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## Product Innovation Effect and Market Orientation on Marketing Performance Mediated by Competitive Advantage

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**Abstract.** This examines goals to decide the effect of product innovation and market organization on marketing performance. Quantitative descriptive methods were used in this study, with the populace on this observe being UMKM withinside the meals enterprise sector in Central Java Province with a total of 105 people. The analysis in this study used validity tests, reliability tests, and model tests which included regression tests, coefficient of determination tests, simultaneous significance, and mediation tests using SPSS 21.0 software. From the results of this analysis and discussion it shows that product innovation and market orientation have a good and large influence on competitive advantage, in addition to product innovation and market orientation which even have a good and large influence on marketing performance, from the consequences of competitive advantage studies they also have a subtle and good impact on marketing performance. In addition, competitive advantage is proven to be a mediator between product innovation and market orientation towards marketing performance.

**Keyword:** Product Innovation, Competitive Advantage, Marketing Performance, Market Orientation

### Introduction

The existence of Corona Virus Pandemic or COVID-19 had a huge impact of the economy. That impact seemed to destabilize economy of Indonesian because the country experienced a weakening in consumption which is a decrease in the inflation rate that needed further vigilance, this consequence cause of the disrupted on the potential global supply chain as a implementation efforts to break the spread of the virus. The hope is that the price of domestic goods can be ensured to remain under control, as well as the supply can be maintained, although adjustments may be needed.

In the several economic crises that have occurred in Indonesia some time ago, which have caused many large-scale businesses to stagnate and even stop their activities. The first general policy direction for national development for 2015-2019 is to increase inclusive and sustainable economic growth. Increasing the competitiveness and role of UMKM is one way to achieve sustainable economic growth. Based on the results of the Economic Census (SE2016) the number of Micro Small Enterprises (UMKM) in Indonesia is 26.26 million businesses or has a contribution of 98.33 percent ([www.bps.go.id/publication/2019](http://www.bps.go.id/publication/2019)).

Given the experiences that Indonesia has faced during the crisis, it is not excessive if private sector development is focused on UMKM, moreover these business units are often neglected simply because their production results are on a small scale and have not been able to compete with other business units that have larger economic scales. There is a phenomenon of a significant decline in the marketing performance of UMKM in the last few months, so it is necessary to examine what factors



influence it. In addition to this phenomenon, this research is also based on gap research from previous related research conducted by Killa (2014) where product innovation affects the company's marketing performance. Other researchers, namely Nasir (2018) and Dewi (2006) as well as research by Lopian, Massie, Ogi (2016) both concluded that innovation in products affects marketing performance. Another related research is conducted by Suendro (2010), which was conducted on Small and Medium Pekalongan Batik Industries. This study analyzes the factors that influence product innovation as an effort to influence marketing performance to increase sustainable competitive advantage. Research problems comes from 2 (two) things, the first is the research gap from Baker and Sincula (1999), with Han et al (1998). The second problem comes from a research problem, namely the lack of product innovation (from the pre-survey). Research with different results conducted by Wiwoho (2013) concluded that market orientation has no significant effect on marketing performance.

Research conducted by Helia, Farida, Prabawani (2015) draws the conclusion that product innovation has a positive influence on competitive advantage, where it states that the higher the product innovation the higher the competitive advantage, and also concludes that market orientation has an influence positive attitude towards competitive advantage, which states that the higher the market orientation the higher the competitive advantage. The research that will be carried out has differences from previous research, especially in the field of business respondents and the scope of the research area and business conditions at the time of data collection. For previous studies using UMKM respondent settings in the batik business and others in general, while in this study it has been specified for UMKM actors in the food processing business in Central Java Province. For the research area, previous research covered the City / Regency area, while the research that will be carried out uses the Province area coverage. Talking about business conditions when collecting data, for previous research data was taken in relatively conducive business conditions in general, while in this study data collection was carried out amidst crisis conditions affected by the co-19 pandemic which in terms of economic activity could not be categorized as conducive due to various adaptations for efforts to deal with the pandemic that are still ongoing.

Based on the problems above, this research was carried out to explain the influence of product innovation and market orientation which will affect marketing performance and the possibility of an influence on the formation of competitive advantage. In this study a theoretical model was developed by proposing 5 (five) hypotheses to be tested using regression analysis. The respondents used in this study were taken from respondents from small and medium micro enterprises (UMKM) in the food processing business sector in Central Java Province, who acted as owners or managers, totaling 105 respondents. Purposive sampling was used as a data collection method. Data collection was carried out through distributing questionnaires.

## Research Method

This research was conducted to explain that marketing performance is influenced by product innovation and market orientation that mediated by competitive advantage. This research was obtained through questionnaire data with respondents from SMEs in the field of food processing and taken by purposive sampling of 105 people. Analysis using SPSS 21 software. Image 1 explains the research hypothesis relationship between the variables studied, namely product innovation, market orientation, competitive advantage, and marketing performance. This research method can be described as follows:

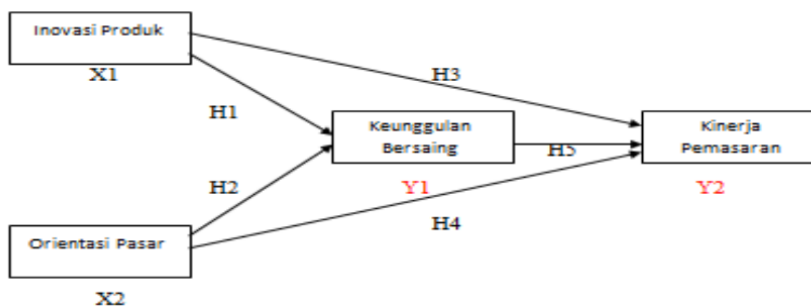


Figure 1. Graphic Model Research

- H1: Product Innovation positively affects competitive advantage
- H2: Market orientation positively affects competitive advantage
- H3: Product innovation has a positive effect on marketing performance
- H4: Market orientation positively affects marketing performance
- H5: Competitive advantage positively affects marketing performance

## Results and Discussion

Based on the results of data analysis using SPSS 21.0, after carrying out the validity and reliability testing processes which are all valid and reliable, it can be continued with the multiple analysis model test as follows:

Table 1. Summary of Regression Analysis of Model I and Model II

| Description | Test Model         |   | Test the hypothesis |         |   | Result |
|-------------|--------------------|---|---------------------|---------|---|--------|
|             | Adj R <sup>2</sup> | F | Sig                 | $\beta$ | t |        |

**Regression of Model I** 0,341 27,685 0,000

Product Innovation and Market  
Orientation towards Competitive  
Advantage

$$Y_1 = 0,243X_1 + 0,178 X_2$$

|   |       |       |       |               |
|---|-------|-------|-------|---------------|
| Product Innovation towards<br>Competitive Advantage | 0,243 | 2,126 | 0,036 | H1 : Accepted |
| Market Orientation towards<br>Competitive Advantage | 0,178 | 4,633 | 0,000 | H2 : Accepted |

**Regression of Model II** 0,411 24,929 0,000

Product Innovation, Market  
Orientation, and Competitive  
Advantage on Marketing  
Performance

$$Y_2 = 0,346 X_1 + 0,149 X_2 + 0,234$$

Y<sub>1</sub>

|   |       |       |       |               |
|---|-------|-------|-------|---------------|
| Product Innovation to Marketing<br>Performance      | 0,254 | 2,693 | 0,008 | H3 : Accepted |
| Market Orientation towards<br>Marketing Performance | 0,325 | 3,204 | 0,002 | H4 : Accepted |
| Competitive Advantage over<br>Performance           | 0,202 | 2,142 | 0,035 | H5 : Accepted |

Source : Data processed in 2022

**Mediation Test (Sobel Test)**

The results of the mediation test in this study were carried out using the sobel test in the SPSS program with two mediation tests as follows:

**Table 2.** Sobel Test Results of Product Innovation Test on Marketing Performance

| Description | Value  | s.e.   | LL 95<br>CI | UL 95<br>CI | Z      | Sig<br>(two) |
|-------------|--------|--------|-------------|-------------|--------|--------------|
| Effect      | 0,1561 | 0,0523 | 0,0536      | 0,2586      | 2,9849 | 0,0028       |

Source : Data processed in 2022

**Table 3.** Sobel Test Results Market Orientation Test on Marketing Performance

| Description | Value  | s.e.   | LL 95<br>CI | UL 95<br>CI | Z      | Sig<br>(two) |
|-------------|--------|--------|-------------|-------------|--------|--------------|
| Effect      | 0,1658 | 0,0669 | 0,0347      | 0,2968      | 2,4793 | 0,0132       |

Source : Data processed in 2022

Based on Table 2 and Table 3, it shows that the mediation test results show that competitive advantage is able to mediate the effect of the dependent variable, namely product innovation on marketing performance. The Effect of Market Orientation on Marketing Performance which is mediated by Competitive Advantage and that the results of the second Sobel test explain that competitive advantage is able to mediate the influence of the dependent variable, namely market orientation on marketing performance.

## DISCUSSION

### The Effect of Product Innovation on Competitive Advantage

Based on the test results of the first hypothesis, it shows that there is a positive influence between product innovation and competitive advantage. From the respondents' answers obtained from the results of the questionnaire, the grouping of product innovations carried out by UMKM business actors in Central Java Province has been optimal in achieving competitive advantage. This is because most business actors already have high product innovation so that the marketing performance of business actors also increases. According to Nugroho (2003) product innovation is described in three dimensions, namely product expansion, product imitation, and new products. Innovation in outline can be interpreted as a breakthrough, so it becomes a way out that can help UMKM to survive in a difficult times and get out of crises, especially during a pandemic.

According to Hastanika & Nurmida (2018) a positive relationship between product innovation and competitive advantage is shown by high competition which will be seen in businesses that have good product innovation. Likewise, if product innovation is not given enough attention, then the ability to compete in the market will decrease and do not provide good offers to consumers and the business's performance will decrease. Competitive advantage according to Porter (1980) describes the strategy of business power, that is the threat of new entrants, the bargaining power of suppliers, the bargaining power of buyers, the threat of substitute products/substitutes, and competitive rivalry among industry members. For this reason, product innovation is one way to maintain business strength for UMKM entrepreneurs in Central Java Province. This aspect of product innovation also needs to be enriched by creating a variety of innovative products, imitating other business products to add to product diversity, creating and developing new ideas because more variety makes the market have a variety of offers for customers.

#### **The Effect of Marketing Orientation on Competitive Advantage**

Based on the test results of the second hypothesis, it shows that there is a positive and significant influence between market orientation on competitive advantage. From the respondents' answers obtained from the results of the questionnaire, the market orientation carried out by UMKM actors in the food business sector in Central Java Province has been good in optimizing the competitive advantages of UMKM actors in the market.

According to Day (1988) that market orientation reflects competence in understanding customers so that the main concepts in market orientation are customer orientation and competitor orientation. From this case can be understood that market orientation is directly proportional to competitor orientation so if market orientation increases, it can be stated that competitive advantage will also increase. Competitor evaluation can be used to map the extent of the strengths and weaknesses of each competitor. In this case, UMKM actors in the food business sector in Central Java Province understand the importance of market orientation so that competition will occur competitively or can be called commensurate competitive advantage.

#### **The Effect of Innovation Product to Competitive Advantage**

Based on the results of testing the third hypothesis, it shows that there is a positive and significant influence between product innovation and marketing performance. From the answers of respondents obtained from the results of the questionnaire, product innovation is able to optimize marketing performance in UMKM actors in the food business sector in Central Java Province. Drucker (1954), in Berthon et al 1999) states that product innovation is a thing that has the potential to create thoughts and imaginations of people who ultimately create customers, so that if customers are formed then marketing performance will continue to increase. The results of this study are in accordance with the results of research according to Suendro (2010) and Killa (2014) who concluded that product innovation has a positive and significant effect on marketing performance because product innovation will improve marketing performance which is influenced by market orientation, learning orientation on business performance (Prakosa, 2005).

#### **The Effects of Market Orientation to Marketing Performance**

Based on the results of testing the fourth hypothesis, it shows that there is a positive and significant influence between market orientation on marketing performance. From the respondents' answers obtained from the results of the questionnaire, market orientation can optimally improve the marketing performance of UMKM actors in the food sector in Central Java Province. This happen because the market orientation is directly proportional to marketing performance, the better the market orientation the higher customer interest, the higher customer interest the better marketing performance. This is in accordance with the results of Lopian's research, et al (2016).

### **The Effect of Competitive Advantage on Marketing Performance**

Based on the results of testing the fifth hypothesis, it shows that there is a positive and significant influence between competitive advantage on marketing performance. From the respondents' answers obtained from the results of the questionnaire, optimal competitive advantage has increased the marketing performance of UMKM actors in the food sector in Central Java Province. This is because the competitive advantage created by UMKM actors is able to increase customer confidence in existing products so that business actors can be stronger in maintaining relationships with customers through the marketing performance provided, so it will have a positive effect on marketing performance. Likewise, according to Ekawati (2016), by having a competitive advantage, the company will be able to survive. Competitive advantage must be owned by the company/product to achieve the performance or success by making products.

This research is in accordance with Djodjoko & Tawas' research (2014) and Wardoyo's research (2018) which shows that competitive advantage has a positive and significant effect on marketing performance.

### **Conclusion**

The results of this study are there is a positive and significant influence between product innovation and market orientation on competitive advantage, there exists a positive impact and significant on product innovation and market orientation on marketing performance, the positive impact and significant between competitive advantage on marketing performance by UMKM actors in the field of food processing business in Central Java Province. Product innovation in UMKM actors in the food business sector in Central Java Province can be further enhanced by imitating other business products to increase product diversity (X1.2). This is done to expand market share. The results of this study are expected to help provide input to UMKM actors in the food processing business sector in Central Java Province in improving marketing performance.

Marketing performance will continue to increase along with the many variations of product innovation, high market orientation, and highly competitive advantage. Based on the research results obtained from filling out the questionnaire, it is necessary to actively involve UMKM actors in the food processing business sector in Central Java Province and also conduct structured and periodic evaluations and feedback to UMKM actors in the food processing business sector in Central Java Province by providing counseling during the annual coordination of UMKM actors in Central Java. By providing a variety of innovations, skills, business actors are expected to be able to think innovatively in making products, carry out good market orientation, so as to create a competitive advantage.

This research will be more useful if the results are used as a suggestion to improve providing UMKM actors training in the food processing business in Central Java Province. The limitations in



this study are that the analysis process is carried out only at one time, not periodically, and the distribution of questionnaires only takes samples of UMKM actors in the food processing business in Central Java Province in several regions due to time constraints and difficulty in coordination so that the next research can be more and improve the limitations of this study. For further research with the same variables, to use instruments from other sources to examine product innovation and market orientation variables.

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