

The Influence of Product Innovation and Digital Marketing on Business Performance through Competitive Advantage in the Pet Supply Industry

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ABSTRACT

The increasing demand for pet rabbits has driven high consumer interest in pet supplies, creating both opportunities and challenges for businesses to develop sustainable competitive advantages. This study analyzes the influence of Product Innovation and Digital Marketing on SkinnyFat Factory's Business Performance, with Competitive Advantage as a mediating variable. A quantitative approach was employed, using an online questionnaire distributed to 150 respondents selected through purposive sampling. Respondents were consumers who had purchased or provided SkinnyFat Factory products for their pets. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) through SmartPLS 4.0 and bootstrapping techniques. The findings indicate that Product Innovation and Digital Marketing have a positive and significant impact on Business Performance ($p < 0.05$). Both variables also significantly influence Competitive Advantage, which mediates its effect on Business Performance. This study contributes to the literature by addressing a research gap: while previous studies have explored innovation and digital marketing in MSMEs, few have examined the mediating role of competitive advantage in a niche market such as pet supplies. Its novelty lies in mapping the relationship between innovation, digital marketing, and competitive advantage to improve business performance. This insight underscores the importance of continuous innovation and a targeted digital marketing strategy for maintaining long-term competitiveness and growth.

Keywords: Business Performance, Competitive Advantage, Digital Marketing, Product Innovation.

ABSTRAK

Meningkatnya permintaan kelinci peliharaan telah mendorong minat konsumen yang tinggi terhadap perlengkapan hewan peliharaan, menciptakan peluang sekaligus tantangan bagi bisnis untuk mengembangkan keunggulan kompetitif yang berkelanjutan. Studi ini menganalisis pengaruh Inovasi Produk dan Pemasaran Digital terhadap Kinerja Bisnis SkinnyFat Factory, dengan Keunggulan Kompetitif sebagai variabel mediasi. Pendekatan kuantitatif digunakan, menggunakan kuesioner daring yang disebarluaskan kepada 150 responden yang dipilih melalui purposive sampling. Responden adalah konsumen yang telah membeli atau menyediakan produk SkinnyFat Factory untuk hewan peliharaan mereka. Data dianalisis menggunakan Partial Least Squares Structural Equation Modeling (PLS-SEM) melalui SmartPLS 4.0 dan teknik bootstrapping. Temuan menunjukkan bahwa Inovasi Produk dan Pemasaran Digital berdampak positif dan signifikan terhadap Kinerja Bisnis ($p < 0,05$). Kedua variabel tersebut juga secara signifikan memengaruhi Keunggulan Kompetitif, yang memediasi pengaruhnya terhadap Kinerja Bisnis. Studi ini berkontribusi pada literatur dengan mengatasi kesenjangan penelitian: meskipun studi sebelumnya telah mengeksplorasi inovasi dan pemasaran digital di UMKM, hanya sedikit yang mengkaji peran mediasi keunggulan kompetitif dalam ceruk pasar seperti perlengkapan hewan peliharaan. Kebaruannya terletak pada pemetaan hubungan antara inovasi, pemasaran digital,

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Kata kunci: Kinerja Bisnis, Keunggulan Kompetitif, Pemasaran Digital, Inovasi Produk.

INTRODUCTION

Rabbits are one of the pets that are increasingly popular with Indonesian people who come from various economic backgrounds and a fairly wide age range. Rabbits are animals that are easy to breed by breeders; besides, this animal is also not too difficult to care for. The results of a survey conducted by the Rakuten Insight Global research institute in 2021 showed that rabbits as pets dominate the market by 5% compared to other pets such as cats, dogs, and reptiles as pets. Many people are interested in rabbits as pets because rabbits are included in the category of pets that are allowed to travel with their owners in the aircraft cabin on several airlines (Putra et al., 2025). According to iPrice, based on research that has been conducted on the trend of keeping pets in Indonesia, there has been a significant growth of up to 66% compared to the period in 2019 (Tarazona-Montoya et al., 2024). Research conducted by Abdillah (2023) stated that during the COVID-19 pandemic, more and more people were adopting pets. This increase occurred because many pet parents uploaded their pets on social media, thus attracting the attention of many people to find more information about their pets. Data that also shows an increase in public interest in pets comes from KAI Logistics, which noted that the average monthly pet shipments in 2025 increased by 30% compared to the previous year (Media Indonesia, 2025).

The increasing demand and public interest in purchasing pets has a significant impact on the increase in purchases of various equipment needed for pets, such as cages, food, toys, and various other equipment needed by pets. This condition has encouraged the emergence of more and more pet shops that not only sell pets but also sell various equipment and supplies needed by pets. Persada et al. (2025) stated that the market for pet products and their supporting products will continue to grow by 14% annually, with an increase in potential in the pet service industry in Indonesia by 7.1% annually. As pets, rabbits also need equipment to support their lives. One of the equipment needed is safe and natural rabbit toys. Types of safe and natural pet toys are currently still difficult to find in Indonesia. There are several types of rabbit toys that are already available on the market, but usually use plastic or foam as the basic material. The number of rabbit toys is also still very limited, and the prices offered are relatively expensive (Alias et al., 2016; Dwivedi et al., 2021). Most of the rabbit toys on the Indonesian market come from foreign manufacturers such as China and Vietnam, so it affects the import and distribution costs that must be borne by the seller. In addition, currently there are still not many local entrepreneurs who have not focused on the production of handmade rabbit toys in Indonesia.

Despite the growing pet market, there is a clear gap in the availability of safe, natural, and locally produced rabbit toys in Indonesia. The current market offerings are dominated by imported products with questionable materials and high costs, leaving a niche for affordable, eco-friendly alternatives. Local entrepreneurs have yet to fully capitalize on producing handmade rabbit toys, which could address consumer needs for safety and affordability while reducing reliance on costly imports (Hili, 2022; Jurnalita, 2024; Mariani & Dwivedi, 2024). This gap presents an opportunity to explore local production as a solution to meet market demands.

This study aims to investigate the potential for developing safe, natural, and affordable rabbit toys by local entrepreneurs in Indonesia, focusing on how product innovation and digital marketing can enhance competitive advantage and business performance. By addressing the shortage of high-quality, locally made pet toys, the research seeks to propose strategies for SkinnyFat Factory to capture the growing pet market, reduce

dependency on imports, and meet consumer expectations for sustainable and cost-effective products.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

Product Innovation

Product innovation significantly influences business performance, as it drives the creation of solutions that address consumer needs and enhance market competitiveness. According to Akbar and Amir (2024), product innovation encompasses developing new ideas, leveraging advanced technology, and exploring untapped markets to meet evolving consumer expectations. Kenneth (2014) emphasizes that innovation extends beyond creating new products to improving existing ones and adapting to market trends, ensuring relevance and customer satisfaction. Firanda and Moko (2023) and Fauzan (2024) highlight that product innovation is vital for businesses to remain competitive, offering superior, efficient solutions that align with dynamic customer demands. For SkinnyFat Factory, product innovation, such as developing differentiated rabbit toys, enhances customer satisfaction and profitability, aligning with market opportunities in Indonesia's growing pet rabbit industry (Distanont & Khongmalai, 2018).

Digital marketing has a significant effect on business performance by expanding market reach and optimizing customer engagement. Syukri and Sunwarali (2022) note that digital marketing provides a competitive edge through cost-efficient strategies, precise market segmentation, and real-time analytics. Dwivedi et al. (2018) emphasize its role in boosting brand awareness and sales through platforms like TikTok and e-commerce, which offer insights into consumer behavior. Tarazona-Montoya et al. (2024) identify key indicators of effective digital marketing, including accessibility, interactivity, and informative value, which enhance customer loyalty and reduce transaction costs. SkinnyFat Factory, leveraging digital marketing strategies, such as targeted social media campaigns, strengthens its market position and supports sustainable business growth in a digitally transformed ecosystem (Putra et al., 2025).

H1: Product innovation has a significant effect on business performance.

H2: Digital marketing has a significant effect on business performance.

Product Innovation, Digital Marketing on Competitive Advantage

Product innovation significantly boosts a company's competitive edge by offering unique solutions that stand out in the market. Wulan et al. (2024) describe it as a dynamic process of generating fresh ideas, adopting cutting-edge technology, and tapping into new markets to create value for customers. Kenneth (2014) points out that innovation isn't just about launching new products but also refining existing ones to keep up with shifting market trends. Abdillah (2023) emphasize that innovation tackles consumer challenges creatively, while Pratama (2024) stress its focus on meeting unmet needs, as seen in SkinnyFat Factory's innovative rabbit toys tailored for Indonesia's growing pet market (Distanont & Khongmalai, 2018; Ramadhani, 2024). Farida and Setiawan (2022) highlight that skilled teams fuel innovation, enabling businesses to craft standout products and gain a competitive advantage through differentiation and adaptability (Prihandono et al., 2024).

Digital marketing also plays a pivotal role in strengthening competitive advantage by expanding reach and deepening customer connections. Rosari et al. (2024) note its cost-effective power to boost sales through targeted market segmentation. Dwivedi et al. (2018) explain that platforms like TikTok enhance brand visibility and sales with real-time data insights. Tarazona-Montoya et al. (2024) point to accessibility, interactivity, and credibility as key drivers of effective digital strategies, building trust and loyalty. For SkinnyFat Factory, strategic digital campaigns elevate brand presence and market positioning, riding the wave of digital transformation (Rahim et al., 2017). Together, product innovation and digital marketing empower businesses to deliver value and stay ahead in a competitive landscape (Feranita & Setiawan, 2018; Farida & Setiawan, 2022).

H3: Product innovation has a significant effect on competitive advantage.

H4: Digital marketing has a significant effect on competitive advantage.

Competitive Advantage on Business Performance

Competitive advantage significantly enhances business performance by enabling firms to outperform rivals through unique value creation. Farida and Setiawan (2022) describe competitive advantage as the core of a company's ability to succeed in market competition, driven by factors like customer service, brand reputation, product differentiation, and economies of scale. These elements allow businesses like SkinnyFat Factory to deliver superior value to consumers, strengthening their market position. Hidayat (2024) emphasize that investing in human resources fosters a knowledge-based approach, creating advantages that competitors struggle to replicate. This enables firms to identify unique opportunities, develop innovative solutions, and adapt swiftly to market shifts, ensuring sustained performance (Nusantara & Fahrizal, 2022).

Purmono (2024) outlines six key indicators of competitive advantage: successful product launches, waste reduction, expanded market opportunities, enhanced product innovation, improved processes, and better quality, which form a cycle of continuous improvement. For instance, streamlined processes reduce waste, boosting efficiency and opening new market prospects. At SkinnyFat Factory, leveraging these indicators through differentiated rabbit toys and targeted marketing has strengthened its competitive edge, directly improving operational and financial outcomes. Distanont and Khongmalai (2018) note that such strategies foster sustainable economic growth by aligning with consumer needs. By proactively creating opportunities, as highlighted by Prihatna et al. (2023), businesses ensure long-term success. Competitive advantage, therefore, acts as a critical driver, enhancing efficiency, customer satisfaction, and profitability, as demonstrated performance in Indonesia's growing pet market.

H5: Competitive advantage has a significant effect on business performance.

The Role of Competitive Advantage

Product innovation significantly enhances business performance by fostering competitive advantage through unique, consumer-focused solutions. Chandra et al. (2022) describe product innovation as a dynamic process involving new ideas, advanced technology, and untapped markets, creating value for consumers. Kenneth (2014) emphasizes that it includes refining existing products to meet evolving market demands, while Sutanto et al. (2023) highlight its role in solving consumer problems innovatively. Nizam et al. (2020) stress that addressing unmet needs drives market success, as seen in SkinnyFat Factory's rabbit toy innovations, which capitalize on Indonesia's pet market (Distanont & Khongmalai, 2018). Farida and Setiawan (2022) note that skilled human resources fuel innovation, creating differentiation and competitive advantage that enhance operational efficiency and profitability (García-Fernández et al., 2022; Fauzan, 2024).

Digital marketing also significantly boosts business performance by leveraging competitive advantage through expanded reach and engagement. Sudiro et al. (2024) highlight its cost-effective ability to increase sales via precise segmentation, while Dwivedi et al. (2018) note its role in enhancing brand awareness and sales through platforms like TikTok. Tarazona-Montoya et al. (2024) identify accessibility, interactivity, and credibility as key to effective digital strategies, fostering customer loyalty. For SkinnyFat Factory, targeted digital campaigns strengthen brand reputation, driving market position and performance (Fadhillah et al., 2021; Hadiwijaya & Prasetya, 2023). Competitive advantage, as Farida and Setiawan (2022) argue, is central to market success, with indicators like product differentiation and economies of scale amplified by innovation and digital marketing directly improving business outcomes for sustained growth.

H6: Product innovation has a significant effect on business performance through competitive advantage.
H7: Digital marketing has a significant effect on business performance through competitive advantage.

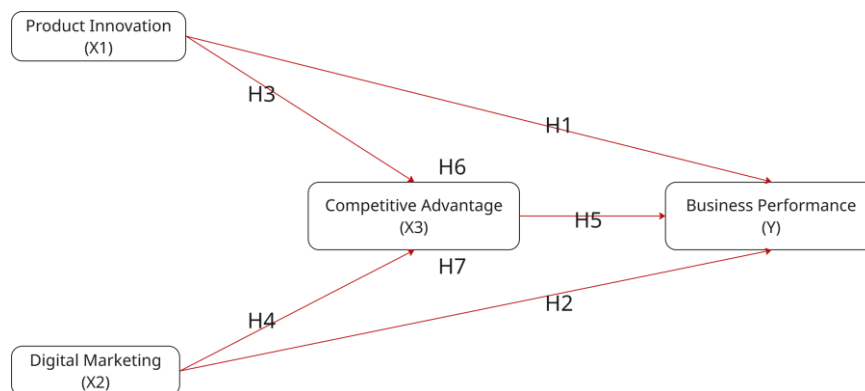


Figure 1. Conceptual Model

Figure 1 displays a conceptual model of the relationship between variables used in the study to test the effect of Product Innovation (X1) and Digital Marketing (X2) on Business Performance (Y), with Competitive Advantage (X3) as a mediating variable. This model consists of seven hypotheses, depicted by red arrows: H1 and H2 indicate the direct effect of X1 and X2 on Y; H3 and H4 test the effect of X1 and X2 on X3; H5 tests the effect of X3 on Y; while H6 and H7 explain the mediating effect of X3 in the relationship between X1 and X2 on Y. Overall, this model illustrates that increasing product innovation and digital marketing can directly or indirectly (through competitive advantage) improve a company's business performance. This approach reflects the path analysis structure commonly used in quantitative research based on Structural Equation Modeling (SEM).

RESEARCH METHODS

This study adopts a quantitative approach to test the hypotheses outlined in the research framework. Data collection was conducted using an electronic questionnaire distributed via the Google Form platform, targeting owners of small pets, such as rabbits, guinea pigs, and hamsters, who have previously purchased toys or snacks from SkinnyFat Factory for their pets. The questionnaire distribution leveraged multiple social media channels to reach respondents effectively, including Instagram direct messages, Instagram stories, and WhatsApp, as supported by Hair et al. (2019). This approach ensured accessibility and convenience for participants, aligning with the digital nature of the target audience.

The research model incorporates four primary constructs: product innovation (X1), digital marketing (X2), competitive advantage (X3), and business performance (Y). These variables form the foundation for analyzing the relationships proposed in the study. Product innovation reflects efforts to develop novel or improved products, while digital marketing encompasses strategies to enhance market reach and engagement. Competitive advantage captures the unique benefits that set SkinnyFat Factory apart, and business performance measures operational and financial outcomes.

For sampling, the study employed a Non-Probability Sampling technique, specifically purposive sampling. According to Arsyah and Pakri, (2024), this method allows for unequal selection probabilities, enabling researchers to target individuals with characteristics relevant to the study's objectives. Creswell and Creswell (2018) emphasize that purposive sampling is particularly effective when specific participant traits are required to align with research goals. In this case, the focus was on pet owners with direct experience purchasing from SkinnyFat Factory, ensuring data relevance. By combining a structured electronic questionnaire with targeted distribution and purposive sampling, the

study ensures a robust methodology to explore the interplay of product innovation, digital marketing, competitive advantage, and business performance, providing meaningful insights into SkinnyFat Factory's operations within the pet product market. The questionnaire was crafted with closed-ended questions, offering respondents a limited set of answer options to ensure precise statistical analysis. Responses were measured using a 5-point Likert scale, ranging from "strongly disagree" to "strongly agree." Hutahayan, (2020) note that this scale strikes an effective balance, making it easy for respondents to answer while maintaining measurement accuracy. For data analysis, the study utilized Structural Equation Modeling (SEM) through SMART PLS software. The analysis process included evaluating the inner model, which assesses R-Square, Goodness of Fit (GOF), and T-test metrics, and the outer model, which examines outer loading, discriminant validity, and multicollinearity to ensure the robustness of the measurement model.

RESULTS

This section presents a discussion of the research findings obtained from respondents' responses based on samples obtained by the author. The initial stage of data analysis involves validity and reliability testing as a standard procedure to verify that all indicators applied in this study meet the criteria for validity and reliability. The analysis was conducted using 150 completed and returned questionnaires from respondents. In SEM-PLS analysis, the loading factor serves as a parameter to assess the validity of the study's indicators. An indicator is deemed valid if its loading factor exceeds 0.70. Indicators with a loading factor below 0.70 are removed from the research model for failing to meet the validity criteria.

Based on Table 1, the measurement validity results table, all indicators in the four research variables are declared valid because their outer loadings exceed the minimum limit of 0.7. The Product Innovation (IP) variable which includes the sub-aspects of Product Uniqueness (IKP1: 0.865; IKP2: 0.871), Product Development (IPP1: 0.851; IPP2: 0.886), Product Variants (IVP1: 0.846; IVP2: 0.872), and Product Design (IDP1: 0.856; IDP2: 0.875) shows high value consistency above 0.84. Likewise, Digital Marketing (PD) with sub-aspects of Credibility (PC1: 0.829; PC2: 0.845), Informativeness (PI1: 0.844; PI2: 0.866), Commerce (PCM1: 0.878; PCM2: 0.868), Content (PCT1: 0.855; PCT2: 0.881), and Communication (PK1: 0.833; PK2: 0.833) all have strong loading, especially Commerce (PCM1) which reaches 0.878. Competitive Advantage (CPA) also recorded similar results in the sub-aspects of Customer Service (CPA1: 0.856; CPA2: 0.856), Reputation and Brand (CPA1: 0.874; CPA2: 0.870), Product Differentiation (CPA1: 0.832; CPA2: 0.873), Product Quality (CPA1: 0.859; CPA2: 0.858), and Economies of Scale (CPA1: 0.831; CPA2: 0.847). Meanwhile, Business Performance (CPA) measured through seven indicators (CPA1-CPA7) is valid, although CPA1 has the lowest value (0.754), while other indicators, such as CPA2 (0.884) and CPA3 (0.875), show a very high strength of relationship with their variables. Overall, this research model meets very good convergent validity with the majority of loadings above 0.8.

According to Hair et al. (2017), the validity of a variable is assessed using the Average Variance Extracted (AVE), which must meet a minimum threshold of 0.50. This study uses four key constructs: Business Performance, Competitive Advantage, Product Innovation, and Digital Marketing. The analysis reveals that all variables achieve AVE values above the 0.50 benchmark, confirming that these constructs satisfy the validity and reliability criteria for further analysis. Therefore, the measurement instrument used in this study is deemed suitable, accurately and consistently measuring the intended constructs.

Table 1. Outer Loading Results

Variable	Variable Code	Outer Loadings	Results	
Product Innovation (PI)	Product Uniqueness	IKP1	0.865	Valid
		IKP2	0.871	Valid
	Product Development	IPP1	0.851	Valid
		IPP2	0.886	Valid
	Product Variants	IVP1	0.846	Valid
		IVP2	0.872	Valid
Digital Marketing (DM)	Product Design	IDP1	0.856	Valid
		IDP2	0.875	Valid
	Credibility	PC1	0.829	Valid
		PC2	0.845	Valid
	Informativeness	PI1	0.844	Valid
		PI2	0.866	Valid
	Commerce	PCM1	0.878	Valid
		PCM2	0.868	Valid
	Content	PCT1	0.855	Valid
		PCT2	0.881	Valid
Competitive Advantage (CA)	Communication	PK1	0.833	Valid
		PK2	0.833	Valid
	Customer Service	KPP1	0.856	Valid
		KPP2	0.856	Valid
	Reputation and Brand	KPM1	0.874	Valid
		KPM2	0.870	Valid
	Product Differentiation	KDP1	0.832	Valid
		KDP2	0.873	Valid
	Product Quality	KKP1	0.859	Valid
		KKP2	0.858	Valid
Business Performance (BP)	Economies of Scale	KS1	0.831	Valid
		KS2	0.847	Valid
		KU1	0.754	Valid
		KU2	0.884	Valid
		KU3	0.875	Valid
		KU4	0.834	Valid
		KU5	0.857	Valid
	KU6	0.853	Valid	
	KU7	0.856	Valid	

Table 2. Validity and Reliability Test Results

Variabel	Composite Reliability	Cronbach Alpha	Average Variance Extracted (AVE)
Business Performance	0.933	0.935	0.715
Competitive Advantage	0.959	0.960	0.732
Product Innovation	0.952	0.952	0.749
Digital Marketing	0.958	0.959	0.728

Table 2 indicates that the business performance variable has an R-Square value of 0.907 (90.7%), reflecting a substantial impact of product innovation on business performance, with 9.3% attributed to factors beyond this study. The competitive advantage variable achieved an R-Square value of 0.948 (94.8%), demonstrating that product innovation and business performance strongly influence competitive advantage, with the remaining 5.2% affected by variables outside the research model. The table above presents the results of the reliability and construct validity tests for each variable in the research model, which include the Composite Reliability, Cronbach's Alpha, and Average Variance Extracted (AVE) values. All variables show excellent reliability, indicated by Composite Reliability and Cronbach's Alpha values above the threshold of 0.70. The Business Performance variable has a Composite Reliability value of 0.933 and a Cronbach's Alpha of 0.935, while Competitive Advantage shows the highest value with a Composite Reliability of 0.959 and a Cronbach's Alpha of 0.960. Product Innovation and

Digital Marketing also show excellent internal consistency with Composite Reliability values of 0.952 and 0.958, respectively. In addition, all variables meet the convergent validity criteria because the Average Variance Extracted (AVE) values are each above 0.50, ranging from 0.715 to 0.749. These results indicate that the indicators used are able to represent the construct adequately and can be relied upon in further analysis.

Table 3. Hypothesis Test Results

Hypothesis	Sample (O)	Sample Mean (M)	Standard Deviation	T-Statistics (O/STDEV)	P-Values
PI -> BP (H1)	0.195	0.195	0.096	2.030	0.042
DM -> BP (H2)	0.268	0.269	0.097	2.760	0.006
PI -> CA (H3)	0.496	0.495	0.066	7.534	0.000
DM -> CA (H4)	0.490	0.490	0.067	7.362	0.000
CA -> BP (H5)	0.501	0.498	0.105	4.787	0.000
Pi -> CA -> BP (H6)	0.248	0.247	0.066	3.767	0.000
DM -> CA -> BP (H7)	0.245	0.243	0.057	4.328	0.000

Table 3 presents the results of hypothesis testing in this study involving seven relationship paths between variables, using original sample values, sample means, standard deviations, t-statistics, and p-values. All hypotheses in this model are proven significant because they have p-values <0.05. The results show that Product Innovation has a significant effect on Business Performance with a t-value of 2.030 and a p-value of 0.042 (H1), while Digital Marketing also has a significant effect on Business Performance with a t-value of 2.760 and a p-value of 0.006 (H2). In addition, both Product Innovation (t = 7.534) and Digital Marketing (t = 7.362) have a very significant effect on Competitive Advantage (H3 and H4). Furthermore, Competitive Advantage is also proven to significantly affect Business Performance (t = 4.787; p = 0.000) in H5. Indirect mediation through Competitive Advantage was also confirmed, with Product Innovation and Digital Marketing each influencing Business Performance through Competitive Advantage with t-values of 3.767 and 4.328, respectively (H6 and H7), indicating high significance. These findings underscore the importance of product innovation, digital marketing, and competitive advantage in improving business performance. The results shown in Table 3 reveal that all hypotheses proposed in this study are accepted and significant, because all variables in the hypothesis show a P-value <0.05 and T-Value > 1.645.

DISCUSSION

The R-Square value of 0.907 (90.7%) for the business performance variable, demonstrating that product innovation significantly impacts business performance. The competitive advantage variable exhibits an R-Square value of 0.948 (94.8%), indicating that both product innovation and business performance substantially contribute to shaping competitive advantage. This finding is in line with recent research by Rind et al. (2023), which emphasizes that R&D intensity positively affects a company's financial performance. Ren et al. (2023) provide supporting evidence, demonstrating that intellectual capital and innovation significantly influence profitability and market value. Additionally, Ambarwati et al. (2024) found that working capital and product innovation substantially impact business performance.

However, the residual contribution of 9.3% to business performance and 5.2% to competitive advantage underscores the existence of external factors such as market dynamics, technological advances, and organizational structure that deserve further investigation. Overall, these results highlight that product innovation not only strengthens internal performance metrics but also serves as a strategic foundation for maintaining competitiveness in a rapidly evolving business environment.

Table 3 indicates that product innovation significantly and positively impacts competitive advantage ($T = 7.534$; $p = 0.000$). This aligns with Sari and Raharjo (2021), who highlight that product innovation enhances differentiation and competitiveness in small and medium enterprises. Munte et al. (2025) found that knowledge management and innovation capabilities significantly influence MSME performance, emphasizing the critical role of strengthening knowledge management and innovation strategies to boost MSME sustainability and competitiveness. A study conducted by Damayanti and Tjahjaningsih (2023) also shows that innovation is the main way for MSMEs to face the crisis. The results of previous studies further emphasize that the SkinnyFat Factory business has succeeded in utilizing product creativity, such as texture variants, flavors, and oat-free formulations, as a driver of competitive advantage.

Digital marketing has also been shown to significantly increase competitive advantage ($T = 7.362$; $p = 0.000$). This finding is supported by Talambanua et al. (2023), which shows that digital strategies are effective in strengthening market position. Digital marketing through social media and e-commerce allows SkinnyFat Factory to expand the market, increase customer loyalty, and take advantage of promotions such as discounts and free shipping as an effort to gain brand recognition.

Hypothesis testing results indicate that competitive advantage significantly and positively impacts business performance ($T = 4.787$; $p = 0.000$). This suggests that a stronger competitive advantage at SkinnyFat Factory enhances the company's operational and financial performance. These findings align with Stanton et al. (2021), who concluded that differentiation advantages and brand reputation directly boost profitability in small and medium enterprises. SkinnyFat Factory's business demonstrates that competitive advantage indicators such as customer service, brand reputation, product differentiation, product quality, and economies of scale substantially improve business performance. Overall, these strategies significantly drive revenue growth and strengthen market position.

CONCLUSION

This study confirms that product innovation, digital marketing, and competitive advantage significantly influence the business performance of SkinnyFat Factory. Product innovation enhances customer satisfaction and profitability through market orientation and innovative packaging. Digital marketing improves business outcomes by increasing customer loyalty and reducing transaction costs through effective social media and e-commerce strategies. Moreover, competitive advantage plays a crucial mediating role in the relationship between both innovation and digital marketing with business performance, particularly through product quality, customer service, and economies of scale. Practical implications of these findings highlight the need for SMEs to invest in continuous innovation, particularly in product development and packaging, to remain responsive to market needs. Additionally, optimizing digital marketing channels especially social media and e-commerce can serve as a cost-effective approach to expanding customer reach and engagement. Strengthening competitive advantage through high-quality offerings and efficient operations also proves essential to sustaining performance.

This study supports and extends the existing literature on SME performance. It further strengthens the mediating function of competitive advantage as a mechanism that translates innovation inputs into performance outcomes. However, this study has certain limitations, particularly in terms of generalizability, as it focuses on a single SME case. Future research is encouraged to broaden the sample scope across different sectors and regions, and to explore longitudinal data to examine the long-term effects of innovation and digital marketing strategies on sustainable competitive advantage and performance.

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