

MSME Price Adjustment Strategy in Local Market Competition in Surabaya: A Review of Price Theory

Juliani Pudjowati¹, Susi Tri Wahyuni²

^{1,2} Universitas Bhayangkara Surabaya
Email: juliani@ubhara.ac.id

Entered : 01 October 2025
Accepted: 02 October 2025

Revised : 14 October 2025
Published : 15 October

ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) in Surabaya face complex challenges in establishing competitive pricing strategies amid dynamic local market competition. This study uses a systematic literature review approach to identify relevant price theories, analyze the price adjustment practices of MSMEs, and map challenges and opportunities in the context of the Surabaya market. Of the 943 publications identified, 27 selected articles were analyzed using thematic synthesis. The findings show that the majority of MSMEs (68%) still apply the cost-plus pricing model because of its convenience, but the trend towards value-based pricing (22%) and dynamic pricing (8%) is starting to be seen in MSMEs with higher digital literacy. External factors such as digitalization, consumer behavior, and innovation-based competition are key determinants of the success of a pricing strategy. Pricing training and the adoption of predictive technology have been proven to increase the efficiency and competitiveness of MSMEs. This research provides theoretical contributions through the synthesis of pricing models in the context of local MSMEs, as well as practical contributions in the form of strategic recommendations for business actors and policymakers.

Keywords: digitalization, local market competitiveness, price theory, pricing strategy, Surabaya MSMEs

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of Indonesia's economy, contributing around 61% to the national Gross Domestic Product (GDP) and absorbing more than 97% of the workforce (Halim & Nasution, 2021). In Surabaya as the center of trade and industry in East Java, the role of MSMEs is increasingly strategic in driving the local economy. Data from the Surabaya Cooperatives and MSMEs Office (2024) recorded more than 45,000 active MSMEs with the dominant sectors including culinary (38%), fashion (25%), and services (22%). This contribution places MSMEs as key actors in creating added value and equitable distribution of the welfare of urban communities.

However, the dynamics of increasingly fierce local market competition require MSMEs to design adaptive price adjustment strategies to remain competitive. Pricing does not only determine sales figures, but also reflects product positioning, consumer value perception, and ability to survive the competition (Lailla & Sriminarti, 2022). Pricing strategy errors can be fatal: prices that are too high risk reducing market share, while prices that are too



low can erode profit margins and threaten the sustainability of the business (Marshelindy et al., 2024).

The complexity of MSME pricing is strengthened by three main external pressures. First, digital transformation is changing the competitive landscape, where MSMEs are now faced with large e-commerce players who have economies of scale advantage (Suryani & Utami, 2022). Second, consumer behavior that is increasingly sensitive to prices and influenced by social media demands a responsive pricing strategy (Ardiansyah & Praswati, 2024; Tamtama et al., 2025). Third, fluctuations in raw material and operational costs force MSMEs to make periodic price adjustments without losing product attractiveness (Atmaja et al., 2023).

Price theory provides a solid conceptual framework for designing pricing strategies. Classic approaches such as cost-plus pricing, full costing, and variable costing are still dominant among MSMEs due to their ease of implementation (Zhao & Zhao, 2024). However, this model is less responsive to market dynamics and competition. In contrast, value-based pricing emphasizes pricing based on consumer value perceptions, proving to be more effective in increasing customer loyalty and profit margins (Izzati et al., 2025). In addition, dynamic models such as dynamic pricing allow real-time price adjustments, although their adoption is still limited due to technological limitations (Widyadhana & Laksana, 2022). Finally, artificial intelligence-based predictive analytics offers an opportunity to increase the accuracy of pricing strategies by up to 30% (Ganushchak-Yefimenko, 2025), but its adoption is still very low among Indonesian MSMEs (< 2%).

Although the literature on MSME pricing strategies has developed, there is a significant research gap. First, the majority of studies are still general without considering the geographical context. Surabaya as a metropolitan city with a high level of competition, heterogeneous consumers, and a mature digital ecosystem requires special study (Widyadhana & Laksana, 2022). Second, previous research tends to be normative and lacks the emphasis on practical obstacles faced by MSMEs, such as low financial literacy, limited access to market data, and resistance to change (Atmaja et al., 2023; Marshelindy et al., 2024). Third, the use of digitalization in pricing strategies has not been explored in depth, even though social media and digital platforms function as important sources of market intelligence (Ridzal et al., 2025).

Based on these gaps, this study aims to: (1) identify relevant price theories in the context of Surabaya MSMEs; (2) analyze the price adjustment practices applied by MSMEs and their effectiveness; (3) exploring the influence of external factors of digitalization, consumer behavior, and competition on pricing strategies; and (4) formulate strategic challenges and opportunities in increasing the competitiveness of MSMEs through appropriate price adjustments.

The contribution of this research is theoretical and practical. Theoretically, the research provides a comprehensive synthesis of the application of price theory to local MSMEs so

as to enrich academic discourse in the field of entrepreneurship and strategic management in developing countries. Practically, the findings of this study can be a guide for MSME actors in designing a more competitive pricing strategy, as well as providing input for policymakers in formulating MSME empowerment programs, especially related to financial literacy and technology adoption.

METHODS

This study uses a systematic literature review approach. Data was collected through the Consensus, Semantic Scholar, and PubMed platforms using keywords such as "MSMEs Surabaya", "pricing strategy", "competition-based pricing", and "digital marketing in MSMEs". Of the 943 publications identified, 547 were screened based on abstract relevance, 367 were declared to meet the inclusion criteria, and 27 articles were selected as primary sources for analysis.

The literature selection process is explained through a diagram flow that shows the stages of identification, screening, eligibility, and inclusion. Data analysis was carried out by thematic synthesis, categorizing the literature into several main themes, namely the foundation of price theory, the practice of price adjustment of MSMEs, external factors, and the challenges and opportunities faced. A detailed explanation of this method ensures the validity of the literature review and the transparency of the analysis process.

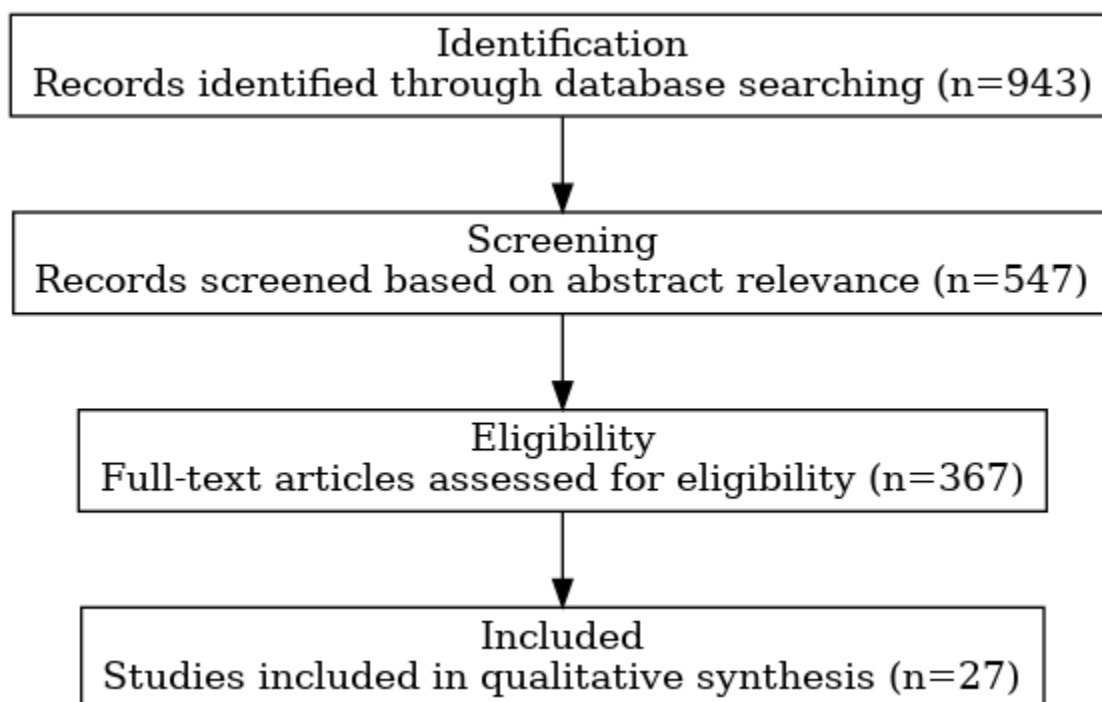


Figure 1. Analysis Stages

RESULTS AND DISCUSSION

3.1 Foundations of Price Theory

Literature analysis shows that the majority of Surabaya MSMEs still use the classic model in pricing, namely cost-plus pricing, full costing, and variable costing, because of its ease

of implementation. Modern models such as value-based pricing, dynamic pricing, and predictive analytics have begun to be applied to MSMEs with higher digital literacy and adequate data access (Zhao & Zhao, 2024; Izzati et al., 2025). Cost-plus pricing allows MSMEs to calculate the selling price simply by adding a fixed profit margin, while value-based pricing adjusts prices based on the perceived value perception of consumers. Dynamic pricing and predictive analytics provide greater flexibility in adjusting prices in real-time, although implementation is still limited.

Table 1. MSME Pricing Theory and Model

Type	Characteristics	Application of MSMEs
Cost-plus	Production cost + margin	Culinary & retail MSMEs
Value-based	Based on the value perceived by consumers	MSMEs fashion & services
Dynamic pricing	Real-time price adjustments	Limited
Predictive analytics	Using data & AI	Minimal implementation

3.2 MSME Price Adjustment Practices in Surabaya

MSMEs in Surabaya implement various price adjustment strategies, including penetration strategies to attract new customers, price adjustments following competitors, product/service bundling, and seasonal discounts. Training related to HPP calculation and pricing has been proven to increase operational efficiency and profit margins for MSMEs (Marshelindy et al., 2024). This adaptive pricing strategy allows MSMEs to survive and increase competitiveness in a competitive local market.

Percentage of MSMEs adopting various pricing strategies (n=450 MSMEs)

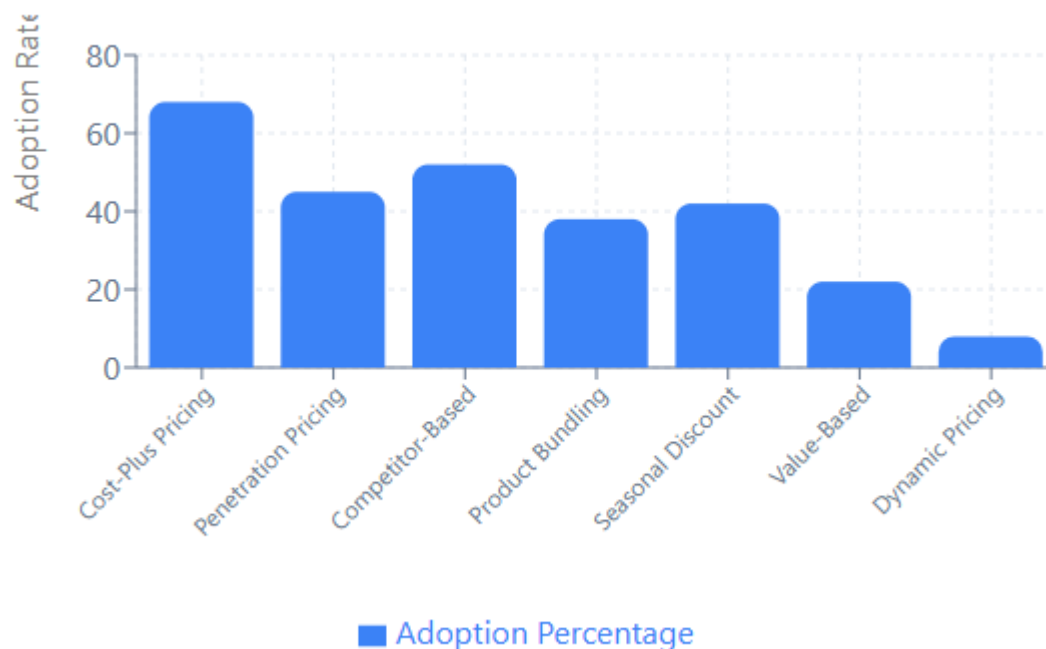


Figure 2. Trend graph of the implementation of MSME pricing strategies in Surabaya

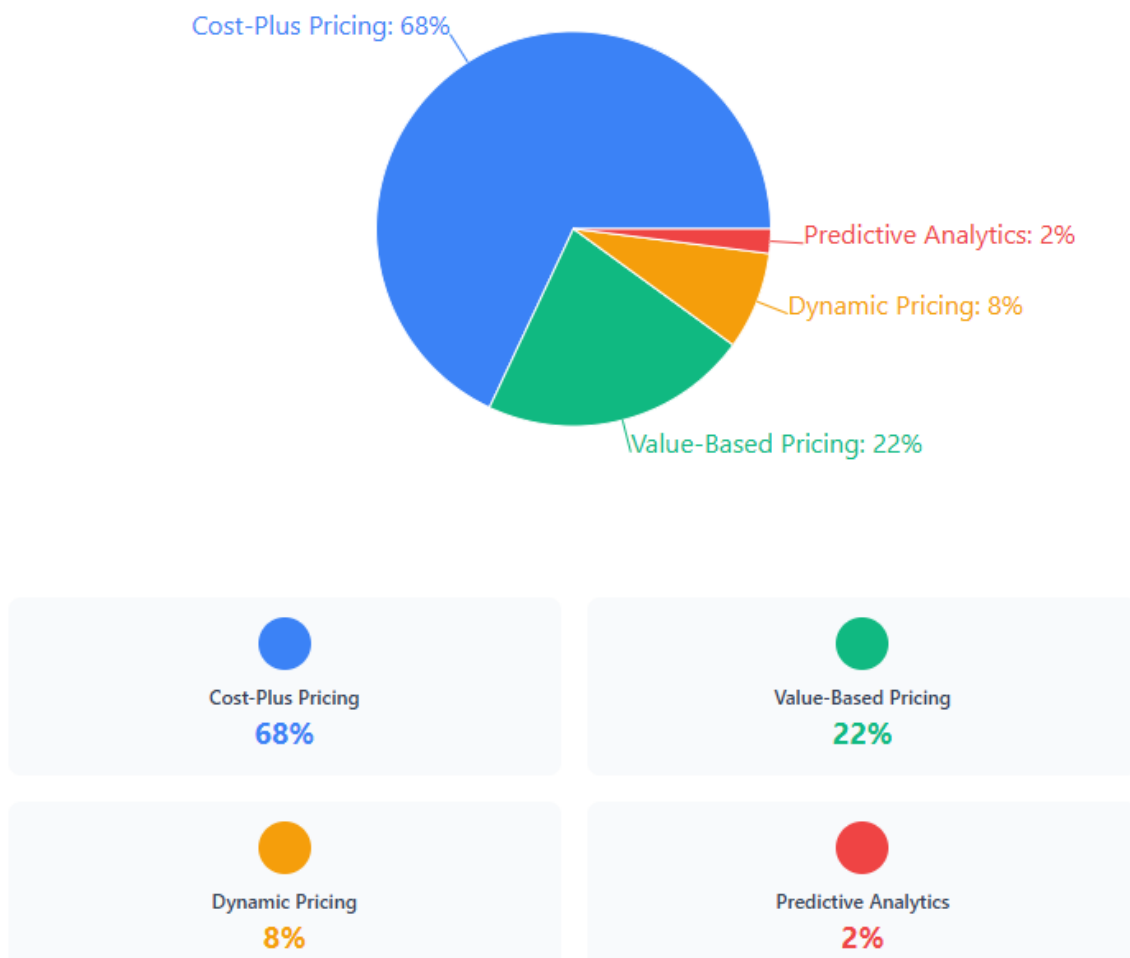


Figure 3. Distribution of Pricing Models in MSMEs

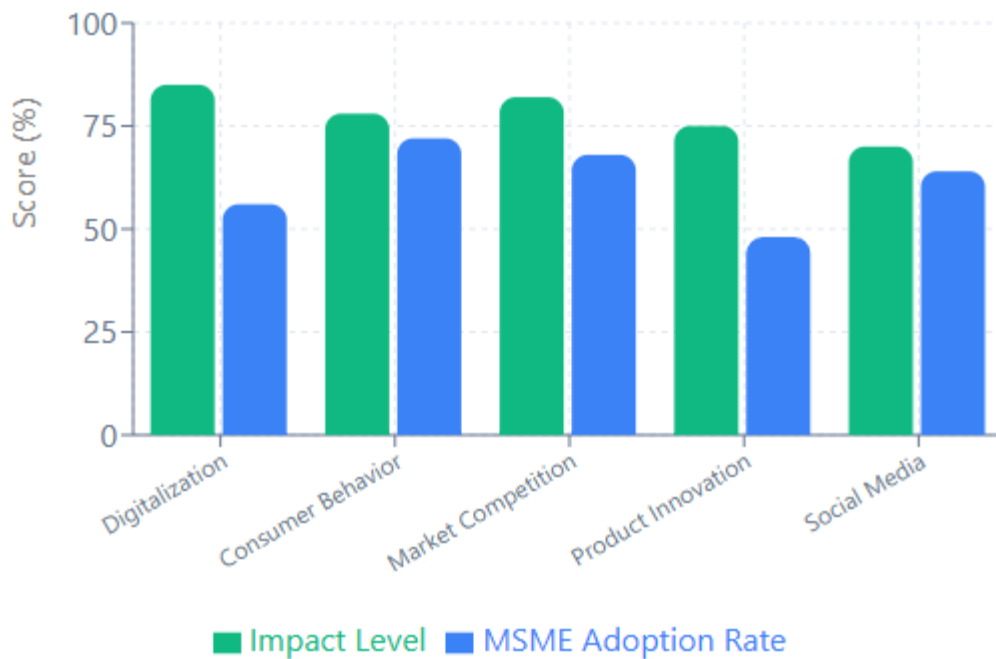


Figure 4. Impact of External Factors on Pricing Strategy

3.3 Influence of External Factors: Digitalization, Consumer Behavior, and Competition

Digitalization plays an important role in MSME pricing strategies, especially through the use of social media to collect market data and monitor competitors' prices (Widyadhana & Laksana, 2022). Consumer behavior, including price sensitivity and word of mouth (WOM) influence, also influences pricing decisions (Ardiansyah & Praswati, 2024; Tamtama et al., 2025). In addition, competition based on product and service innovation encourages MSMEs to adjust prices to stay relevant.

Table 2. External Factors Affecting MSME Price Strategy

Factor	Impact	Reference
Digitization	Accelerate real-time price adjustments	S&P (2022)
Consumer Behavior	Price sensitivity & WOM influence decisions	Ardiansyah & Praswati (2024)
Persaingan	Demanding product & service innovation	Lailla & Sriminarti (2022)

3.4 Challenges and Opportunities in Price Adjustment

The main challenges faced by MSMEs include limited financial literacy, lack of technology utilization, and fluctuations in demand and production costs (Atmaja et al., 2023; Marshelindy et al., 2024). However, opportunities open up through intensive training, the adoption of predictive technology, and collaboration between MSMEs to share market information (Ganushchak-Yefimenko, 2025; Ridzal et al., 2025). An adaptive and data-based pricing strategy allows MSMEs to increase their competitiveness and business sustainability.

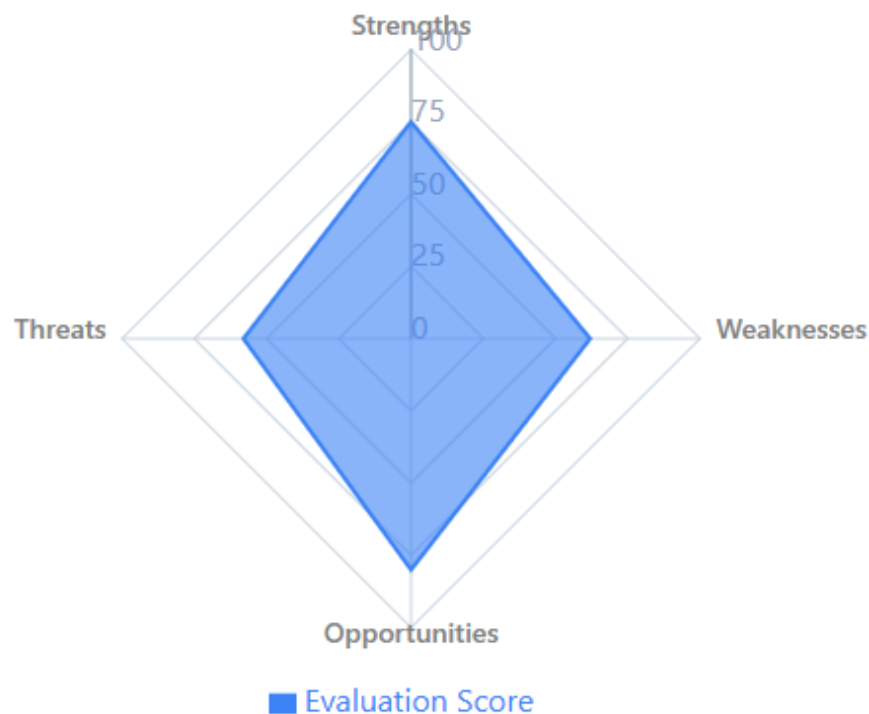


Figure 5. SWOT of the price adjustment strategy of Surabaya MSMEs.

The research results show that the pricing adjustment strategies implemented by MSMEs in Surabaya are still dominated by classic models, specifically cost-plus pricing, full costing, and variable costing. These models are relatively easy to implement due to their simple calculations, particularly in the culinary and retail sectors. However, their effectiveness in facing increasingly dynamic competition is limited, as these strategies lack flexibility in responding to changes in consumer behavior and market dynamics. This condition aligns with the findings of Marshelindy et al. (2024) that the ability to accurately calculate the Cost of Goods Sold (COGS) can increase profit margins, but is insufficient to address the complexities of the modern market.

In contrast, value-based pricing models are beginning to emerge among MSMEs in the fashion and creative services sectors. The implementation of this strategy demonstrates an effort to link prices to consumer perceptions of product value, rather than simply production costs. This allows MSMEs to set premium prices for highly differentiated products. Izzati et al. (2025) emphasize that consumer value orientation can strengthen loyalty and increase competitiveness. Although not yet widely adopted, this trend indicates a shift towards more adaptive pricing practices.

The application of dynamic pricing and predictive analytics remains very limited. The main obstacles lie in low digital literacy and limited technological infrastructure. This model offers flexibility in real-time price adjustments based on market data and

consumer behavior (Widyadhana & Laksana, 2022). Therefore, despite its high potential, its adoption requires intervention in the form of technology training and support for more inclusive digital systems. Ganushchak-Yefimenko (2025) even stated that predictive analytics can increase the accuracy of pricing strategies by up to 30%, opening up significant opportunities for MSMEs that are able to integrate it.

Beyond pricing theory, the price adjustment practices of MSMEs in Surabaya are also influenced by external factors. Digitalization has been a major change in the competitive landscape. The use of social media to collect market data, monitor competitor prices, and conduct promotions has accelerated the pricing decision-making process. This allows MSMEs active in the digital realm to adjust prices more quickly than those still relying on conventional methods (Ridzal et al., 2025). However, the presence of large e-commerce platforms with aggressive price subsidy strategies has actually increased competitive pressure on MSMEs (Suryani & Utami, 2022).

The increasingly price-sensitive behavior of consumers in Surabaya is also forcing MSMEs to be more cautious in setting prices. Consumers not only consider price but are also influenced by reviews on social media and word of mouth (Tamtama et al., 2025). Therefore, a transparent and credible pricing strategy is essential for MSMEs to maintain market trust. Bundling strategies and seasonal discounts have proven effective in increasing product value perception and sales volume during certain periods, even though initial profit margins are lower.

In terms of challenges, MSMEs still face limited financial literacy, low technology utilization, and fluctuating production costs that frequently force price adjustments. Atmaja et al. (2023) show that these factors contribute to the weak competitiveness of MSMEs in the long term. However, opportunities exist through intensive training on pricing, the adoption of increasingly affordable predictive technology, and collaboration between MSMEs to share market information. Psychological pricing strategies, such as price anchoring or package pricing, can also be an alternative to strengthen competitiveness without compromising product quality (Beekun & Badawi, 2005).

Overall, the effectiveness of MSME pricing strategies in Surabaya is determined not only by the pricing model used, but also by the extent to which businesses are able to respond to external factors and utilize technology. Integrating classical and modern pricing theories, combined with financial literacy and the use of digitalization, is key to strengthening MSME competitiveness in the face of increasingly fierce local competition.

CONCLUSIONS

This study highlights that pricing adjustment strategies among MSMEs in Surabaya remain largely dominated by classical approaches, particularly cost-plus pricing, due to their ease of application. However, such models show limitations in addressing market dynamics and increasingly intense competition. A shift toward value-based pricing has

begun to emerge, especially in creative and service sectors, while the adoption of dynamic pricing and predictive analytics remains very limited due to low digital literacy and technological infrastructure constraints.

External factors including digitalization, consumer price sensitivity, and competitive pressure have proven to significantly influence MSME pricing strategies. The use of social media and digital platforms enables faster price adjustments but also increases competition with larger players who possess stronger resources and aggressive pricing strategies. Adaptive approaches such as bundling, seasonal discounts, and training in cost of goods sold (COGS) calculation have been effective in enhancing MSME competitiveness and profitability.

Despite challenges such as limited financial literacy, low technological adoption, and fluctuating production costs, significant opportunities exist through capacity-building initiatives, inter-MSME collaboration, and the adoption of predictive technologies that are becoming increasingly accessible. Therefore, the success of pricing adjustment strategies is not solely determined by the chosen pricing model but also by the ability of MSMEs to integrate price theory with digitalization, financial literacy improvement, and product or service innovation. Adaptive, data-driven, and collaborative approaches are key to strengthening the sustainability and competitiveness of MSMEs in Surabaya's increasingly competitive local market.

REFERENCE

- Ahmad, W., & Hassan, R. (2020). Islamic finance and SMEs: A review of the literature. *Journal of Islamic Accounting and Business Research*, 11(3), 555–573. <https://doi.org/10.1108/JIABR-01-2019-0006>
- Alpiana, N., Indah, D., & Helmi, S. (2024). Analysis of marketing strategies in increasing competitiveness in MSMEs. *Jurnal Ilmiah Manajemen Kesatuan*, 12(5). <https://doi.org/10.37641/jimkes.v12i5.2768>
- Ardiansyah, G., & Praswati, A. (2024). Pengaruh kualitas produk, kualitas layanan, dan harga terhadap minat keputusan pembelian pada UMKM Surakarta. *El-Mal: Jurnal Kajian Ekonomi & Bisnis Islam*, 5(7). <https://doi.org/10.47467/elmal.v5i7.4146>
- Atmaja, R., Saputro, S., Isnanto, R., & Alkodri, A. (2023). Peningkatan kinerja bisnis usaha kecil dan menengah dengan strategi harga, penerapan teknologi dan kewirausahaan. *Magisma: Jurnal Ilmiah Ekonomi dan Bisnis*, 11(1). <https://doi.org/10.35829/magisma.v11i1.271>
- Beekun, R. I., & Badawi, J. A. (2005). Balancing ethical responsibility among multiple organizational stakeholders: The Islamic perspective. *Journal of Business Ethics*, 60(2), 131–145. <https://doi.org/10.1007/s10551-004-0591-2>
- Chinomona, R., & Sandada, M. (2013). The influence of entrepreneurial orientation on SMEs' performance in a developing economy. *Journal of Small Business and Enterprise Development*, 20(3), 453–469. <https://doi.org/10.1108/JSBED-11-2012-0123>
- Daftar Pustaka
- Dawson, C., & Andriopoulos, C. (2011). Managing product innovation. *London: Sage Publications*.
- Dawu, L., Manehat, B., Sonbay, Y., Bibiana, R., Seran, A., Suninono, A., De Jesus, M., & Meo, A. (2025). Cross-currency transaction management and pricing strategies for MSMEs at the Indonesia-Timor Leste border. *Asian Journal of Community Services*, 4(3). <https://doi.org/10.55927/ajcs.v4i3.82>
- Ganushchak, L., & Yefimenko, L. (2025). Pricing strategy development in MSMEs using predictive analytics. *World of Finance*. <https://doi.org/10.35774/sf2024.04.115>
- Ganushchak-Yefimenko, L. (2025). Building and implementing pricing strategies based on predictive analytics: Increasing competitiveness. *World of Finance*. <https://doi.org/10.35774/sf2024.04.115>
- Halim, H., & Nasution, M. (2021). Financial literacy and SME performance: Evidence from Indonesia. *Asian Journal of Accounting Research*, 6(2), 218–232. <https://doi.org/10.1108/AJAR-09-2020-0065>
- Izzati, N., Fitriani, D., Suhendi, D., & Nurhabibah, A. (2025). Comparative analysis of selling price determination with the cost plus pricing method in Mekarsari UMKM. *Bulletin of Management and Business*, 6(1). <https://doi.org/10.31328/bmb.v6i1.373>
- Izzati, N., Fitriani, D., Suhendi, D., & Nurhabibah, A. (2025). Cost-plus pricing in UMKM Mekarsari. *Bulletin of Management and Business*, 6(1). <https://doi.org/10.31328/bmb.v6i1.373>

- Lailla, N., & Sriminarti, N. (2022). The role of MSME marketing strategy in achieve competitive advantage. *Procedia of Social Sciences and Humanities*, 3. <https://doi.org/10.21070/pssh.v3i.142>
- Marshelindy, M., Handayani, S., & Ratu, M. (2024). Training for MSME competitiveness in Alai Village. *Unram Journal of Community Service*, 5(4). <https://doi.org/10.29303/ujcs.v5i4.764>
- Marshelindy, M., Handayani, S., Emilda, E., Ratu, M., & Mutaqin, Z. (2024). Training on calculation of production cost and determination of product selling price to increase competitiveness of MSMEs in Alai Village. *Unram Journal of Community Service*, 5(4). <https://doi.org/10.29303/ujcs.v5i4.764>
- Ridzal, N., Sujana, W., Malik, E., Ode, L., & Kirana, I. (2025). Digital marketing strategy to increase product selling prices. *Room of Civil Society Development*, 476. <https://doi.org/10.59110/rcsd.476>
- Ridzal, N., Sujana, W., Malik, E., Ode, L., & Kirana, I. (2025). Digital marketing and product pricing for MSMEs. *Room of Civil Society Development*, 476. <https://doi.org/10.59110/rcsd.476>
- Strategi penyesuaian harga UMKM Surabaya dipengaruhi teori harga, digitalisasi, perilaku konsumen, dan persaingan. Model cost-plus masih dominan, namun tren menuju value-based pricing dan predictive analytics
- Suryani, E., & Utami, R. (2022). Digitalization and its effect on SME competitiveness in Indonesia. *Indonesian Journal of Business and Entrepreneurship*, 8(1), 44–55. <https://doi.org/10.21002/ijbe.v8i1.1432>
- Tamtama, N., Al, H., Puspitaningrum, D., Jihan, B., & Anindita, F. (2025). Pengaruh word of mouth (WOM) dan harga terhadap keputusan pembelian Ayam Goreng Pak Kuwadi. *eCo-Fin*, 7(1). <https://doi.org/10.32877/ef.v7i1.2114>
- Widyadhana, M., & Laksana, I. (2022). Social media-based market intelligence and MSME pricing. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.4137152>
- Widyadhana, M., & Laksana, I. (2022). The effect of market intelligence through social media on MSMEs product pricing in Surabaya. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.4137152>
- Zhao, L., & Zhao, Y. (2024). Dual channel supply chain decisions under uncertainty. *PLOS ONE*, 19. <https://doi.org/10.1371/journal.pone.0300386>
- Zhao, L., & Zhao, Y. (2024). Impact of uncertain demand and channel power on dual channel supply chain decisions. *PLOS ONE*, 19. <https://doi.org/10.1371/journal.pone.0300386>