $p < .05$; ^{ns} not significant. BCI = bias-corrected confidence interval; VAF = variance accounted for. $N = 314$.

A parallel decomposition by performance dimension showed that loyalty mediated the pricing effect more strongly for financial performance (VAF = 83.4%) than for market performance (VAF = 63.6%), both with confidence intervals excluding zero. This pattern indicates that loyalty converts pricing decisions into financial returns almost entirely through repeat-purchase revenue, while market outcomes retain a modest direct pricing component.

Robustness of the Value-Based Pricing Mediation

Because value-based pricing emerged as the pivotal strategy, its mediation was probed further across outcomes and loyalty dimensions to test the stability of the finding, with results reported in Table 8. The near-complete mediation held consistently. For overall performance the direct path was non-significant ($c' = 0.04$, $p = 0.339$) and loyalty accounted for 91.8% of the effect. For financial performance the mediation was effectively complete: the direct path was null ($c' = -0.01$, $p = 0.833$) and the entire pricing effect passed through loyalty. Market performance retained a small, marginally significant direct component (VAF = 82.2%). Decomposing loyalty into its dimensions, value-based pricing operated through both attitudinal loyalty (indirect effect = 0.331, VAF = 68.4%) and, more strongly, behavioural loyalty (indirect effect = 0.368, VAF = 76.1%), confirming that value-based pricing builds performance through genuine attitudinal commitment as well as observable repeat behaviour. Every indirect effect was significant at large bootstrap z-values with confidence intervals excluding zero, establishing the robustness of the value-based pricing mediation.

Table 8. Robustness of Value-Based Pricing Mediation across Outcomes and Loyalty Dimensions

Model (mediator → outcome)	a	b	c'	Indirect (SE)	95% BCI	VAF
Loyalty → Overall perf.	0.573	0.775	0.040 ^{ns}	0.444 (.058)	[0.332, 0.557]	91.8%
Loyalty → Financial perf.	0.573	0.755	-0.01 ^{ns}	0.433 (.059)	[0.319, 0.547]	~100%
Loyalty → Market perf.	0.573	0.681	0.084 ^{ns}	0.390 (.054)	[0.288, 0.496]	82.2%
Attitudinal loyalty → perf.	0.531	0.623	0.153*	0.331 (.049)	[0.235, 0.429]	68.4%
Behavioural loyalty → perf.	0.522	0.706	0.116*	0.368 (.054)	[0.262, 0.474]	76.1%

Note. Independent variable in every model is value-based pricing (standardised). 5,000 bootstrap resamples. * $p < .05$; ^{ns} direct path not significant. Where the direct path is null and the indirect effect carries the entire relationship, mediation is complete (VAF reported as ~100%). $N = 314$.

Table 9 consolidates the outcome of hypothesis testing.

Table 9. Summary of Hypothesis Testing

H	Statement	Result	Decision
H1	Pricing strategy → customer loyalty	$\beta = 0.69$, $p < .001$	Supported
H2	Customer loyalty → SME performance	$\beta = 0.68$, $p < .001$	Supported
H3	Pricing strategy → SME performance	$\beta = 0.64$, $p < .001$	Supported

H4	Loyalty mediates pricing → performance	VAF = 73.1%, BCI excl. 0	Supported
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Note. *N* = 314. BCI = bias-corrected 95% confidence interval.

V. Discussion of Findings

The results establish customer loyalty as the principal channel through which pricing strategy shapes SME performance in Lagos. With loyalty accounting for roughly three-quarters of the total pricing effect, the study confirms that pricing decisions influence performance less by their immediate revenue impact than by the durable customer relationships they help create. This finding extends the direct pricing-performance evidence that dominates the Nigerian literature (Ayanwale&Fasesin, 2020) by exposing the intervening mechanism those studies leave implicit, and it aligns with the West African precedent in which loyalty partially mediated the value-based-pricing-to-revenue chain (Agyei et al., 2018).

The near-complete mediation observed for value-based pricing is theoretically significant. Its direct effect on performance became non-significant once loyalty was controlled, indicating that value-based pricing improves outcomes almost entirely by building loyalty, exactly as Oliver's phased model and price-quality signalling theory predict: pricing anchored to perceived value delivers consistent value-for-money that matures into affective and conative commitment. This result mirrors recent serial-mediation evidence that pricing effects reach performance through loyalty and attachment (Laradi et al., 2024) and supports the Resource-Based View's treatment of loyalty as a market-based asset generated by pricing capability (Srivastava et al., 1998; Turkes, 2024).

The negative multivariate association between competitive pricing and loyalty is the study's most managerially pointed finding. Once other strategies were held constant, reactive price matching eroded loyalty, echoing the negative competition-based pricing effect reported internationally (Liozu&Hinterhuber, 2013) and now confirmed in the Lagos context where such imitation is common. The interpretation is that price wars commoditise the offering and train customers to chase discounts rather than value, weakening the attitudinal commitment on which retention depends. The stronger financial than market mediation further clarifies the mechanism: loyalty translates most immediately into repeat-purchase revenue, whereas market standing also reflects factors such as reputation and distribution that pricing influences more directly.

Collectively, the findings caution against the cost-anchored, competitor-driven pricing that prevails among Lagos SMEs and endorse a deliberate shift toward value-based approaches coupled with loyalty cultivation. Because loyalty, not price level, carries most of the performance effect, interventions that improve only pricing mechanics without strengthening customer relationships are unlikely to yield lasting gains.

VI. Conclusion and Recommendations

This study set out to determine whether customer loyalty mediates the relationship between pricing strategy and SME performance in Lagos, Nigeria. Using primary data from 314 firms and bootstrapped mediation analysis, it concludes that pricing strategy significantly shapes both loyalty and performance, that loyalty is the dominant driver of performance, and that loyalty substantially mediates the pricing-performance relationship, accounting for 73.1% of the total effect. Value-based pricing emerged as the most effective loyalty-building strategy with near-complete mediation, whereas competitive price imitation weakened loyalty. Customer loyalty is therefore best understood as the strategic conduit through which pricing decisions become sustained enterprise performance.

Three sets of recommendations follow. For SME owners and managers, the priority is to migrate from cost-plus and reactive competitor pricing toward value-based pricing built on a clear understanding of customer willingness to pay, and to reinforce it with structured loyalty and referral programmes, fair and transparent price communication, and consistent value delivery. For business-support organisations and policymakers, SME capacity-building should be broadened beyond pricing mechanics to embed customer relationship management, retention analytics, and loyalty-programme design, since pricing training alone addresses only a fraction of the performance pathway. For scholars, the loyalty-mediation framework offers a template for further investigation across sectors and regions.

The study has limitations that qualify its conclusions and frame future research. Its cross-sectional design precludes strong causal claims, and reliance on managerial self-reports invites common method considerations, although the Harman test indicated no material bias. Performance was assessed on financial and market dimensions; operational and growth dimensions were beyond the collected data and merit inclusion in future work. Subsequent studies could employ longitudinal or dyadic designs that pair owner and customer responses, extend the model with covariance-based or partial least squares structural equation modelling on larger samples, and test whether firm size, sector, or digital orientation moderate the loyalty pathway. Comparative work across Nigerian states would establish the external validity of the Lagos findings.

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