

## *ANALYSIS OF COMPETITIVE ADVANTAGE OF FASHION SECTOR MSMEs IN MEDAN CITY USING A MEDIATOR APPROACH*

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**Abstract.** *The fashion sector is one factor that has the potential to support economic recovery. The Ministry of Industry (Kemenperin) is encouraging the fashion industry (textiles and apparel) to increase its role in national economic recovery. This research aims to determine and analyze the influence of marketing capabilities on internet use. To determine and analyze the influence of innovation capabilities on competitive advantage. To determine and analyze the influence of marketing capabilities on competitive advantage with shopping culture as a mediator variable. And to find out and analyze the influence of innovation ability on competitive advantage with shopping culture as a mediator variable. The sampling technique in this research uses non-probability sampling techniques. Sampling was carried out using a single-stage cluster. The number of samples or respondents in this research was 110 respondents. Data analysis using the Partial Least Square (PLS) method using SmartPLS version 3 software. The research results show that (H1) is supported or accepted, and (H2) is supported or accepted. (H3) is supported or accepted, (H4) is supported or accepted, the test results show that there is a positive and significant influence between innovation ability on competitive advantage through the use of the internet as a mediator on the competitive advantage of MSMEs in the city of Medan in the fashion industry.*

**Keywords:** *Capabilities 1, Marketing 2, Innovation 3, Internet 4, MSMEs 5, Medan 6*

### **Introduction**

Micro, Small, and Medium Enterprises (MSMEs) in Indonesia play an important role as the backbone of the national economy. MSMEs as contributors to gross domestic product (GDP) have an important role in Indonesia's economic recovery (Soetjipto, 2020). Based on data from the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM), the number of MSMEs in the country has reached 64.2 million with a contribution to Gross Domestic Product (GDP) of 61.07

percent or Rp. 8,573.89 trillion and can absorb 97 percent of the total workforce. In periods of crisis, MSMEs become a resilient buffer and can recover well. Therefore, development is an important condition to encourage better economic growth in Indonesia.

The year 2022 will be a momentum for revival for MSME players, where the number of MSME players is the biggest support for the Indonesian economy and there are 4 opportunities for MSME transformation. First, the younger generation population makes up 64% of the total population of Indonesia. This

number is 73% of young Indonesians interested in entrepreneurship. Second, the growing potential of the digital economy. In 2021. The value of e-commerce transactions will reach IDR 395 trillion, this number is expected to increase. Based on data from Google, Temasek, and Brain and Company, the value of the digital economy is estimated to reach US\$ 146 billion or Rp. 2100 trillion in 2025. Indonesia has gained 21 million new digital consumers since the start of the pandemic and 72% of them come from outside metropolitan cities. Third, the KUR platform from the Government was increased to IDR 373.17 trillion. The relaxation of the KUR policy will continue with the provision of a 3% interest subsidy for 6 months. Fourth, Indonesia's involvement in various international forums provides great freedom for the development of MSMEs in the country.

Since the COVID-19 pandemic in the last two years, MSME income has experienced a decline due to weakening people's purchasing power. The number of MSMEs in North Sumatra is 672,000 MSMEs from 960,000 MSMEs in North Sumatra and 7,700 cooperatives from the 11,000 existing cooperatives affected by this pandemic. The problems faced by MSMEs who are experiencing a downturn are a decline in people's purchasing power, difficulty in finding raw materials because many companies have closed or are not carrying out their business activities, disruption of production and distribution of raw materials and access to financing or difficulty finding access to financing during the pandemic.

To overcome the problems faced by MSMEs, the Medan City Government is

trying to carry out several strategies and breakthroughs. First, create a local E-Catalog which aims to increase MSME income by inviting MSMEs to enter the Medan City Government E-Catalog. This e-Catalog is a new market for MSMEs. The aim of this E-Catalog is to support the willingness and ability of MSMEs to adopt digital marketing methods. Second, providing relief for MSME financing through KUR provided by the Government. Third, relief from revolving fund management institutions, Fourth, convenience and tax relief.

According to Moodey's Research, industries that have a large exposure to the Covid-19 pandemic are divided into 3 (three), namely: First, the industry has quite high exposure. Such as clothing, automotive manufacturing, automotive supply, consumer, gaming, tourism, airlines, non-food retail and global shipping. Second, the industry exposed is moderate, aka moderate. These include beverages, chemical manufacturing, media, metals and mining, oil and gas, property, agriculture, service companies, steel producers and hardware technology companies. Third, companies operating in industries that have very low exposure. Such as construction, defense, equipment and transportation, rental, packaging, pharmaceuticals, real estate, food retail, telecommunications and waste management.

The clothing industry is included in the fashion sector industry category. The fashion (clothing) sector is one of the sectors that is quite highly exposed to the Covid-19 pandemic. This is because people's purchasing power has decreased and they have shifted their purchasing power to the pharmaceutical and medicine

sectors. Apart from that, the fashion (clothing) sector in Indonesia still depends on raw materials from other countries, thus blocking the supply of domestic raw materials and the market for the clothes produced are countries that are also affected by this pandemic, such as Taiwan, Korea and others. -other.

The fashion sector is one factor that has the potential to support economic recovery. The Ministry of Industry (Kemenperin) is encouraging the fashion industry (textiles and apparel) to increase its role in national economic recovery. The Making Indonesia 4.0 program emphasizes that the textile and apparel industry is one of the priority sectors to be developed. In 2020, the export performance of the textile and apparel industry reached US\$10.62 billion with a contribution to the non-oil and gas processing industry GDP of 6.76%. In the "Opening Ceremony of InaFashion Smesco Online Expo 2021", this activity encouraged the fashion industry to rise in the face of the current pandemic. So it is part of the government's support to maintain people's consumption power and help MSMEs in the local fashion industry to become one of the main drivers of the national economy. In 2020, clothing exports by Indonesian MSMEs reached US\$ 154.47 million. MSMEs were able to export to foreign markets reaching US\$ 133.49 million. In March 2021, non-oil and gas exports in the clothing and accessories sector classified as knitted managed to grow by 18.82% (mom) to US\$ 360 million. Meanwhile, exporters of non-knitted clothing and accessories managed to grow by 12.81% (mom) at around US\$ 350 million. These two

sectors are included in the top 20 non-oil and gas exports in Indonesia.

Fashion is a part of every individual's daily life. The way someone dresses according to fashion trends shows a person's personality and idealism. Therefore, fashion becomes a person's lifestyle. The definition of fashion is a style of clothing that is popular in a culture or is a fashion. Some people think that fashion is a style of clothing that can determine a person's appearance. Fashion is closely related to popular styles, a person's personality and time period. The period that a style is popular and unpopular is related to trends so that fashion consumption is carried out significantly along with changes in trends. The strategy implemented by the Government to support MSMEs to emerge from the pandemic crisis aims to assist MSME players in developing the competitiveness or competitive advantage that each MSME has. Empowering MSMEs (Micro, Small, and Medium Enterprises) amid globalization and high competition means that MSMEs must be able to face global challenges, such as increasing product and service innovation, developing human resources and technology, and expanding marketing areas. This needs to be done to increase the selling value of MSMEs themselves, especially so that they can compete with foreign products which are increasingly flooding industrial and manufacturing centers in Indonesia, considering that MSMEs are the economic sector that can absorb the largest workforce in Indonesia. One of the determining factors of competitive advantage is good marketing capabilities. This marketing capability includes a set of skills and accumulated knowledge as well as the ability of the

community to carry out organizational processes that can coordinate marketing activities which are developed into company assets. states that marketing capabilities are an operational perspective approach, a marketing mix approach, an intellectual capital approach, and a competitive perspective approach. Marketing capabilities use a marketing mix approach which consists of 8 (eight) capabilities, namely price, product, distribution, promotion, information system sales, marketing planning and marketing implementation (Davicik and Sharma 2016), marketing resources and capabilities drive business strategy, to gain an advantage in competition and improve company performance. Companies with even basic marketing capabilities can create value for customers, and achieve competitive advantage and better financial performance (Morgan et al, 2012). MSMEs can expand their customer base and attract customers both nationally and internationally. In the context of developing countries, it is hoped that MSMEs can become suppliers for large companies and focus on developing marketing capabilities and gaining a better competitive advantage (Acikdili et al, 2020). Marketing capabilities have a positive and significant effect on sustainable competitive advantage (Mainardes et al 2022). These results show that the better the marketing capabilities of MSMEs that supply large companies, the better the sustainable competitive advantage. (Davicik & Sharma 2016), which states that companies with well-developed marketing capabilities can produce more value for customers, and achieve competitive advantage and good financial performance.

The definition of innovation is about the development and implementation of something new. The term 'new' here does not mean a product that is still original but rather refers to newness. This meaning of newness means that innovation is creating and implementing something that already exists into a new combination. 'Newness' itself is related to the dimensions of space and time (Makmur & Thahier, 2015, p. 11). Innovation capability is a very broad concept covering different dimensions of innovation, including new product development, innovation, and strategic and technological aspects (Vicente et al, 2015). Innovation capability is understood as the receptivity to new ideas that contribute to the development of new processes and products (Kolbe and Calderon, 2021). Innovation capabilities require strategies that can develop changes in business culture, stimulate creativity, and produce new ideas that encourage the birth of opportunities in a wider scope. Innovation capabilities in the field of technology help companies create scientific and technical knowledge that develops new products or increases the value of existing products. Innovation capabilities can help MSMEs in developing markets to achieve competitive advantages. Innovation capabilities can help MSMEs develop new ideas and change products, processes and management systems which enable business actors to have a better chance of surviving in one market industry (Serna et al, 2016). Innovation capabilities can help emerging market MSMEs develop competitive advantages and start export activities (Love et al., 2016).

Information technology is a solution that can answer the need for complete

information for a company, where information technology can accommodate business processes. Through the internet, all information in the world can be found or searched using keywords. The internet is the fastest and most up-to-date source of information (Wibawannto, 2018). The internet is a system that has information resources that cover all time and no location, and where someone can find out information in detail and communicate widely (Permasari, (2017). Today's business managers should always focus their strategy design on how to serve and retain customers (Best, 2013). The internet as a communication medium is the most widely used internet function where every internet user can communicate with other users throughout the world, using email, newsgroups, FTP and www (world wide web). – network of websites) internet users throughout the world can exchange information quickly and cheaply (Alcianno G. 2018). The capacity of information technology to process input by collecting, classifying and analyzing data has made many companies interested in invest in this technology sector to be able to obtain a basis for fast and comprehensive decision making. The internet facilitates relationships with relevant market parties (Lucia-Palacios et al., 2014). The use of the internet in business has changed from its function as a tool for electronic information exchange to a tool for business strategy applications, such as marketing, sales and customer service. Micro, Small, and Medium Enterprises (MSMEs) utilize the use of internet media as an online marketing tool to obtain a satisfactory market share (Setiawati, 2017). The presence of social media marks a shift in direction in the use of communication media which is now completely internet-based and can facilitate access channels for various fields (Susanti, Gunawan, & Sukaesih, 2019). Usage technology has a positive and significant influence on the financial performance of Batik Trusmi

MSMEs in Cirebon City. Understanding the use of technology influences the financial performance of MSME players to increase. The potential for internet and electronic media users in Indonesia continues to increase day by day, creating an opportunity for MSME business actors/prospective actors to develop and expand their businesses. Because this is what will make MSMEs strong and will continue to survive in the future, helping to become a defense for the economy so that it does not experience bad things for life (Febriantoro, 2016). Based on the explanation above, the researcher is interested in researching the topic "Analysis of the Competitive Advantage of MSMEs in the Fashion Sector in the City of Medan Using a Mediator Approach".

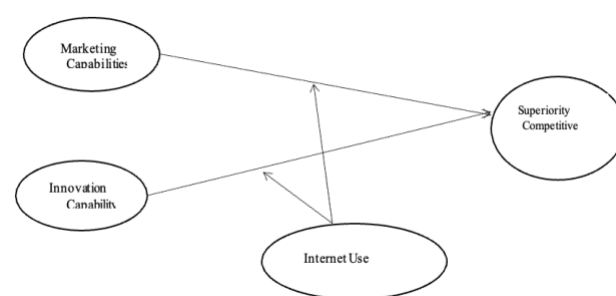


Figure 1.

#### Research Framework

According to Sugiono (2012: 86), a hypothesis is a temporary answer to a research problem formulation, therefore research problem formulations are usually structured in the form of question sentences. So a hypothesis can also be stated as a theoretical answer to the formulation of a research problem, there is no empirical answer yet. Based on the results of previous research, the following hypothesis was built:

1. There is a positive and significant influence between marketing capabilities on competitive advantage.
2. There is a positive and significant influence between innovation ability and competitive advantage.

3. There is a positive and significant influence between marketing capabilities on competitive advantage through the use of the internet as a mediator.
4. There is a positive and significant influence between innovation capability on competitive advantage through the use of the internet as a mediator.

## Research Methodology

This type of research is quantitative descriptive. According to Sinulingga (2013), quantitative descriptive research is a type of research that aims to describe systematically, factually and accurately the facts and characteristics of a particular object or population. This research aims to describe or describe the factors that influence competitive advantage, such as marketing ability, innovation ability, and internet use (mediator variables). The location of the research was carried out in Medan City. The research period starts from September 2022 to February 2023. The population in this research is MSME actors in the fashion sector within the city of Medan.

According to Sugiyono, (2017:81), the sample is part of the population which is the source of data in research, where the population is part of the number of characteristics possessed by the population. The research sample reflects how far the sample is useful in meeting the criteria in the analysis method using smartPLS, so the sample in this study was set at 110 respondents, which was obtained based on the number of indicators in the study  $\times 10$ . The indicators in this study were  $11 \times 10 = 110$ . The minimum number of samples in this study was 110 respondents. The sampling technique in this research uses a non-probability sampling technique, namely a sampling technique that does not provide equal opportunities to all units or entities

in a population selected as research samples. The sampling technique is carried out using random samples based on area or region. Where random sampling based on areas or clusters is carried out by dividing the population into several groups. Sample division is based on location, age, gender, and other equivalent categories. Sampling was carried out using a single-stage cluster, where the researcher randomly determines which group will be the sample so that some groups do not get the opportunity. Data analysis was carried out using the Partial Least Square (PLS) method using SmartPLS version 3 software. PLS is a method for solving Structural Equation Modeling (SEM) which in this case is better than other SEM techniques. SEM has a higher level of flexibility in research that connects theory and data and can carry out path analysis with latent variables so it is often used by researchers who focus on social sciences.

## Results and Discussion

### Convergent validity

This is done by looking at the item reliability (validity indicator) which is shown by the loading factor value. The loading factor is a number that shows the correlation between the score of a question item and the score of the construct indicator that measures that construct. If the loading factor value is greater than 0.70 then it is said to be valid. From the results of the outer loading calculation presented in Table 1, there are several statements in the indicators whose values are smaller than 0.70 so these statements are not used, such as the competitive advantage variable in the statements Q1, Q2, Q3, Q4 cannot be used as an indicator because of its value. smaller than 0.70. The marketing capability variable for statement Q12 cannot be used as an indicator because the

value is smaller than 0.70. The marketing capability variable for statement Q32 cannot be used as an indicator because the value is smaller than 0.70. Other indicators in this research have been said to be valid because the factor loading is greater than 0.70 and can be continued for subsequent testing.

Table 1.  
Outer Loading Results

Variable	Indicator	Items	Outer Loading
	Relationship skills	-	-
Competitive advantage	Specificity (uniqueness)	Q5	0.799
		Q6	0.832
		Q7	0.866
		Q8	0.874
	Performing skills change	Q9	0.876
		Q10	0.918
		Q11	0.861
		Q13	0.765
		Q14	0.753
		Q15	0.881
		Q16	0.934
	Static capabilities	Q17	0.898
		Q18	0.832
		Q19	0.838
		Q20	0.865
Q21		0.892	
Q22		0.861	
Q23		0.845	
Q24		0.850	
Q25		0.813	
Q26		0.870	
Marketing Capabilities	Dynamic capabilities	Q27	0.882
		Q28	0.915
		Q29	0.889
		Q30	0.764
	Q31	0.780	
	Adaptive capabilities	Q33	0.783
		Q34	0.721
		Q35	0.731
		Q36	0.834
		Q37	0.812
Q38		0.765	
Innovation Capability	Product innovation	Q39	0.806
		Q40	0.868
		Q41	0.853
		Q42	0.815
		Q43	0.845
		Q44	0.896
		Q45	0.897

Process innovation		Q46	0.879
		Q47	0.803
		Q48	0.780
	Service innovation	Q49	0.751
Q50		0.784	
Knowledge Understanding		Q61	0.953
		Q62	0.966
		Q63	0.960
		Q64	0.911

Source: SmartPLS 3.0 Processed Results, 2023

Based on Table 2, it can be seen that the correlation between the marketing ability variable construct and its items is higher than the other constructs. The marketing capability variable can be stated to have met Discriminant Validity. The correlation of the innovation ability variable construct with its items is higher than with other constructs. The innovation ability variable can also be stated to have met Discriminant Validity. The correlation of the competitive advantage variable construct with its items is higher than with other constructs. The competitive advantage variable can be stated to have met Discriminant Validity. The correlation between the internet use variable construct and its items is higher than other constructs. The internet use variable can be stated to have met Discriminant Validity. Thus, all constructs or latent variables already have good discriminant validity, where the indicators in the construct indicator block are better than the indicators in other blocks.

Based on Table 3, all constructs show an AVE value greater than 0.50, with the smallest value being 0.693 for the innovation ability variable and the largest being 0.898 for the internet use variable. This value meets the requirements in accordance with the minimum AVE value limit for each construct. The next stage is to compare the square root of AVE with the correlation between constructs in the model.

Table 2.  
Cross Loading Results

Items	Superiority Competitive	Ability Marketing	Ability Innovation	Use Internet
Q5	0.641	0.652	0.799	0.545
Q6	0.655	0.644	0.832	0.570
Q7	0.445	0.521	0.866	0.424
Q8	0.452	0.503	0.874	0.380
Q9	0.476	0.498	0.876	0.385
Q10	0.550	0.593	0.918	0.499
Q11	0.578	0.601	0.861	0.470
Q13	0.698	0.765	0.642	0.560
Q14	0.725	0.753	0.554	0.670
Q15	0.795	0.881	0.657	0.712
Q16	0.812	0.934	0.663	0.789
Q17	0.769	0.898	0.604	0.759
Q18	0.674	0.832	0.517	0.710
Q19	0.699	0.838	0.529	0.706
Q20	0.737	0.865	0.539	0.619
Q21	0.825	0.892	0.534	0.793
Q22	0.762	0.861	0.542	0.693
Q23	0.795	0.845	0.734	0.703
Q24	0.723	0.850	0.429	0.751
Q25	0.776	0.813	0.505	0.659
Q26	0.731	0.870	0.543	0.770
Q27	0.743	0.882	0.545	0.785
Q28	0.790	0.915	0.645	0.800
Q29	0.787	0.889	0.584	0.779
Q30	0.772	0.764	0.576	0.649
Q31	0.799	0.780	0.514	0.730
Q33	0.793	0.783	0.495	0.704
Q34	0.794	0.721	0.489	0.667
Q35	0.778	0.731	0.484	0.631
Q36	0.777	0.834	0.482	0.673
Q37	0.824	0.812	0.559	0.775
Q38	0.796	0.765	0.631	0.629
Q39	0.806	0.753	0.470	0.730
Q40	0.868	0.805	0.543	0.780
Q41	0.853	0.740	0.468	0.713
Q42	0.815	0.650	0.602	0.547
Q43	0.845	0.684	0.458	0.655
Q44	0.896	0.861	0.582	0.745
Q45	0.897	0.900	0.618	0.747
Q46	0.879	0.854	0.572	0.713
Q47	0.803	0.689	0.424	0.608
Q48	0.780	0.682	0.524	0.469
Q49	0.751	0.678	0.643	0.700
Q50	0.784	0.843	0.473	0.768
Q61	0.815	0.850	0.505	0.953
Q62	0.796	0.821	0.497	0.966
Q63	0.801	0.821	0.594	0.960
Q64	0.717	0.738	0.501	0.911

Source: SmartPLS 3.0 Processed Results, 2023

Table 3.  
AVE and AVE Squared Values

Variable	AVE	Square AVE
Ability	0.694	0.833
Marketing		
Innovation Capability	0.693	0.832
Internet Use	0.898	0.947
Superiority	0.742	0.861
Competitive		

Source: SmartPLS 3.0 Processed Results, 2023

Table 4 shows that the square root value of AVE for each construct is greater than the correlation value so that the construct in this research model can still be said to have good discriminant validity.

Table 4.

Correlation Values between Constructs with Discriminant Validity Values

	Ability Innovation	Ability Marketing	Superiority Competitive	Use Internet
Ability Innovation	0.833			
Ability Marketing	0.921	0.833		
Superiority Competitive	0.642	0.676	0.862	
Use Internet	0.827	0.854	0.553	0.948

Source: SmartPLS 3.0 Processed Results, 2023

From the results of Table 5, it can be seen that the composite reliability value for all constructs is above 0.70. With the resulting values, all contracts have good reliability by the required minimum value limits.

Table 5.

Composite Reliability Values

Variable	Composite Reliability
Marketing Capabilities	0.983
Innovation Capability	0.964
Internet Use	0.972
Competitive advantage	0.953

Source: SmartPLS 3.0 Processed Results, 2023

Based on Table 6, the R2 value of the internet use variable is 0.764 and the competitive advantage variable is 0.459. The relationship between the marketing ability variable and the internet use

variable and between the innovation ability variable and internet use, each has a value of 0.764 (76%). Meanwhile, the marketing capability variable with the competitive advantage variable and the innovation capability variable with the competitive advantage variable each have a value of 0.459 (46%). While the rest is influenced by other variables not examined in this research.

Table 6.

R Square Value

Variables	R Square
Competitive advantage	0.459
Internet Use	0.764

Source: SmartPLS 3.0 Processed Results, 2023

The result of research methods shown in Figure 2.

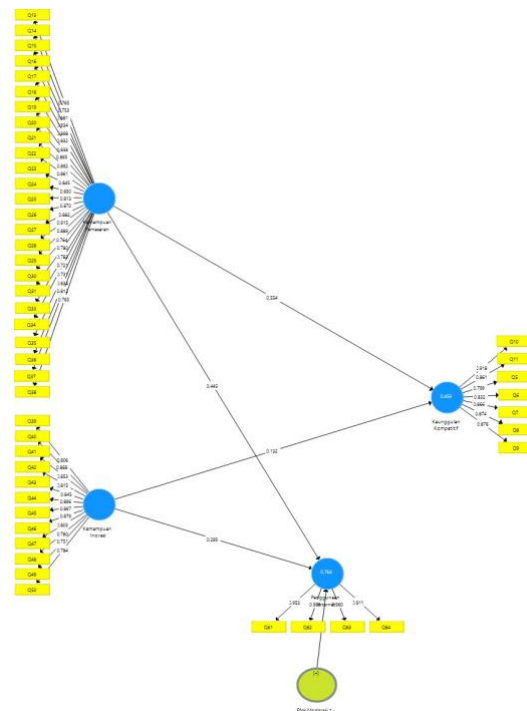


Figure 2.

Results of research methods

Moreover, the path coefficients results shown in Table 7.

Table 7.  
Path Coefficients Results

Hypothesis	Original Sample (O)	Sample Average (M)	Standard Deviation (STDEV)	Q Statistik ( O/STDEV )	P-Values	Information
AbilityMarketing -> Excellence	0.554	0.829	0.043	12,883	0.743	Accepted
Competitive AbilityInnovation -> Competitive advantage	0.132	0.845	0.020	6.6	0.805	Accepted
AbilityMarketing -> Internet Use -> Competitive advantage	0.449	0.863	0.067	6,701	0.729	Accepted
AbilityInnovation -> Internet Use -> Excellence	0.215	0.874	0.052	4,134	0.770	Accepted

Source: SmartPLS 3.0 Processed Results, 2023

The first hypothesis (H1) tests whether marketing capabilities influence competitive advantage. The test results show that there is a positive and significant influence, so the first hypothesis is accepted. The second hypothesis (H2) is to test whether innovation capability affects competitive advantage. The test results show that there is a positive and significant influence, so the second hypothesis is accepted.

The third hypothesis (H3) is to test whether marketing capabilities can influence competitive advantage through the use of the Internet as a mediator. The test results show that there is a positive and significant influence, so the third hypothesis is accepted. The fourth hypothesis (H4) is to test whether innovation ability influences competitive advantage through the use of the internet as a mediator. The test results show that there is a positive and significant influence, so the fourth hypothesis is accepted.

## Conclusion

The fashion sector is one factor that has the potential to support economic recovery. The Ministry of Industry

(Kemenperin) is encouraging the fashion industry (textiles and apparel) to increase its role in national economic recovery. This research aims to identify and analyze the influence of marketing capabilities and innovation capabilities on competitive advantage both directly and indirectly through the use of the Internet as a mediator.

The research results show that the first hypothesis (H1) is supported or accepted, the test results show that there is a positive and significant influence between marketing capabilities on the competitive advantage of MSMEs in the city of Medan in the fashion industry. The second hypothesis (H2) is supported or accepted, the test results show that there is a positive and significant influence between innovation ability on the competitive advantage of MSMEs in the city of Medan in the fashion industry. The third hypothesis (H3) is supported or accepted, the test results show that there is a positive and significant influence between marketing ability on competitive advantage through the use of the internet as a mediator on the competitive advantage of MSMEs in the city of Medan in the fashion industry. The fourth hypothesis (H4) is supported or accepted, the test results show that there is a positive and significant influence between innovation ability on competitive advantage through the use of the internet as a mediator on the competitive advantage of MSMEs in the city of Medan in the fashion industry.

Based on the results of the research above, there are several suggestions that researchers can provide that may later be useful. The suggestions are for MSME players in the fashion sector in the city of Medan to continue to increase the

resources they have and MSME players to be able to come up with new ideas or ideas to continue to increase their competitive advantage and become more familiar with the use of the internet which will later be able to bring MSME players to understand marketing capabilities and innovation capability towards competitive advantage. It is also recommended that further researchers research other sectors of MSMEs such as the service sector, culinary sector, and agribusiness sector because there are still several weaknesses in this research.

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