The Mediating Role of Price in Service Quality for MSME Product Purchases

Mei Indrawati¹, Chamariyah², Nur Halima³, Irawan⁴, Rusdiyanto⁵

Abstract

This research examines how price and service quality affect MSME product purchases and how service quality influences price in the MSME product purchasing process in Indonesia. For this study, 96 MSME clients in Indonesia chosen by simple random sampling were given online questionnaires as part of a quantitative research project that used an online survey methodology with Google Forms. A five-point Likert scale was used to create the online survey, which was shared on social media. Using data processing tools and SmartPLS version 3.0 software, data analysis is done using Structural Equation Modeling of Partial Least Squares (SEM-PLS). The study's conclusions show that service quality has a substantial and positive influence and can act as a mediating factor for the indirect effect of pricing on decisions to buy (p<0.05). In addition, pricing significantly influences decisions to buy (p<0.05). R squared indicates a moderate influence of price and service quality together on purchasing decisions (0.488). However, the impact of the f square effect size (f square = 0.023) in mediating the role of service quality is minimal. All things considered, the PLS model has a reasonable robustness check (sample linearity and heterogeneity are met), a high goodness of fit index (0.548 > 0.36), and an acceptable SRMR (0.087 < 0.10).

Keywords: Price, Service Quality, Buying Decision, SmartPLS, SEM, MSMEs.

JEL Classification Code: A11, A12, C10, C12, C30.

Introduction

Micro, Small and Medium Enterprises have long been the backbone of the economy in many countries, including Indonesia. MSMEs not only make a significant contribution to job creation but are also a source of innovation and economic sustainability (Widyastuti et al., 2023); (Martha Hendrati et al., 2024). However, several challenges are still faced by the MSME sector, including the price issue about the quality of services and products. In the context of this research, price mediation emerges as a recent issue that plays an important role in maintaining the quality of purchasing services for MSME products. Price mediation refers to a fair and sustainable pricing process that considers consumers' financial needs and availability and reasonable profits for MSME producers (Mohammadi et al., 2019); (Prasetio et al., 2024).

However, in practice, price mediation is often faced with complex challenges. On the one hand, MSMEs need to maintain sufficient profits to ensure the survival of their business. On the other hand, consumers often expect prices that are competitive and commensurate with the value of the product they will receive (Mandal, 2020); (Sabihaini et al., 2024). Therefore, price mediation is key in bridging the gap between the economic needs of MSMEs and consumer expectations. Price mediation can influence service quality, including customer satisfaction, brand reputation, and consumer loyalty (Xia et al., 2021); (Hendrati et al., 2024). By ensuring reasonable prices and good product quality, MSMEs can build long-term relationships with their customers and expand their market share (Lohith et al., 2017); (Sabihaini et al., 2023).

However, challenges in implementing price mediation remain. Factors such as market fluctuations, changing production costs, and intense business competition can make it difficult for MSMEs to determine the right price (Singh et al., 2018); (Laily et al., 2023). Therefore, a holistic and sustainable solution is needed to

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overcome this issue, which involves collaboration between government, business actors and consumers (Ajwani-Ramchandani et al., 2021); (Asyik et al., 2023). By considering the important role of price mediation in the quality of service for purchasing MSME products, further research and innovative approaches are needed to develop effective strategies to support the growth and sustainability of MSMEs in an increasingly global and digital era (Rana & Choudhary, 2019); (Eko Prasetio et al., 2023).

MSMEs have a significant role in the Indonesian economy, particularly in boosting income, generating jobs, and promoting general economic expansion. Price mediation is a crucial factor in evaluating the competitiveness of MSME products in this particular scenario (Wiyandari & Kirana, 2024); (Prasetyo et al., 2023). The appropriate price selection can significantly influence what customers decide to buy. A well-executed price mediation strategy can elevate the perceived worth of a product, foster consumer confidence, and ultimately impact purchasing decisions (Abidin et al., 2023); (Nuswantara et al., 2023). More investigation is still necessary to fully understand the function of intermediate service quality in relation to price. Intermediary service quality encompasses price transparency, ease of use, responsiveness, sustainability, and customer needs alignment (Zhong et al., 2020); (Hendrati et al., 2023). Thus, this study aims to investigate and thoroughly examine how consumers' decisions to buy MSME products can be influenced by the role that pricing plays in mediating service quality.

MSMEs have emerged as a significant force in addressing Indonesia's unemployment issues and raising the standard of living in the country in the digital age and industrial revolution 4.0. Supported by statistics from the Central Statistics Agency in 2022, it is reported that MSMEs account for around 99% of the business unit population, employ over 92% of the workforce, and contribute to a growth rate of approximately 3.0% from 5.0% for the national economic growth rate. Empirical studies, in contrast to large enterprises, indicate a higher level of business growth (Akbar et al., 2021); (Prasetyo et al., 2022). The primary issue facing them is the readiness of MSMEs to compete in a free trade environment. According to (Sánchez-Flores et al., 2020); (Asyik et al., 2022), the government of Indonesia, in particular, has yet to give MSMEs much attention in terms of development and management. Many human resources exist but need more qualifications and are highly entrepreneurial. They also need more creativity to produce goods, have little startup capital, are unsure of the objectives that MSMEs must meet, and need more skills and knowledge to build firms. MSMEs in Indonesia must be more developed since they cannot compete with international goods due to the country's consumerist culture (Sharma et al., 2022); (Kalbuana et al., 2022).

Most Indonesians face danger from increasingly scarce and competitive job prospects due to the development of free markets like the ASEAN Economic Community (Belhadi et al., 2021); (Tjaraka et al., 2022). In Indonesian society, this has sparked a debate of its own, particularly among working-age people. It is indisputable that working-age individuals must become more inventive and creative to compete with other workers as the number of job openings declines. The MSME program is one avenue or venue that can be utilized to get around this (Trianto et al., 2021); (Sudaryanto et al., 2022). MSMEs can hire dependable, skilled individuals and create jobs.

MSMEs are thought to be a company sector that is immune to different external shifts in the economy. MSMEs can aid in the economy's long-term, steady, and sustainable growth since they are a sector that can endure even in times of crisis. MSMEs' ability to be founded with little cash or investment allows them to expand and develop swiftly. One of the critical forces propelling the Indonesian economy is MSMEs. The Minister of Small and Medium Enterprises and Cooperatives carried out this action. (Belhadi et al., 2021); (Utari, Sudaryanto, et al., 2021) explain that the government ought to give this sector the utmost priority. MSMEs are the backbone of any country because they can continue to function even in times of crisis. According to figures from the Central Statistics Agency in 2017, MSMEs contributed significantly to creating employment possibilities, accounting for 97.22% of the GDP, or 61% of the total. Additionally, MSMEs contributed to foreign exchange earnings of 27,700 billion through exports, accounting for 4.86% of overall exports (Sehnem et al., 2019); (Alzoubi et al., 2020).

This research aims to advance our knowledge of the variables affecting consumers' decisions to buy MSME products, particularly concerning price mediation. The results of this study are expected to be very insightful.
for MSME actors, government stakeholders, and future research to develop more effective strategies for raising the competitiveness of MSME products by increasing the calibre of price mediation services when purchasing MSME products. Because of this, the research is theoretically and practically helpful in promoting the expansion and sustainability of MSMEs.

**Theoretical Basis and Development of Hypotheses**

**Msme Performance**

Analyzing sales by section can help determine how profitable a company is. MSME performance is influenced by various factors, including changes in prices and the quality of services when making purchases of MSME goods. MSME players’ capacities are occasionally reflected in MSME performance. An MSME’s success in putting its plan into action increases with its performance level. The degree to which MSME players may raise sales to boost MSME profits is demonstrated by MSME performance. (Gamboa Bernal et al., 2020); (Prasetyo et al., 2021) States that by examining the setups for logging MSME financial reports, one may determine the performance of MSMEs through sound business management practices. The evaluation-prepared budget can potentially enhance sales and business performance, augmenting MSME participants' revenues. The degree to which MSME players have successfully reflected sales that lead to higher MSME profits is known as MSME performance. However, with the pandemic in 2019–2021, which severely impacted MSMEs' performance, it was established that sales were falling as a result of MSMEs' inability to operate at their best and their restricted space for movement. This ultimately meant that MSMEs' profits also decreased.

**Marketing**

In corporate strategy, marketing is a scientific idea that seeks to provide stakeholders long-term satisfaction. Marketing is a scientific discipline that measures how well commercial operations establish, grow, and direct long-term mutually beneficial exchanges between producers and consumers. This objective science is acquired through the use of specific instruments. As a business strategy, marketing is the process of adjusting a market-driven company to the ever-changing micro and macro settings in which it operates. Marketing is the art and skill of identifying a target market and attracting, retaining, and expanding a new customer base by the creation, provision, and dissemination of superior value, as stated by (Kotler et al., 2018). (Armstrong et al., 2014) define marketing as a social and management activity that involves the creation, offering, and free exchange of valuable items with other parties to help individuals and groups achieve their needs and desires. Marketing is defined as a group of activities by which corporations and other organizations exchange value with their customers. This is according to (Chitty et al., 2017); (Aliyyah, Siswomihardjo, et al., 2021).

**Hypothesis Development**

**Price Relationship to MSME Product Purchasing Decisions**

MSMEs have a crucial role in promoting economic growth by fortifying the MSME sector with their superior products, particularly during the Covid-19 pandemic. According to (Mangla et al., 2020); (Mavlutova et al., 2022), providing excellent customer service is one of the many strategic strategies to boost performance. If business finance-related knowledge, actions, and attitudes are applied correctly, MSME performance will be realized. This will lead to an increase in sales for the company, which will boost profits going forward. Price is the sole component of the marketing mix that generates sales income; the other components are merely cost components, according to (Mavlutova et al., 2022); (Indrawati et al., 2021). Pricing tactics significantly impact consumers’ purchasing power and can affect both the perception of a product and their decisions to purchase it (Safitri, 2018). (Keller & Kotler, 2015) state that consumers go through five stages in the decision-making process when making a purchase: Identifying the problem, Gathering information, Assessing potential solutions, Making the purchase, Engaging in post-purchase behaviour starts well in advance of the actual purchase, indeed carried out by customers and has a lasting effect after that. Price influences decisions to buy products favourably. This is supported by research (Nabila
This affects how MSMEs' profits are affected and how sales are of customers by developing, providing, and promoting superior value. As to marketing as the art and skill of selecting target markets as well as reaching, attracting, and acquiring new MSMEs using sound business management practices. (Kotler et al., 2018) states that by examining financial report recording systems, one can determine the success of MSMEs using sound business management practices. (Kotler et al., 2018); (Prasetyo et al., 2021) defines marketing as the art and skill of selecting target markets as well as reaching, attracting, and acquiring new customers by developing, providing, and promoting superior value. As to (Chitty et al., 2017); (Luwihono

& Habib, 2023); (Endarto, Taufiqurrahman, Kurniawan, et al., 2021), which shows that consumers will make more purchases at lower prices. Research by (Dwijantoro et al., 2022); (Utomo et al., 2023); (Putri et al., 2023). supports this. Consequently, the following theory is put forth:

**H1: Pricing Significantly and Favorably Influences Consumers' Decisions to Buy MSME Items.**

**The Connection Between MSME Product Purchasing Decisions and Service Quality**

The most important indicator of how well MSMEs are performing and will continue to do so is the quality of the services they receive. Improving service quality can enhance the performance of MSME actors by reducing economic disparities through increasing and equalizing community access regarding product service quality to MSME product purchasing decisions (Prasetyo, Aliyyah, Rusdiyanto, Utari, et al., 2021; Utari, Iswoyo, et al., 2021). This affects how MSMEs' profits are affected and how sales are increased. When making purchases of MSME items, MSME players are expected to be aware of financial transactions and different kinds of service quality procedures. The choice to buy MSME products will be influenced by service quality, precisely the capacity to apply service quality to the option to buy MSME products and to comprehend the fundamentals of finance and economics (Abadi et al., 2021; Endarto, Taufiqurrahman, Suhartono, et al., 2021).

(Suisna et al., 2023); (Prasetyo, Aliyyah, Rusdiyanto, Kalbuana, et al., 2021) define service quality as an endeavour to satisfy the wants and preferences of the customer as well as the correctness of delivery to the customer's expectations. In contrast, any action or activity that may be provided by a third party that is essentially intangible and does not confer ownership is considered to be of service quality (Keller & Kotler, 2015). (Pratwi et al., 2023) state that the customer must come first and be the final destination for service quality. Accordingly, the first step in developing service quality standards should be to determine the demands and preferences of the customer, which are then reflected in the customer's expectations. The customer provides the last judgment by giving feedback that the business receives. So, good customer communication is essential to enhancing service quality (Aliyyah, Prasetyo, et al., 2021; Rusdiyanto et al., 2021).

Service quality is a method of evaluating the degree of service that customers have received compared to what they had anticipated. A service's perceived quality is considered acceptable and gratifying if it is received or felt as expected (Zikri & Harahap, 2022); (Kalbuana, Suryati, et al., 2021). Service quality indicators include tangibles, dependability, certainty, responsiveness, and empathy (Indrasari, 2019); (Prasetyo, Aliyyah, Rusdiyanto, Nartasari, et al., 2021a). According to his research findings (Rahmayanti & Solihin, 2023); (Kalbuana, Prasetyo, et al., 2021), purchase decisions are significantly influenced by the quality of the service. Additionally, according to research findings by (Rahmayanti & Ekawati, 2021); (Prasetyo, Aliyyah, Rusdiyanto, Suprapti, et al., 2021), service quality impacts decisions made about what to buy. In the meantime, study findings (Apriliani, 2022); (Prasetyo, Aliyyah, Rusdiyanto, Chamarah, et al., 2021) demonstrate that service quality significantly impacts consumers' decisions to buy MSME products. The decision to buy MSME products is influenced by service quality; high service quality can increase customer satisfaction and affect the decision to buy MSME products. Consequently, the following theory is put forth:

**H2: Decisions To Buy MSME Items Are Significantly and Favorably Impacted by Service Quality.**

**MSME Product Purchasing Decisions and The Quality of Price Mediating Services**

Occasionally, MSMEs' capabilities are reflected in their performance. MSMEs have greater success implementing their strategy when their performance level is higher. The degree to which MSMEs may enhance pricing and service quality when making purchases of MSME goods is demonstrated by their performance. (Gamboa Bernal et al., 2020); (Prasetyo, Aliyyah, Rusdiyanto, Nartasari, et al., 2021b) states that by examining financial report recording systems, one can determine the success of MSMEs using sound business management practices. (Kotler et al., 2018); (Prasetyo et al., 2021) defines marketing as the art and skill of selecting target markets as well as reaching, attracting, and acquiring new customers by developing, providing, and promoting superior value. As to (Chitty et al., 2017); (Luwihono
et al., 2021), marketing comprises a range of business and organizational endeavors aimed at establishing value exchanges between enterprises and their clientele.

Customers can assume that MSMEs’ items are of superior quality if they charge more for them than their rivals. This is only true if customers believe that the value they receive matches the amount they spend. Some MSMEs may offer superior services at a reduced cost to draw clients by providing exceptional value. Price and service quality must be commensurate with MSMEs’ place in the market and specific market segments' needs (Ahmed et al., 2023); (Fetra & Pradiani, 2023). While some market groups might be more price-sensitive, others might be more prepared to pay more significant costs for products of higher quality. High service quality pricing can boost profit margins, which in turn helps MSMEs maintain their business viability (Fetra & Pradiani, 2023); (Subagja et al., 2023). The MSME setting necessitates a balanced relationship between pricing and product/service quality that aligns with the value that the market demands. For MSMEs to succeed over the long run, they must comprehend client preferences and strike a balance between the level of service quality and costs.

A service that meets the standard that customers have come to anticipate is said to be of high quality. Customers are said to be satisfied with the quality of service if they get what they expect (Zikri & Harahap, 2022); (Susanto et al., 2021). Indicators of service quality that can be measured include tangibles, certainty, responsiveness, consistency, and empathy (Indrasari, 2019); (Rusdiyanto, Karman, et al., 2020). It is evident from the findings of his study (Rahmawaty & Solihin, 2023); (Prabowo et al., 2020) that service quality positively and significantly impacts purchase decisions. Additionally, research findings (Rahmayanti & Ekawati, 2021); (Rusdiyanto, Hidayat, et al., 2020) indicate that the quality of services influences decisions about what to buy. Meanwhile, study findings (Apriliani, 2022); (Rusdiyanto, Agustia, et al., 2020) demonstrate that service quality significantly impacts consumers' buying decisions. According to the results of various earlier studies, good service quality will affect customer purchase decisions, which can lead to consumer happiness. MSME product purchasing decisions are influenced by service quality. Pricing influences MSME product purchases favorably. This is supported by research (Nabila & Habib, 2023); (Juanamasta et al., 2019), which shows that consumers will make more purchases at lower prices. Research by (Dwijantoro et al., 2022); (Utomo et al., 2023); (Putri et al., 2023) confirms this.

Customers frequently weigh a product or service's worth against its cost. As long as the service meets or exceeds expectations, good service quality can raise customers' perceptions of the product's worth, making them more inclined to choose it even though the price may be slightly higher. In a cutthroat industry, MSMEs must determine how to differentiate themselves from rivals. Superior customer service can differentiate their goods or services from those offered at similar costs. MSMEs may be able to gain a competitive edge in this way. Good service contributes to the favorable brand image development of MSME products. Client satisfaction with the product can increase trust and a positive brand image in the marketplace, as happy customers are more inclined to refer the product to others. Customer loyalty can rise when services are of high quality. Even when prices differ, customers are more likely to stick with a brand if they feel they are receiving sufficient support and being treated well. Good service quality can lessen clients' perceptions of risk or uncertainty. This is particularly crucial when buying MSME products because buyers might need to be more familiar with the brand or the market. The quality of the services provided might influence customers' psychological evaluation of MSME products. Positive experiences from excellent service can boost client satisfaction and encourage them to purchase. The following hypothesis is put out in light of the significant influence that service quality has in moderating the impact of pricing on decisions to buy MSME products:

H3: The Function of Service Quality as a Price Mediator in MSME Product Purchase Decisions

Research Methods

This study uses a quantitative approach, using a Google form for an online survey circulated over social media. The questionnaire measures agreement using a 5-point Likert scale, with the options being (1) Strongly Disagree, (2) Disagree, (3) Neutral, (4) Agree, and (5) Strongly Agree. Online questionnaires
were distributed to 96 Indonesian customers who were chosen using purposive selection to collect data. Descriptive and inferential statistical analysis are the two techniques used in statistical analysis. By determining the average and standard deviation of the respondents’ evaluations, descriptive statistical analysis seeks to characterize the traits of the participants. Structural Equation Modeling of Partial Least Squares (SEM-PLS) is used in inferential analysis and data processing techniques using the SmartPLS software version 3.0.

For exploratory research, structural model building, or predictive investigations, Structural Equation Modeling of Partial Least Squares (SEM-PLS) is a multivariate statistical approach that calculates the influence of variables concurrently (Hair, Risher, et al., 2019). This research uses SEM PLS because it first does not assume a particular data distribution (a normal distribution); second, the sample size is small—96 respondents—according to (Hair, Risher, et al., 2019). Service quality is the mediating variable used in this study. The assessment of the measurement model, also known as the outer, structural, and inner models, and the model's appropriateness and quality are the three components of the SEM PLS model evaluation process. A minimum Cronbach's alpha and composite reliability level of 0.70, convergent validity with Average Variance Extracted (AVE) > 0.50, and outer loading > 0.60 are required for the evaluation of the external model (Chin, 1998), according to (Hair, Risher, et al., 2019), discriminant validity with HTMT (Heterotrait Monotrait Ratio) < 0.90. When testing using the bootstrapping method and the p-value is less than 0.05 (significant), evaluation of the inner model is evident. According to (Lachowicz et al., 2018); (Ogbeibu et al., 2020), mediation's effect size f square is the square of the mediation coefficient, which is 0.01 low, 0.075 medium, and 0.175 high. F square values (0.02 low, 0.15 moderate, and 0.35 high) and R square values (0.19 low, 0.33 moderate, and 0.67 joy) were reported by (Hair, Risher, et al., 2019); (Chin, 1998). According to (Hair, Risher, et al., 2019), blindfolding Q square > 0 indicates predictive relevance. Additionally, the Standardized Root Mean Square Residual (SRMR) between 0.08 and 0.10 indicates an acceptable fit for the PLS model (Schermelleh-Engel et al., 2003), the Goodness of Fit Index (F. Hair Jr et al., 2014); PLS Predict; and the robustness check in SEM PLS, which consists of linearity and heterogeneity tests (Hair, Risher, et al., 2019). This study examines price, service quality, and buying decisions. Price comprises the following indicators: price determination, price competitiveness, price affordability, and price suitability (Agustin, 2016). Service quality indicators include tangible, assurance, responsiveness, empathy, and dependability (Wahyu & Gorda, 2017). Meanwhile, factors influencing purchasing decisions include product stability, shopping habits, and purchasing speed (Kotler, 2012).

Research Results and Discussion

Research Result

Figure 1: Research framework
Stages of data analysis were performed in SEM PLS until an appropriate measurement model was found and the model hypothesis testing was approved at a 5% alpha significance level.

Table 1: Respondent Demographics

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-25 year</td>
<td>52</td>
<td>54.2%</td>
</tr>
<tr>
<td>26-35 year</td>
<td>32</td>
<td>33.3%</td>
</tr>
<tr>
<td>&gt; 36 year</td>
<td>12</td>
<td>12.5%</td>
</tr>
<tr>
<td><strong>Amount</strong></td>
<td><strong>96</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>40</td>
<td>41.7%</td>
</tr>
<tr>
<td>Woman</td>
<td>56</td>
<td>58.3%</td>
</tr>
<tr>
<td><strong>Amount</strong></td>
<td><strong>96</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior High School</td>
<td>33</td>
<td>34.4%</td>
</tr>
<tr>
<td>Diploma</td>
<td>14</td>
<td>14.6%</td>
</tr>
<tr>
<td>Strata 1</td>
<td>45</td>
<td>46.9%</td>
</tr>
<tr>
<td>Strata 2</td>
<td>4</td>
<td>4.2%</td>
</tr>
<tr>
<td><strong>Amount</strong></td>
<td><strong>96</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student</td>
<td>17</td>
<td>17.7%</td>
</tr>
<tr>
<td>Government employees</td>
<td>10</td>
<td>10.4%</td>
</tr>
<tr>
<td>Self-employed</td>
<td>21</td>
<td>21.9%</td>
</tr>
<tr>
<td>Lecturer/Teacher</td>
<td>29</td>
<td>30.2%</td>
</tr>
<tr>
<td>Private sector employee</td>
<td>19</td>
<td>19.8%</td>
</tr>
<tr>
<td><strong>Amount</strong></td>
<td><strong>96</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

According to the above table, of the 96 respondents, 52 individuals, or 54.2%, were between 16 and 25. These people were followed by those between the ages of 26 and 35, or 32 people, or 33.3%, and the smallest group was made up of 12 people, or 12.5%, who were beyond the age of 36. The majority of potential MSME clients are employees and students. The majority of the 96 respondents, or 56 women, made up 58.3% of the sample, according to the table above, with 40 men making up 41.7%. Because they are primarily employed, MSME clients are mostly women. The table above indicates that 45 respondents, or 46.9%, had a Strata 1 education level, followed by 33 respondents, or 34.4%, who had a High School education level, and respondents with a Diploma level. As many as 14 respondents, or 14.6%, and the fewest respondents with a Strata 2 education level, or four respondents, or 4.2%. Because there are numerous factories around MSME locations, which make MSME areas a place to acquire local items, the majority are Strata 1. According to the above table, most respondents—29, or 30.2%—are lecturers or teachers. These are followed by 21 respondents, or 21.9%, who are entrepreneurs; 19 respondents, or 19.8%, are private employees; 17 respondents, or 17.7%, are students; and the smallest group of respondents—10, or 10.4%—are civil servants. Since MSME items offer a range of locally produced goods, the majority are students.

**Outer Model Test**

Examining the outer loading of at least 0.60 is the first step in analyzing the external model. Five invalid service quality measurement items with exterior loading less than 0.60 were found in the estimation results; they were then taken out of the model and re-estimated. The two PLS models’ estimation findings show that every outer loading is more significant than 0.60 (valid) (Chin, 1998).
Table 2: Outer Loading, Convergent Reliability and Validity Levels

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean and Standard Deviation</th>
<th>Outer Loading</th>
<th>Cronbach's Alpha</th>
<th>Composite Reliability</th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>4,083 (0,787)</td>
<td>0,641 – 0,809</td>
<td>0,711</td>
<td>0,822</td>
<td>0,539</td>
</tr>
<tr>
<td>Service Quality</td>
<td>3,906 (0,802)</td>
<td>0,789 – 0,871</td>
<td>0,775</td>
<td>0,869</td>
<td>0,689</td>
</tr>
<tr>
<td>Buying Decision</td>
<td>3,961 (0,821)</td>
<td>0,715 – 0,824</td>
<td>0,798</td>
<td>0,868</td>
<td>0,623</td>
</tr>
</tbody>
</table>

Additionally, dependability can be observed in Cronbach's alpha, and composite reliability > 0.70 (reliable) indicates that the required internal consistency has been reached. Measured by AVE, convergent validity is satisfied when the variance of the indicators included in pricing, service quality, and purchase decision is more significant than 50% (Hair, LDS Gabriel, et al., 2019). The AVE value for each research variable must be over 0.50 to be considered concurrent.

Table 3: Discriminant Validity of HTMT

<table>
<thead>
<tr>
<th></th>
<th>Buying Decision</th>
<th>Price</th>
<th>Service Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buying Decision</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price</td>
<td>0,862</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Quality</td>
<td>0,695</td>
<td>0,669</td>
<td></td>
</tr>
</tbody>
</table>

The HTMT is employed because of its discriminant validity, which is superior to the Fornell Lacker and Cross Loadings criteria measures, according to (Hair Jr et al., 2021). The discriminant fact is satisfied since the HTMT of the variable pair is less than 0.90, according to the model estimate findings. The variances of variables are higher for each indicator that makes up the variable and smaller for other variable hands.
4.1.2 Inner Model Test

**Figure 3: Hypotheses Testing**

**Table 4: The Synopsis of The Hypothesis Testing**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Hypothesis Statement</th>
<th>Path Coefficients</th>
<th>95% Confidence Interval for Path Coefficient</th>
<th>F Square</th>
<th>R Square</th>
<th>Q Square</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>H1</strong></td>
<td>Price -&gt; Buying Decision</td>
<td>0.501***</td>
<td>0.266 - 0.618</td>
<td>0.361</td>
<td>0.492</td>
<td>0.288</td>
</tr>
<tr>
<td><strong>H2</strong></td>
<td>Service Quality -&gt; Buying Decision</td>
<td>0.293***</td>
<td>0.116 - 0.455</td>
<td>0.124</td>
<td>0.263</td>
<td>0.167</td>
</tr>
<tr>
<td><strong>H3</strong></td>
<td>Price -&gt; Service Quality</td>
<td>0.513***</td>
<td>0.333 - 0.636</td>
<td>0.357</td>
<td>0.263</td>
<td>0.167</td>
</tr>
<tr>
<td><strong>H4</strong></td>
<td>Price -&gt; Service Quality -&gt; Buying Decision</td>
<td>0.150***</td>
<td>0.055 - 0.264</td>
<td>0.023</td>
<td>0.263</td>
<td>0.167</td>
</tr>
</tbody>
</table>

***sig<0,01, **sig<0,05, *sig<0,10

The data analysis results show that the PLS model prediction level was accepted at the R-square value of 0.488. This indicates that 48.8% of the variation in purchasing decisions was influenced by price and service quality, which is classified as a moderate influence; on the other hand, the result of price on service quality was classified as low to medium at R square 26.3% (Chin, 1998). The PLS model has predictive importance when the Q square value exceeds zero (Hair Jr et al., 2021). Moreover, the following explanation applies to the outcomes of hypothesis testing:

- The first hypothesis (H1), according to which price influences purchasing decisions in a substantial positive way (path coefficient of 0.501 and p-value of 0.000 < 0.05), is accepted. The degree of structural influence is also reasonably high (effect size f square 0.361). Price can impact a purchase decision up to 0.618 in the 95% confidence interval.
The second hypothesis (H₂) is accepted; that is, service quality influences purchasing decisions in a way that is statistically significant and positive (path coefficient = 0.293, p-value < 0.05). The influence at the structural level is categorized as low to moderate (effect size f² = 0.124). Every improvement in service quality will result in a higher purchasing decision; within the 95% confidence range, this influence can reach 0.455.

The third hypothesis (H₃), according to which price considerably impacts service quality, is accepted. This impact is relatively significant at the structural level (effect size f² = 0.357) and has a path coefficient of (0.513) and p-value of (0.000 < 0.05). Each price increase will improve service quality; within the 95% confidence interval, this influence can reach 0.636.

The second hypothesis (H₄) is accepted; with a mediation path coefficient of 0.150 and a p-value of 0.000 < 0.05, service quality is an essential mediating variable in the indirect influence of price on purchasing decisions. The structural power level is relatively low, with an effect size of f² = 0.023. The square of the mediation coefficient is the f² value derived from suggestions (Lachowicz et al., 2018). These findings show that service quality is a significant mediating variable, but its role is still modest. Price still has a more powerful direct impact on decisions about what to buy (0.501) than service quality, which has a mediated effect (0.150).

**Goodness of Fit Model**

A predictive/exploratory-focused SEM analysis is called SEM PLS. Consequently, several statistical metrics, such as the goodness of fit index (Henseler & Sarstedt, 2013) and SRMR (Standardized Root Mean Square Residual) (Hair et al., 2017), were created to indicate that the overall model was satisfactory.

<table>
<thead>
<tr>
<th>Indeks Goodness of Fit</th>
<th>SRMR</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.479</td>
<td>0.087</td>
</tr>
</tbody>
</table>

The measurement and structural models are evaluated as part of the overall model, known as the Goodness of Fit Index (GoF Index). The root that yields the GoF index is the geometric mean commonality multiplied by the mean R². The GoF index values are interpreted as follows: 0.1 (low GoF), 0.25 (mid-GoF), and 0.36 (high GoF), (Wetzels et al., 2009). According to the computation findings, the GoF model value, including the high GoF category, is 0.479. According to (Schermelleh-Engel et al., 2003), the PLS model has an acceptable fit, as evidenced by the SRMR model value of 0.087 < 0.10.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>PLS Model</th>
<th>LM Model</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMSE</td>
<td>Q²_predict</td>
</tr>
<tr>
<td>X2.4</td>
<td>0.720</td>
<td>0.075</td>
</tr>
<tr>
<td>X2.5</td>
<td>0.671</td>
<td>0.215</td>
</tr>
<tr>
<td>X2.8</td>
<td>0.799</td>
<td>0.151</td>
</tr>
<tr>
<td>Y.1</td>
<td>0.685</td>
<td>0.244</td>
</tr>
<tr>
<td>Y.2</td>
<td>0.725</td>
<td>0.330</td>
</tr>
<tr>
<td>Y.3</td>
<td>0.687</td>
<td>0.187</td>
</tr>
<tr>
<td>Y.4</td>
<td>0.686</td>
<td>0.213</td>
</tr>
</tbody>
</table>

PLS is SEM analysis used for prediction, according to (Hair, Risher, et al., 2019) final assessment of the PLS model, PLS Predict. A model validation metric must be created to demonstrate the level of predictive potential of the suggested model. A PLS model has good predictive ability if its Q² Predict value is higher.
than that of the LM model (linear model) or if its RMSE (Root mean squared error) value is smaller. According to the PLS Predict evaluation results, the RMSE values of the seven endogenous variable indicators in the PLS model are lower than those of the LM model, and the Q2 predict value of the PLS model is greater than that of the LM model for every indicator. According to these findings, the suggested PLS model offers a significant degree of predictive potential.

Discussion

Price and Purchasing Decision Correlation

The first hypothesis (H1), according to the data analysis results, is accepted. This means that price influences purchasing decisions in a significantly positive way, with a path coefficient of 0.501 and a p-value of 0.000 < 0.05 (5%), and a relatively high level of influence at the structural level (effect size f square 0.361). The impact of price on purchasing decisions can rise to 0.618 in the 95% confidence range. This implies that higher price values can positively impact the buying decision value of MSME products, and vice versa: lower price values can hurt higher buying decision values. For MSME products, price has a favorable role in buying. Research (Nabila & Habib, 2023) demonstrates that consumers will purchase more if a lower price is provided, corroborating the empirical findings. Research bolsters these empirical findings (Dwijantoro et al., 2022); (Utomo et al., 2023); (Putri et al., 2023).

According to (Mavlutova et al., 2022) state that only price is a revenue-producing marketing mix component; the other members are merely expenses. (Safitri, 2018) explains that pricing strategy plays a significant role in consumer purchases and can sway consumers' decisions to buy certain goods. Consumers go through a five-stage process while making purchasing decisions, according to (Keller & Kotler, 2015). The first steps of the process include problem recognition, information search, and evaluation of potential solutions. MSMEs contribute to economic growth by bolstering the MSME sector with their superior products, particularly during the Covid-19 pandemic. According to (Mangla et al., 2020); (Mavlutova et al., 2022), providing excellent customer service is one of the many strategic strategies to boost performance. If business finance-related knowledge, actions, and attitudes are applied correctly, MSME performance will be realized. This will lead to an increase in sales for the company, which will boost profits further. The empirical results demonstrate that price influences MSME players' performance by increasing purchasing decisions for MSME items and making a significant impact.

Service Quality and Purchase Decision Correlation

The second hypothesis, according to the data analysis results, is accepted. The path coefficient (0.293) and p-value (0.000 < 0.05 (5%)) indicate a significant positive effect of service quality on purchasing decisions, and the effect size (f square) of the influence at the structural level is classified as low to moderate. Any improvement in service quality will result in a higher purchase decision; within the 95% confidence range, this influence can rise to 0.455. This implies that decisions to buy MSME items will be more valuable the better the service quality, and vice versa. The value of purchase decisions for MSME items will decrease in proportion to the value of service quality. These empirical results align with study findings (Rahmawaty & Solihin, 2023) that demonstrate the importance of service quality in influencing consumer choices. The findings of this study support the conclusions drawn from the empirical data. According to (Aprilliani, 2022), service quality significantly impacts consumers' decisions to buy MSME items. Based on the study's findings, consumers' decisions to buy MSME products are positively and greatly influenced by the quality of the services they receive. The end outcome is more customer satisfaction.

According to (Sutisna et al., 2023) state that service quality means providing services that meet customers' demands and expectations. According to (Keller & Kotler, 2015), on the other hand, service quality is defined as an action or activity that a third party can provide; it is essentially intangible and does not confer any ownership. As per (Pratiwi et al., 2023), the customer is the ultimate source of information regarding service quality. Accordingly, the customer's demands and preferences, as reflected in their expectations, must
be identified before developing the service quality standards. The customer provides the last judgment by giving feedback that the business receives. Effective consumer communication is therefore necessary to improve service quality.

The quality of their products and services is the most critical indicator of how well MSME’s performance will grow. By improving the quality of service, it is possible to address issues related to purchasing decisions and enhance the performance of MSMEs. This will reduce economic disparities and increase and equalize community access to product and service quality information for MSME product purchasing decisions. When making purchases of MSME items, MSME players are expected to be aware of financial transactions and different kinds of service quality procedures. The decision to buy MSME items will be influenced by service quality and by one's capacity to apply service quality to this decision and comprehend the fundamentals of finance and economics.

The Impact of Service Quality on Pricing and Purchase Decisions for MSME Goods

The first test found that price has a significant positive effect on service quality with a path coefficient of 0.513 and a p-value of 0.000 < 0.05 (5%) and that the level of influence at the structural level is classified as low to moderate (effect size f square 0.357), was accepted based on the data analysis results. Any improvement in service quality will result in a higher purchasing decision; within the 95% confidence interval, this influence can reach 0.636. This implies that the service quality value of MSME items will increase with higher prices and vice versa with lower prices. Their pricing would negatively impact the MSME items’ service quality value.

The second test was approved in the meantime, indicating that the level of influence at the structural level is relatively low (effect size f square 0.023). Service quality is a significant mediating variable in the indirect impact of price on purchasing decisions with a mediation path coefficient of 0.150 and p-value (0.000 < 0.05). According to recommendations (Lachowicz et al., 2018), the square of the mediation coefficient is where the f square value is found. According to these findings, service quality is a significant mediating variable, albeit one with a relatively small effect. Even after controlling for service quality, pricing has a more powerful direct influence on purchasing decisions (0.501) than through mediation (0.150).

Customers frequently weigh a good or service's value against its cost. As long as the service meets or exceeds expectations, good service quality can raise customers’ perceptions of the product's worth, making them more inclined to choose it even though the price may be slightly higher. In a cutthroat industry, MSMEs must determine how to differentiate themselves from rivals. Superior customer service can differentiate their goods or services from those offered at comparable costs. This could provide MSMEs with a competitive edge. Good service contributes to the favorable brand image development of MSME products. Client satisfaction with the product can increase trust and a positive brand image in the marketplace, as happy customers are more inclined to refer the product to others. Customer loyalty can rise when services are of high quality. Even when prices differ, customers are more likely to stick with a brand if they feel they are receiving sufficient support and being treated well. Good service quality can lessen clients’ perceptions of risk or uncertainty. This is particularly crucial when buying MSME products because buyers might need to be more familiar with the brand or the market. The quality of the service might influence customers' psychological assessments of a product's value. Positive experiences from excellent service can boost client satisfaction and encourage them to purchase. Businesses should create marketing strategies emphasizing enhancing service quality as part of the added value provided to clients by recognizing the critical impact that service quality plays in mediating pricing on purchasing decisions for MSME products.

Conclusion

The results of the first empirical finding demonstrate that price positively and significantly impacts MSME product purchasing decisions. In other words, higher price values correspond to higher decision values for MSME products, and lower price values correspond to lower decision values. This second empirical finding demonstrates that service quality has a positive and significant impact on MSME product purchase decisions. In other words, higher service quality values will influence decisions to buy MSME products.
more highly, and lower service quality values will influence decisions to buy MSME products less highly. They purchase goods from MSMEs. The final empirical conclusion shows that, although playing a significant influence, service quality is still a minor mediating component. Price still has a more powerful direct impact on decisions about what to buy (0.501) than service quality, which has a mediated effect (0.150).

The results of this study still have a lot of limitations. Therefore, there is plenty of space for more in-depth investigation. The research object researched in this study does not involve other MSME sizes, namely micro or medium scale, and the area coverage of the research location is both too vast and able to represent tiny enterprises. Instead, it concentrates on MSMEs in Indonesia, particularly Surabaya. To enable research to be conducted by examining the link between factors and characterizing the overall influence, research models are limited to investigating the effect of constructs or variables in a linear fashion. As a result, longitudinal research may be used in future studies to examine how MSMEs behave in the economy’s development, which will broaden access to MSME products and actors' knowledge. Future studies can improve the current model by extending the research object and including more variables. For MSME players to make money and continue to exist in the long run, good MSME management involves raising capital from selling MSME products and allocating it wisely. Effective pricing and service quality control can shield MSMEs from going out of business. To support the majority of respondents' positive answers, it was shown that pricing and service quality influence consumers' decisions to buy MSME products. When making decisions, consideration should be given to both price and service quality, as this will enhance the selection of MSME product purchases.

Declaration of Funding

This research uses personal funds from all authors in a joint venture.

Disclosure Statement

The authors agree that this research was conducted without any self-benefit commercial or financial conflicts and declare the absence of conflicting interests with the funders.

Data Availability Statement

The data supporting the findings of this study are available from the author, [R], upon reasonable request.

An Explanation Of Any Competing Interests

Regarding the investigation, composition, and/or dissemination of this manuscript, the writers have indicated that they possess no possible conflicts of interest.

Author's Contribution

R, C, MI, NH and I carried out the research, wrote and revised the article R, C, MI, NH and I conceptualised the central research idea and provided the theoretical framework. R, C, MI, NH and I designed and supervised the research progress; R, C, MI, NH and I anchored the review revisions and approved the article submission.

Statement Of Conflicts of Interest

The authors state that they have no competing interests with the funders and concur that this research was carried out without any financial, commercial, or self-benefiting conflicts.
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