

Building MSMEs Marketing Performance through Innovation during the Covid-19 Pandemic

Muji Gunarto^{1*}, Anggun Yolandia Monica Jaya²

^{1,2}Faculty of Economics and Business, Universitas Bina Dharma, Indonesia
mgunarto@binadarma.ac.id

Abstract

Market globalization has implications for MSME actors who have to compete in terms of marketing innovation. The development of technology that is integrated with trade moves so rapidly that it gave birth to the industrial revolution 4.0. There are MSME actors who still rely on conventional methods to run their business. If MSME actors do not want to innovate, there will be an impact that causes business to be disrupted. With the COVID-19 pandemic in 2020 until now, the economy in Indonesia has been affected in all fields. With the increase in the number of MSMEs, their competitiveness will also increase, to win market share, various innovations are needed, especially marketing innovations. The purpose of this research is to analyze and prove the influence of innovation on marketing performance. This study uses a quantitative approach with a survey of MSME actors in the culinary field in Palembang City as many as 100 respondents from a population of 45,827 thousand MSME actors. The data in this study were obtained by direct questionnaires to SMEs in the culinary field. Data processing is done by using Structural Equation Modeling (SEM). The data collection technique used the Random Sampling method. The results showed that there was a positive and significant influence between innovation on marketing performance. The implications of this research can be useful for MSME actors in the city of Palembang so that they can partner to improve their ability to innovate so that MSMEs can advance to class and be able to overcome the various negative impacts of the Covid-19 pandemic which has an impact on MSME marketing performance.

Keywords

innovation; work environment; marketing performance; micro; small and medium enterprises (MSMEs)



I. Introduction

Information technology continues to grow very rapidly so that it affects the world economy, where the economy leads to an increasingly high level of competition in the era of globalization which is now unavoidable for every industry. The industry has various types ranging from the clothing, food, beverage, furniture, and furniture industries. According to (Kotler & Keller., 2008), an industry is a group of companies that offer a product or product class that is a close substitute for one another.

Based on the economic census conducted, the Head of the SME Division of the South Sumatra Province Cooperatives and SMEs Office said that the number of recorded SMEs increased, in 2019 there were 162 thousand, then in 2020 as of December it was 427 thousand SMEs, meaning that it has doubled in the past. Covid-19 pandemic.

Palembang City is one of the oldest cities that has a good creative industry development that is very close to innovation. The increase in the creative economy is in line with the increase in people's income through home-based businesses, small and

medium enterprises. Marketing innovation is measured by marketing performance that can improve the performance of the company. MSMEs face market-based innovation, so this requires MSMEs to introduce better marketing innovations. Then there is a positive effect of marketing innovation on the marketing performance of MSMEs.

The most abundant and easy to find industry is the food industry. The food sector business is considered quite promising, this is because food is a daily necessity that is often consumed by customers, and this business in the food industry sector does not require high investment in its management. The increasing number of businesses in the food sector can improve the economy of a region and lead to intense competition faced by entrepreneurs.

With the number of businesses in the food sector as well as the number of new businesses that have sprung up causing increasingly fierce competition, changes that occur in competition have created changes in customer needs, product management and market share (Djojono & Tawas, 2014). According to Alarape, (2013), the best way to increase sales and win the competition for consumers in the micro and small industry is to increase the three main dimensions of entrepreneurial orientation, including being innovative, proactive and taking risks.

Facing competition in the food industry sector, business owners must have uniqueness and advantages compared to similar competitor products by innovating their products and how to take advantage of today's technology, namely by carrying out marketing innovations.

Innovating is one of the most important competitive factors to achieve success where lately the business environment is always changing rapidly. The role of MSMEs is very vital in encouraging the pace of business growth (Kristiyanti, 2012). Marketing innovation is an integral component of a company's success (Asoy, 2017). Marketing innovation is more emphasized on the marketing performance of SMEs as competitiveness. Marketing innovation can be done by promoting sales of the products owned (Amelia, Suharno, and Asnawati, 2018), or by applying a green marketing mix (Rahman, Siburian and Noorlitalia). MSME actors expect socialization and assistance to obtain more detailed information related to regulations or policies and the introduction of the latest innovation models (Kumala & Ahmad, 2020).

II. Review of Literature

2.1 Innovation

Innovation is one of the corporate choices in facing market competition and sustainable management. Freeman (2004) considers innovation as the efforts of companies through the use of technology and information to develop, produce and market products that are new to the industry. In other words, innovation is the modification or discovery of ideas for continuous improvement and development to meet customer needs. In short, innovation is the successful implementation of creative ideas in an organization.

Innovation is a way to continue to build and develop an organization that can be achieved through the introduction of new technologies, new applications in products and services, developing new markets and introducing new forms of organization (Widodo, 2012). Innovation can be related to goods, services or ideas that are perceived as new by someone. Innovation can be a company's mechanism to adapt to a dynamic environment. Innovation is the process of converting knowledge into value through the application of new or better products, processes and systems.

According to Okpara (2007), innovation is defined as adding something new to an existing product or process. Innovation is the successful exploitation of new ideas. Furthermore, Okpara (2007) explains that innovation is a process by which entrepreneurs convert market opportunities into workable, profitable and marketable ideas. Innovation is an application of something creative that has a significant impact on an organization, or society. Innovation is the process of bringing the best ideas into reality, being innovative. Innovation is the creation of new value, Innovation is the process of combining ideas and knowledge into new value.

Innovation is something new, introduced and carried out a new practice or process that can come from either an individual or an organization, Nurdin (2016). Innovation is often described as the lifeblood of a company's organization. The value of a good innovation is expressed in an outcome (outcome) for example, a traded product. The company's ability to trade innovations that can help dominate today's markets or create new markets, contributes to continued industry leadership. Thus, success in commercializing innovation is an important strategy in a company, Datta, et al (2013).

2.2 Marketing Performance

Marketing is a process of planning and execution, starting from the conception stage, pricing, promotion, to the distribution of goods, ideas and services, to make exchanges that satisfy the individual and his institutions (Dianto in Asmuni *et al*, 2020).

Marketing performance is the function that has the greatest relationship to the external environment, even though the company has only limited control over the company's environment. Performance is the result that has been achieved based on what has been done by the owner or manager when running a business. Marketing performance can be measured using sales growth, customer growth & product success to measure influence based on the strategies implemented by the company (Gunarto et al., 2020, 2021; Wahid & Gunarto, 2022).

According to Rivai (2008) in assessing the performance of an employee, various aspects of assessment are needed, including knowledge of work, leadership initiative, quality of work, cooperation, decision making, creativity, reliability, planning, communication, intelligence (intelligence), problem solving, delegation, attitude, effort, motivation and organization. Work performance is defined as an employee's overall performance in meeting the expected quality and task achievement based on the policy and time requirements of the organization (Wu & Lee, 2011). Ahmad & Shahzad (2011) also argue that employee performance is an employee's general belief about behavior and contribution to organizational success.

Performance is a combination of mental and physical abilities of an individual to complete a task, where, these two aspects depend on the requirements of the worker. Brahmasari (2004) suggests that performance is the achievement of organizational goals which can be in the form of quantitative or qualitative output, creativity, flexibility, reliability, or other things desired by the organization. Performance is a function of ability, motivation, and opportunity. Performance in carrying out its functions does not stand alone, but is always related to the core values adopted in the organization, employee job satisfaction and the level of rewards provided, and is influenced by skills, abilities, and individual characteristics. Based on the dimensions of several experts, the construct dimensions of business performance are quantity, quality, punctuality, effectiveness and independence.

III. Research Method

This research design carried out in the city of Palembang, especially in the field of culinary SMEs. The technique used in this study is a random sampling technique. In this study, there were 100 MSME respondents in the culinary field who were examined in the city of Palembang. The instrument has been tested and tested for validity and reliability. The data analysis technique was carried out using a structural equation model (SEM) approach. Data analysis was carried out with the LISREL program (Gunarto, 2018).

This study examines whether or not there is an influence of marketing innovation on marketing performance. There are hypotheses in this study, namely;

Innovation has a positive and significant impact on the marketing performance of MSMEs in Palembang City.

IV. Results and Discussion

4.1 Results

a. Characteristics of Respondents

Characteristics of respondents by gender can be seen in Figure 1.

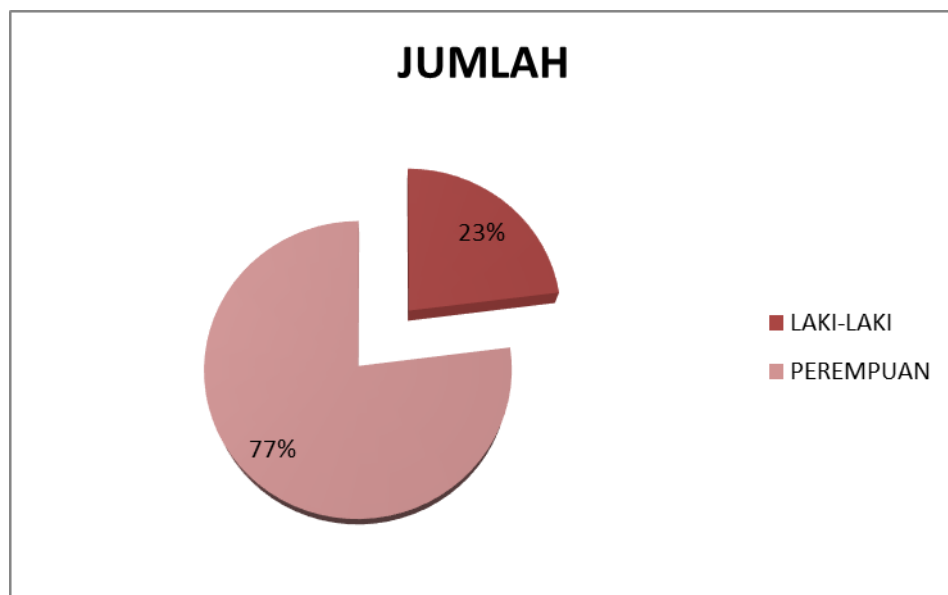


Figure 1. Characteristics of respondents by gender

Figure 1. shows that most of the respondents 77% are women and 23% are men while the number of respondents is 100 people.

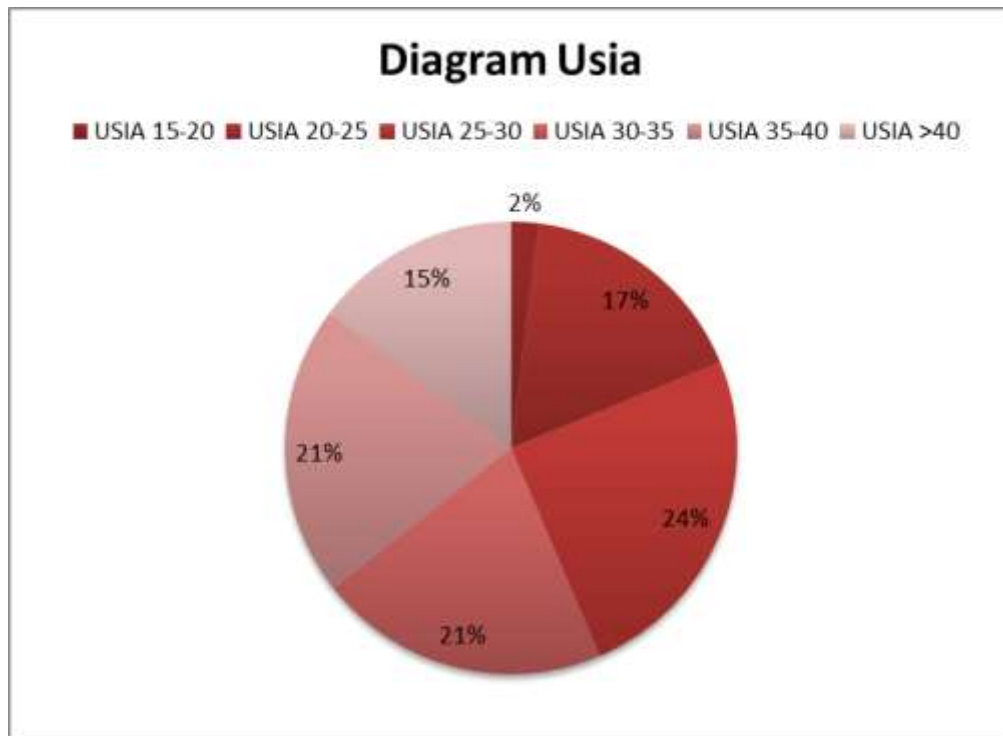


Figure 2. *Characteristics of respondents by age*

Figure 2. shows that most of the respondents are aged 25-30 years with the number of respondents being 100 people.

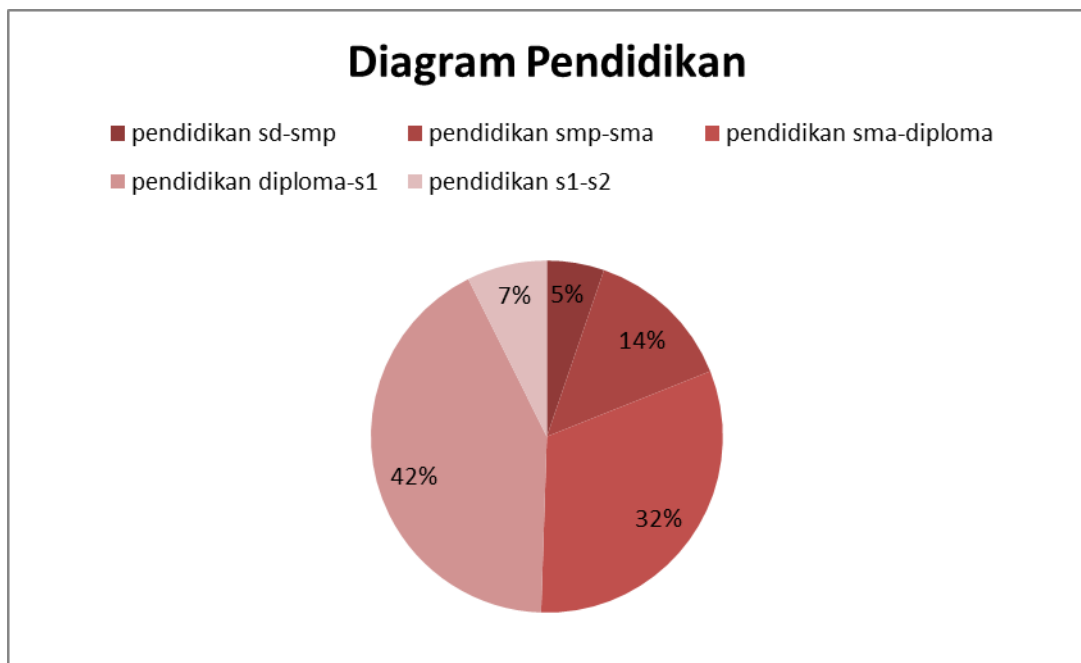


Figure 3. *Characteristics of respondents based on education*

Figure 3. shows that most of the respondents' education is diploma-S1 with the number of respondents being 100 people.

b. Descriptive Analysis

1. Description of Innovation Variables

Respondents' answers to the MSME Innovation variable were calculated with the help of the SPSS software statistical program package. Previously, a tabulation of the questionnaire was carried out to see the respondents' perceptions of each variable to explain the description of each indicator. In detail, the results of respondents' answers to 13 (thirteen) indicators of the statement or construct of the Innovation variable are shown in Table 1.

Table 1. Respondents' Responses to Innovation Variables

No	Indicator	Frequency of Answers Score					Score Score	Score Max	Achievements (%)
		1	2	3	4	5			
1	SMEs are able to develop their products	1	2	0	60	37	430	500	86
2	The influence of the level of MSME marketing innovation in the addition of new technology.	1	3	0	66	30	421	500	84.2
3	Marketing innovation capability in managing processes	1	3	0	68	28	419	500	83.8
4	Upgrade existing machines and equipment.	1	5	0	70	24	411	500	82.2
5	Create close relationships with key customers.	1	1	0	66	32	427	500	85.4
6	Good knowledge of different market segments.	2	2	0	72	24	414	500	82.8
7	MSMEs have good coordination	2	2	0	72	24	414	500	82.8
8	MSMEs have the ability to develop new technologies.	1	4	1	67	27	415	500	83
9	Identifying the innovative strategies of competitors	1	1	0	72	26	421	500	84.2
10	Have the ability to identify opportunities and threats	2	3	0	76	19	407	500	81.4
11	Influential innovation in MSME marketing	1	2	0	61	36	429	500	85.8
12	The impact of the use of new technology.	2	2	0	64	32	422	500	84.4
13	Product innovation is influential in the marketing of MSMEs.	1	2	0	62	35	428	500	85.6
Average		1, 30	2.46	0.08	67.37	28.77	419.85	500	83.97

Source: Processed data, 2022

2. Description of Performance Variables

Respondents' answers to the MSME Performance variable were calculated with the help of the SPSS software statistical program package. Previously, a tabulation of the questionnaire was carried out to see the respondents' perceptions of each variable to explain the description of each indicator. In detail, the results of respondents' answers to 5 (five) indicators of the statement or construct of the Innovation variable are shown in Table 2.

Table 2. Respondents' Responses to Performance Variables

No	Indicator	Frequency of Answers Score					Score Score	Score Max	Achievements (%)
		1	2	3	4	5			
1	Our sales volume has increased	0	3	0	70	27	421	500	84.2
2	The customers of our company have increased	0	2	1	73	24	419	500	83.8
3	The sales of our products are able to provide a net profit	1	3	2	73	21	410	500	82
4	Sales growth raises the number of new customers	0	2	2	62	34	428	500	85.6
5	Number of customers gives increased profit	0	2	1	60	37	432	500	86.4
Average		0.2	2.4	1.2	67.6	28.6	422	500	84.4

Source: Processed data, 2022.

c. Measurement Model Analysis

Measurement model analysis was conducted to assess the validity and reliability of the indicators used to represent the hypothesized constructs. The purpose of this validity and reliability test is to build a fit model. Validity is done to show how much degree is used to measure what should be measured. The reliability scale (reliability) measures the consistency of the respondents' answers to the latent variable.

Analysis of the measurement model on each variable was carried out by confirmatory factor analysis (CFA = Confirmatory Factor Analysis) from the LISREL 8.7 program. CFA analysis was conducted to see the ability of indicators in explaining latent variables. The size of the indicator in explaining the latent variable is expressed by the loading factor. The greater the factor loading value indicates that the indicator is getting

better at measuring what should be measured or called the more valid. According to Hair et al., (2014) stated that if the factor loading value is greater than 0.5 then the indicator is valid.

The reliability test was carried out by calculating the construct reliability or Construct Reliability (CR) and Average Variance Extract (AVE) with the criteria of an instrument or variable being declared to have good reliability if CR 0.7 and AVE 0.5. If the CR value is between 0.6 - 0.7 the reliability is still acceptable, if the indicators have good validity (Hair, et.al, 2014).

The CR value is calculated by the following formula.

$$CR = \frac{(\sum \lambda)^2}{(\sum \lambda)^2 + \sum e}, \text{ where } \sum e = \sum (1 - \lambda^2)$$

$$\text{Whereas } AVE = \frac{\sum \lambda^2}{\sum \lambda^2 + \sum e}$$

The CFA model will be formed in several stages to obtain a fit CFA measurement model, meaning that it meets various model fit criteria, so that the model shows that it is valid and reliable.

Confirmatory Factor Analyziz Innovation Model

The initial CFA model for the Innovation variable consists of 13 indicators. The results of data processing with the LISREL 8.7 program obtained estimated values for factor loading as shown in Figure 6.

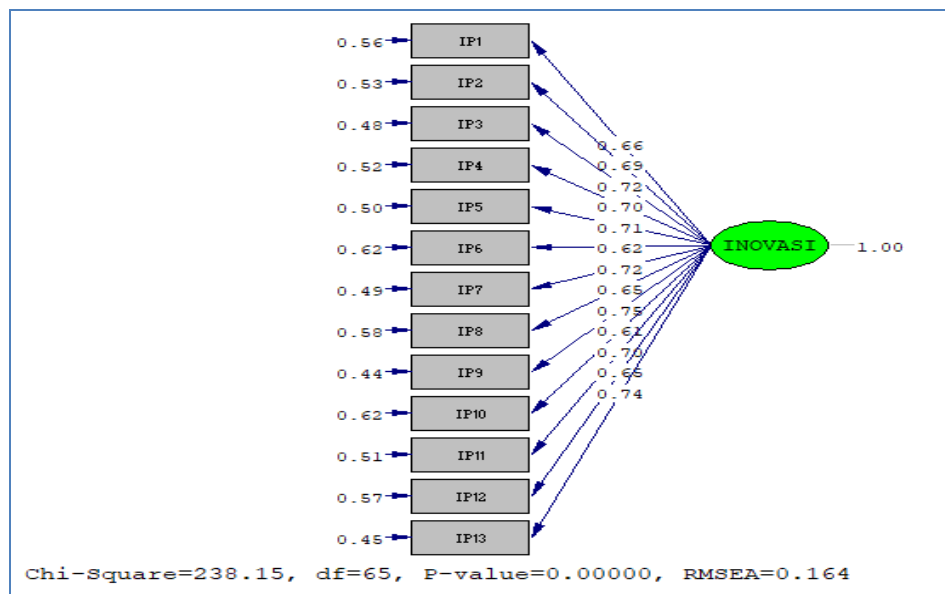
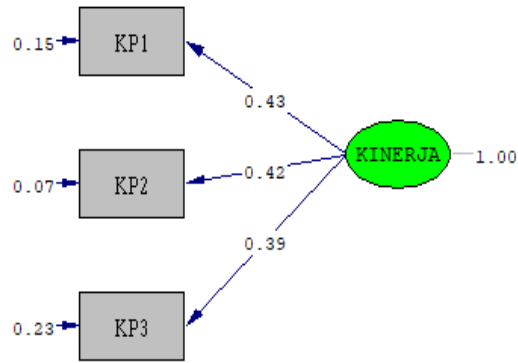


Figure 4. Analysis of Innovation Variable Measurement Results

Figure 4 is the test result for the measurement model and the structural model. All parameters were tested by statistical t test where the test was significant if the t value obtained was more than 1.96, and vice versa if the t-count value obtained was less than 1.96 then the parameter was not statistically significant. Figure 4 shows that all indicators forming the latent variable are significant, because the t value is greater than 1.96, while the results of the performance test for the structural model are explained as in Figure 5.



Chi-Square=0.00, df=0, P-value=1.00000, RMSEA=0.000

Figure 5. Analysis of Performance Variable Measurement Results

Figure 5 is the test result for the measurement model and the structural model. All parameters were tested by statistical t test where the test was significant if the t value obtained was more than 1.96, and vice versa if the t-count value obtained was less than 1.96 then the parameter was not statistically significant. Figure 5 shows that all indicators forming the latent variable are significant, because the t value is greater than 1.96.

d. Structural Equation Model Analysis

After the confirmatory factor analysis (CFA) was carried out, the structural model was formed. The results of the formation of a structural model using the LISREL program are shown in Figure 6.

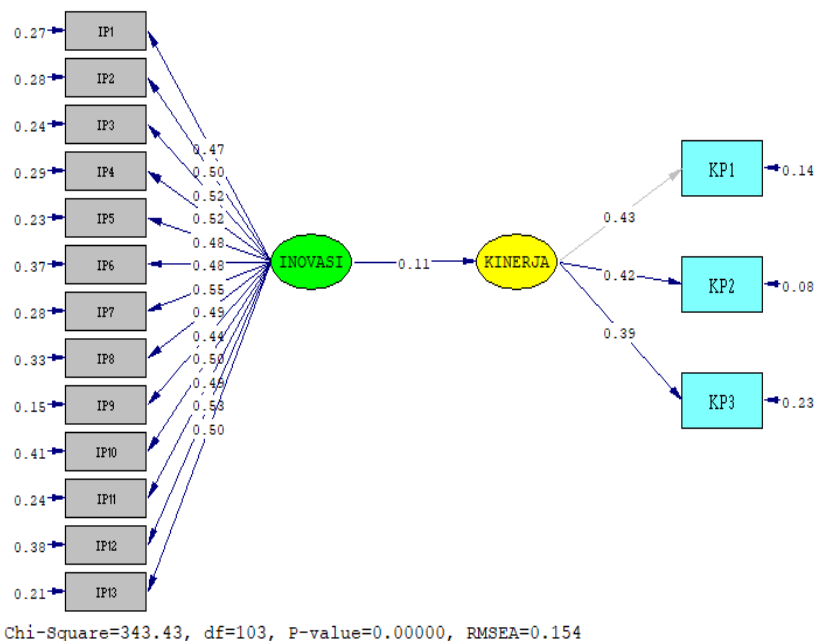


Figure 6. Estimation Results on the Full Structural Model

Figure 6. shows the magnitude of parameter values for both the structural model and the measurement model. The structural model shows the magnitude of the direct influence of Innovation on Performance. The measurement model for each variable shows that the

loading factor value is more than 0.5, meaning that the indicator is able to explain the construct of each variable. The relationships between variables all show a positive relationship, meaning that the better the innovation is, the better the marketing performance will be. Judging from the LISREL picture above, it can be seen that from the 2 variables the hypothesis was proposed, all of them showed that they were positive and significant.

4.2 Discussion

The discussion in this study describes the findings of the research that are associated with existing theories and are reviewed or analyzed based on empirical data in the field.

The Effect of Marketing Innovation on Marketing Performance

Marketing Innovation has a positive influence on Marketing Performance in MSMEs in Palembang City, this can be seen from the results of the analysis with coefficient value of 0.532. The t-statistic value in this construct is 4.067 or $> t\text{-table } 1.96$. For the p-value of 0.000 where < 0.05 . This shows that the influence that occurs on marketing innovation with marketing performance is a significant influence, this means that the higher the marketing innovation, the higher the marketing performance of the Palembang City SMEs.

The results in this study support the results of research conducted by (Efrata, Radianto, Marlina, & Budiono, 2019) which proves that marketing innovation has a significant effect on marketing performance. In innovating marketing, it has an impact on the development of MSMEs in Bontang City. In research revealed by (Aksoy 2017) that marketing innovation is a prerequisite when trying to improve the conditions of marketing performance

V. Conclusion

The development of MSMEs during the Covid-19 pandemic experienced a significant increase, however, their performance experienced a very sharp decline. The high development of MSMEs in Palembang City is not matched by adequate performance due to the Covid-19 pandemic. The results of this study indicate that the better the innovations made by MSMEs, the better their performance will be. The high development of MSMEs in Palembang City encourages MSMEs to be more innovative in facing increasingly fierce competition. MSMEs must be able to make various innovative breakthroughs in both product and marketing strategies. Various product innovations will encourage customer variety and unsaturation. Marketing innovations also need to be carried out by MSMEs in order to take market growth opportunities such as collaborating with similar or different MSMEs.

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