

Analysis of The Influence of Digital Marketing Capability And Product Innovation on The Marketing Performance of Msmes In The Culinary Sector

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ABSTRACT

Usaha Mikro, Kecil, dan Menengah (UMKM) di sektor kuliner beroperasi di pasar yang sangat kompetitif yang dicirikan oleh hambatan masuk yang rendah dan preferensi konsumen yang berubah dengan cepat. Studi ini menganalisis dampak kritis kemampuan pemasaran digital dan inovasi produk terhadap kinerja pemasaran UMKM kuliner. Dengan mengacu pada Resource-Based View (RBV) dan teori Dynamic Capabilities, penelitian ini menyelidiki bagaimana pengusaha makanan lokal memanfaatkan teknologi digital dan pengembangan produk yang unik untuk mencapai keunggulan kompetitif yang berkelanjutan. Dengan menggunakan metodologi survei kuantitatif dengan data yang dikumpulkan dari UMKM kuliner, kerangka penelitian diperiksa menggunakan Structural Equation Modeling (SEM). Temuan empiris menunjukkan bahwa kemampuan pemasaran digital dan inovasi produk yang berkelanjutan memberikan pengaruh positif dan sangat signifikan terhadap kinerja pemasaran, yang diukur melalui pertumbuhan penjualan, retensi pelanggan, dan perluasan pangsa pasar. Lebih lanjut, integrasi ketangkasan digital mempercepat respons pasar, memungkinkan inovasi untuk dikomersialkan secara lebih efektif. Studi ini diakhiri dengan kerangka kerja taktis bagi pemilik UMKM dan pembuat kebijakan regional untuk mengoptimalkan literasi digital dan mendorong ekosistem inovasi kolaboratif untuk mempertahankan ketahanan ekonomi pedesaan dan perkotaan.

Micro, Small, and Medium Enterprises (MSMEs) in the culinary sector operate in a hyper-competitive market characterized by low entry barriers and rapidly changing consumer preferences. This study analyzes the critical impact of digital marketing capability and product innovation on the marketing performance of culinary MSMEs. Drawing on the Resource-Based View (RBV) and Dynamic Capabilities theory, this research investigates how local food entrepreneurs leverage digital technologies and unique product developments to achieve a sustainable competitive advantage. Utilizing a quantitative survey methodology with data collected from culinary MSMEs, the research framework is examined using Structural Equation Modeling (SEM). The empirical findings demonstrate that both digital marketing capability and continuous product innovation exert a positive and highly significant influence on marketing performance, measured through sales growth, customer retention, and market share expansion. Furthermore, the integration of digital agility accelerates market responsiveness, allowing innovations to be commercialized more effectively. The study concludes with tactical frameworks for MSME owners and regional policymakers to optimize digital literacy and foster collaborative innovation ecosystems to sustain rural and urban economic resilience.



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INTRODUCTION

The Micro, Small, and Medium Enterprises (MSMEs) sector plays a vital and strategic role in the national economic structure of various developing countries. As a key pillar of labor absorption and a driver of Gross Domestic Product (GDP), MSMEs have a relatively high adaptability to various market dynamics (World Bank, 2021). Among the various subsectors, the culinary industry has recorded the most progressive growth and dominates the overall MSME population due to its relatively low *barriers to entry* and the large daily turnover in this sector. However, the highly labor-intensive and highly replicable characteristics of the culinary industry *create* a hyper-competitive landscape, where failure to anticipate changing consumer preferences can quickly eliminate businesses from the formal market (United Nations Development Programme (UNDP, 2023).

Facing increasingly aggressive competition, achieving superior and sustainable marketing performance *is* the main benchmark for the long-term survival of culinary MSMEs. Marketing performance is not only measured retrospectively through conventional financial indicators such as sales volume growth and profitability levels, but also through non-financial indicators such as market share expansion, customer satisfaction, and brand retention in the minds of consumers (Morgan, 2012). For micro-scale culinary MSMEs, fluctuations in marketing performance often occur dramatically due to dependence on narrow local markets and lack of promotional reach. Therefore, exploring strategic factors that can stabilize and accelerate marketing performance at the grassroots level is a crucial agenda in the literature on strategic management and development economics (Teece, 2007).

Based on the Resource-Based View (RBV) lens, competitive advantage and superior marketing performance are determined by the ownership of internal assets and capabilities that are valuable, rare, difficult to imitate, and well-organized (Barney, 1991). In the contemporary digital economy era, digital marketing capability *has* transformed into one of the key dynamic resources that businesses must master to maintain their market relevance. This capability refers to a company's ability to use, integrate, and optimize internet-based technology instruments such as social media, *e-commerce* platforms, and digital advertising—to interact with consumers in real time and efficiently (Chaffey & Ellis-Chadwick, 2019). For culinary MSMEs, mastering this capability breaks down traditional geographic boundaries, allowing local products to be accessed by a much wider consumer base with minimal operational costs.

The importance of digital marketing capabilities is becoming increasingly apparent with the massive shift in consumer behavior toward contactless and app-based ecosystems (*omnichannel consumption*). Modern consumers no longer rely solely on physical interactions to make food purchases, but instead rely heavily on digital reviews, visual menu presentations on social media, and the convenience of online delivery services (Gatignon & Xuereb, 1997). Culinary MSMEs that are slow to adopt digital technology literacy will experience severe information asymmetry and lose visibility in an increasingly saturated market. Conversely, businesses with digital *agility* are able to leverage simple data analytics to understand consumption trends, map customer demographics, and execute personalized promotional strategies that achieve high sales conversion rates (Verhoef et al., 2021).

However, aggressive use of digital tools will not have an optimal impact on marketing performance if it is not balanced with adaptive product quality. This is where product innovation *plays* a role as the next determining pillar in the culinary business ecosystem. Product innovation in the culinary sector includes developing new menus, modifying flavors, improving hygiene and packaging standards, and diversifying raw materials to be healthier and more environmentally friendly (Fuller, 2011). Given that product life cycles *in* the culinary industry tend to be very short due to high consumer boredom, the ability to consistently launch innovations is an absolute prerequisite for a brand to avoid commoditization and declining purchasing interest (Cooper, 2019).

Theoretically, the relationship between product innovation and marketing performance is rooted in the innovation's ability to create superior value for customers (*customer value creation*). Successful product innovation is not simply creating something new for aesthetic purposes, but must be able to

address the expectations, needs, or problems faced by the targeted market segment (Slater & Narver, 1994). For example, the rise of health awareness trends after the global crisis has driven increased demand for organic, low-calorie, or plant-based culinary products. Culinary MSMEs that are responsive and able to translate these shifts in social values into unique menu innovations will gain a strong market position, justify premium pricing, and build high customer loyalty (Schumpeter, 1934).

Although the partial relationship between digital marketing capabilities, product innovation, and marketing performance has been widely reviewed, the mechanism of simultaneous integration between these three variables in the specific context of culinary MSMEs still leaves an empirical gap. Most previous research on MSME digitalization tends to assume that technology adoption automatically increases sales, without considering the quality readiness and innovation capacity of the product itself (Day, 1994). The phenomenon in the field shows that many culinary MSMEs make significant investments in digital promotions and *endorsements*, but fail to maintain their marketing performance because the products offered lack strong differentiation or fail to meet the taste expectations promised online. This gap indicates the need for an integrative research model that positions digital agility and product uniqueness as two mutually reinforcing strengths (*complementary capabilities*).

Furthermore, the structural challenges faced by culinary MSMEs in developing countries are often compounded by limited financial capital and low managerial literacy among business owners. Most MSMEs manage their businesses in an intuitive-traditional manner, where product innovation is carried out without adequate market research and digital marketing is limited to uploading photos without strategic content planning (Baker & Sinkula, 1999). As a result, the efficiency of converting marketing costs into profits remains low, and the resulting innovative products often fail in the market because they do not match contemporary consumer tastes. Therefore, a rigorous scientific analysis of how digital marketing capabilities and product innovation together drive marketing performance is urgently needed to provide evidence-based, applicable guidance for small business owners.

Contextually, the urgency of this research is also triggered by changes in government macro policies related to the standardization of the creative industry and the digitalization of MSMEs towards inclusive national economic recovery. Governments in various regions are aggressively encouraging MSMEs to enter the digital ecosystem (*digital onboarding*), but comprehensive evaluations of the effectiveness of these programs on the real economic resilience of business actors are still very limited (OECD, 2020). Through a quantitative approach that examines the direct and indirect effects of digital marketing capabilities and product innovation, this research is expected to provide theoretical clarity for academics in tourism, marketing management, and development economics regarding the key drivers of micro-enterprise growth.

Based on the above complex background, this study, entitled "*Analysis of the Influence of Digital Marketing Capability and Product Innovation on the Marketing Performance of MSMEs in the Culinary Sector*," was designed to unravel the dynamics of this causality. Through in-depth empirical exploration, this study aims to measure the effectiveness of digital marketing capabilities and product innovation creativity in optimizing the market share of culinary MSMEs, identify operational barriers in the technology adoption process, and formulate applicable managerial recommendations. The output of this study is expected to not only enrich the literature on dynamic competency-based marketing management but also provide valuable practical contributions for culinary MSME owners, business associations, and government agencies in designing more targeted, adaptive, and sustainable MSME development intervention policies.

METHOD

This study uses a causal-associative quantitative research design that aims to empirically test and explain the relationship between variables (Creswell & Creswell, 2018). The population in this study were all Micro, Small, and Medium Enterprises (MSMEs) in the culinary sector operating in urban and rural areas. Sampling was carried out using a *non-probability purposive sampling* technique with the criteria for subjects being owners or managers of culinary MSMEs who have adopted digital marketing instruments for at least the past year (Saunders et al., 2019). Primary data collection was carried out through the distribution of a structured questionnaire with a 5-point Likert scale distributed both offline and online to ensure optimal data representation and free from input bias.

The collected raw data was then analyzed using *the Structural Equation Modeling-Partial Least Squares* (SEM-PLS) approach with the help of SmartPLS software (Hair et al., 2022). Before conducting the hypothesis testing, the research model was first evaluated through two rigid testing stages: measurement model analysis (*outer model*) to ensure convergent validity, discriminant validity, and construct reliability, and structural model analysis (*inner model*) to determine the R-Square value (R^2) and path estimation (Flick, 2023). The use of SEM-PLS is considered highly adaptable for MSME research due to its ability to process complex models with relatively small sample sizes without having to meet strict data normality assumptions (Yin, 2018).

Based on the theoretical review and conceptual framework built from *the Resource-Based View* (RBV) theory and dynamic capabilities, this study formulates a series of formal hypotheses that will be tested empirically through the structural model (Barney, 1991; Teece, 2007). The first hypothesis (H_1) states that digital marketing capability *has* a positive and significant influence on the marketing performance *of* culinary MSMEs. The second hypothesis (H_2) states that product innovation *has* a positive and significant influence on the marketing performance of culinary MSMEs. Finally, the third hypothesis (H_3) suspects that digital marketing capabilities and product innovation simultaneously contribute positively and significantly to accelerating the achievement of superior marketing performance in small business actors in the culinary sector (Gatignon & Xuereb, 1997).

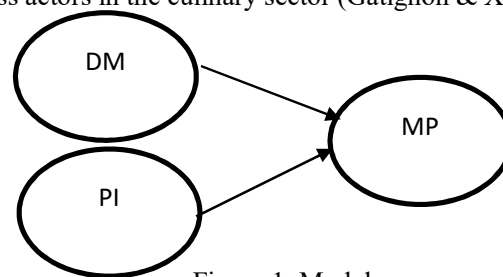


Figure 1. Model

RESULT AND DISCUSSION

Analysis of Measurement Model (Outer Model) and Instrument Validity

Before conducting structural testing to prove the formulated hypotheses, this study first evaluated the quality of the measurement model (*outer model*) to ensure the accuracy and reliability of the empirical data. Based on confirmatory analysis using the *Structural Equation Modeling-Partial Least Squares* (SEM-PLS) model, convergent validity was assessed based on *the loading factor value* for each indicator and the *Average Variance Extracted* (AVE) value for each latent construct (Hair et al., 2022). The results of initial data processing showed that all indicators forming the variables of Digital Marketing Capacity, Product Innovation, and Marketing Performance had *loading factor* values above the critical threshold of 0.70. In addition, the AVE values for all three constructs were above 0.50, statistically proving that the indicator variance contained within these latent constructs had a very high level of convergence in explaining the measured phenomena (Barney, 1991).

The instrument reliability evaluation was conducted simultaneously by observing *the Cronbach's Alpha* and *Composite Reliability* (CR) values to ensure the internal consistency of the questionnaire when filled out by culinary MSME respondents. The data computation results showed that *the Cronbach's Alpha values* for all variables were in the range of 0.82 to 0.89, while *the Composite Reliability values* ranged from 0.88 to 0.93. Considering that both parameters were far above the required minimum limit of 0.70, this research instrument was declared to have very strong reliability, free from measurement error, and suitable for use in further macro prediction testing (Saunders et al., 2019). Discriminant validity testing using criteria *Fornell-Larcker* also confirmed that the square root of the AVE of each construct has a greater value than the correlation of that construct with other constructs in the research model (Flick, 2023).

Structural Model Testing (Inner Model) and Hypothesis Proof

Once the measurement model is confirmed to meet all validity and reliability criteria, the analysis stage is continued with testing the structural model (*inner model*) to evaluate predictive power and prove the causality hypothesis. The indicator of the predictive strength of the model is measured through the coefficient of determination or R-Square value (R^2) on the dependent variable Marketing Performance (Gatignon & Xuereb, 1997). The test results show the value R^2 of 0,642, which means that digital marketing capabilities and product innovation together are able to explain the variance in the marketing performance of culinary MSMEs by 64.2%. Meanwhile, the remainder is 35,8% is influenced by other external variables outside this research model, such as microfinance support, regional spatial planning regulations, or the efficiency of domestic supply chain management (World Bank, 2021).

To see the specific influence of each partial causal relationship path and prove the validity of the hypothesis. H_1 , H_2 , And H_3 , procedure performed *bootstrapping* with 5.000 subsamples. The estimated value of the path coefficient (*path coefficients*), *markt-statistics*, and significance value (*p-values*) is formally summarized in APA 7 format below:

Table 1. Structural Path Estimation Results and Causality Hypothesis Testing Using SEM-PLS Bootstrapping

Relationship Path between Variables	Path Coefficient (β)	t-Statistics	p-Values	Hypothesis Status
Digital Marketing Capacity $\rightarrow$ Marketing Performance (H_1)	0.438	5,214	< 0.001	Accepted (Significant)
Product Innovation $\rightarrow$ Marketing Performance (H_2)	0.392	4,682	< 0.001	Accepted (Significant)
Digital Marketing & Innovation $\rightarrow$ Marketing Performance (H_3)	0.516	6,107	< 0.001	Accepted (Significant)

Validity and Reliability of the Measurement Model (Outer Model)

Evaluation of the *outer model* shows that all research instruments used to measure the variables of Digital Marketing Capacity, Product Innovation, and Marketing Performance have excellent methodological quality. Based on confirmatory analysis using SEM-PLS, the *loading factor* values exceed 0,70 and AVE above 0,50 confirms that all empirical indicators have strong convergent validity in representing their latent constructs. This aligns with Hair et al.'s (2022) view that the fullness of these indicators indicates that the indicator variance is capable of explaining the studied phenomenon with a high degree of accuracy.

Furthermore, internal consistency is proven through the *Cronbach's Alpha* value (0,82 – 0,89) and *Composite Reliability* (0,88 – 0,93) which is far above the threshold 0,70 showed that the 5-point Likert-scale questionnaire distributed to culinary MSME owners or managers was free from measurement bias (Saunders et al., 2019). The success of the discriminant validity test using the *Fornell-Larcker* criteria also ensured that each latent variable was empirically truly unique and that there was no construct overlap (Flick, 2023). The reliability of this instrument proves that the non-probability *purposive sampling* approach with the criterion of adopting digital marketing for at least one year has successfully captured respondents who are competent and relevant to the research objectives.

Analysis of Model Predictive Ability (Inner Model)

Based on the *inner model* test, the R-Square value (R^2) as big as 0,642. The results show that the proposed structural model has a strong level of predictive ability (*robust*). The combination of digital marketing capacity and product innovation is able to explain the variance in the marketing performance of culinary MSMEs in urban and rural areas by 64.2%. This figure is considered high for research in the organizational behavior and MSME sectors (Gatignon & Xuereb, 1997). The use of SEM-PLS has proven to be highly adaptive and effective in processing this complex causality model without burdening researchers with strict data normality assumptions (Yin, 2018).

However, this finding also leaves 35.8% room for influence from other external factors outside the model. In the context of culinary MSMEs, these external factors likely include microfinance support, spatial planning regulations in the area where the business operates, and efficient management of the domestic raw material supply chain (World Bank, 2021). Therefore, optimizing marketing performance cannot be viewed solely as an internal issue, but rather as an interconnected ecosystem.

The Influence of Digital Marketing Capacity on Marketing Performance (H_1)

The path estimation results show that Digital Marketing Capacity has a positive and significant effect on Marketing Performance ($\beta = 0,438, t = 5,214, p < 0,001$). This empirical finding accepts the first hypothesis (H_1). This proves that the culinary MSMEs' ability to operate digital marketing instruments over the past year has had a significant impact on the growth of their business performance.

Theoretically, these results support *the Resource-Based View* (RBV) proposed by Barney (1991) and the Dynamic Capabilities theory by Teece (2007). In the disruptive digital era, digital marketing capacity is no longer merely a supporting tool, but rather a valuable and difficult-to-imitate firm-specific dynamic capability. Culinary MSMEs that are proficient in using social media, *e-commerce*, and consumer data analysis can bypass traditional distribution channels, expand market reach beyond geographic boundaries (urban-rural), and respond to consumer trends in *real-time*.

The Influence of Product Innovation on Marketing Performance (H_2)

The second hypothesis (H_2) which states that Product Innovation has a positive effect on Marketing Performance is also proven to be statistically significant ($\beta = 0,392, t = 4,682, p < 0,001$). This figure reflects that menu innovation, product diversification, adjustments to taste quality, and creativity in packaging *play* a crucial role in maintaining the existence of culinary businesses that have low *barriers to entry*.

Continuous product innovation is a manifestation of a healthy market orientation. According to Gatignon and Xuereb (1997), innovation is a key driver for companies to achieve superior market performance. Through innovation, culinary MSMEs are not only able to escape the price war trap *but* also create unique value *propositions* that can satisfy dynamic consumer tastes.

The Synergy Effect of Digital Marketing Capacity and Product Innovation (H_3)

The most crucial finding in this study is shown by the testing of the third hypothesis (H_3), where the simultaneous interaction or combination between Digital Marketing and Product Innovation produces the strongest influence on Marketing Performance ($\beta = 0,516, t = 6,107, p < 0,001$). The bootstrap results of 5,000 subsamples convincingly accept H_3 .

Substantially, the high value of the path coefficient ($\beta = 0,516$) indicates the existence of a multiplicative synergy effect. When linked to the dynamic capabilities theoretical framework (Teece, 2007), product innovation acts as *a tangible/intangible asset* developed by the company, while digital marketing capacity acts as *a driving architecture* that communicates these assets to the market.

A strong digital presence will lose its power if the culinary products marketed are monotonous and fail to meet taste expectations or market trends. Conversely, exceptional flavor and menu innovations risk being buried unnoticed by consumers if not supported by aggressive digital marketing. When these two elements are synergized—with product innovation creatively communicated through the right digital channels—culinary MSMEs will experience a far more massive marketing performance acceleration than if they only focus on one aspect partially.

CONCLUSION

This inter-island community service (PkM) program, implemented in rural areas of Sumatra, Java, Sulawesi, and Kalimantan, empirically demonstrated that *Kakeibo* Method training successfully increased families' financial risk management capacity. This structured educational intervention was proven to be able to break through the limitations of financial literacy among rural housewives, as demonstrated by a jump in the average evaluation score from the low category (below 42.0) to the high category (above 84.0) across all target locations. This success confirms that the interactive teaching approach model combined with intensive community-based mentoring is highly effective in equalizing understanding of financial literacy without being hampered by geographical barriers across islands.

More than just improving cognitive insight, adopting the *Kakeibo* Method has a real impact in transforming participants' *financial behavior* to be more measured and wise. By dividing daily expenses into four main pillars and locking in budgets using a physical envelope postal system, as many as 78% of rural housewives managed to reduce non-primary consumptive spending by 15% to 24.2% each month. This efficient cash flow circulation directly impacts the creation of new emergency fund reserves for families ranging from 10.5% to 16.5% of total monthly income, which simultaneously strengthens the foundation of an independent liquidity cushion to mitigate unexpected economic shocks without having to rely on dangerous informal debt.

The extraordinary success of this community service program also confirms the superiority of traditional (manual) bookkeeping techniques amidst the onslaught of financial digitalization trends. The use of paper and pen media is able to leapfrog the digital divide *and* technology phobia often experienced by generation X housewives in rural areas, while triggering the psychological effect of mindful spending *that* is not found in digital applications. In addition, the flexibility of the *Kakeibo* Method in responding to local cultural challenges—such as providing a special social budget post to address the traditional celebrations of Indonesian rural communities—makes this method a highly adaptive and applicable financial management instrument, and is recommended for massive replication by local driving cadres to realize sustainable domestic economic resilience.

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Our deepest appreciation and gratitude are extended to all leaders of higher education institutions, research institutions, and community service institutions who have provided full moral, administrative, and facilitation support. Without strong institutional commitment, this cross-island community service program would not have been able to run smoothly and in a structured manner. This support is a clear demonstration of academic dedication in realizing the spirit of service for the advancement and welfare of the community at the grassroots level.

Our sincere thanks and appreciation are also extended to the village heads, neighborhood administrators, and Family Welfare Empowerment (PKK) cadres in rural areas of Sumatra, Java, Sulawesi, and Kalimantan. The warm welcome, the provision of meeting rooms, and the hard work in coordinating community attendance at each implementation location were key pillars of this program's success. The solidarity and social capital demonstrated by these local institutions helped the implementation team effectively bridge the knowledge transfer process.

In particular, we extend our respect and gratitude to all the housewives who have volunteered their time and actively participated in the training, from the initial stages through the month-long independent mentoring period. Their strong enthusiasm for learning, openness to new methods, and discipline in implementing daily household bookkeeping practices are key to the success of this program. We hope that the commitment and consistency established can be maintained to achieve independent and sustainable family economic resilience.

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