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## RECIPROCAL PRICING STRATEGY TO IMPROVE MSME PERFORMANCE

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## RECIPROCAL PRICING STRATEGY TO IMPROVE MSME PERFORMANCE

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### ABSTRACT

*This study aims to prove that the new concept of reciprocal pricing can affect the improvement of MSME performance. This study uses a quantitative approach with the sample technique used is Cluster Random Sampling This technique is taken with the argument that this research was conducted in several areas, namely, the tourism area of MSMEs street food vendors, then the building owner sells drinks or other products that are not similar. There were 175 MSMEs that became the object of research using the SEM AMOS analysis tool. Empirical evidence proves that Reciprocal pricing is able to encourage the improvement of MSME performance. Implement a marketing strategy strategy that focuses on building and maintaining marketing relationships between one business unit and another for the long term with the aim of providing different value to customers from competitors. The novelty of this research is Reciprocal Pricing, which is the concept of reciprocal pricing by two or more business units that provide mutual benefits to the agreed price, this variable is thought to improve performance. The implication is that efforts to improve the performance of MSMEs need to use the concept of Reciprocal Pricing in this research which is proven to encourage the improvement of MSME performance. The implementation of reciprocal pricing in improving the performance of MSMEs in tourism areas is proven to increase the number of consumers.*

**KEYWORDS** Marketing Strategy, Reciprocal Pricing, MSME Performance



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### INTRODUCTION

The Indonesian MSME Association (Akumindo), said that as many as 30 million Micro, Small and Medium Enterprises (MSMEs) in Indonesia have gone bankrupt. There are 4 factors that make MSME players not continue their business. Limited capital because they have to carry operational costs so that MSME players

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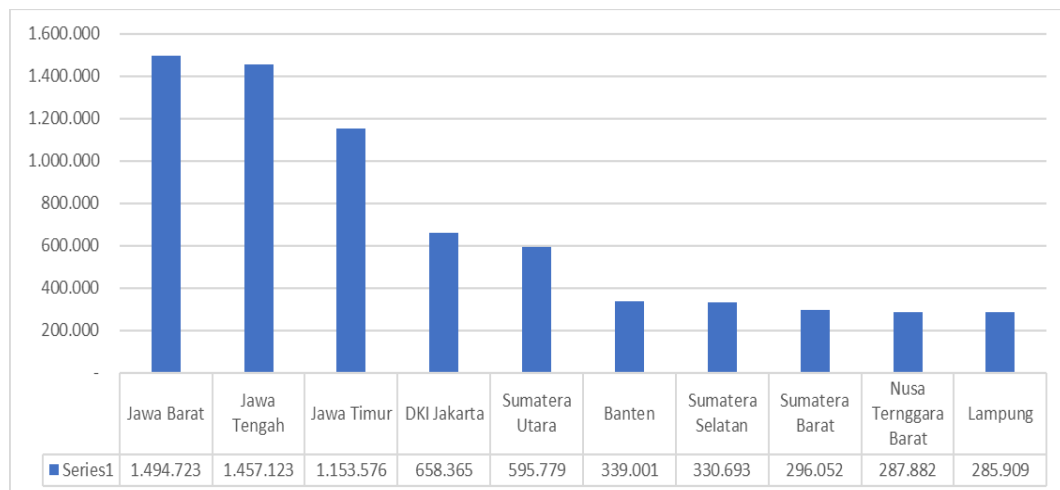
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prefer to become workers or employees, practically more workers, allegedly because the salary when working is clearer in nominal terms than the income when running a fluctuating business. (Andriyansah et al., 2023). Let alone to repay his credit loan to a financial institution, to maintain his business so that it does not go bankrupt is a very heavy struggle. (Syamsudin, 2021).

MSMEs are an important foundation of national economic strength MSMEs play a significant role in the national economy. Otoritas Jasa Keuangan (OJK) predicts that the impact of the pandemic on the economic sector will still be felt until 2022. Many policies and strategies have been implemented by the Government of Indonesia, starting with credit and financing restructuring, relaxation of reporting obligations for small and medium scales, appeals not to use debt collectors, and development of the MSME digital ecosystem. Sharing policies are issued to keep the MSME sector from being hit by the pandemic so that MSMEs can survive through the pandemic storm that almost all countries are affected by the disaster (Darmansyah, 2022).

The following presents the number of Indonesian MSMEs throughout 2022 from all provinces but for research purposes, the data presented is the top 10 provinces quoted from (Anastasya, 2023)



**Figure 1: Ten provinces with the most MSMEs**

Source: ukmindonesia.id (2023)

The graph shows that the number of MSME developments breaking the 1 million unit mark is still dominated by provinces in Java. However, it is unique that Banten Province, which has closer integration with these provinces, is unable to develop when compared to North Sumatra Province. A more prominent development was shown by the province of West Nusatenggara, although it is not far from the national capital, the increase in the number of MSMEs in the province beat Lampung province, which only took 1 hour to cross the sea to the mainland of the National Capital.

The strategy for MSMEs to survive includes product innovation as an effort that needs to be made by MSMEs starting from improving, improving, to

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developing products so that innovation is an idea for change and commercialisation(Andriyansah & Fatimah, 2020) A product development strategy aims to drive increased sales volume by utilising technology. This strategy can be utilised by companies to offer new products or new product varieties with new product lines. because the company's innovation can create new opportunities to enter new markets(Kahn, 2018)

According to (Dziallas & Blind, 2019) The company can organise in accordance with the target, but radical or overall innovation will not be effective for the company to change performance. (Najafi-Tavani et al., 2018) Development with innovation cannot run well if external companies such as supply chain, customers, competitors who do not understand the innovation carried out by the company have no impact or in other words the ability of innovation carried out by the company does not show the performance expected by customers.

This research offers a solution in the form of novelty Reciprocal pricing is a development of the variables of cooperation and price. This reciprocal pricing system is a system of mutually beneficial cooperation. For example, Si A owns the building and Si B is the owner of the skills. To run his business, Si B can cooperate with A without renting, but based on an agreement to only pay for operations such as electricity and water. The advantage is that Si B can run without paying rent for the building and the advantage is that Si A can trade new complements. So the rent, operational costs are reciprocal pricing.

### **Product Innovation**

(Rahmawati & Novani, 2021) Innovation must be well planned because it is a fundamental part of the life cycle management of market-oriented and product-oriented MSMEs that generally focus on producing superior products. These superior products cannot be created in a short time. (Arani, 2019). According to Hullova et al., (2016) While product and process innovation are two ways that contribute to improving a company's competitiveness, such improvements can be affected by environmental and organisational factors, such as competitive intensity and company size.(Bouhelal & Adouka, 2022) The company's commitment to develop and market new products to the market. Product innovation can be a strategy that can be adopted from various resources to achieve high innovation performance (Calik, 2024). Able to play an important role to improve organisational performance and maintain a competitive advantage.(Arsawan et al., 2022)

### **Capability of HR**

New Product and Process Development has different objectives from one another. However, innovation requires different resources and capabilities as well as capable human resources. In addition, the relationship between technology and human resources becomes two currencies that complement each other even though they look different. (Hullova et al., 2016). Organisational scientists believe that the capabilities of individuals or groups can be enhanced through learning and training to develop individual capabilities.

### **(Reciprocal Pricing)**

Reciprocal Pricing Strategy To Improve MSME Performance.

The strategy of government power has been carried out, the following is a strategy offer is a reciprocal pricing strategy that can be carried out by fellow MSMEs to work side by side through economic conditions that make the nation's economic pillars strong again. The company's management must be able to understand the conditions under which changes in costs and sales volume affect profits so that management can consider in determining sales and cost budgets. Adopted from Mathematics, (Donald and Lund. 2010) Marketing also discusses Reciprocal from the marketing side which is a strategy of establishing relationships with one another, both of which can provide mutual benefits such as promoting products for profit. (Vargo and Akaka 2009).

Another definition states that Reciprocal marketing is a strategy to expand the reach and increase the strength of the brand. (Berger et al. 2002). According to (Nur, Nik, and Shamsudin 2020) Reciprocity theory is a theory of expectations that will respond to each other by returning benefits for benefits. Reciprocity is a basic law of social psychology. (Pelaprat and Brown 2012) Consumer psychology deals with social interaction, self-concept, social cognition, social influence, attitudes, and stereotypes. In other words, reciprocity is a social situation where we reciprocate what we receive from others. It can be interpreted as negative reciprocity or positive reciprocity. Negative reciprocity occurs when an action has negative consequences when the other person reciprocates the action with an action that has approximately the same negative effect on the other person (Hofstetter, Aryobsei, and Herrmann 2018). The following is a synthesis of the development of the reciprocal pricing concept:

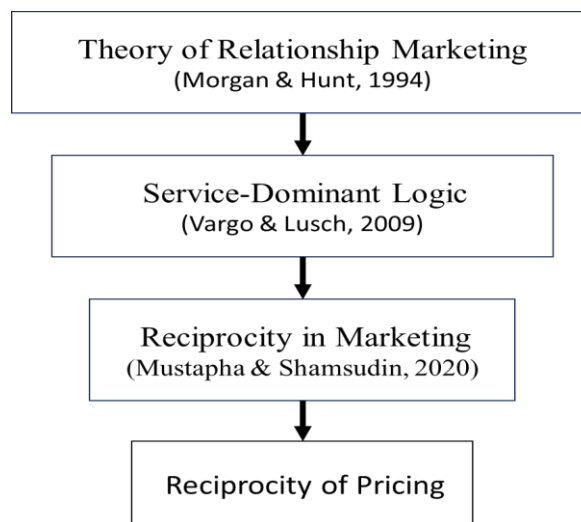


Figure 2. Synthesis of Reciprocal Pricing Concept Development

The theoretical synthesis to obtain novelty in the form of the concept of reciprocity of pricing was developed from the theory of relationship marketing by (Morgan & Hunt, 1994) A service-dominant logic for marketing was then developed which shifted the paradigm to value being co-created through co-operation

with customers (Vargo & Lusch, 2009). Sintesa dilanjutkan kepada Reciprocity in Marketing (Mustapha & Shamsudin, 2020). Then a new concept of reciprocity of pricing was invented. The foundation of this thinking is cost volume profit analysis, which is one of the tools that can be utilised by management in profit planning that connects the link between costs, volume, and profits of an MSME in this proposal (Behl et al., 2022).

There are various factors that can affect changes in profit improvement, sales volume, variable costs, fixed costs and product sales mix. Cost volume profit analysis can help company management to see how the operating decisions set affect or increase profits. The research problem raised in this research is how to improve the performance of MSMEs with the aim of proving the concept of Reciprocal Pricing can be a solution for MSMEs during a pandemic. Reciprocal Pricing is a reciprocal pricing value carried out by two or more business units that provide mutual benefits to the agreed price, this variable is thought to improve performance.

### **Performance of MSMEs**

The performance of MSMEs is adopted from their income Ferdinand (2000) which is the company's strategy to generate performance (such as sales volume and sales growth rate, increased revenue). MSME performance is a concept to measure MSME achievements as an effort to successfully achieve targets. Indications of MSME performance are sales growth that increases every year or the previous year. Revised extended cooperation because both are mutually beneficial, expansion of sales areas.

## **RESEARCH METHOD**

This research uses a quantitative approach with the sample technique used is Cluster Random Sampling This technique is taken with the argument that this research was conducted in several areas, namely, tourism areas both included in the 10 new Bali and tourism areas that are affordable with the budget and research time. The MSMEs that are the object of this research are street vendors who work together with building owners who jointly run businesses that are not the same but complement each other. For example, if a street vendor sells food, the building owner sells drinks or other products that are not similar. There are 175 MSMEs as the object of research which will then be processed using SEM.

## **RESULT AND DISCUSSION**

Competition in the business world is increasingly globalised and varied, encouraging business units to be more creative in making strategies to achieve optimal performance. The following figure is the result of data processing. The 175 MSMEs that responded to the results of data processing can be summarised as follows. Variety Business strategy has a role function to build excellence in business competition, achieve organisational and business goals. business strategies will be applied in an effective way generally developing products utilising technology, improving customer service, and marketing strategies.

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This research focuses on the application of marketing strategies, namely reciprocal pricing, which is the novelty of this research. Strategy The value of reciprocal pricing agreements made by two or more business units that provide mutual benefits to the agreed price to improve marketing performance.

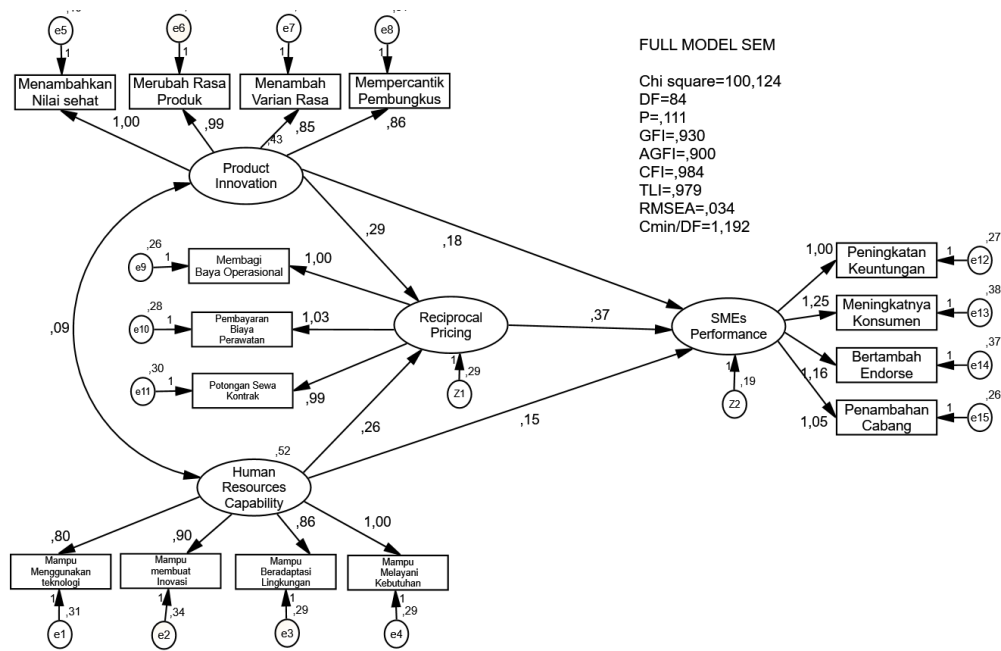


Figure 3: Structural Equation Model Processing Results

The results of data processing on the reciprocal pricing model results can be explained by paying attention to the Goodness of fit index (GoFI) and Cut off value (CoV) as a requirement to state that the model is acceptable and can continue the analysis. In addition, it proves that the proposed hypothesis can be proven statistically.

Tabel 1. Pengeolahan Model Reciprocal Pricing

Goodness of fit index (GoFI)	Cut off value (CoV)	Model Fit	Ket
<b>Absolut Fit Measures</b>			
Chi-Squared ( $\chi^2$ )	$\leq 0.05$ ; 84 = (100.24)	106.39	Terpenuhi
Significance Probability	$\geq 0.05$	0.111	Terpenuhi
CMIN	$\leq 2.00$	1.162	Terpenuhi
GFI	$\geq 0.90$	0.930	Terpenuhi
RMSEA	$\leq 0.08$	0.034	Terpenuhi
<b>Incremental Fit Measures</b>			
AGFI	$\geq 0.90$	0.900	Terpenuhi
TLI	$\geq 0.95$	0.979	Terpenuhi

CFI	≥ 0.95	0.984	Terpenuhi
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Tabel 1 explained that the reciprocal pricing model test using SEM AMOS with the requirements of the goodness fit index in general shows that the processing data fulfils the suitability requirements.

**Regression Weights: (Group number 1 - Default model)**

			Estimate	S.E.	C.R.	P	Info
Product_Innovation	→	Reciprocal_Pricing	,287	,089	3,230	,001	Accepted
Human_Resources_Capability	→	Reciprocal_Pricing	,262	,082	3,210	,001	Accepted
Reciprocal_Pricing	→	SMEs_Performance	,373	,098	3,788	***	Accepted
Product_Innovation	→	SMEs_Performance	,185	,077	2,407	,016	Accepted
Human_Resources_Capability	→	SMEs_Performance	,149	,069	2,174	,030	Accepted

For the hypothesis that the higher the human resource capability, the higher the reciprocal pricing, statistical processing found that Product Innovation proved to be significant ( $\beta_1 = .373$ ), with a critical value (CR) of  $3.788 > 1.96$ , with a significance probability of 0.01, which means, by default, the significance is smaller ( $<$ ) than 005. In the human resource capability variable, there are 4 indicators that support the improvement of MSME performance, namely being able to use technology, being able to make innovations, being able to adapt to the environment, being able to serve consumer needs.

The next hypothesis If there is product innovation, the more reciprocal pricing occurs, statistical processing found that Product Innovation proved to be significant ( $\beta_1 = .262$ ), with a critical value (CR) of  $3.210 > 1.96$ , with a significance probability of 0.01, which means, by default, the significance is smaller ( $<$ ) than 005. The hypothesis that the better the reciprocal pricing, the better the performance of MSMEs, statistical processing found that Product Innovation proved to be significant ( $\beta_1 = .373$ ), with a critical value (CR) of  $3.788 > 1.96$ , with a significance probability of 0.01, which means, by default, the significance is smaller ( $<$ ) than 005. The reciprocal pricing variable in this research is supported by indicators, namely sharing operational costs, payment of maintenance costs, rent discounts or operational contracts. The indicators are adding healthy value, adding product flavour, adding product variants and beautifying product packaging.

The hypothesis that the better the capability of Human Resources, the better the performance of MSMEs, statistical processing found that Product Innovation proved to be significant ( $\beta_1 = .185$ ), with a critical value (CR) of  $2.407 > 1.96$ , with a significance probability of 0.01, which means, by default, the significance is smaller ( $<$ ) than 005. hypothesis that the better the reciprocal pricing, the better the performance of MSMEs, statistical processing found that Product Innovation proved to be significant ( $\beta_1 = .149$ ), with a critical value (CR) of  $2.174 > 1.96$ , with a significance probability of 0.01, which means, by default, the significance is smaller ( $<$ ) than 005. In this research, the MSME Performance Variable consists of

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increasing profits, increasing consumers, increasing endorsements and increasing branches.

## CONCLUSION

The results of this research field study found that there is an agreement between business actors regarding joint business as the main basis for implementing reciprocal strategies. This agreement is important before both of them run their businesses with the reciprocal patterns they set. Empirical evidence proves that reciprocal pricing is able to encourage the improvement of MSME performance. Implementing a marketing strategy strategy that focuses on building and maintaining marketing relationships between one business unit and another for the long term with the aim of providing different value to customers from competitors. The main objectives of this research were successfully found, namely building relational marketing is to generate high customer satisfaction, build customer loyalty, and increase customer loyalty.

The implication is that efforts to improve the performance of MSMEs need to use the concept of Reciprocal Pricing in this research which is proven to encourage the improvement of MSME performance. The implementation of reciprocal pricing in improving the performance of MSMEs in tourism areas is proven to increase the number of consumers

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