



Analysis Of The Effect Of Customer Retention Strategy And Differentiation Strategy On Customer Lifetime Value And Customer Loyalty In SME Food In Jember Regency

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INTRODUCTION

In an era of increasingly fierce business competition, especially in the culinary sector, retaining existing customers has proven to be more profitable than constantly seeking new customers (Kumar & Reinartz, 2020). The high cost of acquiring new customers and the risk of low loyalty at the beginning of the relationship have led many businesses, especially in the food and beverage sector, to focus on customer retention strategies. In Jember Regency, the development of food SMEs is very rapid, as indicated by the increase in the number of SMEs each year (Jember Cooperative and MSME Office, 2024). This condition creates competition that requires SMEs to have a competitive advantage through an approach that relies not only on price, but also on the value of the consumer experience. Customer retention strategy is one of

ABSTRACT

This study aims to analyze the effect of customer retention strategies and differentiation strategies on Customer Lifetime Value (CLV) and customer loyalty in small and medium enterprises (SMEs) in the food sector in Jember Regency. The research approach used is a quantitative approach with a survey method of 100 customers of Ayam Gepok Pak Giek as the object of research. Data collection was carried out through a closed questionnaire, and data analysis was carried out using the Partial Least Square (PLS) method with the help of SmartPLS software. The results showed that customer retention strategy and differentiation strategy have a positive and significant effect on customer loyalty and CLV. The findings indicate that effective customer relationship management, through the provision of memorable customer experiences and unique product offerings, is critical in increasing long-term customer loyalty and value. The practical implications of this study suggest that culinary SMEs strengthen service strategies, product innovation, and loyalty programs to retain customers and increase competitiveness in a competitive market.

the main approaches to strengthen customer loyalty and maintain business existence in the long term. Research by (Adenantha, 2020) shows that customer retention has a positive and significant effect on customer loyalty, with a regression coefficient of 0.109 and a significance value of $0.000 < 0.05$. Similar research by (Anugraha, 2023) also proves that implementing good customer relationship management (CRM) can significantly improve customer retention in the food sector.

In addition to retention, product or service differentiation strategies are also an important factor in building uniqueness and positioning in the minds of consumers. Research by (Mariyana, 2017) reveals that differentiation strategies significantly increase customer loyalty in independent bookstores. This finding is reinforced by the research of (Nanda, 2020) which proves that a digital marketing-based differentiation strategy (Instagram) in coffee MSMEs is able to build emotional closeness and consumer loyalty.

Effective implementation of differentiation strategies has also been shown to increase customer lifetime value (CLV). According to (Gupta & Lehmann, 2005), differentiation allows companies to set premium prices and increase loyalty, which directly impacts CLV. In the local context, SMEs such as Ayam Gepok Pak Ghiok in Jember have implemented a combination of retention and differentiation strategies, and continue to exist amidst high competition.

LITERATURE REVIEW

Customer retention strategies are planned efforts made by companies to maintain long-term relationships with customers through various approaches such as loyalty programs, providing added value, and ongoing communication. According to (Srisusilawati, 2023), customer retention can increase customer lifetime value because retained customers tend to make repeat purchases and show stronger loyalty. This is also in line with the findings of Anugraha et al. (2023) which shows that customer relationship management through CRM can significantly increase retention rates, especially in the culinary sector.

Differentiation strategy, on the other hand, is an approach to create a unique product or service to stand out in the eyes of customers compared to competitors. According to (Zahara & Danial, 2020), differentiation can be realized through elements such as product features, design, service quality, and a strong brand image. This strategy is considered effective in increasing product appeal and building emotional attachment with consumers, especially in saturated markets. (Novianty & others, 2021) added that the right differentiation strategy can create sustainable customer loyalty because customers feel that the products offered have unique values that they do not find in other brands.

The concept of Customer Lifetime Value (CLV) also receives considerable attention in modern marketing management. CLV is defined as the net value of all profits that can be generated from a customer during a long-term relationship with the company. Aminah and Saputra (2020) state that CLV is an important indicator in measuring the effectiveness of marketing strategies because it is able to show customer contributions to company profitability. The CLV calculation model used today has evolved from a simple model to one that considers retention rates and the time value of money.

Customer loyalty is a key factor that determines the long-term success of a business. According to (Sibarani et al., 2024), loyalty is not only reflected in repeat purchases, but also in the desire to recommend products to others and the willingness to ignore offers from competitors. Customer loyalty is formed through a combination of satisfaction, trust, and perceived value of the product or service. Akbar and Permatasari (2024) also state that customer satisfaction and trust have a significant direct relationship to loyalty in the context of online business, and this can also be applied to the culinary MSME sector.

METHODS

This research uses a quantitative approach with a cross-sectional survey design that aims to determine the effect of customer retention strategies and differentiation strategies on customer lifetime value and customer loyalty. This approach is considered appropriate because it is able to collect data at one time and describe the relationship between variables statistically (Creswell, 2012). The research was conducted on consumers of Ayam Gephok Pak Giek in Jember Regency, which is one of the culinary SMEs with high ratings and existence.

The population in this study were all active customers of the restaurant Ayam Gephok Pak Giek . The sampling technique was carried out by purposive sampling, which is a non-probability sampling technique in which respondents are selected based on certain criteria, in this case customers aged between 20 and 45 years and have made purchases at least twice. The number of samples used was 100 respondents, in accordance with the minimum limit recommended in the SEM-PLS analysis method to obtain valid results (Hair et al., 2019)

The data collection instrument used a questionnaire in the form of a 5-point Likert scale, with a range of answers from 1 (strongly disagree) to 5 (strongly agree). This questionnaire is compiled based on indicators of each research variable. The independent variables in this study consist of customer retention strategies (X1) and differentiation strategies (X2), while the dependent variables are customer lifetime value (Y1) and customer loyalty (Y2). Indicators for customer retention strategies include loyalty programs, communication, and providing added value. Differentiation strategies are measured through elements of product features, service quality, design, and innovation. CLV is measured based on average customer income, purchase frequency, customer age, and discount rate, while customer loyalty is measured through indicators of repeat purchases, recommendations, and commitment to the brand.

The collected data were analyzed using the Structural Equation Modeling Partial Least Squares (SEM-PLS) method with the help of SmartPLS software. This method is used because it can overcome the limitations of non-normal data distribution and is suitable for a relatively small sample size. The analysis process is carried out in two stages, namely testing the outer model to see the validity and reliability of constructs, and the inner model to test the relationship between latent variables through testing the path coefficient, t-statistic value, and R-square (Ghozali & Latan, 2015). Decision making is based on a significance value <0.05 or a t-statistic value > 1.96 .

RESULTS

Respondents

The research data was obtained from 100 customers of Ayam Gephok Pak Giek with the characteristics summarized in table 1.

Table 1 Respondent Data

Variables	Total	Percent
<i>Gender</i>		
- Male	23	27,5
- Female	77	72,5
<i>Revenue</i>		
- Under 1 Jt	43	47
- 1 Jt - 3 Jt	35	38
- 3 Jt - 5 Jt	17	12
- Above 5 Jt	5	3
<i>Jobs</i>		
- Student or College Student	15	16,8

- Private Employee	9	7
- PNS/TNI/Polri	23	25.2
- Self-employed	6	3
- Housewife	22	21.8
- More	25	26.2
<i>Age</i>		
- 20-30 years	49	53
- 30-40 years old	29	29
- 40-50 years old	13	12
- > 50 years	9	6

Source: Processed questionnaire data, 2025

Table 1 shows the respondent data, namely the customers of Ayam Gepok Pak Giek who became the research sample of 100 people. Respondents of male gender dominate over women. Most respondents work as civil servants / TNI / Polri and others, have an average income of 1 - 3 million, and varying ages.

Analysis

The results of testing the *outer model* used for validity and reliability testing are presented in table 2.

Table 2. Outer Model

	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Customer Lifetime Value	1.000	1.000	1.000
Customer Loyalty	1.000	1.000	1.000
Differentiation Strategy	1.000	1.000	1.000
Customer Retention Strategy	1.000	1.000	1.000

Data Source: Data processed by researchers in SmartPLS 4, 2025

Based on table 2, it shows that the indicators on the customer value, loyalty, and customer satisfaction variables produce a loading factor value greater than 0.7, which means that all question items in this study are declared valid and can be said to meet the criteria in the correlation test. Meanwhile, the Average Variance Extracted (AVE) evaluation in table 3 shows that the AVE value of each variable is greater than 0.5, which can be concluded that all indicators of the variables are declared valid and meet the convergent validity test.

Table 3 Structural Model Planning (Inner Model)

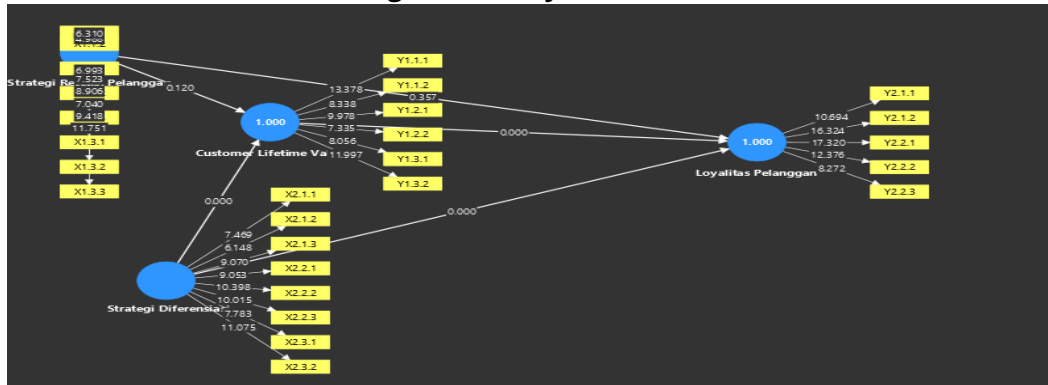
R-square - Overview		
	R-square	R-square adjusted
Customer Lifetime Value	1.000	1.000
Loyalitas Pelanggan	1.000	1.000

Source: Processed Primary Data, 2025

The assessment of the structural model using Smart PLS begins by looking at the R-Square value for each endogenous latent variable, namely the effect of service quality and price on

purchasing decisions as the predictive power of the structural model. The R Square value of the joint or simultaneous influence of X1, X2 and Y1 and Y2 is 1,000 with an adjusted r square value of 1,000. So, it can be explained that all exogenous constructs (X1, X2, Y1 and Y2) then the influence of all exogenous constructs X1, X2, Y1 and Y1 is strong.

Figure 1. Analysis Results



Each path tested represents the hypothesis in this study. The path coefficient value can be seen in the following table.

Table 4 Path Coefficient Value

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Customer Lifetime Value -> Loyalitas Pelanggan	0.371	0.382	0.094	3.940	0.000
Strategi Diferensiasi -> Customer Lifetime Value	0.801	0.770	0.133	6.027	0.000
Strategi Diferensiasi -> Loyalitas Pelanggan	0.529	0.494	0.123	4.302	0.000
Strategi Retensi Pelanggan -> Customer Lifetime Value	0.366	0.341	0.179	2.046	0.041
Strategi Retensi Pelanggan -> Loyalitas Pelanggan	0.510	0.504	0.161	3.163	0.002

Specific indirect effects - Mean, STDEV, T values, p values					
	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Strategi Diferensiasi -> Customer Lifetime Value -> Loyalitas Pelanggan	0.284	0.286	0.087	3.276	0.001
Strategi Retensi Pelanggan -> Customer Lifetime Value -> Loyalitas Pelanggan	0.146	0.118	0.069	2.121	0.034
	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Strategi Diferensiasi -> Customer Lifetime Value -> Loyalitas Pelanggan	0.284	0.286	0.087	3.276	0.001
Strategi Retensi Pelanggan -> Customer Lifetime Value -> Loyalitas Pelanggan	0.146	0.118	0.069	2.121	0.034

Source: Processed research data, 2025

1. Hypothesis Testing of Customer Retention Strategy on Customer Loyalty It can be seen that the p-value is 0.002 and the T value is 3.163. from this test it states that the P-value is 0.002 <0.05, so this hypothesis is accepted. This means that the Customer Retention Strategy has a positive and significant effect on Customer Loyalty
2. Testing the Differentiation Strategy Hypothesis on Customer Loyalty It can be seen that the p-value is 0.000 and the T value is 4.302. from this test it states that the P-value is 0.000 <0.05, so this hypothesis is accepted. This means that the Differentiation Strategy has a positive and significant effect on Customer Loyalty.
3. Hypothesis Testing of Customer Retention Strategy on Customer Lifetime Value It can be seen that the p-value is 0.041 and the T value is 2.046. from this test it states that the P-value is 0.041 <0.05, so this hypothesis is accepted. This means that the Customer Retention Strategy has a positive and significant effect on Customer Lifetime Value.
4. Hypothesis Testing of Differentiation Strategy on Customer Lifetime Value It can be seen that the p-value is 0.000 and the T value is 6.027. from this test it states that the P-value is 0.000 <0.05, so this hypothesis is accepted. This means that Differentiation Strategy has a positive and significant effect on Customer Lifetime Value.
5. Testing the Hypothesis of Customer Retention Strategy on Customer lifetime Value and Customer Loyalty, it can be seen that the p-value is 0.034 and the T value is 2.121. from this test it states that the P-value is 0.034 <0.05, so this hypothesis is accepted. This means that the Customer Retention Strategy has a positive and significant effect on Customer lifetime Value and Loyalty.
6. Testing the Differentiation Strategy Hypothesis on Customer lifetime Value and Customer Loyalty, it can be seen that the p-value is 0.001 and the T value is 3.276. from this test it states that the P-value is 0.001 <0.05, so this hypothesis is accepted. This means that the Differentiation Strategy has a positive and significant effect on Customer lifetime Value and Customer Loyalty.
7. The indirect effect of Customer Retention Strategy -> Customer Lifetime Value -> Customer Loyalty is 0.146 (Positive) with a P Value of 0.034 <0.05, so it is declared Significant.

DISCUSSION

First, the results show that customer retention strategies have a significant effect on customer loyalty. Customers who receive loyalty programs, good service experiences, and intensive communication show a higher level of loyalty to the brand. This finding is in line with the research of Srisusilawati et al. (2023) and Anugraha et al. (2023), which state that customer retention strategies can create an emotional connection between customers and brands, so they tend to make repeat purchases consistently. Second, differentiation strategies also have a positive and significant influence on customer loyalty. Product innovation, service quality, and design uniqueness are proven to be able to increase customer interest and attachment to a brand. This is in line with Zahara and Danial's research (2020) which states that differentiation creates a perception of exclusivity and added value for customers. In the context of culinary SMEs, such as Ayam Gephok Pak Giek, this can be seen from the use of signature recipes, unique chili sauce, and different product presentation compared to competitors.

Third, customer retention strategies have a significant effect on *customer lifetime value* (CLV). Customers who are retained contribute more revenue in the long run than new customers. This is reinforced by Lemon and Verhoef's (2018) research, which states that companies that focus on retention will have cost efficiency and customer loyalty that have a direct impact on customer lifetime profitability. Fourth, differentiation strategies also have a significant effect on CLV. Products that have different characteristics will increase perceived value, so customers are more willing to make repeat purchases, even at higher prices. Research

by Novianty et al. (2021) confirms that an effective differentiation strategy can increase CLV through the creation of customers' emotional and cognitive loyalty to the brand.

Furthermore, customer loyalty is shown to be a mediating variable in the relationship between strategy (retention and differentiation) and CLV. Loyalty is an important bridge that connects a company's strategy with long-term financial results. In other words, good retention and differentiation strategies can increase loyalty, and ultimately loyalty is what drives the increase in CLV (Tsiotsou, 2018); (Akbar & Permatasari, 2024)).

Overall, the results of this study indicate that a combination of customer relationship management and the development of differentiation-based competitive advantage is critical to retaining high-value customers in the long term. This finding provides empirical support to (Morgan & Hunt, 1994) *Resource Advantage* theory, that resource differentiation and customer relationship management are crucial competitive advantages in dynamic markets such as the SME culinary industry.

CONCLUSION

Based on the results of data analysis and discussion, it can be concluded that customer retention strategies and differentiation strategies have a significant influence on customer loyalty and customer lifetime value (CLV) in food SMEs in Jember Regency. Customer retention strategies, such as loyalty programs and effective communication, are proven to increase customer attachment and encourage repeat purchases. Similarly, differentiation strategies such as product uniqueness, service quality, and design innovation contribute greatly to increasing long-term customer value. Other findings show that customer loyalty plays a role as a mediating variable that strengthens the relationship between retention and differentiation strategies and CLV enhancement. Thus, an integrated approach involving customer relationship management and product uniqueness development is key in creating sustainable competitive advantage in the culinary sector. As a practical implication, SMEs in the food sector need to pay more attention to building long-term relationships with customers, not only by providing momentary discounts, but also through creating pleasant experiences, personalized service, and emotional value for products. In addition, businesses are also advised to continue to innovate in product and service differentiation, in order to create the perception of more value in the eyes of consumers and remain relevant in the midst of competitive competition.

Suggestions for future research are to cover a wider area and involve more SME objects to strengthen the generalizability of the findings. Researchers can also consider other variables such as customer satisfaction, price perception, or relationship quality, which may have an effect on loyalty and CLV. In addition, a mixed approach between qualitative and quantitative can be used to dig deeper into customers' subjective experiences that may not be detected by quantitative methods alone.

LIMITATION

This study has several limitations that must be acknowledged in order to interpret the results proportionally. First, the scope of the study only covers one business entity, namely the Ayam Gephok Pak Giek culinary SME in Jember Regency. This limits the generalisation of the findings to other SMEs with different consumer characteristics and marketing strategies.

Second, the sampling method used purposive sampling, which only involved respondents aged 20–45 years old who had made at least two purchases. This approach risks ignoring the perceptions of other age groups or new customers who may have different views on retention and differentiation strategies. Third, the research design used was cross-sectional, which only captures data at a single point in time. This does not allow researchers to observe the dynamics of changes in customer loyalty or Customer Lifetime Value (CLV) over the long term. Fourth, the use of a closed-ended questionnaire with a Likert scale limits respondents' ability to express

reasons, motivations, or deep subjective experiences that may be relevant in explaining the relationships between variables more comprehensively. Finally, the very high R-square value (1.000) in the structural model indicates the potential for overfitting, which needs to be interpreted with caution. This condition could be caused by limitations in the sample size or an overly narrow model design.

Therefore, the results of this study should be reviewed while considering these limitations. Further research is recommended to involve more SMEs, a broader geographical scope, and the use of mixed methods to obtain a more comprehensive and in-depth understanding.

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