

# A Study of SMEs' Retention Marketing During the Covid-19 Pandemic

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## ABSTRACT

The marketing problem is a challenge faced by Small and Medium Enterprises (SMEs) during the Covid-19 pandemic. The results of several studies show that one of the essential steps to maintain business during a pandemic is to bind customers to keep making purchases, not switching to other products. Therefore, retention marketing is the answer, which is a strategy to make consumers feel bound, happy, and comfortable when consuming a product. This study uses a qualitative approach by interviewing SMEs who open their businesses in Semarang City Mall Food Court. The interviews show that retention marketing is the right and effective strategy for SMEs to sustain their businesses during the Covid-19 pandemic. The SMEs who can survive are successful in implementing retention marketing. On the other hand, the SMEs who cannot survive are not successful in implementing this strategy appropriately.

**Keywords:** Retention marketing, Covid-19 Pandemic, Small and Medium Enterprises

## 1. INTRODUCTION

Retention marketing is an action taken by businesses to keep customers using their products and services. During the Covid-19 pandemic, it is vital to maintain and develop a business. Entrepreneur Srinivasan mentions that customer retention is more profitable than customer acquisition [1].

Retaining customers is generally more profitable than acquiring new customers. According to Dawkins and Reichheld's research [2], a one percent increase in customer retention rate can increase the customers' net present value between 25% and 95%.

Customer Retention is the mirror image of customer defection. High retention is equivalent to a low defection-rate [3]. An effective Customer-Retention strategy retains the customer and promotes the sales of additional products so that customer needs arise.

[4] mentioned that customer retention is essential to most businesses because the cost of acquiring a new customer is far greater than the cost of maintaining a relationship with current customers. High customer-retention means the customer of the product tends to return to, continue to buy or, in some other way, not defect to another product.

Practitioners and academics provide an important devotion to customer-retention practice as proven to improve the firm's performance [5]. [6] explained that firm performance improvement is possible with the employment of appropriate marketing strategies that could increase customers' spending and, subsequently, the firm's sales volume. Customer retention is essentially defined as the customer's commitment to the firm and its offerings for

a specific time through their repeat purchases and the tendency to spread positive word-of-mouth among their social circle [7].

There are several dimensions in retention marketing, including Customer Perceived Value, Corporate Image, Service Quality, Switching Barrier, Customer Satisfaction, Customer Trust, Positive Feedback, Good Experience, Commitment, Loyalty, Consumer Satisfaction, Communication and Grievance Handling, Product Innovation, and Pricing.

Theoretically speaking, retention marketing determines how far SMEs can survive. There is some research work done in these directions [8-10].

Based on preliminary observations, we argued that DP Mall tenants apply the service quality, price perception, and product innovation to survive during the pandemic, with three issues: 1. How do tenants improve service quality? 2 How do tenants apply prices according to consumer values? 3. How do tenants innovate products according to consumer tastes?

### *1.1 Related Work*

According to the assumption that retention marketing determines tenant endurance during a pandemic, we divided the variables into three kinds, namely: Service Quality, Price Perception, and Product Innovation.

#### 1.1.1. Service Quality

Studies to measure the financial impact of customer retention have increased in recent years. When businesses

lose their customers who switch to other products, they must attract new customers at high costs. Catching new customers is expensive because it involves advertising, promotion, sales costs, and initial operating expenses. New customers are often unprofitable for some time after the acquisition. [11] found that a greater level of service improvement is needed to keep customers away from competitors rather than to retain existing customers. Long-term relationships with customers affect the profitability. Customers have been consuming the products for several years, because they are pleased with the service, tending to spread the right word-of-mouth communication than do short-term customers [12].

Parasuraman has developed a service-quality measure called Servqual (Service Quality). It is a multi-item scale with several questions: (1) Physical Evidence (tangibles), including physical facilities, equipment, employees, and communication means. (2) Reliability, namely the ability of the staff to provide the promised service and provide satisfactory service. (3) Responsiveness, namely the desire of the staff to help customers and provide responsive services. (4) Assurance team including knowledge, ability, politeness, and trustworthiness of the staff, free from danger, risk, and doubt, and (5) Empathy: a team relationship, good communication, personal attention, and understanding of customers' needs.

According to [7], service is any action or activity that a party can offer to another, which is intangible and does not result in any ownership. Service is the behavior of producers to meet the needs and desires of consumers to achieve consumer satisfaction.

[9] mentioned that service quality, which consists of the dimensions of tangibles, reliability, responsiveness, assurance, and empathy, has not directly influenced customer retention, while service quality towards commitment and customer satisfaction, has a direct influence.

### 1.1.2. Price Perception

In an economic context, price is the amount of money that must be sacrificed for something desired. [13] defined price as the amount of money charged for a product or service or the total value that customers exchange to own or use its benefits or service.

According to [5], an extensive review of past literature from 2003 to the present, has been done on customer retention practices among service-oriented firms. Briefly, price perception is one of the influencing factors of customer retention. The repeat-purchase intention is regarded as the customer's decision about repurchasing a chosen service from the same service provider, considering the customer's present condition and other possible occurrences [13]. Customer's emotional attachment, such as loyalty and commitment towards a service provider, frequently influences repeat-purchase intentions [14]. Studies found that satisfied customers with a positive experience will repurchase, which in turn, will improve the firm performance. It implies that customers'

repeat-purchase intention is indirectly influenced by the services provided to customers, subsequently creating favorable experiences.

Some of these studies show that customer satisfaction is the key influencing-factor of customer retention. Customer satisfaction is defined as a sense of comfort and attachment that results from achieving the customer's expectation and anticipation [15]. Customer satisfaction can also be described as a pleasant experience that creates an emotional bond between a customer and the firm [16]. Satisfaction differs across individual customers despite their experience with similar service providers. Customers with greater satisfaction levels would frequently buy in larger volume besides acquiring new products from the same provider [17]. They are also known for spreading the news about their favorable experiences among their social circles. Besides, reasonable prices, efficient customer service, and fair handling of customers' dissatisfaction are important ways to create and maintain a satisfied customer. Customer's perception towards a firm performance is also seen as a catalyst in satisfying customers as it is believed that customers who are satisfied and contented with the firm performance would be loyalists of the firm [18].

### 1.1.3 Product Innovation

Currently, the products offered are increasingly diverse with their respective advantages. Consumers are also selective in choosing the appropriate product. Companies are competing to make product innovations to attract consumer interest to keep their survival. According to [19], innovation is needed by companies to stay afloat or to be more competitive. Innovation is a product or service that is perceived by consumers as new. In simple terms, innovation can be defined as breakthroughs related to new products. [14] added that innovation also includes new business thinking and new processes and is seen as a company's mechanism to adapt to a dynamic environment. The research results by [15] show that product innovation has a significant effect on customer loyalty. The results of this study are in line with the results of research conducted by [16] [17] [18] [20].

[21] examined product innovation's effect on purchasing decisions, with dimensions of product-type updates, quality improvement, types of models, packaging, and variety of features. It was stated that the dimensions of the types of models, packaging, and features have the highest average value compared to that of other dimensions. Many choices of packaging sizes and product models make consumers satisfied. Purchase decisions are in a suitable category; it shows that the average consumer responds well to the purchase-decision dimensions, which consists of being interested in repurchasing the product.

Product types partially have a real or significant effect on purchasing decisions. Quality improvement partially has a real or significant effect on purchasing decisions. Meanwhile, the kinds of models, packaging, and features partially do not have a real or significant effect on

customer loyalty. Product type is the dominant factor in influencing purchasing decisions.

### 1.2. *Our Contribution*

This study describes the problems faced by tenants at the DP Mall Food Court as a portrait of SMEs facing difficulties during the Covid-19 pandemic. The steps taken by the DP Mall Food Court tenants have become best practices for SMEs to survive, even to thrive despite doing business activities during a pandemic. Besides, this study's results also provide an alternative for the Mall Management and the government in helping SMEs develop their businesses.

### 1.3. *Paper Structure*

The rest of this paper is organized as follows: Section 2 introduces the preliminaries used in this paper, including the limitations of SMEs, the problems faced by DP Mall tenants during a pandemic, and the retention-marketing dimensions; Section 3 presents the results of in-depth interviews about service quality, price perception, and product innovations applied by DP Mall tenants in their survival; Then, the result is extended to a discussion in Section 4; Section 5 develops the strategy; and finally, Section 6 concludes the paper and presents direction for future research.

## 2. **BACKGROUND**

### 2.1. *Micro, Small, and Medium Enterprises*

For micro, small and medium enterprises (MSMEs), the effect of the Covid-19 pandemic crisis was different from the 1998 monetary crisis and the 2008 economic crisis, when they became the backbone of the national economy. There are currently three conditions experienced by MSMEs in Indonesia: growing, declining, and collapsing. The June 2020 survey among 270 national MSME entrepreneurs conducted by the International Council for Small Business (ICSB) stated that only 3% experienced growth, 11% survived, 71% experienced a decline, and 15% experienced unclear conditions leading to collapse [22].

This condition occurs due to various problems, including decreased sales (56%), financing aspects (22%), obstacles in goods distribution (15%), difficulties in raw materials (3%), and other minor problems (3%). As many as 47% of MSMEs are predicted only to survive until August 2020, 72% will close after November 2020, and 85% can survive for only one year at the most.

According to the Law of the Republic of Indonesia Number 20 the Year 2008 [23], MSMEs are divided into three types, namely Micro, Small, and Medium Enterprises. The difference lies in net-worth and sales value. Micro Enterprises have a maximum net-worth of IDR 50 million and a maximum annual sale of IDR 300 million. Small Enterprises have a net-worth of more than

IDR 50 million to IDR 500 million and annual sales of more than IDR 300 million to IDR 2.5 billion. Meanwhile, Medium Enterprises are businesses with assets of more than IDR 500 million to IDR 10 billion and annual sales of more than IDR 2.5 billion to IDR 50 billion.

Based on this law, the ten tenants at the Semarang DP Mall Food Court are SMEs, namely Beckrem-Bebek Rempah Semarang, Bakso New Mejeng, Ichi Yamato, Hong Kong Palace, Kinni Korean Bistro, Steam Boat, Penyetan Cok, Gokana, Don Noodle, and Dapur Mama. They open their businesses by renting outlets. The amount of rent depends on the outlet area. The payment is made by paying down payments and a security deposit, followed by monthly-installment payments.

Since the outbreak of Coronavirus in March 2020, they have had difficulty in paying installments. The contributing factor was the drastic drop in turnover. Several tenants admitted that from then till October 2020, the average monthly-turnover was only 20-30% compared to that before the Covid-19 pandemic. The decrease in turnover was mainly due to a decrease in the number of mall visitors due to the policy of Community Activities Restriction (Pembatasan Kegiatan Masyarakat - PKM) by the Government of Semarang City.

The policy is contained in the Mayor's Regulation Number 57 the Year 2020 concerning the Implementation of Restrictions on Community Activities in the Context of Prevention and Control of Corona Virus Disease 2019 [24]. The PKM is implemented to restrict outdoor activities carried out by individuals or business actors/managers/organizers/people in charge of public places and facilities domiciled or have activities in the city of Semarang.

PKM has dramatically reduced people's mobility outside their homes. The number of people who shopped at the Mall and ate at the Food Court was significantly reduced. As a result, the Food Court was empty of visitors, and the turnover was very low. The tenants face a dilemma; if they close the outlet, they must pay-off all the rent according to the signed contract. Nevertheless, if they continue the business, they must bear losses because the sales proceeds are insufficient to pay the installments.

A tenant whose contract has five months left explained that he had to pay-off a year's rent of IDR 180 million when he was about to close his business. On the other hand, if he continues his business, he will have to lose money for the next six months. After calculating the profit and loss, he continues the business with the hope that the amount of loss can be minimized, among others, by reducing the production and operating costs.

Facing these challenging conditions, the tenants applied for relief from the Mall Management. The Management responded positively to the request by providing a rental discount of 50% for the next six months. Even so, tenants still feel burdensome, because during seven months, from March to October 2020, the turnover has not increased. It can be said that tenants face a dilemma, like "hit back and forth."

For them, there is no other alternative, but to stay afloat by taking steps to increase the turnover. One of the steps

taken is to retain the existing customers, or in marketing terms, it is called customer-retention marketing or retention marketing.

Based on the description, this research title is the Study of SMEs Retention Marketing During the Pandemic. The purpose of this study was to describe the steps of retention marketing carried out by tenants at the Semarang DP Mall Food Court to survive during the Covid-19 pandemic.

## *2.2. Research Approach*

This study uses a qualitative approach, which is descriptive research, to find out more about how DP Mall tenants apply the retention marketing strategy that makes customers retained. According to [25], qualitative research involves the use and collection of a variety of empirical materials. Qualitative analyses use a wide range of unrelated methods, hoping always to get a better settled on the subject matter at hand.

Qualitative research does not use the term population, but social situations, namely the continuity between places, actors, and activities that interact synergistically. In social situations, researchers can observe in depth the movements of people in certain areas [26]. In this study, the objects were tenants at the DP Mall Food Court. They are SMEs who have to maintain their business during the Covid-19 pandemic. So, this study is significant due to SMEs retaining customers and develop their business during this pandemic.

## *2.3. Limitation and Suggestion for Future Study*

This study's limitation is that it only examined the three dimensions of retention marketing, namely service quality, price perception, and product innovation, in which the determination of these dimensions was based on initial observations. There are still other dimensions that can complement this study. Therefore, this study can be followed by a future study that examines other dimensions of retention marketing.

## *2.4. Data Collection*

In this study, primary data was obtained by interviewing five tenants at the DP Mall Food Court, namely: Bakso New Mejeng, Ichi Yamato, Hong Kong Palace, Dapur Mama, and Beckrem-Bebek Rempah Semarangan, while secondary data was acquired from reference books, journals, and other related documents.

Based on the in-depth interviews, after going through the coding process, the following are the core propositions of the five informants:

### *2.4.1. Proposition 1*

The service quality during this pandemic is crucial, because consumers are susceptible to service. There was once a customer complaint because there was only one

employee at the outlet, so the service provided was minimalistic, and she had to wait.

During this pandemic, consumers are also price-sensitive due to the decreased purchasing power. That is why we have been trying to implement a discount program, including collaborating with Gojek, Shopee, and Ovo. The Semarang City consumers are known very calculated, so our turnover usually increases too whenever there is a discount. Conversely, when there was no discount, the turnover returned to normal. So, to retain customers, discounts are essential but do not let the discount cause losses or reduce profits.

We have made product innovations, for example, by adding menus, but the impact is not very pronounced. Product innovation is not necessarily an attraction.

### *2.4.2. Proposition 2*

Service quality, pricing, and product innovation are closely related. We cannot keep our customers relying on only one of these factors. During this time of the pandemic, we have taken all three factors into account. Our service's quality was done by "picking up the ball," namely visiting consumers who were sitting on their seats and providing books to make it easier for them to choose the menu. Besides, we also tried to deliver products faster than usual. We often provided discounts and bonuses for additional products for a specific purchase amount in terms of prices. We also lowered the prices for products that consumers are not interested in.

Product innovation? We added a new menu at a more affordable price because we realized that consumers' purchasing-power declined during the Covid-19 pandemic. However, product innovation is not in demand, perhaps because customers are used to the menu they have consumed so far.

Thus, we conclude that the three factors must be applied simultaneously for customers to experience the benefits for themselves.

### *2.4.3. Proposition 3*

Semarang residents are very calculating; some even say that they are stingy. Therefore, the application of the right and affordable prices will significantly influence the purchase decision. During this pandemic, consumers are more likely to compare the amount of money they spend and the products they buy; expenditures must be under the product's value.

The quality of service is essential, but our experience shows that price matters more. Typically, consumers understand the lack of quality of service better than the high price. We did not do product innovation during the pandemic, because we thought that our customers were loyal to our existing products. They keep buying our products because it suits their tastes. We are worried that doing product innovation will result in them looking for other products.

#### 2.4.4. Proposition 4

During the pandemic, we try to improve our customer service. Even though other tenants reduce the number of employees who stand by at the outlet for efficiency, we are still preparing the same number of employees as it was before the pandemic. In our opinion, low service-quality will be a bad experience for consumers, which will result in them not returning.

Likewise, we do not make changes concerning the price and product factors, and even do not apply discounts, cashback, or purchase bonuses. Customers are consumers who have high loyalty to our products; we only need to maintain the quality of service by not disappointing them.

#### 2.4.5. Proposition 5

Product innovation is essential because it will provide something new and attract and bind customers. For example, we are adding variations to the chili sauce, from one type to three types. This innovation turns out to not only bind customers but also add new customers.

Service quality is also important, but it must be balanced with product innovation. In addition to adding variations of chili sauce, we also allow consumers to take their chili and fresh vegetables to choose from according to their tastes.

The price factor, in our experience, is not very influential because the consumer segment in the DP Mall Food Court is in the upper-middle class. For them, what is important is getting good and fast services and products that suit their tastes.

### **3. RESULTS AND DISCUSSIONS**

The condition of DP Mall Food Court tenants during the Covid-19 pandemic was indeed a concern because they still had to fulfill their obligation to pay the rent even though the turnover was only 20-30%. On one hand, they face a dilemma; the turnover cannot cover the production and operational costs as well as paying the installments. On the other hand, if the business closes, they must pay the rental-fee according to the contract, without any deductions.

They count and always try to get the best with the least amount of expenses possible. It is a challenge for business actors to implement the appropriate and consumer-oriented marketing strategies to satisfy their consumers. Therefore, the service strategy, price, and product innovation are very relevant.

Service quality is a determining factor. Customers will make repeat purchases if they get services that match or exceed their expectations. Good service will result in customer satisfaction and loyalty. Satisfied consumers will become loyal customers of a product.

Tenants can be divided into two groups. The first group is the tenants whose contract period is completed to coincide with the early days of the Covid-19 pandemic (March-April 2020). The second group is the tenants whose

remaining contract period is still relatively long; for example, it will end in the following year.

The first group did not experience any difficulties; they did not continue the contract, which ended in March-April 2020, and closed their business at the DP Mall Food Court. There is no other choice for the second group, but to continue the business in the Food Court with the consequence of losing money, because the turnover is only 20-30%. For them, continuing the business is more profitable than breaking the contract, but they have to pay-off the rent without any deductions. Terminating the contract means paying the rent of around IDR 180 million without selling for the rest of the contract period. Continuing the business means paying monthly-installments of rental-fees that have been discounted by the DP Mall's Management by selling for the remaining period of the contract, even though the turnover has decreased.

The second group of tenants then tries to survive by increasing the turnover and efficiently pay the production and operational costs. One way to do this is by keeping the existing customers making repeat purchases, among others, by improving the service quality, applying low prices, and making product innovations.

For example, service quality is done by increasing the speed in presenting the products to consumers, requiring employees to always wear their masks and behave more-friendly, providing hand sanitizers, and serving consumer complaints well. In terms of prices, they apply discounts and cashback and lower the prices of less-attractive menus to consumers. Some tenants have also made product innovations, including adding new ones, complementing the existing menu with additional products.

The results of observations and in-depth interviews, both formal and informal, with five tenants as informants show that they agree that retaining customers is more important than finding the new ones, especially during the Covid-19 pandemic, when the purchasing power fell and the community activities were limited.

The tenants also argued that during the Covid-19 pandemic, there was a shift in consumer behavior, namely being more sensitive to service, price, and product. Consumers during a pandemic want a better service than that before the pandemic. They are also more calculating, comparing the amount of money they spend and the quality of the products they buy.

An interesting finding from the interview results is that the people of Semarang are very calculating.

During the pandemic, several tenants at the DP Mall Food Court reduced the number of employees ready at the outlets for efficiency reasons, from two or three people to only one person. As a result, the quality of service is also reduced, because consumers sometimes have to wait to be served when the employee delivers orders or performs prayers.

Smart tenants do not reduce the number of employees at the outlets, so their service quality is maintained. For them, service is more important in retaining customers than price and product innovation.

However, the pricing and consumer perceptions of prices are also important, which is related to the calculative character of Semarang consumers, so that tenants must set affordable prices and are perceived by consumers as cheap. That is why discount and cashback programs become essential elements in attracting and binding the customers. Tenants take this step in-collaboration with third-parties such as Gojek, Shopee, and OVO, as well as using a voucher system.

The importance of price as a determining factor in retaining customers can be the fluctuation in the number of buyers. When tenants launch a discount, cash back, or voucher program, their turnover increases, but when the program does not exist any longer, the turnover drops again.

The results of the interviews showed that product innovation had little effect on customer retention because customers are used to and feel comfortable with the products they have purchased so far. So, the determining factor is not innovation, but rather taste; if it matches the taste, the customer will not switch to another product.

Be worried that product innovation will reduce the emotional bond of customers to the existing tastes. This factor is more suitable to be applied to attract new customers, not to retain the existing customers.

Service quality, pricing, and product innovation are only parts of the many dimensions of retention marketing. There are still several other dimensions to examine the efforts of business actors to retain the existing customers, for example, the aspects of communication, managing complaints, commitment, and trust.

## 4. CLOSING

### 4.1. Conclusion

1. Retention marketing is the right strategy carried out by tenants at the DP Mall Food Court to maintain their business during the Covid-19 pandemic.
2. The quality of service, pricing, and product innovation are essential factors in keeping the customers from switching to other products.
3. The most important factors of service quality and pricing to retain customers are not so influential as for product innovation. However, these three factors are complementary. Ideally, they should be applied simultaneously to optimally retain the customers.
4. The DP Mall tenant's efforts to survive, reflect the SME's efforts in facing difficulties during this pandemic.

### 4.2. Recommendations

Based on the conclusion, the recommendations are:

1. During the Covid-19 pandemic, DP Mall Food Court tenants had better implement a retention-marketing strategy to retain customers rather than attracting new customers.

2. DP Mall Food Court tenants need to improve their service quality, apply the right pricing strategy, and make product innovations.
3. To retain customers, DP Mall Food Court tenants should focus on improving their service and pricing, while product innovation can support these two factors and attract new consumers.
4. SMEs' entrepreneurs can expect a retention-marketing strategy like the one practiced by tenants at DP Mall in surviving difficulties during this pandemic.

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