THE IMPACT OF DIGITAL MARKETING ON MARKETING OUTCOMES OF SMES THE MEDIATING ROLE OF INNOVATIVE PRODUCT DEVELOPMENT

Eva Sundari ✉[1]**, Awliya Afwa**[2]**, Dani Pratama**[3]
Universitas Islam Riau[1,2,3]
✉[1] evasundarirawi@eco.uir.ac.id
Jl. Kaharuddin Nst No.113, Simpang Tiga, Kec. Bukit Raya, Kota Pekanbaru, Riau 28284, Indonesia

Abstract

Over recent decades, digital innovations in product creation, communication, and marketing have gained significant attention in research and decision-making across businesses of various scales. Technological advancements have greatly influenced corporate marketing strategies, consumer purchasing behav-ior, and market structures. This study examines the impact of digital marketing on marketing performance in Small and Medium Enterprises (MSME) in Pek-anbaru, with product innovation as a mediating factor. Targeting SMEs that utilize digital marketing, a purposive sampling method selected 53 Pekanbaru SMEs that met the research criteria. Path analysis through Structural Equation Modeling-Partial Least Squares (SEM-PLS) was applied as the analytical method. Findings indicate that digital marketing significantly enhances both marketing performance and product innovation. Furthermore, product innova-tion directly improves marketing performance, underscoring its role as a medi-ator in the relationship between digital marketing and marketing performance in Pekanbaru MSME.

Keywords: digimart; product innovation; marketing outcomes

INTRODUCTION

The Society 5.0 era, marked by technological integration in addressing human challenges, presents a global challenge faced by nations worldwide. The primary challenge consistently under focus is economic growth and stability. Economic growth and stability serve as indicators of a government's success in running the state apparatus. For developing countries like Indonesia, Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in driving the economy, as evidenced by their contribution of 61% to Indonesia's Gross Domestic Product (GDP), equivalent to IDR 9,580 trillion, attributed to MSMEs. Additionally, MSMEs play a significant role in absorbing up to 97% of the labor force (kadin.id, 2024). When compared to several ASEAN countries in the G20, Indonesian MSMEs lead in contributing to the nation's GDP (kadin.id, 2024). However, MSMEs face challenges amid the increasingly dynamic and competitive business environment. This is due to the fact that many MSMEs have yet to fully leverage resources that could actualize their growth potential. The rapid technological advancement today

compels MSMEs to innovate continuously in their business operations. Furthermore, the current technological progression demands that MSMEs adopt digital technologies that could become their competitive advantage. In this digital era, MSMEs are encouraged to adopt digital-based innovations to create, communicate, and market products to customers, which has become an appealing topic for research and a foundational reference for business decision-making, whether for large-scale or small-scale enterprises. According to Databoks, (2024) publication on MSME digital adoption in Indonesia, it is known that Indonesian MSMEs have integrated digitalization into various business aspects. Based on a 2024 INDEF survey of 254 MSME samples across Indonesia, 61.02% of MSME respondents used both offline and online promotional media from the beginning of their businesses, while 5.12% relied solely on digital channels for selling. The transformation of technology and digital-based innovation has accelerated significantly, influencing corporate marketing behavior, consumer search and purchasing behavior, and the structural characteristics of markets and industries (Lantu et al., 2017).

The marketing performance of MSME products in Indonesia cannot yet be considered strong, as evidenced by a marketing performance survey conducted by Dailysocial.id, (2023) which surveyed 1,500 MSME operators in Indonesia. While 99.1% of these MSMEs reported increased productivity, this productivity growth contrasts with their marketing performance, as 70% of MSMEs expressed challenges in promoting their products. Dailysocial.id, (2023) also highlighted that MSMEs face a key marketing challenge: the need to build a strong brand image to compete effectively with competitors. If their brand is not well-known, MSME operators struggle to attract and retain customers, as their products often lose out to more established brands. Another challenge MSMEs face is the lack of marketing expertise. Without a dedicated marketing team, MSMEs find it difficult to promote their products and services optimally. Financial limitations further hinder MSMEs from hiring professional marketers or using marketing agency services, indicating that MSME marketing performance in Indonesia remains suboptimal. The same marketing challenges are evident among MSMEs in Pekanbaru, where they face difficulties in product marketing due to intense competition, resulting in weak marketing performance (Juliandra et al., 2024). Marketing performance can be influenced by several factors; according to Susanto et al., (2023) the implementation of digital marketing by business operators plays a significant role in this regard. This view is supported by several studies showing that digital marketing significantly affects MSME marketing performance (Sitaniapessy et al., 2022). Similarly, Melović et al., (2020) found that digital marketing implementation impacts marketing performance among business operators in Montenegro. The research questions raised by Melović et al., (2020) are highly relevant when considering the challenges faced by MSMEs in Indonesia, who encounter similar issues to those of businesses in Montenegro. These challenges include the competency of individuals responsible for technology use, perceptions of the cost-effectiveness of digital marketing, the measurability of marketing efforts' impact, and the scope of market share and competition level faced by MSME operators.

In addition to implementing digital marketing in businesses, product innovation also plays a crucial role in marketing performance. Product innovation extends beyond the physical aspects of the product, encompassing process innovation related to production methods within the company, which involves the application of a series of new activities or adding significant value. According to Gupta, (2021) product innovation impacts marketing performance, where new products or services that exceed consumer expectations enhance their loyalty, ultimately influencing business marketing performance. Several studies have proven that product innovation significantly affects marketing performance (Kumar Gupta & Gupta, 2019; Tuan et al., 2016) demonstrating that innovations in products offered by businesses substantially impact their marketing performance. Product innovation not only directly affects marketing performance but can also mediate the influence of digital marketing on marketing performance. This relationship is evident through the use of digital platforms and social media, which provide MSMEs with opportunities to reach a broader market and directly engage with their customers. This engagement allows businesses to evaluate their products and innovate based on feedback received from consumers (Amiri et al., 2023). Research by (Corral de Zubielqui & Jones, 2023; Melović et al., 2020) shows that product innovation enables MSMEs not only to introduce innovative new products or services but also to adjust and improve their offerings based on consumer feedback and behavior obtained through digital marketing platforms. This creates a positive feedback loop where digital marketing aids in identifying customer needs and preferences, which subsequently guides product innovation. Successful

product innovation ultimately enhances the effectiveness of digital marketing campaigns by providing greater value to customers, thereby contributing to improved marketing performance.

Within the realm of Micro, Small, and Medium Enterprises (MSMEs), entrepreneurial orientation, social media utilization, and marketing capabilities are identified as key elements significantly contributing to business performance. Empirical studies reveal that MSMEs with strong entrepreneurial orientation, effective marketing capabilities, and well-planned social media strategies tend to achieve more positive business outcomes. These findings suggest that marketing performance in the MSME context is not solely determined by conventional marketing activities but also by the ability to adapt to and optimize digital technology and social media to achieve marketing objectives. In conclusion, marketing performance is recognized as a crucial factor determining business success, regardless of enterprise scale, whether large or small (Hayati & Agia, 2020).

Digital marketing plays a crucial role in driving product innovation, which entails developing new digital solutions to facilitate digital transformation across industries. A company's digital orientation and digital capabilities positively contribute to this innovation (Khin & Ho, 2019). In this context, digital marketing functions not only as a promotional tool but also as a driver of product innovation by providing relevant market insights and supporting the development of products that better align with consumer needs. According to Erpurini & Juju, (2024) digitalization plays a significant role in enhancing market appeal, target markets, and the uniqueness of resources. These factors ultimately contribute to the marketing performance of business entities. According to the research findings of Hurriyati et al., (2024) effective digital innovation, supported by high-quality digital services and enhanced digital literacy, can significantly improve marketing performance. In the digital era, product innovation not only enhances direct performance through improved offerings but also strengthens the impact of digital marketing on marketing performance by ensuring that marketing strategies are backed by innovative products that meet market demand (Varadarajan et al., 2022). This establishes a connection between digital marketing and product innovation, where digital marketing enables the identification of innovation opportunities, and product innovation enhances the effectiveness of digital marketing in achieving marketing goals (Varadarajan et al., 2022). Furthermore, innovation in the context of digital marketing, particularly in terms of service features, has been proven to mediate the influence of digital marketing on marketing performance (Indah, 2024).

According to Susanto et al., (2023) in MSMEs, innovation can mediate the influence of digital marketing on marketing performance. Through the use of digital platforms and social media, MSMEs have the opportunity to reach a broader market and engage directly with consumers. However, the impact of digital marketing on marketing performance enhancement is not solely dependent on its usage but also on the MSMEs' ability to innovate and provide products that meet or exceed market expectations. Digital marketing facilitates the rapid and efficient dissemination of information regarding product innovations by MSMEs to their target market. This not only increases brand awareness but also allows MSMEs to receive direct feedback from customers, which can be used for subsequent product iterations or service enhancements (Melović et al., 2020). Thus, product innovation serves as a bridge connecting digital marketing strategies with improved marketing performance, enabling MSMEs to leverage digital marketing more effectively for business growth. Research by Salah & Ayyash, (2024) indicates that businesses using digital technology to market their products achieve better marketing performance than those not utilizing digital marketing. The study explains that MSMEs employing digital marketing gain broader access to information, which they can leverage as a strategy to expand customer reach, ultimately improving their marketing performance. Another perspective by Juju & Supriadi, (2024) explains that innovation in digital services or digital marketing enhances quality and serves as a mediator in the relationship between digital marketing and marketing performance in a business.

Research by Al-Dmour et al., (2022) demonstrates that MSMEs adopting product innovation as part of their digital marketing strategy tend to achieve better marketing performance compared to those focused solely on digital marketing without strong integration with product innovation strategies. Successful product innovation enhances the effectiveness of digital marketing campaigns by delivering additional value to customers, which contributes to improved marketing performance. Another study by Rahmatullah & Sutiono, (2024) explains that product innovation plays a role in improving marketing performance. Innovation in products, which includes the creation of new elements and strategies, has been proven to significantly influence marketing performance. Product innovation, in response to insights gathered from digital marketing, emphasizes its role in boosting

MSME marketing performance, strengthening their market position, and fostering customer relationships. Therefore, the integration of product innovation with digital marketing strategies is essential to achieve significant improvements in MSME marketing performance, underscoring the importance of a holistic approach to innovation and marketing in the digital era (Jang & von Zedtwitz, 2023; Susanto et al., 2023).

METHOD

This study employs a quantitative research methodology with an associative approach, specifically focusing on determining the relationships between two or more variable (Sekaran & Bougie, 2011; Sugiyono, 2019). The sampling technique used in this study is purposive sampling, targeting MSMEs that actively implement digital marketing or maintain a social media presence in Pekanbaru. The purposive sampling method was chosen to ensure that the selected samples meet criteria aligned with the research objectives. Following the distribution of questionnaires to MSME operators in Pekanbaru, 53 samples were found to meet the criteria relevant to the study's aims. In purposive sampling, the sample size is not the primary focus, as Turner, (2020) argues that with purposive sampling, the emphasis is placed on the quality of information obtained from individuals who possess specific characteristics relevant to the research. Thus, although the sample size may be small, the quality of data collected is considered more significant, as these samples were intentionally chosen to provide in-depth insights into the specific research topic

In this study, marketing performance is measured based on Kotler, (2012) perspective, utilizing dimensions of Sales Growth, Market Share Growth, and Brand Growth. Digital marketing is measured following Kotler et al., (2024) using dimensions of Online Marketing, Mobile Marketing, Digital Platform Usage for Marketing, and Social Media Marketing. Product innovation, meanwhile, is measured according to Kotler & Amstrong, (2018) using the dimensions of Product Innovation, Technological Innovation, and Business Process Innovation.

Table 1. Respondent Profile

Respondents	Number	Percentage
Gender		
Male	22	41,51%
Female	31	58,49%
Age		
18 - 23 Years Old	10	18,87%
24 - 29 Years Old	17	32,08%
30 - 35 Years Old	8	15,09%
35 - 40 Years Old	8	15,09%
40 - 45 Years Old	7	13,21%
45 - 50 Years Old	2	3,77%
More than 50 Years Old	1	1,89%
Type of Busniess		
Culinary	18	33,96%
Furniture	3	5,66%
Handicrafts	2	3,77%
Fashion/Apparel	4	7,55%
Automotive Business	1	1,89%
Cafe or Restaurant	1	1,89%
Coffee Shop	4	7,55%
Electronic Store	1	1,89%
Music Instrument Store	1	1,89%
Eyewear Store	1	1,89%
Jewelry Store	1	1,89%
Souvenir Shop	1	1,89%
Laundry Service	3	5,66%
Perfume Store	1	1,89%
Services Business	11	20,75%
Business Capital		
< Rp 1.000.000.000	35	66,04%
Rp 1.000.000.000- Rp 5.000.000.000	11	20,75%
Rp 5.000.000.000- Rp 10.000.000.000	7	13,21%
Annual Income		
< Rp 2.000.000.000	35	66,04%

| Rp 2.000.000.000-Rp 15.000.000.000 | 10 | 18,87% |
| Rp 15.000.000.000-Rp 50.000.000.000 | 8 | 15,09% |

The respondent demographics presented in Table 1 indicate that the study's respondents are predominantly female, accounting for 58.49% (n=31), while males constitute 41.51% (n=22). The age range is dominated by respondents aged 24-29 years, representing 32.08% (n=17). The type of business managed by respondents is primarily in the culinary sector, comprising 33.96% (n=18). In terms of business capital, the majority falls within the range of less than IDR 1,000,000,000, accounting for 66.04% (n=35). Regarding annual income, respondents with an income of less than IDR 2,000,000,000 also represent 66.04% (n=35).
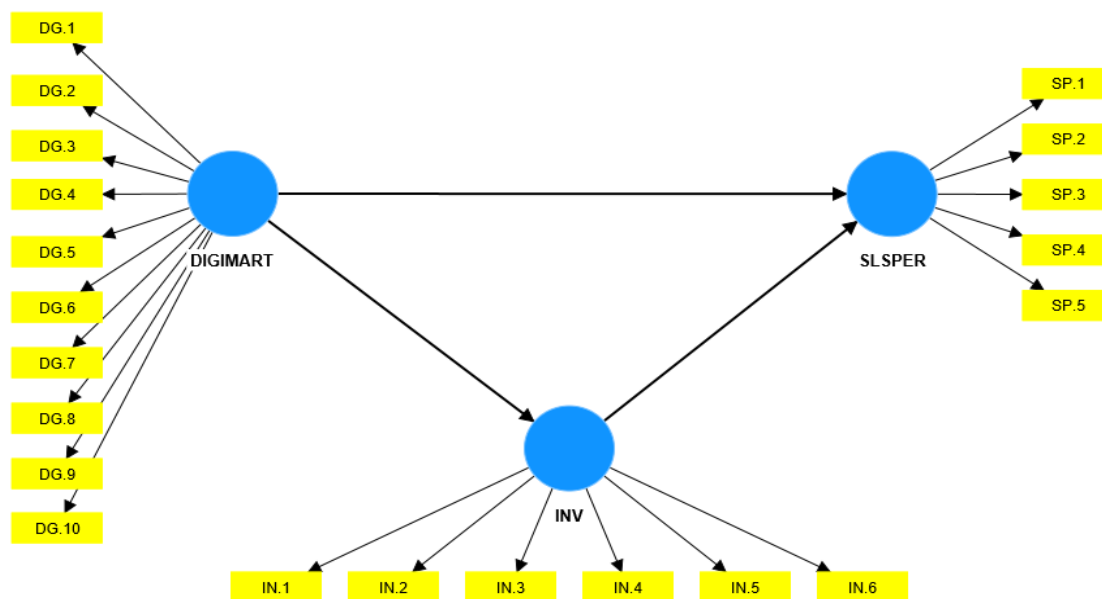

Figure 1. Path Coefficient

RESULTS

Validity measurement involves testing how well a developed instrument reflects the values needed to measure the research instrument. The higher the instrument value, the better it represents the measurement indicators of the research instrument (Latan & Ghozali, 2017). To assess validity, it is necessary to test the relationships between variables, specifically measuring Discriminant Validity and Average Variance Extracted (AVE), with an expected AVE value of greater than 0.5 (Sarstedt et al., 2020). Reliability for a construct with reflective indicators can be measured by calculating the composite reliability. For assessing construct reliability, a composite reliability score greater than 0.7 is typically required for confirmatory research, while values between 0.6 and 0.7 are still acceptable for exploratory research (Latan & Ghozali, 2017).

Table 2. Construct Reliability and Validity

Laten Variabel	Cronbach's alpha	Average Variance Extracted (AVE)
DIGIMART	0,903	0,532
INV	0,938	0,768
SLSPER	0,938	0,801

Given the note:
DIGIMART stands for Digital Marktering
INV stands for Product Innovation
SLSPER stands for Sales Performance

The results in Table 2 show that the AVE values for each latent variable are greater than 0.5. Furthermore, the Cronbach's alpha values exceed 0.7, indicating that all variables in this study meet the reliability criteria (Sekaran & Bougie, 2011). With Cronbach's alpha values above 0.8, these results suggest

that the measurement instruments in this study are of high quality and can consistently measure the same constructs, thus confirming their reliability.

Table 3. Construct Reliability and Validity

Indicator	Digital marketing	Product Innovation	Sales Performance
Digital Marketing			
DG.1	0,656	0,332	0,460
DG.2	0,687	0,350	0,435
DG.3	0,677	0,368	0,248
DG.4	0,611	0,448	0,383
DG.5	0,737	0,682	0,533
DG.6	0,814	0,534	0,550
DG.7	0,688	0,624	0,533
DG.8	0,847	0,652	0,553
DG.9	0,778	0,714	0,670
DG.10	0,767	0,636	0,646
Product Innovation			
IN.1	0,655	0,903	0,774
IN.2	0,643	0,894	0,751
IN.3	0,738	0,875	0,679
IN.4	0,754	0,928	0,698
IN.5	0,694	0,913	0,836
Sales Performance			
SP.1	0,631	0,706	0,853
SP.2	0,616	0,671	0,925
SP.3	0,626	0,686	0,914
SP.4	0,611	0,784	0,900
SP.5	0,700	0,845	0,881

Source: Processed Data SEMPLS 2024

Table 3 shows that the estimated loading values for each indicator on its respective construct are higher than their cross-loading values. This indicates that each indicator has good discriminant validity, meaning that the indicators within each construct's indicator block are more strongly related to their own construct than to indicators in other blocks.

The R-square assesses the extent to which variations in the dependent (endogenous) values can be explained by the influencing (exogenous) variables. It can be used to predict whether a model is very strong or very weak. The R-square value for an endogenous latent variable indicates the model's strength: a value of 0.75 suggests a substantial (very strong) model, 0.50 indicates a moderate model, and 0.25 represents a weak model (Cooper & Schindler, 2014).

Table 4. Measurement Model Test Result

Dependen Variable	R-square	R-square adjusted
INV	0,588	0,580
SLSPER	0,706	0,695

The results show that the adjusted R-square value for the innovation variable is 0.580, indicating that digital marketing has a moderate effect on innovation. Similarly, the adjusted R-square value for the marketing performance variable is 0.695. Both values fall within the moderate category, aligning with (Sarstedt et al., 2019) classification.

The purpose of this test is to determine the path coefficients in the structural model, with the primary goal of assessing the significance of each relationship or hypothesis. In this investigation, hypothesis testing is categorized into direct and indirect effects. The path coefficient illustration below presents the results of hypothesis testing for both direct and indirect effects, obtained through data analysis using the SmartPLS 4.0 software.

Table 5. Hypothesis Testing Results

	Original sample (O)	T statistics (|O/STDEV|)	P values	Decision
DIGIMART → SLSPER	0,186	1,977	0,048	Accepted
DIGIMART → INV	0,767	10,067	0,000	Accepted
INV → SLSPER	0,689	7,786	0,000	Accepted

The direct effects presented in Table 6 address hypotheses H1, H2, and H3. Table 5 explains that Digital Marketing impacts marketing performance in MSMEs in Pekanbaru, with an original sample value of 0.186 for H1, a t-statistic of 1.977, and a p-value of 0.048, indicating that H1 is accepted. Furthermore, the effect of Digital Marketing on Product Innovation shows an original sample value of 0.767, with a t-statistic of 10.067 and a p-value of 0.000, meaning H2 is accepted. For hypothesis H3, the effect of Product Innovation on Marketing Performance has an original sample value of 0.689, a t-statistic of 7.786, and a p-value of 0.000, confirming that H3 is accepted.

Table 6. Hypothesis Testing Results

	Original sample (O)	T statistics (|O/STDEV|)	P values	Decision
DIGIMART → INV → SLSPER	0,528	5,509	0,000	Accepted

Source: Processed Data SEMPLS 2024

The indirect effects between the independent and dependent variables in this study are presented in Table 5. The findings indicate that product innovation serves as a positive mediator, with an original sample value of 0.528, a t-value of 5.509, and a p-value of 0.000. This result signifies that H4 is accepted, meaning Digital Marketing has a positive and significant influence on marketing performance in MSMEs in Pekanbaru.

DISSCUSSION

The findings for the first hypothesis indicate that digital marketing directly impacts the marketing performance of MSMEs in Pekanbaru. This result suggests that using digital media as a business development strategy is essential in today's market—not merely as a tool for sales or promotion but as part of a well-planned and invested digital marketing strategy required to achieve full efficiency and enhance marketing performance. In the context of MSMEs in Pekanbaru, the role of digital marketing in boosting marketing performance is highly significant. Most respondents in this study reported experiencing positive impacts of digital marketing on their business's marketing performance. This finding aligns with research by Rizvanović et al., (2023) and Susanto et al., (2023) , who emphasize that digital marketing should be regarded as an integral part of a company's overall business strategy rather than as a separate implementation decision. The findings of this study are supported by prior research, which highlights that digital marketing plays a vital role in improving MSME marketing performance, enabling them to compete more effectively in an increasingly digital market (Latifah et al., 2021)

The findings from testing the second hypothesis reveal that digital marketing directly influences product innovation in MSMEs in Pekanbaru. Digital marketing has a significant impact on product innovation. Through the use of digital technology, companies can create, communicate, and deliver valuable products to customers, thereby significantly enhancing their competitive edge. Digital technology-based innovation has become transformational in multiple ways, impacting corporate marketing behaviors, consumer search and purchasing behaviors, as well as the structural characteristics of markets and industries across micro, small, and medium enterprises (Varadarajan, 2018; Varadarajan et al., 2022). These findings are further supported by studies from (Lantu et al., 2017; Taiminen & Karjaluoto, 2015) which affirm that digital marketing utilization enhances MSME competitiveness in terms of both quality and quantity of the products produced.

The findings for the third hypothesis indicate that product innovation influences marketing performance in MSMEs in Pekanbaru. Product innovation not only strengthens a company's market position but also enhances its competitiveness through product differentiation. Product innovation can directly impact marketing performance, highlighting a close relationship between new product development and innovative

marketing strategies, which ultimately improves the company's marketing performance. Innovative products not only meet current market demands but also create new market opportunities, which, in turn, boost the company's marketing and financial performance (Gupta, 2021). These findings are supported by research from Ungerman et al. (2018), which states that marketing innovation, including product innovation, has a positive influence on a company's competitiveness and marketing performance

The results of the final hypothesis test, Hypothesis Four, indicate that digital marketing affects marketing performance through product innovation as a mediator. Product innovation serves as a crucial mediator in the relationship between digital marketing and marketing performance in MSMEs. Digital marketing, through the effective use of digital technology, can enhance product visibility and expand market reach for MSMEs. According to Khin & Ho, (2019) strategic use of digital marketing can help identify rapidly changing market trends and customer preferences, providing MSMEs with the information necessary to develop relevant product innovations. Thus, product innovation is key to translating the potential of digital marketing into tangible improvements in marketing performance. Innovative products that align with current market needs are more likely to receive a positive response from digital marketing efforts, thereby enhancing overall marketing effectiveness. These findings are supported by studies conducted by (Al-Dmour et al., 2022; Susanto et al., 2023).

Based on the above explanation, it is evident that digital marketing influences both the dependent variable and its mediating variable. This can be explained by the respondent demographics in this study, which predominantly consist of young MSME operators who actively participate in using digital media in their business operations. Young generations, familiar with digital media, tend to use it to gain a competitive advantage, which ultimately impacts both the financial and non-financial performance of their businesses. Similar insights are noted by Rizvanović et al., (2023) who state that young entrepreneurs employ various market research techniques through digital marketing channels to understand the market, target customers, and address their needs. They adopt strategies of rapid, small-scale experimental approaches and simple logistical processes to minimize waste and focus on the most promising markets before product launch. This illustrates how young entrepreneurs leverage digital marketing to enhance the marketing performance of their businesses more effectively and efficiently.

CONCLUSION

Based on the findings of this study, it can be concluded that digital marketing has a direct effect on marketing performance and product innovation in MSMEs in Pekanbaru. Additionally, product innovation has a direct effect on the marketing performance of MSMEs in Pekanbaru. This study also reveals that product innovation serves as a mediator in the relationship between digital marketing and marketing performance in MSMEs in the Pekanbaru.

This study has theoretical implications, particularly in strengthening the existing literature linking digital marketing with marketing performance, specifically within the context of MSMEs. By demonstrating that product innovation acts as a mediator, this research expands our understanding of how digital technology indirectly influences performance through innovation. By incorporating the Technology Acceptance Model (TAM) into the context of digital marketing for MSMEs, the study provides new insights into the factors that affect technology adoption among MSMEs, especially in developing innovative products. It also adds empirical evidence that product innovation is not only limited to physical enhancements but also includes process and technological innovation, which impacts MSMEs' marketing performance.

Beyond its theoretical implications, this study offers several practical implications for MSMEs in Pekanbaru. MSME operators can leverage the findings to optimize their digital marketing strategies, focusing not only on promotion but also on product development that is responsive to market needs and technological trends. Government agencies and policymakers can utilize these findings to design more effective support programs for MSMEs, such as training in digital marketing and product innovation and providing incentives

for adopting new technologies. For MSMEs facing challenges in implementing digital marketing, consulting with business advisors specializing in digital marketing could help improve their marketing performance

This study has several limitations. The results are not specific to a particular type of MSME but are generalized to MSMEs that have implemented digital marketing in their business management. During the questionnaire distribution, MSME operators initially expressed concerns about the digital link sent for the survey. However, after clarification, they agreed to complete the online questionnaire. Therefore, we recommend that future researchers employing online questionnaire distribution consider developing more effective methods for online distribution to enhance response rates and data quality.

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