



Digital Marketing and Innovation Boost Marketing Performance in Small Food Processing Enterprises

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Abstract. When consumers rely on online product information, digital marketing becomes increasingly necessary. Businesses must strengthen their digital marketing capabilities. This study seeks to investigate and explain the impact of digital marketing capability and innovation capability on the marketing performance of small businesses. The study was conducted on one hundred modest food processing businesses in the Bantul district of the Yogyakarta Special Region. Purposive sampling is used as the method of sampling. The distribution of questionnaires to acquire data. The data were processed with WarpPLS to identify the relationship between two variables. The results indicate that both digital marketing capability and innovation capability have a substantial impact on marketing performance. The findings of this study highlight the significance of digital marketing and innovation for enhancing marketing performance.

Keywords: Digital Marketing Capability · Innovation Capability · Marketing Performance · small enterprise

1 Introduction

During the Covid-19 pandemic, not a few small companies experienced problems. The limited interaction causes small companies to be unable to provide services directly to their customers. As a result, the company experienced a decline in performance. The pandemic has provided important lessons for small businesses to adapt their marketing strategies by turning conventional marketing into digital marketing. However, not all small entrepreneurs have the ability to implement digital marketing.

This study examines the effect of digital marketing capabilities on marketing performance. In addition, during the pandemic, small entrepreneurs innovate by providing unique products and services according to current conditions. Therefore, this research is also directed to determine the effect of innovation ability on marketing performance. Utomo & Susanta [1] have found that digital marketing capability and innovation capability have a significant effect on batik SMEs. Research in the culinary field is also important to get enough attention considering that there are far more of them.

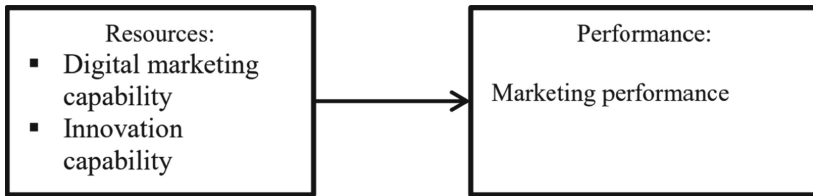


Fig. 1. RBV-Based Research Conceptual Model

2 Literature Review

2.1 Resources Based View

According to the Resource Based View, the performance of a company lies in the company's ability to create superior competitiveness compared to other similar companies [2]. The advantages of the company are unique so that it is difficult for other companies to imitate [3]. Competitiveness creates long-term advantages so as to maintain the company's continuity in the future. Conner [4] argues that the company's performance depends on the company's unique capabilities. The company is able to create new things and new ways (application of new technology) in the face of a rapidly changing environment so that the company's existence will not waver. In the context of this research, the company's unique internal capabilities improve the company's marketing performance (Fig. 1).

2.2 Digital Marketing Capability

Digital marketing capability is linked to the internal business's ability to create new capabilities, according to Apasrawirote and Yawised [5]. RBV theory says digital marketing starts with resources and capabilities. Successful businesses maximize their resources and capabilities. Companies must reach customers efficiently. Last decade, consumers mostly communicated online. Thus, companies must adapt to online consumer promotion. Companies and consumers can interact and transact easier on the open internet. Indonesia has expanded internet access during the COVID-19 pandemic to get people used to it. The company's ability to use digital marketing is an advantage in marketing performance. Wardaya et al. [6] say customer information, need, relations, and communication can measure digital marketing capability.

2.3 Innovation Capability

Company excellence requires innovation capability. Market demand drives innovation capability [7]. Market-driven companies will keep innovating to meet market needs. Hult et al. [8] define innovation as new organization processes, products, and ideas. Innovation begins with ideation, development, and market introduction of new products, processes, and services [9].

2.4 Marketing Performance

Marketing performance indicates company performance [10]. Financial and non-financial performance define company performance [11]. Marketing performance boosts financial performance. Marketing performance includes turnover, buyers, profits, and sales growth. Battor & Battor [12] measured marketing performance by increasing market coverage, adding new market segments, customers, new customers, and sales.

2.5 Digital Marketing Capability and Marketing Performance

The way a company does depends on how well it can put its marketing plans into action [13]. Digital marketing is a big part of making sales happen. Utomo and Susanta also found that SMEs that made batik in Yogyakarta did better at marketing when they were good at marketing [1]. From this description, we can come up with the following hypothesis:

H1. The ability to use digital marketing has a positive and significant effect on how well marketing works.

2.6 Innovation and Marketing Performance

When it comes to business results, Tsai and Tsai discovered that innovation was the most important factor [14]. Battor and Battor add weight to the case that innovative prowess is correlated with success [12]. Research by Sulistyono and Siyamtinah [15] shows that invention has a significant impact on the success of small and medium-sized enterprises. Increased sales, profits, and competitiveness [16] are strongly correlated with new product invention. Utomo and Susanta [1] provide further insight into the significance of marketing capacity in determining the marketing results achieved by small and medium-sized enterprises (SMEs) in the batik industry of Yogyakarta. Using this information, we can make the following hypothesis:

Hypothesis 2: Innovation has a statistically significant beneficial impact on marketing performance.

3 Methodology

This study is quantitative [17]. Hypothesis testing and explanations explain causality in this study. The study examined 100 culinary entrepreneurs in Bantul Regency, Yogyakarta Special Region Province. Sample selection using purposive sampling. Small entrepreneurs affected by COVID-19 are the research sample. Digital marketing, innovation, and marketing performance are this study's variables. Digital marketing capability is measured by Wardaya et al. [6], innovation capability by Thornhill [9], and marketing performance by Battor and Battor [12], Sulistyono & Siyamtinah [15], and Utomo & Susanta [1]. Valid and reliable data is collected using an online questionnaire. Marketing performance is measured on a discrete scale (yes = 2, no = 1), while digital marketing capability and innovation capability are measured on a Likert scale from 1 to 5. To determine model variables' effects, WarpPLS 6.0 [18] was used.

Table 1. Result of instrument validity test

Variable	Indicator	Correlation Coefficient	Cronbach's α
Digital Marketing Capability (X1)	Customer Informations	0.557	0.733
	Customer Needs	0.582	
	Customer Relations	0.798	
	Customer Communication	0.669	
Innovation Capability (X2)	Ability to create new product innovations	0.745	0.853
	Ability to create new services	0.760	
Marketing Performance (Y)	Increased market coverage	0.899	0.892
	Addition of new market segments	0.862	
	Increase in the total number of customers	0.874	
	Increase in the number of new customers	0.822	
	Sales increase	0.845	

4 Results and Discussion

4.1 Validity and Reliability of the Instrument

It is clear from Table 1 that the instrument generates reliable results [19], as there is a correlation of at least 0.3 between each component and the whole. If the Cronbach's Alpha coefficient for each variable is above 0.6, then the instrument can be considered trustworthy [20].

4.2 Profile of Respondents

Table 2 shows that the majority of respondents are female (88%), the age of entrepreneurs is mostly in the age category of 26–45 years (67%). Most of the companies are 7–10 years old (54%) and most of the respondents are married (79%).

4.3 Final Structural Model

The WarpPLS analysis tool [18] is used to calculate model fit and quality indices. The measurements' results are as follows. The average Path Coefficient (APC) was 0.777; p 0.001; the average R-square (ARS) was 1.434; p 0.001; the average adjusted R-square (AARS) was 1.343; p 0.001; the average block VIF (AVIF) was 3.222; acceptable if 5; the average full collinearity VIF (AFVIF) was 3.887; and the Tenenhaus GoF (GoF) was 0.553.

Table 2. Characteristics of the sample (% of respondents, n = 100)

Gender	Male	12
	Female	88
Entrepreneur age	18–25 years	18
	26–5 years	67
	>45 years	15
Firm age	3–6 years	20
	7–10 years	54
	> 10 years	26
Marital status	Single	21
	Married	79

Table 3. Hypothesis testing results

Relations between variables		Coefficient	p-value	Description	Hypothesis Decision
Digital Marketing Capability	Marketing Performance	0.775	<0.000	Significant	Accepted
Innovation Capability	Marketing Performance	0.443	<0.000	Significant	Accepted

4.4 Hypothesis Testing

The first hypothesis says that digital marketing skills affect how well marketing works. Table 3 shows that the p value is less than 0.000, which means that hypothesis 1 is true. Positive coefficients show that being good at digital marketing has a big, positive effect on how well marketing works.

The second claim is that the ability to come up with new ideas affects how well marketing works. Table 3 shows that the p value is less than 0.000, which means that hypothesis 2 is true. Positive coefficients show that the ability to be innovative has a big, positive effect on how well marketing works (Fig. 2).

4.5 Digital Marketing Capability and Success

The results of this study show that being good at digital marketing has a big positive effect on how well marketing works. Small businesses that are able to use digital marketing are more likely to make more money, get more customers, and grow their market. This result backs up what Utomo and Susanta [1] found in their research: that digital marketing skills improve marketing performance. This finding also backs up the RBV [2] that the performance of a company comes from its resources. This study’s results are also the

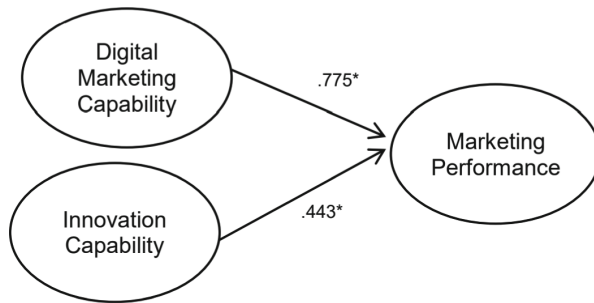


Fig. 2. Final Structural Model

same as those of other studies [13]. So, the results of this study show that digital marketing skills are very important for improving performance.

4.6 Innovation and Marketing Success

This study found that being able to come up with new ideas has a positive effect on how well marketing works. Unique products and services that meet customer needs can make customers happier, making them more likely to buy from you again and tell their friends. Of course, a bigger market means more sales, which means that marketing is getting better. This finding backs up what Utomo and Susanta found in their earlier research [1]. These results also back up what Tsai and Tsai found in their earlier research (2010). This result also doesn't go against what Sulistyono and Siyamtinah [15] said, which is that the performance of SMEs is based on how innovative the company is.

4.7 Limitations

This study has at least two limitations. First, the research was conducted only on small culinary businesses so that the scope was limited. Second, this research is cross sectional. This study did not compare between before the pandemic and after the pandemic. Subsequent research is proposed to study more broadly with a higher company size. Research with a wider range of locations with different types of companies is highly recommended.

5 Conclusion

Based on the findings of this study, it can be concluded that both digital marketing capability and innovation capability have a significant positive impact on marketing performance in small companies. However, the study also revealed that marketing capability has a greater influence on marketing performance than innovation capability. This underscores the importance of enhancing digital marketing capabilities and integrating them into a company's marketing practices to achieve better marketing performance.

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