

PERFORMANCE OF RETAIL MSMEs IN THE MIDST OF COMPETITION: THE ROLE OF PRODUCT, SERVICE AND PRICE DIVERSITY IN THE CITY OF PONTIANAK

Stiffany Tedy¹⁾, Georgerius Graceallah²⁾

Stiffanytedy@gmail.com, georgerius@widyadharma.ac.id

^{1, 2)} Universitas Widya Dharma

ABSTRACT

This study aims to analyze how product diversity, service quality, and competitive pricing affect the business performance of retail Micro, Small, and Medium Enterprises (MSMEs) in Pontianak, Indonesia. Retail MSMEs have become a key driver of local economic growth, showing rapid and significant development in recent years, driven by increasing consumer demand.

However, growing market competition and shifting consumer behavior have posed significant challenges. Using a quantitative approach, the study investigates how these three marketing variables affect MSME performance. The results reveal that while service quality and competitive pricing positively influence business outcomes, excessive product diversity can have a negative impact. These findings highlight the importance of strategic focus and customer-oriented approaches to remain competitive and sustain growth in a dynamic market.

Keywords: MSMEs, business performance, marketing strategy, consumer behavior

INTRODUCTION

Currently, Micro, Small, and Medium Enterprises (SMEs) are showing rapid growth, thereby boosting Indonesia's economy, including in the city of Pontianak. Retail SMEs are driving local economic growth, fueled by the fulfillment of consumer desires. However, in the face of increasingly fierce market competition, SMEs are required to improve their business performance through marketing strategies.

However, along with changes in consumer behavior, 2022 has been a difficult

year for MSMEs in Pontianak. Based on data from 2022, MSME growth has declined by 0.70%. This decline indicates the financial pressure experienced by business actors. Amid these conditions, it is important to conduct an analysis.

A factor that greatly influences the performance of MSMEs is product diversity. The more diverse the products offered, the greater the opportunity for consumers to find items that suit their preferences. Therefore, product completeness refers to the availability of various types of goods offered (Wati et al., 2022).

In addition, service quality is also an important aspect. Quality service can strengthen the relationship between businesses and customers, thereby impacting the performance of MSMEs. Service quality itself can be understood as an effort to deliver services that meet the needs and expectations of customers regarding what they will receive (Izzuddin & Muhsin, 2020). Consumers can assess service quality based on the suitability between their expectations and the reality they receive.

Another factor is that if consumers perceive a price to be too high, their perceived value of the product will be lower than the total cost they need to spend. This condition makes consumers reluctant to make purchases (Kusmadeni & Eriyanti, 2021). Therefore, MSMEs must be able to set prices appropriately in order to increase sales.

THEORETICAL REVIEW

Product diversity can be understood as an effort to create significant differences between the products offered and those of competitors so that this strategy can provide added value in line with consumer expectations and can influence consumer choices and needs (Soetanto et al., 2020). Product diversity also refers to the number of variations or choices available in each product category; the more diverse the products are, the more alternatives

consumers have to meet their needs (Maria Baretha Simanjuntak et al., 2024). With the many types and varieties offered by companies, consumers can have more choices according to their needs. New product development can increase consumer interest and have a positive impact on performance (Aprilianti et al., 2023). Developing variations will attract consumers and influence sales volume, thereby improving overall performance.

Service quality can be defined as a company's efforts to provide services that meet customer needs and expectations. These expectations are formed from consumers' initial beliefs before making a purchase, which are used as a reference in assessing service quality (Teressa et al., 2024). Service quality can be measured through five main dimensions (Ridwan et al., 2024), namely: First, physical evidence, which includes everything that can be seen physically, such as facilities. Second, reliability, which is the company's ability to provide appropriate services. Third, responsiveness, which shows the readiness of employees to help and respond to customer needs. Fourth, assurance, which includes knowledge, politeness, and the ability to build trust. Fifth, empathy, which involves care and attention so that there is a good relationship in understanding consumer needs. Service is an indirect agreement between service providers and

customers that involves the exchange of value (Caniago & Rustanto, 2022). Every consumer has expectations regarding the service they receive, which will impact the performance of MSMEs. The reliability provided can strengthen relationships and ultimately strengthen sales growth.

Price is not merely the amount of money that consumers need to pay to enjoy a particular product or service, but also reflects the total value that customers are willing to sacrifice in order to obtain the benefits or use of the product. In other words, price represents the exchange of value between consumers and providers (Reni, 2020). Price refers to the amount of money charged for a product or service (Rosselivia & Ekowati, 2023). If the price offered is considered appropriate for the quality obtained, this can encourage an increase in purchasing decisions (Karina Emelinda Octavian & Syaiko Rosyidi, 2023).

Setting an appropriate price is a very important strategy in building consumer trust so that it can encourage repeat purchases, which can improve the performance of MSMEs, both in terms of sales and profits received.

MSME performance reflects the work results obtained by individuals in carrying out their duties within a certain period. These work results will be assessed based on the

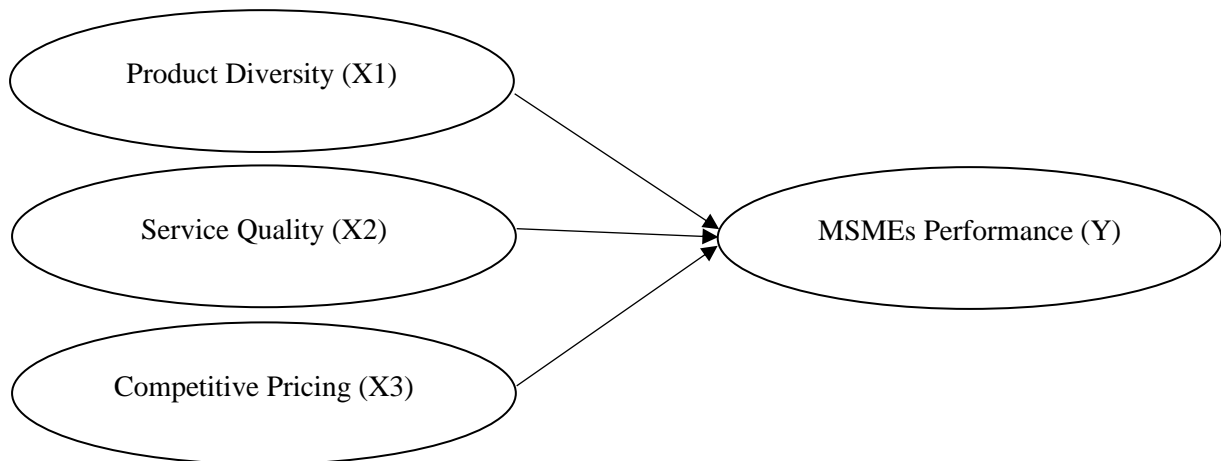
performance measures or standards applicable in the MSME environment where the individual works. In other words, MSME performance is not only seen from the completion of tasks, but also from the extent to which the results meet the expectations or targets that have been set (Hendratmoko, 2021). Performance is the result of production in a company during a certain period of time and will be evaluated based on certain standards, with the production output showing the condition of a company (Anderson & Hidayah, 2023). With the high level of competition that exists, it is important to provide good service so as to produce maximum performance (Diana et al., 2022), so that it does not only depend on external factors or economic conditions but also optimizes the resources available.

RESEARCH METHOD

This study uses a quantitative approach with a causal associative design, where data is collected through questionnaires. The main objective of this study is to identify and analyze the extent to which product diversity, service quality, and competitive pricing affect the performance of retail MSMEs in Pontianak City. The population studied was retail MSME actors. There were 18,175 businesses, while there were 19,075 informal businesses based on data from [kompas.com](https://www.kompas.com) in 2022.

As a sample, this study involved 12 respondents selected using purposive sampling techniques

Figure 1: Conceptual framework



H1: Product diversity has a significant effect on MSME performance

H2: Service quality has a significant effect on MSME performance

H3: Competitive pricing has a significant effect on MSME performance

Table 1. Operational Definition

	Variables	Operational Definition	Indicators
X1	Product Diversity	Efforts to offer a variety of products or types that are significantly different from competitors	1. Product Size Variation 2. Product Diversification 3. Product Design Variations (Diantika, 2022)
X2	Service Quality	Efforts made by the company to provide services that meet customer needs and expectations.	1. Speed of Service 2. Friendliness of Service 3. Responsiveness of Service (Tanady & Muhammad, 2020)
X3	Competitive Pricing	Reflects the total value that is willing to be sacrificed to obtain value from a product.	1. Affordability 2. Correlation between price and quality 3. Competitive pricing (Leksono et al., 2022)
Y	MSME Performance	The results achieved in carrying out activities during a certain period.	1. Work results 2. Quantitative Results 3. Market Growth (Diana et al., 2022)

RESULTS AND DISCUSSION

3.1 Validity Test

The test results show that all statements on each variable are valid and can be used for

further research. Details of the validity test results can be found in the following table:

Table 2. Validity Test Results

Variable	Item No.	R-Count	Description
Product Diversity (X1)	PD1.1	0.787	Valid
	PD1.2	0.875	Valid
	PD1.3	0.814	Valid
Service Quality (X2)	SQ2.1	0.799	Valid
	SQ2.2	0.850	Valid
	SQ2.3	0.811	Valid
Competitive Price (X3)	CP3.1	0.833	Valid
	CP3.2	0.839	Valid
	CP3.3	0.800	Valid
MSME Performance (Y)	MP1.1	0.822	Valid
	MP.2	0.832	Valid
	MP1.3	0.757	Valid

Based on the results in Table 1, all indicators of the variables Product Diversity (X1), Service Quality (X2), Competitive Price (X3), and SME Performance (Y) show a calculated r-value greater than the t-table r-value, which is 0.175 at a significance level of 5% (0.05) with degrees of freedom (df =

120). Therefore, the research instruments used are declared valid.

3.2 Reliability Test

From the Reliability Test, the three research variables have the following Cronbach Alpha values.

Table 3. Reliability Test Result

Variable	Cronbach's Alpha	Description
Product Diversity (PD)	0,766	Reliable
Service Quality (SQ)	0,756	Reliable
Competitive Pricing (CP)	0,760	Reliable
MSME Performance (MP)	0,727	Reliable

Based on Table 2, all elements proved to be reliable with Cronbach's Alpha values greater than 0.60. Thus, the results of this reliability test show that the measurement instruments for all variables used meet the reliability criteria and can be used as valid measurement instruments in further analysis.

3.3 Multicollinearity Test Results

The results of data processing with SPSS in multiple linear regression analysis are shown in Table 3 below.

Table 4. Multicollinearity Test Results

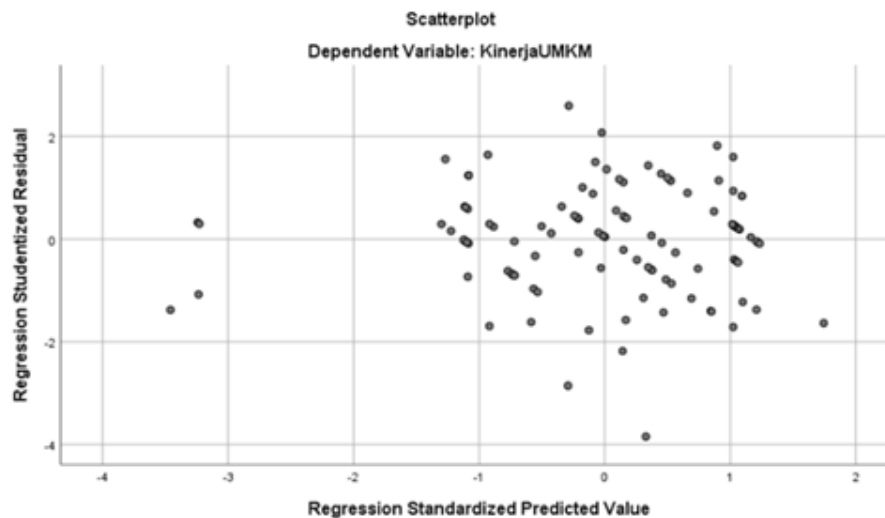
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Product Diversity (KP.1)	0.996	1.004
	Service Quality (KL2)	0.334	2.910
	Competitive Pricing (CP3)	0.344	2.909

The results show that the results of the for each independent variable have a value above 0.10 and a VIF value below 10. Thus, it can be concluded that the regression model

built does not experience multicollinearity.

3.4 Heteroscedasticity Test Results

Figure 2. Heteroscedasticity Test



The results of the heteroscedasticity test show no indication of heteroscedasticity because the points are scattered randomly without a systematic pattern. Thus, it can be concluded that this regression model meets

the assumption of homoscedasticity.

3.5 Multiple Linear Regression Analysis Test Results

Table 5. Multiple Linear Regression Analysis Test Results

Model		Unstandardized Coefficients
1		B
	(Constant)	0.674
	Product Diversity (PD)	-0.017

Service Quality (SQ)	0.430
Competitive Pricing (CP)	0.496

Table 4 shows the results of multiple regression coefficient estimation. It can be seen that the regression equation formed is: $Y = 0.674 - 0.017 X_1 + 0.40 X_2 + 0.496 X_3$. The regression results show that the coefficient for product diversity is negative, indicating a negative relationship between diversity and MSME performance. This

means that a wide variety of products can cause confusion for consumers in making choices, thus not significantly impacting sales growth. Conversely, the variables of service quality and competitive pricing can create satisfaction and drive good results.

Table 6. Correlation Test Results

Model Summary		
Model	R	R Square
1	.864	.747

3.6 Correlation Analysis

The correlation coefficient (R) obtained was 0.864, which is in the range of (0.800 - 1.000), indicating a very strong and positive relationship between the variables of product diversity, service quality, and competitive pricing with MSME performance.

3.7 Determination Analysis

The results of the above calculation show that the coefficient of determination (R²) is 0.747, so it can be concluded that the independent variables in the research model explain 74.7% of the variation in MSME performance, while the remaining 25.5% is influenced by other factors

CONCLUSION

In line with the condition of retail MSMEs, particularly in the city of Pontianak, which has been experiencing a decline in recent years, this study reveals that product diversity has a negative effect on MSME performance, while service quality and competitive prices have a positive effect. This confirms that efforts to expand product variety require the right strategy so as not to weaken the performance of MSMEs.

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