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Improving the Development of SMEs in the Batik Industry in Pekalongan

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ABSTRACT

The purpose of this study was to describe consumer perceptions of customer relationship management (CRM), product differentiation, and price on purchasing decisions for batik Pekalongan. Design / methodology / approach: The technique used in this research is the Structural Equation Model/SEM. The primary data of this study were obtained from questionnaires and interviews with 150 respondents. Findings: The results of the study concluded that CRM, product differentiation, and price have an influence on purchasing decisions of Batik Pekalongan. Research limitations/implications: This study is proposed to fill research gaps while emphasizing the importance of CRM, product differentiation and price factors on purchasing decisions for SMEs in Indonesia, especially Pekalongan City. These three factors play an important role for the sustainability of SMEs in building creativity and innovation so that they are expected to make a positive contribution to business sustainability, especially SMEs.

INTRODUNCTION

Some marketing experts claim that strategy is the key to sustainable business growth, likewise with the existence of customer relationship management (CRM) where one of the most important aspects of a business organization has an important role, especially in increasing the number of loyal customers to the company's products (Zafar, 2015). CRM is a management strategy that is said to be strong for managing interactions and organizational relationships with existing customers. This strategy can help business organizations to be able to retain customers in a responsible way (Agnihotri, 2019). The development of information technology is so rapid at this time, marketers are encouraged to be active in using electronic media in carrying out their marketing, namely the transition from traditional methods to faster and modern digital devices (Hoque and Hamid, 2019).

The trend of such rapid changes, especially information technology through digital marketing as a marketing effort carried out by almost all companies today through social media, with the help of devices, internet, websites, or Instagram can accelerate communication to customers. In addition, the CRM strategy is widely used by marketers in an effort to accelerate marketing and support the improvement of customer relationships with companies. This digital media is considered to be the most effective and powerful medium that can be used to improve customer relationships with companies (Patel, 2016). Apart from the aspect of improving customer relationships, another factor that is no less important is where the company provides space for consumers to make choices from the products provided by the company through product differentiation. Product differentiation is a process by which organizations provide products or services to make them more attractive to target markets (Cravens, 2013). The purchase decision is strongly influenced by the choice of various products and services available, even though the organization is close to its competitors. Many business organizations try to improve their marketing strategies through product differentiation and using innovative technologies (Sharma, 2015).

The price difference of the type of product offered to consumers. varies, of course, is strongly influenced by elements in marketing so that it has an impact on different pricing (Cravens, 2013). The concept of CRM and product differentiation cannot influence purchasing decisions through pricing. This has an impact on purchasing decisions where the pricing (Davcik, 2015) is different, especially in the context of small and medium enterprises (SMEs). The intensity of very high price competition in the context of SMEs greatly affects consumers in determining their purchasing decisions. Central Java is a province that is well-known as a producer of varied batik, as Indonesia's cultural heritage is visited by many foreign tourists. One of the well-known batik producers in Central Java province and earned

the nickname Batik City is Pekalongan which produces stamped, printed, combined and written batik. The fast-paced developments have inspired business actors to develop mods, as well as batik craftsmen in Pekalongan where their products are spread across various regions in Indonesia.

However, a crucial problem arose where a very drastic decline in sales occurred during the covid 19 outbreak that hit all businesses, including the batik business. Many factors can influence purchasing decisions, besides communication with customers is no longer reliable, there is also a scarcity of raw materials needed because every SME actor does not provide stock of raw materials. It only consumes the existing raw materials, so that the pricing for a piece of batik cloth by SMEs only consumes batik stock that is ready to be sold to the market.

In this study, the author tries to examine the role of CRM, product differentiation, and purchasing decisions through batik prices in Pekalongan. The basis of this research is the decline in sales that occurred in 2019 to 2021 which was very significant compared to previous years. Based on the description of the problems mentioned above, the authors feel interested in conducting research with the title "Improving the development of SMEs in the batik industry in Pekalongan".

RESEARCH METHODS

The research was conducted on SMEs in Pekalongan City which has the largest business unit that shows the characteristics of creative SMEs that have the same business. The sample in this study was 150 consumers. This study uses SEM (Structural Equation Modeling. This research is descriptive in nature, namely CRM, product differentiation, prices and purchasing decisions. Verification research is to determine the relationship between variables through a hypothesis testing based on data in the field Nana Sujana (2004: 10). To obtain the data and information in this study was carried out by disclosing a number of complementary variables with concepts, dimensions, indicators, sizes and scales. The primary data approach in this study was in the form of a questionnaire given directly to respondents and interviews with several actors. Meanwhile, secondary data were collected from several local government publications and business magazines, journals and textbooks. The technique used to measure CRM, product differentiation, on purchasing decisions through prices with a Likert scale which has five alternatives. The calculation of the SEM (Structural Equation Model) model is carried out with the help of the Lisrel 12.01 program. The Customer Relationship Management (CRM) research variable consists of 4 parameters, the Product Differentiation Variable has 7 parameters, the Price Variable has 4 parameters and Purchase Decision has 5 parameters. Overall the number of parameters of the four variables studied were 20 parameters.

RESULTS AND DISCUSSION

Validity and Reliability Data

The questionnaire data used has passed the Validity and Reliability test. Testing the validity and reliability of the questionnaire data using a correlation value approach and the test results show that all questionnaire items consist of 20 valid statements (r count > 0.3 and reliable (alpha > 0.7).

Table 1 Data Validity and Reliability Results

Item	Index Validity (r)	Information	Reliability (Alpha)	Item	Index Validity (r)	Information	Reliability (Alpha)
Consumer Relation Management (CRM)				**Product differentiation**			
CRM01	0.725	Valid	0,839	Price1	0.606	Valid	0,751
CRM02	0.661	Valid		Price2	0.613	Valid	
CRM03	0.654	Valid		Price3	0.538	Valid	
CRM04	0.671	Valid		Price4	0.465	Valid	
Product differentiation				**Consumer decision**			
Produk1	0.697	Valid	0,910	PD1	0.691	Valid	0,854
Produk2	0.696	Valid		PD2	0.697	Valid	
Produk3	0.746	Valid		PD3	0.688	Valid	
Produk4	0.740	Valid		PD4	0.666	Valid	
Produk5	0.754	Valid		PD5	0.616	Valid	
Produk6	0.778	Valid					
Produk7	0.737	Valid					

Descriptive Data Score

Customer Relationship Management (CRM) is measured using 4 indicators which are operationalized into 4 (four) statement items. The results of the average response score of 150 respondents for the Customer Relationship Management (CRM) variable of 3.22 are in the interval 3-4 and are included in the fairly good category. Product differentiation is measured using 7 indicators which are operationalized into 7 (seven) statement items. The results of the average response score of 150 respondents for the Product Differentiation variable of 3.06 are in the interval 3-4 and are included in the fairly good category. Prices are measured using 4 indicators which are operationalized into 4 (four) statement items. The results of the average response score of 150 respondents for the Price variable of 2.92 are in the interval 2-3 and are included in the less appropriate category. Purchasing decisions are measured using 5 indicators which are operationalized into 5 (five) statement items. The results of the average response score of 150 respondents for the Purchasing Decision variable of 3.06 are in the interval 3-4 and are included in the fairly good category.

Table 2 Descriptive Score

Variable	Indicators	Total Score	Avg.	Information
CRM	4	1929	3.22	Fair
Product differentiation	7	3217	3.06	Fair
Price	4	1753	2.92	Poor
Consumer decision	5	2297	3.06	Fair

Hypothesis Score

The results of the calculation of the SEM model (Structural Equation Model) based on survey data to answer research problems are presented in Figure 1.

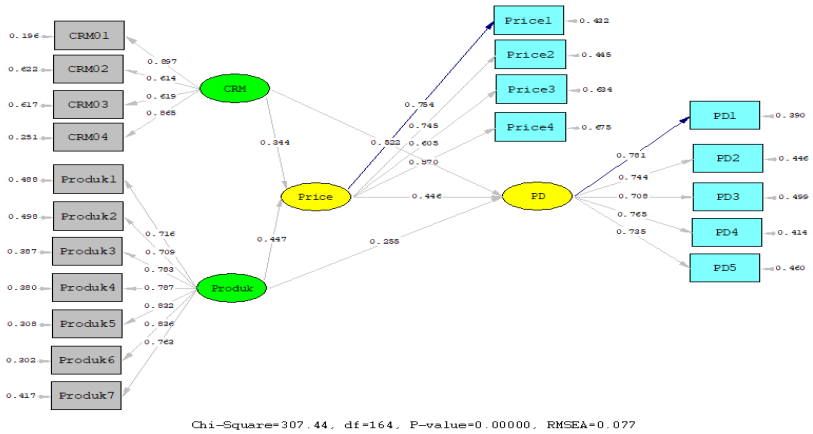

Figure. 1 Structural Model

The SEM model formed explains the causal relationship (influence) of Customer Relationship Management (CRM) and Product Differentiation on Prices and Purchase Decisions of Batik Pekalongan.

Measurement Model Test

The results of the measurement model test for each latent variable indicator are described in Table 3 as follows:

Table 3 Summary of Measurement Model Statistical Computing Results

Indicator	Loding Factor (λ^2)	R^2 (λ^2)	e (Error Variance)	T score	information	
CRM						
CRM01	0.897	0.804	0.196	11.473	Valid-Reliabel	VE = 0.579
CRM02	0.614	0.378	0.622	8.019	Valid-Reliabel	CR =0.842
CRM03	0.619	0.383	0.617	8.306	Valid-Reliabel	

Indicator	Loding Factor (λ^2)	R^2 (λ^2)	e (Error Variance)	T score	information	
CRM04	0.865	0.749	0.251	12.083	Valid-Reliabel	
Product differentiation						
Produk1	0.716	0.512	0.488	9.228	Valid-Reliabel	VE = 0.603
Produk2	0.709	0.502	0.498	7.743	Valid-Reliabel	CR =0.914
Produk3	0.783	0.613	0.387	9.527	Valid-Reliabel	
Produk4	0.787	0.620	0.380	9.882	Valid-Reliabel	
Produk5	0.832	0.692	0.308	11.800	Valid-Reliabel	
Produk6	0.836	0.698	0.302	11.286	Valid-Reliabel	
Produk7	0.763	0.583	0.417	10.315	Valid-Reliabel	
Price						
Price1	0.754	0.568	0.432	-	Valid-Reliabel	VE = 0.554
Price2	0.745	0.555	0.445	8.508	Valid-Reliabel	CR =0.766
Price3	0.605	0.366	0.634	6.463	Valid-Reliabel	
Price4	0.570	0.325	0.675	4.575	Valid-Reliabel	
Buying decision 0.610						
PD1	0.781	0.610	0.390	-	Valid-Reliabel	VE = 0.558
PD2	0.744	0.554	0.446	9.999	Valid-Reliabel	CR =0.863
PD3	0.708	0.501	0.499	6.773	Valid-Reliabel	
PD4	0.765	0.586	0.414	9.252	Valid-Reliabel	
PD5	0.735	0.540	0.460	7.784	Valid-Reliabel	

Source: Data is processed from research results

Based on table 3, the loading factor for each indicator (manifest variable) of the latent variables in the SEM model used ranges from 0.5 to 0.9. The results of the factor loading of each manifest variable of the latent variable are well above the ideal loading factor average of 0.5. All manifest variables/indicators have a t-test value of more than 1.96, which indicates that each manifest variable is significant in forming latent variables. Construct Reliability (CR) for the four latent variables is greater than the recommended 0.7. This means that the latent variables formed have good and consistent reliability. A variance extracted (VE) value of more than 0.5 indicates that the formed variable already has more than 50% of the information for each indicator (the information contained in each manifest variable can be represented in the latent variable).

Structural Model Test

Table 4 Score result of Goodness of Fit Model SEM

Goodness of Fit Index	Score Cut-off	Computational test	Evaluation Model
Chi-Square	df = 164 ; $\chi^2_{tabel} = 135{,}390$	307,44	Marginal
Probabilities (significancy)	≥ 0,05	0,0000	Not Fit
CMIN/DF	≤ 2	1,875	Fit
RMSEA	< 0,08	0,077	Fit
NCP	Small value	143.437	Fit
Interval	Narrow intervals	(97,909 ; 196.785)	
ECVI	Small value, and close to ECVI Saturated	*M = 2,681 *S = 2,819	Fit
AIC	Small value, and close to AIC Saturated	*M = 1908.711 *S = 1888.149	Fit
CAIC	Small value, and close to CAIC Saturated	*M = 567,103 *S = 1593,474	Fit
NFI	0,90 < NFI < 1	1,000	Fit
NNFI	0,90 < NNFI < 1	1,113	Fit
CFI	0,90 < CFI < 1	1.000	Fit
IFI	> 0.90	1.096	Fit
RFI	> 0.90	1,000	Fit

Goodness of Fit Index	Score Cut-off	Computational test	Evaluation Model
RMR	< 0.05	0,0194	Fit
SRMR	< 0.08	0,0332	Fit
GFI	> 0.90	0,823	Fit

Information *M = Model; *S = *Saturated*
Source: Lisrel Output Calculation Results 12.0.1

Structural model testing by looking at the results of the goodness of fit index in the table shows the model seen from CMIN/DF and RMSEA as well as other measures that meet the size of the model suitability. The results of the model suitability assessment, based on the output goodness of fit statistics from the LISREL 12.0.1 software, show that the SEM model developed in the study is good (Fit).

Structural Model Result

The relationship between exogenous latent variables and endogenous latent variables can be explained based on the following structural equation :

Table 5 Structural Equation Results

Endogenous Constructs	Exogenous Constructs				R-square	Error var
	CRM		Product Differentiation			
	Price					
Price	0,344	+	0,447		0,379	0,621
	(3,782)		(4,041)			
Buying decision	0,522	+	0,255	+ 0,446	0,785	0,215
	(6,441)		(3,743)	(4,620)		

Note: The numbers in brackets are the statistical values of the t-test.

R-square value for price of 0.379 indicates that Customer Relationship Management (CRM) and Product Differentiation simultaneously have an effect of 37.9% on price. Meanwhile, 62.1% is the influence of other factors outside the variables in the model. R-square for Purchase Decision of 0.785 indicates that Customer Relationship Management (CRM), Product and Publication Differentiation and Price simultaneously have an effect of 78.5% on Purchase Decision. While the remaining 21.5% is the influence of other factors outside the variables in the model.

Hypotheses Test

Table 6 Result of T

Model			Influence Coefficient	R^2	T	Note
Direct influence						
Price	<---	CRM	0.344	11,8%	3,782	Significant
Price	<---	Product differentiation	0.447	20,0%	4,041	Significant
Buying decision	<---	CRM	0.522	27,2%	6,441	Significant
Buying decision	<---	Product differentiation	0.255	6,5%	3,743	Significant
Buying decision	<---	Price	0.446	19,9%	4,620	Significant
Indirect influence						
Buying decision	<- Price	<--- CRM	0,153	2,3%	3,029	Significant
Buying decision	<- Price	<--- Product differentiation	0,199	4,0%	3,370	Significant

Source: Data Processing Results, 2022

Direct Influence

Based on the data in table 4 can be seen The influence of Customer Relationship Management (CRM) on the price is indicated by the influence coefficient of 0.344. The t-statistic value of the Customer Relationship Management (CRM) variable (3.782) and greater than critical (1.96) means that the error rate of 5% is significant. So based on the test results it can be concluded that Customer Relationship Management (CRM) has an effect on prices. The positive coefficient results indicate that the better Customer Relationship Management (CRM) will increase the price. The effect of product differentiation on prices is indicated by an influence coefficient of 0.447. The t-statistic value of the

Product Differentiation variable (4.041) and greater than t-critical (1.96) means that at an error rate of 5%, the test results are significant. So based on the test results it can be concluded that Product Differentiation has an effect on Price. The positive coefficient results indicate that the more appropriate the product differentiation, the higher the price.

The influence of Customer Relationship Management (CRM) on Purchase Decisions is indicated by an influence coefficient of 0.522. The t-statistic value of the Customer Relationship Management (CRM) variable (6.441) and greater than t-critical (1.96) means that the error rate of 5% is significant. So based on the test results it can be concluded that Customer Relationship Management (CRM) has an effect on Purchase Decisions. The positive coefficient results indicate that the better Customer Relationship Management (CRM) will improve Purchase Decisions. The effect of product differentiation on purchasing decisions is indicated by the coefficient of influence of 0.255. The t-statistic value of the Product Differentiation variable (3.743) and greater than t-critical (1.96) means that the error rate of 5% is significant. So based on the test results it can be concluded that Product Differentiation has an effect on Purchase Decisions. The positive coefficient results indicate that the more appropriate Product Differentiation will increase the Purchase Decision. The effect of price on purchasing decisions is indicated by the coefficient of influence of 0.446. The t-statistic value of the Price variable (4.620) and greater than t-critical (1.96) then at an error rate of 5% the test results are significant. So based on the test results it can be concluded that the price has an effect on the Purchase Decision. The positive coefficient results indicate that the more appropriate the price, the higher the Purchase Decision.

Indirect Influence

The influence of Customer Relationship Management (CRM) on Purchase Decisions through Price is indicated by an influence coefficient of 0.153. The tstatistic value of the Customer Relationship Management (CRM) variable (3.029) and is greater than tcritical (1.96) then at the 5% error rate the test results are significant. So based on the test results it can be concluded that Customer Relationship Management (CRM) through Price has an effect on Purchase Decisions. The effect of product differentiation on purchasing decisions through price is indicated by an influence coefficient of 0.199. The tstatistic value of the Product Differentiation variable (3.370) and greater than tcritical (1.96) means that the error rate of 5% is significant. So based on the test results it can be concluded that Product Differentiation through Price has an effect on Purchase Decisions.

CONCLUSION

Based on the results of the direct influence that the role of CRM has a great influence on prices, although the value is set high, the role of CRM is more effective than the others. It is recommended to further improve the relationship that is efficient and effective even though the price for a piece of batik cloth is considered expensive. Likewise, product differentiation which has various dimensions has a strong influence so that it is able to influence consumers to have the products they want with CRM which has many roles. It is suggested that the role of the product differentiation dimension is able to provide added value for SMEs in empowering SMEs. The role of CRM has an effect on purchasing decisions, as can be seen from the increasing compatibility between the dimensions of CRM so that it has the ability to influence consumers in making buying decisions. It is recommended that a piece of quality batik cloth can reach consumers if CRM is further improved, of course the number of purchase transactions will increase. Based on statistical calculations, it turns out that the Product Differentiation variable has a strong influence on purchasing decisions, this shows that the role of various variable dimensions can influence consumers. It is recommended to further improve the character of Pekalongan batik so that it can be distinguished from other areas in terms of quality, aesthetics, strength/reliability, services in other ways tailored to the capabilities of MSME actors in Pekalongan. Price holds a great influence on Purchase Decisions in every buying and selling transaction involving consumers and producers, with all the dimensions inherent in the price, especially price discounts or other conveniences, It is recommended to be more sensitive to competitors in the vicinity, be aggressive in providing discounts price or price relief in order to attract the attention of consumers to make buying decisions.

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