

MARKET ORIENTATION AND PRODUCT INNOVATION AS AN MSME MARKETING STRATEGY

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Abstract

Marketing performance is one of the benchmarks for the company's success strategy. There are many factors that can affect the company's performance. This study aims to examine market orientation and product innovation on the marketing performance of culinary MSMEs. Respondents in this study were culinary MSMEs with the ordinary types of processed foods throughout the city of Mataram, Indonesia. The sampling technique used is simple random sampling. The questionnaire containing 17 questions was distributed to all respondents. The data analysis technique used in this research is the multiple linear regression technique through the SPSS version 16.0 application for windows. The results of this study indicate that the level of market orientation and product innovation of respondents is relatively high, but only product innovation significantly affects marketing performance. On the other hand, market orientation is not proven to have an effect on marketing performance. However, market orientation and product innovation together can significantly affect marketing performance. Thus, the results of this research become the basis for carrying out business efforts and market-oriented strategies and increasing product innovation.

Keywords: Market Orientation; Product Innovation; Marketing Performance; Culinary SMEs

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I. Introduction

Competition in the creative industry as one of the industries that has an important role in the regional economy is currently increasing. More and more people are starting to realize that the creative industry can be a solution to economic problems in this era of globalization, especially in the recovery period after the Covid-19 pandemic that has hit the world. One of the subsectors of the creative economy that is in great demand is the culinary subsector. There are at least 583 MSMEs players engaged in the culinary field of ordinary processed food throughout the city of Mataram [\(Utami, 2021\)](#).

Mataram city itself has the largest number of creative economy business actors in West Nusa Tenggara, which is around 40.27% of the total number of creative economy actors in West Nusa Tenggara [\(BEKRAF, 2020\)](#). Seeing the importance of the role of MSMEs in the community's economy, it is necessary to conduct research that can support and provide in-depth knowledge for MSMEs players regarding efforts to improve marketing performance, one of which is market orientation (especially consumer and competitor orientation) and product innovation.

The importance of this research is based on observations and preliminary interviews that have been conducted with a number of culinary MSMEs players in the city of Mataram which show that culinary MSMEs players have not made much product innovation to face the rapid competition that exists. The growth in the number of culinary MSMEs in Mataram has not been addressed appropriately both from the point of view of product strategy and marketing. One of them is due to the limited knowledge of culinary MSME players regarding the form and realization of product innovation and market orientation and its influence on marketing performance. This phenomenon is the main reason for researchers in conducting research on the influence of market orientation and product innovation on the marketing performance of culinary MSMEs, especially in Mataram. There have been many studies that support that both market orientation and product innovation have a positive effect on marketing performance. Regardless of the size of the company, each company must be able to formulate and implement the right innovation strategy both in the internal and business spheres in order to be able to improve the competitiveness and marketing performance of the company [\(Drucker, 2012\)](#).

Marketing performance is one of the benchmarks for the company's success in running its business. Some commonly used indicators to measure a company's marketing performance are sales volume, number of customers, and growth of company profits. Meanwhile, the factors affecting the company's performance are market orientation and product innovation. A market-oriented company is a company that takes into account the needs and desires of customers and the situation of its competitors (Rangkuti, 2004). The company must realize that in order to improve marketing performance, the company must carry out business steps that prioritize orientation to customers and competitors.

In addition, every step of innovation taken by the company must be customer- and competitor-oriented in order to be able to create a competitive advantage so that it can achieve company goals ((Supranoto, 2009); (Newman, Prajogo, & Atherton, 2016)). It has also been explained that to maintain the company's survival, a company must continue to innovate products due to the constantly changing needs and tastes of consumers ((Crawford & Benedetto, 2000)). This statement is in accordance with the results of research that proves that product

innovation greatly affects the company's marketing performance ((Zhang & Zhu, 2016)). Thus, it can be said that companies must always be responsive in processing market information owned and carry out market predictions and more appropriate actions based on changes in customer needs on an ongoing basis.

In addition to the phenomena described above, this research was also initiated by inconsistencies in the results of previous research on the influence of market orientation and product innovation on marketing performance. The varied and inconsistent research results provide a broad research gap for researchers to re-examine. In some previous studies it was stated that market orientation has a significant influence on marketing performance ((Wahyono, 2017); (Utaminingsih, 2016); (Kirca, 2005); (Baker & Sinkula, 2009); (Hussain, Khan, & Khan, 2019); and (Julian, 2010)). Similar results were also found through research on the influence of market orientation on the business performance of MSMEs in Selangor, Malaysia ((Udriyah, Tham, & Azam, 2019)). Another study on the service industry stated that of the two components of market orientation tested (orientation to consumers and orientation to competitors),

only orientation to consumers affects performance (Tsotsou, 2010). Meanwhile, other studies state the opposite is that there is no significant influence of market orientation on marketing performance (Utami, 2021); (Han, 1998); (Johnson, Dibrell, & Hansen, 2009); and (Jaworski & Kohli, 1993). In addition, other studies also support these results where their research proves that market orientation does not have a significant influence on the marketing performance of MSMEs in Central Java, Indonesia (Pardi, Suharyono, Imam, & Zainul, 2014). Thus, there are inconsistent results regarding the effect of market orientation on marketing performance, so more research is still needed to fill the gap.

In addition, in terms of the influence of product innovation on marketing performance, there is also still a difference in the results of previous studies. For example, research on the effect of product innovation on MSMEs marketing performance shows that there is a significant relationship between product innovation and marketing performance (Aksoy, 2017). This means that MSMEs actors or managers need to make investments and strategies that excel in product innovation in order to maximize their marketing performance. The results of this

study are in line with research that shows that product innovation has a significant influence on marketing performance (Zhang & Zhu, 2016). The research is also supported by (Utaminingsih, 2016) which states that product innovation has a positive and significant effect on marketing performance. The statement is in line with the research conducted by (Rosli & Sidek, 2013) which proves that marketing performance is significantly affected by product innovation. However, the results of the above research are contrary to the research conducted by (Cillo, De Luca, & Troilo, 2010) which states that product innovation has no significant effect on marketing performance. The difference in the results of this study is one of the reasons why researchers raised the variable of product innovation as an independent variable in research on the marketing performance of culinary MSMEs in Mataram.

Literature Review

Marketing Performance of MSMEs

MSMEs have a very important role in improving the community's economy today. In an effort to develop and grow MSMEs, especially in terms of profitability and sustainability, MSMEs need to improve their

competence, capabilities, and competitive advantages. Such competitive advantages can be in the form of valuable, rare capabilities, and suits imitated by their competitors (Barney, 1991). Companies that have high competence and competitive advantage will be able to maximize their company's marketing performance. The definition of marketing performance itself is associated with sales figures, market share, and revenue.

However, it is necessary to realize that MSMEs have more limitations than big companies which often result in many MSMEs experiencing failure. Thus, MSMEs really need to do various ways to improve their company's marketing performance, one of which is by product innovation and increasing consumer and competitor-based marketing. (Theoharakis & Hooley, 2008) states that the influence of market orientation and innovation on marketing performance has been accepted in the marketing literature. In addition, there have been many studies that prove that marketing performance can improve the overall performance of MSMEs (Zhou, Fang, Yang, Wu, & Ren, 2017); (Bek, Bek, Sheresheva, & Johnston, 2013); and (Kumar, 2015)).

Relationship between Market Orientation and Marketing Performance

Marketing and market orientation are the center of attention of marketing management to articulate the developed strategy (Ferdinand, 2003). The marketing in question is all kinds of activities carried out to increase the company's sales (Alsem, 2007). Market orientation is a perspective that places the consumer as the focus of attention in the company's activities (Cravens & Piercy, 2013). (Baker & Sinkula, 2009) mentioned that market-oriented companies will have a foundation for faster revision; which can then be seen from the success of the product, profitability, market share, and sustainable competitive advantage. This concept of market orientation is related to the company's strategic policies based on consumers by understanding the reaction of competitors and realizing a conducive internal environment.

Several previous studies have proven that market orientation has a significant influence on marketing performance. One of them is (Zhang & Zhu, 2016) which examines the effect of market orientation on the marketing performance of export factories in China. In the study, it was proven that market

orientation has a positive and significant effect on marketing performance. [\(Udriyah, Tham, & Azam, 2019\)](#) who conducted research on the business performance of MSMEs in Malaysia also showed the results that there was a positive and significant influence of market orientation on the company's performance. Similar results are also shown by research on MSMEs conducted by [\(Utaminingsih, 2016\)](#), where it was found that market orientation affects marketing performance positively and significantly. There are also other studies with similar results by [\(Hussain, Khan, & Khan, 2019\)](#) and [\(Baker & Sinkula, 2009\)](#).

Based on the explanation above, the first hypothesis of this study is as follows.

H₁: Market orientation has a significant effect on the marketing performance of culinary MSMEs in Mataram

The Relationship between Product Innovation and Marketing Performance

One of the company's dynamic capabilities is to innovate products as a form of response to the changing needs and desires of the market [\(Teece, Pisano, & Shuen, 1997\)](#). Product innovation itself is defined as the development and change in the product or service offered [\(Padilha & Gomesi, 2016\)](#).

According to [\(Wahyono, 2017\)](#), Product innovation is defined as a breakthrough related to the creation of new products. However, MSMEs as a small-sized business model tend to be slow in responding to market needs through product innovation [\(Fossas-Olalla, Minguela-Rata, Lopez-Sanchez, & Fernandez-Menendez, 2015\)](#). One form of product innovation that can be measured is by creating new products or improving the quality of old products [\(Elenkov & Manev, 2009\)](#).

Several previous studies have proven that product innovation has a positive and significant influence on marketing performance [\(Udriyah, Tham, & Azam, 2019\)](#); [\(Aksoy, 2017\)](#); [\(Zhang & Zhu, 2016\)](#); [\(Utaminingsih, 2016\)](#); [\(Rosli & Sidek, 2013\)](#); and [\(Hoonsopon & Ruenrom, 2012\)](#). [\(Avlonitis & Salavou, 2007\)](#) also explained that product innovation has the potential to influence the company's marketing performance. Thus, MSMEs can take advantage of product innovations to improve their marketing performance so that overall the company's goals can be achieved.

Based on the explanation above, the second hypothesis of this study is as follows.

H2: Product innovation has a significant effect on the marketing performance of MSMEs

Research Methods

This research is a quantitative study with a causal method that aims to explain causal relationships where there are independent variables (that affect) and dependent variables (which are influenced). The population in this study was the owner/manager of a restaurant and a seller of ordinary processed food in the city of Mataram, which was 583 people with a sample of 85 people. The sampling technique used is simple random sampling, where data collection is then carried out by distributing questionnaires directly to respondents. The response scale is made with a likert scale of 1-5 where 1 indicates strongly disagree and 5 indicates strongly agree.

Before analyzing the data, a validity and reliability test is first carried out. Reliability test is used to measure the reliability of a questionnaire which is an indicator of a

variable or construct [_\(Ghozali, 2018\)](#). Variables are said to be reliable if they give a Cronbach Alpha value ($\alpha \geq 0,70$). While the validity value is seen from the calculated r value compared to the table r value, where the data is said to be valid when the value of r counts $>$ the value of r table. In addition, a classical assumption test was also carried out which included a normality test and a multicholnearity test. Furthermore, data analysis in this study used multiple linear regression techniques through the SPSS 16.0 application for windows.

Characteristics of Respondents

The respondents of this study were 85 people consisting of owners or managers of culinary MSMEs from ordinary types of processed food in the city of Mataram. The characteristics of the respondents can be seen in the following table

Table 1. Characteristics of Respondents

Characteristics	Respondent Profile	Sum	Percentage (%)
Gender	Male	44	51.76
	Female	41	48.24
Age	20-30	26	30.58
	31-40	36	42.35
	41-50	23	27.06
Education	Elementary School	18	21.17
	Junior High Schools	1	1.18
	High School	51	60
	Diploma	3	3.53
	Bachelor	12	14.12
Years in Business	1-5 years	50	58.82
	6-10 years	20	23.53
	>10 years	15	17.65

The table above shows the statistics of the overall characteristics of the respondents. The number of male and female respondents in this study did not differ much, namely 51.76% of men and 48.24% of women. Meanwhile, most of the respondents, namely 60%, are high school graduates. Most of the respondents in this study have only been operating for 1-5 years (as many as 58.82%) and only 17.65% have been operating for more than 10 years. To test the influence of market orientation and product innovation on marketing performance in this study, the data analysis tool used was SPSS 16.0.

To see whether the instruments used were reliable or not, researchers conducted reliability tests and the obtained values of Cronbach's Alpha were presented in table 2 below. Table 2 shows that the construct in this research model has a Cronbach Alpha (α) value of > 0.70 so that the instrument can be said to be reliable [\(Hair, Black, Babin, & Anderson, 2010\)](#). Based on the table, it can also be seen that in general the market orientation and product innovation of respondents are relatively high with marketing performance perceived quite well by culinary MSME players of ordinary processed food types in the city of Mataram.

Table 2. Descriptive Analysis and Reliability Testing Results

Variable	Mean	Cronbach's Alpha
Market Orientation (5 items)	3.54	0.736
Product Innovation (5 items)	3.55	0.810
Marketing Performance (7 items)	3.28	0.734

Furthermore, the validity test of this research instrument was carried out by comparing the r count with the r table. The result is shown in Table 3, where all item-total correlation

coefficients (r counts) go beyond the critical value of r of the table i.e. 0.2133 and are statistically significant at p 0.05. Thus, the instruments in this study are reliable and valid.

Table 3. Summary of Item-Total Correlation (r counts)

Variable	Statements	Item	r count	Conclusion
Market Orientation	I always strive to make my consumers satisfied with the products I sell	OP1	0.756	Valid
	I am committed to periodically evaluating the level of consumer satisfaction with my products	OP2	0.685	Valid
	I strive to adapt my product development to the needs and desires of consumers	OP3	0.755	Valid
	I always strive to monitor the advantages and disadvantages of my competitors	OP4	0.681	Valid
	I always monitor competitors' strategies and innovations as my consideration in my next strategy	OP5	0.615	Valid
Product Innovation	I always want to innovate products	IP1	0.862	Valid
	I am always looking for new ideas for further product development	IP2	0.858	Valid
	I am always trying to make technical changes in creating new products	IP3	0.717	Valid
	I always adapt product development to the needs of consumers	IP4	0.577	Valid
	I always adjust product development to the wishes and expectations of consumers	IP5	0.734	Valid
	My product sales always meet the target	KP1	0.619	Valid

Marketing Performance	Product sales figures are relatively increasing every month	KP2	0.583	Valid
	The number of customers is growing every year	KP3	0.792	Valid
	New products issued add to sales figures	KP4	0.620	Valid
	New products issued increase the number of customers	KP5	0.771	Valid
	I always get profit every month	KP6	0.443	Valid
	More business profits are obtained after using new techniques in making products	KP7	0.505	Valid

In addition to validity and reliability tests, normality tests are also carried out to see whether the data is distributed normally or not. The data is said to be normally distributed if the significance value is greater than 0.05 (*Asymp. Sig* > 0.05). In this study, the value of *Asymp. Sig* obtained is 0.641. Because the value is greater than 0.05, the data in this study can be said to be distributed normally. Furthermore, a multicollinearity test was carried out to determine whether in the regression model used in this study there was a perfect correlation between independent variables from one another. The method used to detect the presence of multicollinearity is to use the Variance Inflation Factor (VIF) value and tolerance value, if the VIF value of each independent variable is less than 10 and the tolerance

value is greater than 0.10, it can be concluded that there are no symptoms of multicollinearity (Hair, Black, Babin, & Anderson, 2010). In this study, the VIF value of the two independent variables was 2,466 with a tolerance value of 0.406. Therefore, it can be concluded that there is no multicollinearity between the independent variables of this study.

For hypothesis analysis and testing purposes, the authors used multiple regression analysis by utilizing SPSS 16.0. As a result, a regression model is developed and shown in table 4. The table shows how market orientation does not affect marketing performance while product innovation is shown to have a significant influence on marketing performance.

Table 4. Regression Analysis of the Effect of Market Orientation and Product Innovation on Marketing Performance

Variable	Beta (Standardized Coefficients)	t-count	t-table	Sig	Conclusion
Market Orientation	0.148	1.024	1.989	0.309	H1 (rejected)
Product Innovation	0.431	2.981	1.989	0.004	H2 (accepted)

F = 18.050; p = .000; R = .553; R² = .306; Std error of the estimate = 4.473

Based on the table above, it can also be seen that the linear regression model of this study has a high calculated f value, which is 18,050 (higher than f table 3.96) with a p value of 0.000, meaning that there is a strong and significant influence simultaneously from market orientation and product innovation on the marketing performance of ordinary processed food culinary MSMEs in the city of Mataram.

I. Discussion

The Effect of Market Orientation on Marketing Performance

The results of the data processing in table 4 above show that the value of t count of market orientation variable is smaller than t table with a significance value of 0.309 (greater than 0.05), so it is concluded that market orientation has no significant effect

on marketing performance so that the first hypothesis of this study is not supported. But of course the direction of the influence of market orientation on marketing performance is positive, this is in line with previous research which states that market orientation has a positive influence on marketing performance (Li, Zhao, Tan, & Liu, 2008). In addition, based on studies conducted in Central Java, results were also found similar to this study where market orientation did not affect marketing performance (Pardi, Suharyono, Imam, & Zainul, 2014). Similarly with some other studies such as (Utami, 2021) and (Han, 1998). In other studies it is also stated that market orientation will not always affect marketing performance (Johnson, Dibrell, & Hansen, 2009). The market orientation dimensions tested in the study are consumer orientation and competitor orientation. The perception of

MSME players regarding their market orientation which is quite high is partially felt by respondents unable to improve marketing performance consisting of increasing sales figures, the number of customers, and profits. This could be caused because in MSMEs, it is not easy to immediately change strategies based on existing competition due to the limitations they have, both in terms of capital and skills. This is certainly the task of all parties to help improve the skills and competitive abilities of MSMEs in an effort to improve their performance.

The Effect of Product Innovation on Marketing Performance

It has been explained earlier by [\(Avlonitis & Salavou, 2007\)](#) in their research that product innovation has the potential to affect marketing performance. The results of the data processed in table 4 show that the value of t count of product innovation variable is greater than t table with a significance value of 0.004 (smaller than 0.05), so it is concluded that market innovation has a positive and significant effect on marketing performance. Thus, the second hypothesis of this study is supported. The results of this study are in line with several previous researchers who were used as references in this study, such as [\(Varis & Littunen., 2010\);](#)

[\(Zhang & Zhu, 2016\);](#) [\(Utaminingsih, 2016\);](#) [\(Rosli & Sidek, 2013\);](#) and [\(Hoonsopon & Ruenrom, 2012\)](#). [\(Aksoy, 2017\)](#) in his research on the influence of product innovation on the marketing performance of MSMEs, also stated that there is a significant relationship between product innovation and marketing performance. Thus, MSMEs do need to carry out superior product innovation strategies in order to maximize their marketing performance.

The product innovation variable tested in this study include the cultural dimensions of innovation, technical innovation, and new product innovation. The results of the descriptive test show that overall the level of product innovation of ordinary processed food culinary MSME actors in the city of Mataram is relatively high. In addition to product innovation will result in product designs that increase alternative choices, benefits, or value for consumers as said by [\(Prajogo & Sohal, 2001\)](#), product innovations also have a positive influence on profit growth, the number of customers, and the sales figures of respondents. This is certainly an additional motivation for MSME players to further improve their quality and innovation strategies, especially by realizing

that the growth of competition in the culinary field is quite high.

Managerial Implications

The results of this study can be a consideration for MSME players to further increase their product innovation, both through new technical innovations and innovations in making and developing new products so as to increase business profits, the number of customers, and sales figures.

II. Conclusions

This research proves that market orientation does not have a significant influence on marketing performance. Although there have been many studies that state that market orientation affects marketing performance, this research actually gives the opposite result. However, seeing that market orientation and product innovation simultaneously affect marketing performance significantly, researchers still suggest that culinary MSME players still need to carry out market-oriented business strategies, both to consumers and their competitors. In addition, from the previous discussion, it can also be concluded that product innovation partially has a significant effect on marketing performance. This result proves the results of

previous studies on the same topic. However, this study has limitations in terms of location and study samples. This study did not cover enough locations so the number of research samples was relatively small. Therefore, future researchers are expected to use other sampling methods such as surveys, so that the results obtained are more accurate and representative of the entire population.

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