

THE EFFECT OF PRODUCT INNOVATION, VALUE CO-CREATION ON MARKETING PERFORMANCE OF A SMEs IN COVID-19 PANDEMIC ERA

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ABSTRACT

This study aims to analyze product innovation and value co-creation on marketing performance in this pandemic covid-19. SMEs of food and beverage used as a sample. Sampling was done using a purposive sampling technique. Data were collected using a self-administered questionnaire. This study uses 34 data from MSMEs in the food and beverage sector affected by COVID-19. Partial Least Square (PLS) on Structural Equation Modeling (SEM) was chosen as the research method in this study. The results show that value co-creation have a significant effect on marketing performance. Product innovation negatively and not significant effects on marketing performance, and value co-creation significantly affect product innovation. The novelty in this study is a phenomenon that occurs; that is when the Covid-19 pandemic spreads in Indonesia. This study's limitation is needed to add other variables beyond the variables already in the model. This study only focused on SMEs for the food and beverage sector

Keywords: COVID-19, marketing performance, MSMEs, product innovation, value co-creation

INTRODUCTION

Micro, small, and medium enterprises (MSMEs) in food and beverage sectors are one of the most affected sectors by the Covid-19 pandemic (Nugraha, 2020). The pandemic has disrupted supply and demand, which have an impact on the national economy. MSMEs are the backbone of the Indonesian economy that there are 64 million MSMEs that contribute to 97% of the total workforce and 60% of the national GDP (KemenkopUKM, 2020). It is in line with the Organization for Economic Cooperation and Development, (2020); states that after September 2020, there is half of MSME who have

stop production due to the pandemic, so that sales have decreased by 70 percent. (KemenkopUKM, 2020). The Covid-19 pandemic has a massive impact on the food and beverage business sector. The result was a dramatic drop in purchases, forcing them to close entirely, resulting from a decrease in people's purchasing power as a result of several layoffs and salary cuts, as well as online schools, working, and worship from home.

To face all the challenges that exist, MSMEs need innovation and collaboration to increase their competitive advantage to face all the challenges. It is supported by the World Competitiveness Center (2020) in the IMD World Digital Competitiveness Ranking, which measures the capacity and readiness of 63 countries to adopt and explore digital technology for economic and social transformation. Indonesia's position is still relatively left behind, which is 53 out of 63 countries (World Competitiveness Center, 2020). It shows that our lack of ability to innovate to create a competitive advantage. However, we cannot forget that MSMEs must continue to innovate in terms of business products and services in the presence or absence of a pandemic. Co-creation is a term that we hear more often and are widely used to explain that companies and consumers can also work together to create new value. Value co-creation can be done between Business-to-Business, Business-to-Customer, and something that is happening is an interaction between Customer-to-Customer.

Value co-creation orientation is defined as the process of integration and transformations of resources (human, technological, organizational, and sharing information) that will impact the value of networking (Restuccia, 2009). Value co-creation is defined as resource integration from multi-actor interactions enabled and constrained by endogenous norms, beliefs, and meanings in a nested and interlocking service ecosystem. Value co-creation in an SME is essential to develop related capabilities (Stephen L. Vargo & Robert F. Lusch, 2017). The original concept of value co-creation comes from (Vargo & Lusch, 2004). According to them, all customers are considered to be value co-creators. Saarijärvi Kannan and Kuusela explain that the Co-creation always involves customer and company perspectives (Saarijärvi et al., 2013). They generate the idea together with the mechanism of co-distribution, co-design, and co-development. Value creation is a concept that makes the company deliver the performance for customer desire with the innovation.

To survive during the Covid-19 pandemic, all SME owners should think fast, innovative, and creative. Restuccia & Ouellet then proposed that the co-creation of value positively affects firm performance (Restuccia, 2009). This theory applies when conditions are normal without the Covid-19 pandemic. The ability of MSMEs to survive and continue to develop can be seen from their performance marketing. Thus, this research wants to know the effect of social media on creating value of co-creation and product innovation to increase the marketing performance of MSMEs in the pandemic era. Coupled with the pandemic conditions, MSMEs should give the best effort to survive. Thus, I decided to

examine the impact of product innovation and value co-creation on marketing performance during the Covid-19 pandemic from the background above. The novelty in this research is a phenomenon that occurs when the Covid-19 pandemic spreads in Indonesia.

Based on the background that has been made, this study has several research objectives; a) to analyze the effect of Product Innovation on SMEs' marketing performance to survive in the pandemic era. b) to analyze the effect of value co-creation on product innovation on SMEs to survive in the pandemic era. c) to analyze the effect of value co-creation on marketing performance on SMEs to survive in the pandemic era. Based on the background description above, it is necessary to define the boundaries of the problem. The problem boundaries are as follows: 1) This research was only conducted on SMEs of the food and beverage sector who continued to operate during the Covid-19 Pandemic. 2) The data used is a questionnaire distributed via google form to SME owners who meet the research requirements.

LITERATURE REVIEW

The Concept of Product Innovation

Product Conceptually, every company needs product innovation to succeed, survive and will gain a sustainable competitive advantage (Tuan et al., 2016). Product innovation is the first stage in the life cycle management process (Parry et al., 2009). This statement means that doing innovation must be truly well planned because is a fundamental part of life cycle management (Samsul Haji, Rois Arifin, 2017)(Nataya, 1967). The form of product innovation, one of which is as understanding and implementing new products because that is a process of understanding, so we cannot expect that the innovation will happen in a short time (Nakata & Sivakumar, 1993). This is in line with developments and radical changes in the performance attributes of a product can be defined as product innovation (Shirokova et al., 2013). Six elements new product development innovation are product innovation, process innovation, market innovation, service innovation, behavioral innovation and managerial innovation proposed by Vinayak and Kodali (Authors, 2014). In previous research that discusses product innovation process between product innovation performance and business performance, the results show that innovation performance variables positively affect the firm's sales.

The Concept of Co-Creation

The concept of co-creation of value reflects the fact that value is not created exclusively by companies. However, from their interaction with different actors, including the customer (Hidayati & Novani, 2015), this statement means consumers play an essential role in shaping the value of a company, which with this value is expected to create loyal customers and make the company survive in this pandemic era. Co-creation is also associated with the Service-Dominant Logic, which appears when customers use the products or the services of a company to meet their needs (Vargo & Lusch, 2004). Co-creation can be done through customers' participation in two ways: customers can contribute by sharing their views with the manufacturing company, or they can be directly involved in the main manufacturing processes (Barbu & Militaru, 2019). The concept of

co-creation of value reflects the fact that value is not created exclusively by companies. However, from their interaction with different actors, including the customer (Hidayati & Novani, 2015).

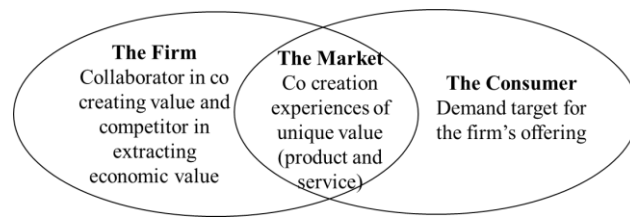


Figure 1. Firm-Consumer Interaction by Value Co Creation

The basis for value creation is the interaction and knowledge between producers and consumers, through (Ramaswamy, 2004) : (1) interaction is the locus co creation of value and economic value extraction by consumer and firm; (2) co creation experience are basis of the value. Which with this value is expected to create loyal customers and make the company survive in this pandemic era? collaboration between customers and companies is necessary facilitated by a supportive environment, which is reflected in the DART model by Prahalad and Ramaswamy (Ramaswamy, 2004). There are four components adopted in the DART Model for this study: Dialogue, which represents the ongoing interaction between a company and its consumers in an unrestricted, content-rich and term-equivalent way. Access, which consists of tools and procedures - mostly related to communication - that facilitate co-creation and increase freedom of choice for customers. Risk assessment, includes actions that enable the customer to fully evaluate the risks involved in accepting a value proposition. Transparency, the extent to which the company has succeeded in reducing information asymmetry in the relationship between the company and its customers. The emphasis on value co-creation is an interaction between dialogue, access, risk assessment and transparency between producers and consumers (Ramaswamy, 2004).

In previous research that discusses Value Co-Creation between Manufacturing Companies and Customers, the results pointed out that sustainable development in manufacturing companies will positively affect the co-creation value. The IT competency can also positively affect sustainable development, while a high IT competency level will positively affect the customer co-creation value. This research claims that with a sound IT system can positively impact forming the customer's value.

The Concept of Marketing Performance

The value of co-creation has two sides. First, value creation is based on the perspective of corporate, and the second is value creation based on the customers' perspective. Both parties then provide resources to process value creation by integrating each party's resources through the mechanism of co-design, co-development, or distribution (Saarijärvi et al., 2013).

Research by Mursid, Suliyanto, & Rahab (Mursid, 2019) using the marketing performance construct from Akroush (2012) says that marketing performance has 5 constructs, namely Product launch on time, new product speed to market, sales new

product, market share, marketing benefit. related to market share, determinants of sales, and premium income from products and services is the definition of market performance

In previous research that discusses the effect of value co-creation on marketing performance gives results that this study found a positive and significant effect of value co-creation on marketing performance, which means that the higher the level of value co-creation is done, the firms in the creative industry will increase its marketing performance. This finding provides strong support for the importance of product innovation and value co-creation in improving marketing performance evidenced a significant positive effect of entrepreneurial innovativeness orientation on product innovation and a significant positive effect of product innovation on marketing performance. On the other hand, the results of this study confirm the importance of value co-creation as an important aspect of relationship product innovation and marketing performance, which proved the positive effect of product innovation on value co-creation and the positive effect of value co-creation to marketing performance (Killa, 2016).

RESEARCH METHOD

Research Flow

The research begins with conducting a literature study on the research topic raised. So that through this literature study will produce secondary data in the form of factors related to the influencing of marketing performance at UMK during the Covid-19 pandemic. Then this factor is the basis in the process of compiling the questionnaire. Each questionnaire that is made will go through a pilot study stage to determine whether the questions posed in this questionnaire are appropriate and easy to understand for respondents. The resource person in this study also acts as a validator of any questions asked. Questionnaire for MSME players in the food and beverages sector. The input received after the pilot study will be used to refine the questionnaire questions that have been compiled for later distribution. The questionnaire results will be analyzed to examine the effect of value co-creation, product innovation on marketing performance at UMK during the Covid pandemic. The flow of the research stages can be seen in Figure 2.

Research data

The data used in this research is a combination of two types of data. First, primary data obtained by researchers directly and not from other parties or suggestions. The primary data required in this study are surveys and questionnaires filled directly by the respondents. The second, Secondary data obtained from existing sources without the need to make direct observations. The secondary data needed in this study is literature available both online and offline.

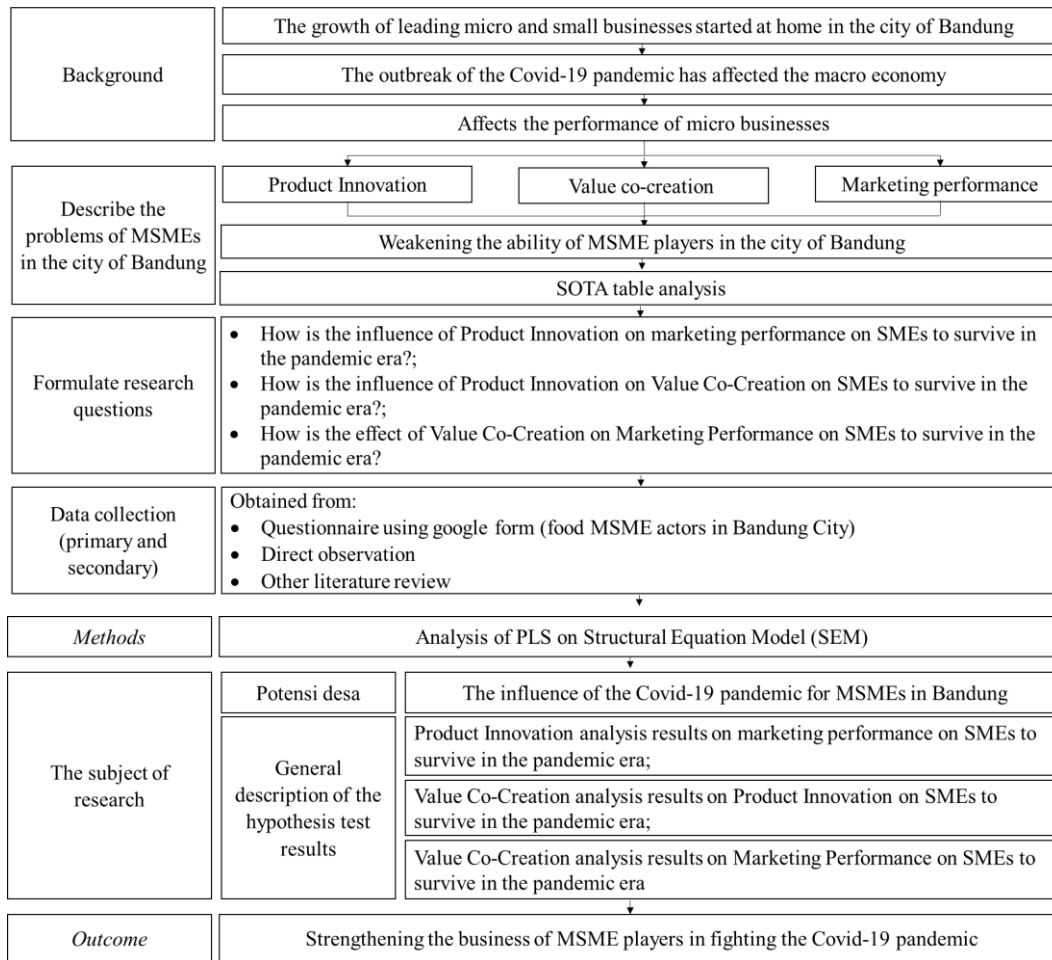


Figure 2. Research Flow

Data Collection Methods

Related to the data collection methods used in order to obtain the data needed in this study, among others:

1. Literature study. Materials from literature studies are used in various types: books, journal publications, conference results, news, and other electronic documents online and offline. The use of this literature study aims to find variables that will be used in determining factors that affect marketing performance at MSMEs during the Covid-19 pandemic. In addition, it becomes a reference in determining an appropriate research model and strengthening and deepening research analysis.
2. Pilot study. Each questionnaire that is made then goes through a pilot study stage to determine whether the questions asked are appropriate and can be easily understood by the respondent. A pilot study was conducted on MSME actors in the food sector who were still operating in Bandung City during the Covid-19 pandemic. So that the resource persons in this pilot study also act as validators of the questions asked. The input received after the implementation of this pilot study will be used to refine the

questionnaire questions that have been compiled for later distribution.

3. Questionnaire. A method of collecting data by compiling questions which the respondent must fill in to obtain answers. In this study, the questionnaire technique used was a closed questionnaire to obtain specific results. The purpose of implementing this questionnaire is to measure the attitudes, opinions, and perceptions of a person or group related to the object being studied.

Data analysis method

The data analysis technique used in this research uses Partial Least Square, where PLS is an alternative technique in SEM analysis where the data used does not have to be normally distributed multivariate. PLS testing can be estimated according to the following two models:

1. Outer model (model measurement), this model perceives the relationship between latent variables and their indicators, or in other words, the outer model defines how each indicator relates to its latent variables. The tests carried out on the outer model include:
 - a. Convergent validity, where the value of convergent validity shows the value of the loading factor on the latent variable with its indicators. The expected value is greater than 0.7.
 - b. Discriminant validity, where this value is a cross loading factor which is useful for knowing whether a construct has sufficient discriminant by comparing the loading value of the intended construct which must be greater than the loading value of other constructs.
 - c. Composite Reliability, a latent variable, can be said to have good reliability if the composite reliability value is more significant than 0.8
 - d. Average variance extracted (AVE), the expected AVE value in this study is higher than 0.5.
2. Inner model (structural model), testing on the structural model is carried out to determine the relationship between latent constructs. Some of the tests for this inner model include:
 - a. R square in endogenous construction. The value of R square is the coefficient of determination in endogenous constructs. Classification of the value of R square as 0.67 (strong), 0.33 (moderate) and 0.19 (weak)
 - b. Estimate for path coefficient, is the value of the path coefficient or the magnitude of the latent construct relationship or influence carried out by the bootstrapping procedure.

Conceptual framework

The conceptual structure is developed through a thought process and analysis of relevant literature to construct a model specification that can be used to address problem

formulations, as illustrated in Figure 3. This system demonstrates how value co-creation can impact product innovation and marketing performance. Also, product innovation can have an impact on marketing performance.

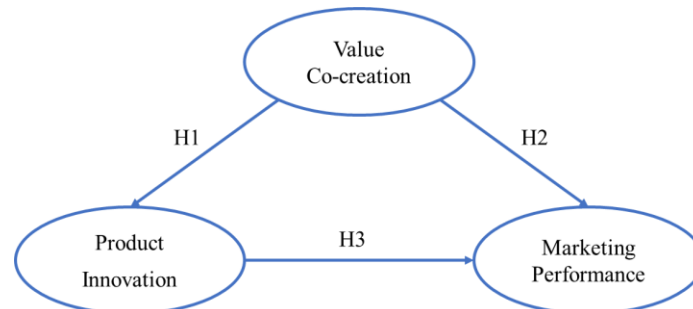


Figure 3. Conceptual Framework

Hypothesis test

Hypothesis of Value Co-Creation and Product Innovation

In previous research that discusses Value Co-Creation between Manufacturing Companies and Customers, the results pointed out that sustainable development in manufacturing companies will positively affect the co-creation value. The IT competency can also positively affect sustainable development, while a high IT competency level will positively affect the customer co-creation value. This research claims that with a sound IT system can positively impact forming the customer's value. Based on Pagani (2013) states that essentially the value creation contributes to the benefit of the end product or service. In line to Saarijärvi et al., (2013) explain that value creation is based on corporate and customers' perspective. Both parties then provide resources to process value creation by integrating each party's resources through the mechanism of co-design, co-development, or co-distribution. Value creation is a concept which describes the company's efforts to delivers superior performance for the desired customers through innovation. Therefore:

Hypothesis 1: Value co-creation is positively associated with Product Innovation.

Hypothesis of Value Co-Creation and Marketing Performance

In previous research that discusses the effect of value co-creation on marketing performance gives results that this study found a positive and significant effect of value co-creation on marketing performance, which means that the higher the level of value co-creation is done, the firms in the creative industry will increase its marketing performance. This finding provides strong support for the importance of product innovation and value co-creation in improving marketing performance evidenced a significant positive effect of entrepreneurial innovativeness orientation on product innovation and a significant positive effect of product innovation on marketing performance. On the other hand, the results of

this study confirm the importance of value co-creation as an important aspect of relationship product innovation and marketing performance, which proved the positive effect of product innovation on value co-creation and the positive effect of value co-creation to marketing performance (Killa, 2014). Based on Edvardsson et al., (2011), state that essentially the process of creating value can be understood through the social structures, and social systems are expressed through norms, values, and ethical standards. Aspara & Tikkanen (2008) stated that in the contemporary terminology, there are two approaches different strategies: value capture - strategies that ensure that the maximum value of the portion captured or provided by the firm itself in the form of profits, instead of members of the value chain or competitors. Meanwhile, value creation - as a strategy refers to the value of utility (benefit) in which products or other offers of the company created by the customer. They hypothesized that the emphasis on value creation strategy has a positive effect on firm performance. The study results Aspara & Tikkanen (2008) showed a positive and significant effect of the emphasis on value creation strategy on company performance. Similar results were also found by Sullivan et al., (2012) that positively influence the value creation of firms' sales performance. Therefore:

Hypothesis 2: Value co-creation is positively associated with marketing performance.

Hypothesis of Product Innovation and Marketing Performance

In previous research that discusses product innovation process between product innovation performance and business performance, the results show that innovation performance variables positively affect the firm's sales. Based on Tung (2012) states that product innovation introduces new products to markets that use different technologies and have benefits for consumers. Research conducted by Tung (2012) is to test whether product innovation affects company performance and found that product innovation has a positive effect on company performance. Studies conducted by Verhees et al., (2010) also proved that product innovation positively and significantly affects company performance. Similarly, Rosenbusch et al., (2011)) studies to examine the relationship of innovation and performance in small businesses. The results showed that the relationship of innovation and small business performance depends on the particular situation. They found an association of small business innovation and performance is moderated by factors such as the firm's age, the type of innovation, and the influence of cultural context. Lages et al., (2009) argued that product innovation that produces high-quality products leads to positional advantages that drive end-user demand and pay at the premium price could result in increased revenue and margins. Löfsten (2014) studies to know-how innovation performance relate to business performance; the result showed that innovation performance variables (patents, copyrights, and licenses) positively affect the company's sales there were no connections to the firm's profitability. Mursid et al., (2019) studies to analyze the value of innovation as the role mediating in the relationship between new

product development Innovation. The result showed that the value of innovation based on shariah significantly affects marketing performance (NPDI) and NPD Performance. Therefore:

Hypothesis 3: Product innovation is positively associated with marketing performance.

DATA ANALYSIS AND DISCUSSIONS

The study surveyed people who own micro, small, and medium-sized businesses in the food and/or beverage sectors using online questionnaire. The data set consisting of thirty-seven and valid data is 34, data were processed using Smart PLS. The structured questionnaire comprised of a variety of scales adapted from the literature. The variables were quantified using a 5-point Likert scale (1 = 'strongly disagree' and 5 = 'strongly agree'). The characteristics of the respondents can be seen in table 1.

Multicollinearity

The tolerance value is below 10, and the value of the variable inflation factor (VIF) is above 10 then there is multicollinearity between independent variables (Pallant, 2007). In table 2, the VIF column, there are no variables with a number >10. so that it can be said that there is no multicollinearity in the data.

Internal Consistency Reliability

The reliability configuration is used to look at the consistency of results for the same variable (Vinzi, 2013). Internal consistency reliability is seen using CR. These values were set to > 0.70 to indicate internal consistency. Table 3 shows the CR values of all the latent variables used in this study.

Convergent Validity

AVE was used to examine convergent validity. Table 3 shows the AVE values. According to Hair values that show more than the specified value of 0.50 then prove convergent validity (Vinzi, 2013).

Discriminant Validity

Differences and cross-loading scores (Fornell and Larcker, 1981) were used to validate discriminant validity. All individual load indexes are higher than their typical cross loads (Vinzi, 2013). Table 4 shows the Larcker Fornell criteria.

Table 1. Characteristic Respondents

Characteristic	Frequency	Percentage	Cumulative Percentage
Gender			
Female	23	68	68
Male	11	32	100
Age			
18-25 years	9	26	26

26-33 years	21	62	88
34-41 years	3	9	97
>42 years	1	3	100
Experience			
<1 year	13	38	38
2-5 years	15	44	82
5-10 years	3	9	91
>10 years	3	9	100
Education Level			
SMA	5	14.7	14.7
D3	1	2.9	17.6
S1	24	70.6	88.2
S2	4	11.8	100
Average monthly sales income before the pandemic			
≤300.000.000	28	82	82
300,000,001- 2,500,000,000	6	18	100
How is sales revenue during the COVID-19 pandemic?			
Decrease	24	70.6	70.6
The same	5	14.7	85.3
Increase	5	14.7	100

Table 2. Factor Loading and VIF

Construct	Code	VIF	Factors Loading
Value Co-creation	VCC1	2.253	0.611
	VCC2	2.573	0.704
	VCC3	3.966	0.779
	VCC4	7.141	0.860
	VCC5	6.112	0.865
	VCC6	5.184	0.793
	VCC7	1.729	0.549
	VCC8	1.998	0.636
	VCC9	2.946	0.816
	VCC10	1.779	0.613
Product Innovation	PI1	1.313	0.718
	PI2	1.476	0.802
	PI3	1.390	0.849
Marketing Performance	MP1	6.394	0.909
	MP2	4.378	0.840
	MP3	3.474	0.913
	MP4	5.900	0.847
	MP5	3.038	0.766

Table 3. Construct Reliability and Validity

Construct	Cronbach' Alpha	Composite Reliability	Average Variance Extracted (AVE)
Marketing Performance	0.913	0.932	0.734
Product Innovation	0.706	0.833	0.626
Value Co-creation	0.899	0.918	0.534

Table 4. Fornell Larcker Criterion For Checking Discriminant Validity

	Marketing Performance	Product Innovation	Value Co-creation
Marketing Performance	0.857		
Product Innovation	0.112	0.791	
Value Co-creation	0.365	0.583	0.731

Path Coefficient

The image below is the result of the path analysis calculation.

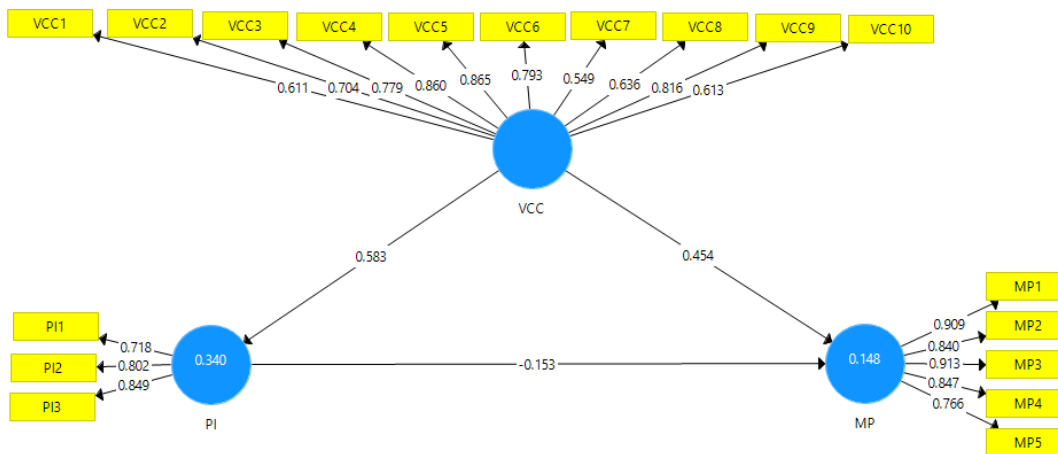


Figure 4. Path Coefficient

Hypothesis Testing

The PLS-SEM model was used to test the correlation between various constructions. We hypothesized using PLS to investigate product innovation correlation, valuation co-creation on marketing performance. The results predict that VCC and PI are significant ($P < 0.05$), while VCC and MP are significant but negatively correlated. For PI and MP, because the sample used is still too little, it causes insignificant results. The statistical findings reveal the following hypotheses.

Table 5. Structural Model Results for Hypotheses 1, 2, and 3

	T statistic	P value
PI → MP	0.623	0.267
VCC → MP	2.229	0.013
VCC → PI	6.421	0.000

H1 Testing: Value co-creation has a positive and significantly effect on product innovation.

Analysis of the collected data proves that value co-creation (VCC) has a significant positive effect on product innovation (PI) (<0.05 ; Table 5). The results are in accordance with several findings in previous studies, which stated a positive and significant relationship between VCC and PI. This is in line with research from Killa (2014) that Further product innovation also have significant positive effect on value co-creation(Killa, 2014). In this pandemic situation collaboration between consumer and SMEs can increase product innovation.

H2 Testing: Value co-creation has a positive and significantly effect on marketing performance.

Analysis of the collected data proves that VCC positively and significantly affects marketing performance. The result is in line with several findings in previous studies. For example Suwandari said that value co-creation positively and significantly affects marketing performance(Suwandari et al., 2017). In this pandemic situation co-creation between consumer and MSMEs can improve their marketing performance.

H3 Testing: Product Innovation has a negative effect and insignificantly on marketing performance.

Analysis of the collected data proves that PI negatively affects marketing performance. The result is different from existing research. For example, Anning-Dorson and Afriyie(Anning-dorson, 2017)(Afriyie et al., 2018) said that PI positively affects marketing performance. This insignificance is due to the amount of data processed is too little. This difference can also be used as a consideration for future research

CONCLUSIONS AND SUGGESTIONS

VCC was positively and significantly associated with PI, which supports H1. Therefore, MSME players need to involve consumers in their business activities to create more new products or services. VCC was positive and significantly associated with MP, which support H2. It is a in line with previous study because in previous studies, VCC positively affects MP. It means that if MSME actors do the activities that involve consumers during a pandemic, then marketing performance will increase. PI was negatively and not significantly associated with MP. This can be caused in this pandemic situation to improve marketing performance is not only from product innovation. The decrease in marketing performance due to the declining purchasing power of the people.

MSMEs must increase interaction and involve customers in business processes so that value co-creation can be formed which has an impact on increasing marketing performance. Interaction with customers in creating value co-creation can also help SMEs in creating product innovations. However, product innovation has not had a significant impact on increasing marketing performance, during the current pandemic, MSMEs are expected to not only increase product innovation but also service innovation to stop the spread of the virus. Improving service innovation such as improving cleanliness, and also

monitoring employee health or providing services that can make it easier for consumers to access products offered by MSMEs.

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