

IMPACT OF PRODUCT INNOVATION AND DIGITAL MARKETING STRATEGY ON COMPETITIVE ADVANTAGE: BRAND IMAGE AS A MEDIATING FACTOR

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Abstract

How to cite this paper: Yasa, N. N. K., Sukaatmadja, I. P. G., Ekawati, N. W., Guntara, A. A., Pharamadita, I. P. A. W., Rahmayanti, P. L. D., & Tirtayani, I. G. A. (2025). Impact of product innovation and digital marketing strategy on competitive advantage: Brand image as a mediating factor. *Corporate & Business Strategy Review*, 6(3), 216–225.
<https://doi.org/10.22495/cbsrv6i3art20>

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ISSN Online: 2708-4965

ISSN Print: 2708-9924

Received: 24.09.2024

Revised: 28.12.2024; 19.02.2025; 14.07.2025

Accepted: 28.07.2025

JEL Classification: L26, M10, M31

DOI: 10.22495/cbsrv6i3art20

The craft industry's increasing competition necessitates sustainable strategies to bolster the competitive advantage of micro, small, and medium enterprises (MSMEs). Previous studies highlight that product innovation and digital marketing significantly influence brand image and competitive advantage (Al-Abdallah & Al-Salim, 2021; Ferreira & Coelho, 2020). This study examines the mediating role of brand image in the relationship between product innovation, digital marketing, and competitive advantage among Endek craft MSMEs in Badung Regency. A purposive sampling method selected 112 business owners from MSMEs who had been active for over three years. Data collection was conducted through structured questionnaires, and analysis utilized path analysis with the partial least squares structural equation modeling (PLS-SEM) approach. The findings demonstrate that product innovation and digital marketing positively and significantly affect brand image and competitive advantage. Moreover, brand image enhances competitive advantage and acts as a vital mediator in these relationships. The results emphasize the necessity of improving the brand image of Endek products to sustain market positioning. This study offers practical insights for MSME owners and policymakers on fostering innovation and optimizing digital marketing strategies to ensure competitive success.

Keywords: Product Innovation, Digital Marketing, Brand Image, Competitive Advantage, Endek Crafts

Authors' individual contribution: Conceptualization — N.N.K.Y.; Methodology — I.P.G.S. and N.W.E.; Software — A.A.G.; Validation — N.W.E.; Formal Analysis — N.W.E.; Investigation — I.P.A.W.P. and P.L.D.R.; Resources — I.G.A.T.; Data Curation — A.A.G.; Writing — Original Draft — P.L.D.R.; Writing — Review & Editing — N.N.K.Y., I.P.A.W.P., and I.G.A.T.; Visualization — A.A.G.; Supervision — N.N.K.Y.; Project Administration — I.P.A.W.P.; Funding Acquisition — N.N.K.Y. and I.P.G.S.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

1. INTRODUCTION

Micro, small, and medium enterprises (MSMEs) in the endek craft industry represent a key component of Bali's cultural economy, preserving unique local wisdom in their designs. Each region in Bali showcases distinctive endek crafts, such as the Pegringsingan endek weaving of Karangasem Regency and the Cepuk endek weaving of Klungkung Regency (Nusa Penida). Similarly, Badung Regency seeks to distinguish its endek craft with the use of its regional mascot, the Jepun flower, branding it as "*Jepun Bebadungan*". Despite these efforts, the brand image of "*Jepun Bebadungan*" remains underdeveloped, underscoring the need for strategic interventions to strengthen it.

Research suggests that product innovation is a critical determinant of brand image. Studies by Al-Abdallah and Al-Salim (2021), Al-Shboul (2023), Ferreira and Coelho (2020), and Piñera-Salmerón et al. (2023) affirm that product innovation enhances a company's brand image and contributes to competitive advantage (Olazo, 2023). Similarly, digital marketing has emerged as a significant tool for strengthening the brand image and fostering competitive advantage (Giantari et al., 2022; Fashami et al., 2022; Bowden & Mirzaei, 2021; Raji et al., 2019). However, in the context of Badung Regency, digital marketing efforts by MSMEs have yet to reach their full potential, as highlighted by the local industry and manpower service.

The theoretical foundation of this study lies in the resource-based view (RBV), which posits that intangible resources like brand image are vital for achieving sustainable competitive advantage. While prior studies have examined the individual effects of product innovation and digital marketing on brand image and competitive advantage, there remains a gap in understanding how brand image mediates these relationships, particularly in the context of endek craft MSMEs in Badung Regency.

This research aims to fill this gap by addressing the following questions:

RQ1: How do product innovation and digital marketing influence brand image and competitive advantage?

RQ2: Does brand image mediate the relationships between product innovation, digital marketing, and competitive advantage?

Using a quantitative methodology, this study employs partial least squares structural equation modeling (PLS-SEM) to analyze data collected from 112 purposively sampled business owners of endek MSMEs in Badung Regency. The findings contribute to the literature by highlighting the pivotal role of brand image as a mediator and providing actionable insights for MSME owners and policymakers. By reinforcing brand image, endek craft MSMEs can better leverage their unique cultural identity to enhance competitive advantage and thrive in a competitive market. The studies explore themes like digital transformation in business, applying artificial intelligence for strategic advantage, and the role of innovation in the success of small and medium enterprises.

The structure of this paper is as follows. Section 2 provides a comprehensive review of the relevant literature, focusing on product innovation, digital marketing, brand image, and competitive advantage. Section 3 details the research methodology, including the sampling approach, data collection techniques, and the PLS-SEM analysis

framework. Sections 4 and 5 present the empirical findings and discuss their implications for theory and practice, respectively. Finally, Section 6 concludes the paper by offering practical recommendations for MSMEs and highlighting avenues for future research.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Product innovation and brand image

Product innovation is widely recognized as a driver of competitive advantage and brand differentiation. It encompasses the creation or enhancement of products to meet evolving consumer preferences, thus reinforcing the perception of a brand as innovative and customer-centric (Tidd & Bessant, 2018). Empirical evidence supports the positive relationship between product innovation and brand image. For instance, Al-Abdallah and Al-Salim (2021) demonstrate that innovative products not only enhance brand perception but also solidify consumer loyalty. Similarly, Ferreira and Coelho (2020) and Narayanan and Das (2022) argue that product innovation plays a pivotal role in positioning a brand as a market leader. This is particularly relevant for MSMEs, which often rely on innovation to differentiate themselves in niche markets.

2.2. Digital marketing and brand image

Digital marketing leverages online platforms such as social media, email campaigns, and websites to connect with consumers and promote brand narratives. Studies highlight its role in building brand equity by creating consistent and engaging digital touchpoints. For example, Bowden and Mirzaei (2021) and Fashami et al. (2022) emphasize that digital marketing strategies significantly influence consumers' perceptions of a brand, especially in the MSME sector. Moreover, Raji et al. (2019) found that businesses using intensive digital marketing campaigns experienced substantial improvements in brand image and customer engagement. However, for MSMEs, maximizing the potential of digital marketing requires a tailored approach that aligns with local cultural values.

2.3. Brand image and competitive advantage

The brand image reflects the unique attributes and value propositions that distinguish a brand in consumers' minds. A strong brand image is crucial for achieving a competitive advantage, as it fosters customer loyalty and reduces price sensitivity (Kotler & Keller, 2011). Research by Nguyen Van et al. (2023) and Panda et al. (2019) confirms that a well-established brand image enhances market positioning and creates long-term value for businesses. For MSMEs, the brand image serves as an intangible resource that can offset limited financial and physical resources, particularly in competitive markets like the craft industry.

2.4. Mediating role of brand image

The mediating effect of brand image has been explored in the context of various industries. Olawunmi and Clarke (2023) found that brand image mediates the relationship between product

innovation and competitive advantage, providing a pathway through which innovation efforts translate into market success. Similarly, research by Pratono (2024) highlights that digital marketing strategies are more effective when they contribute to a cohesive and appealing brand image. These findings suggest that for endek MSMEs in Badung Regency, strengthening brand image is a strategic imperative to enhance the impact of product innovation and digital marketing.

2.5. Research gap and framework

While prior studies have extensively examined the individual effects of product innovation and digital marketing on brand image and competitive advantage, there is limited research on how these factors interact within the context of the MSME craft industry, particularly in Bali. This study contributes to filling this gap by analyzing the mediating role of brand image in the relationship between product innovation, digital marketing, and competitive advantage. The conceptual framework guiding this research is grounded in the RBV, which underscores the importance of intangible assets, such as brand image, in achieving sustainable competitive advantage.

2.6. Research hypotheses

The hypotheses aim to clarify the direct and mediating effects among the variables, offering a comprehensive analysis of the factors contributing to competitive advantage. They are as follows:

H1: Product innovation positively and significantly influences brand image.

H2: Product innovation positively and significantly influences competitive advantage.

H3: Digital marketing positively and significantly influences brand image.

H4: Digital marketing positively and significantly influences competitive advantage.

H5: Brand image positively and significantly influences competitive advantage.

H6: Brand image mediates the relationship between product innovation and competitive advantage.

H7: Brand image mediates the relationship between digital marketing and competitive advantage.

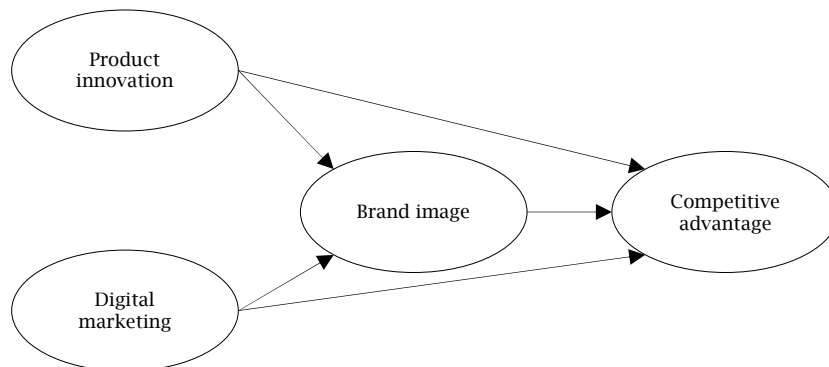
These hypotheses aim to clarify the direct and mediating effects among the variables, offering a comprehensive analysis of the factors contributing to competitive advantage.

3. RESEARCH METHODOLOGY

3.1. Research conceptual framework

Product innovation is an essential strategy for businesses to maintain and strengthen their competitive position. Regular innovation enhances not only the company's market standing but also its brand image, portraying it as an industry leader. Similarly, digital marketing serves as a key tool for promoting innovative products, building a strong brand image, and ultimately driving competitive advantage. These relationships are represented in the conceptual framework in Figure 1, which serves as the foundation for this research.

Figure 1. Research conceptual framework



3.2. Research design and approach

This study adopts a quantitative approach, employing a causal research design to examine the relationships between product innovation, digital marketing, brand image, and competitive advantage. The causal design is appropriate for establishing cause-and-effect relationships among variables.

3.3. Population and sampling

The population consists of active Endek MSMEs in Badung Regency that have operated for a minimum of three years. A purposive sampling technique was used to select participants, ensuring they met specific criteria relevant to the research objectives.

To determine the sample size, Hair et al. (2010) applied the rule-of-thumb, which suggests

multiplying the number of indicators by a factor of 7. With 16 indicators in total, the sample size was set at 112 respondents.

3.4. Data collection

Primary data was collected using a structured questionnaire. The instrument consisted of 16 indicators designed to measure product innovation, digital marketing, brand image, and competitive advantage. Responses were captured on a five-point Likert scale ranging from "strongly disagree" to "strongly agree".

The questionnaire was pre-tested to ensure clarity and comprehensibility. Following pre-testing, the final survey was distributed to Endek MSME entrepreneurs in Badung Regency.

3.5. Instrument validity and reliability

The instrument's validity and reliability were rigorously assessed. Validity with Pearson's correlation analysis was used to ensure construct validity, with all indicators exhibiting correlation coefficients above the threshold of 0.3, and reliability was tested using Cronbach's alpha, with a threshold value of 0.6. All variables demonstrated high reliability, with Cronbach's alpha values exceeding this benchmark.

3.6. Data analysis

The data was analyzed using SEM with the PLS method. This approach was chosen because it can handle complex models with multiple mediating variables and operate effectively with relatively small sample sizes.

The analysis was conducted using SmartPLS and SPSS 24.0, ensuring robust and accurate hypothesis testing. PLS-SEM was particularly suitable for this study as it allows for the simultaneous analysis of direct and indirect effects among variables.

3.7. Alternative methods

While SEM-PLS was selected for its flexibility and efficiency, alternative methodologies could also be considered. For example, multiple regression

analysis (MRA) is well-suited for analyzing direct relationships between variables; however, its limitation lies in its inability to adequately capture mediating effects, such as those involving brand image. Another alternative is covariance-based SEM (CB-SEM), which is ideal for confirmatory research and is more appropriate for models with large sample sizes. The limitations require a larger sample size than PLS-SEM and are less efficient for exploratory or small-sample studies. Path analysis, the strengths, implies the analysis of causal relationships among variables, and is limited in handling complex models with multiple mediators or indirect effects. Mediation analysis using bootstrap techniques provides robust insights into mediating effects, but it does not offer the comprehensive modeling capabilities of SEM. Each method has advantages and limitations. However, PLS-SEM was chosen for its ability to effectively address the study's objectives, especially in analyzing complex relationships and mediating effects.

4. RESULTS

Table 1 provides an overview of the respondent profile, offering key demographic and business-related characteristics of the participants involved in this study. These details are essential to understanding the context and representativeness of the data collected.

Table 1. Respondent profile

| No. | Characteristic | Classification | Number (People) | Percentage (%) |
|-----|----------------|-------------------|-----------------|----------------|
| 1 | Gender | Man | 42 | 37.5 |
| | | Woman | 70 | 62.5 |
| | | Total | 112 | 100.00 |
| 2 | Age | 20–30 years old | 9 | 8.04 |
| | | > 30–40 years old | 38 | 33.93 |
| | | > 40–50 years old | 56 | 50.00 |
| | | > 50–60 years old | 7 | 6.25 |
| | | > 60 years old | 2 | 1.79 |
| | | Total | 112 | 100.00 |
| 3 | Education | High school | 84 | 75.00 |
| | | Diploma | 12 | 10.71 |
| | | Bachelor | 14 | 12.50 |
| | | Postgraduate | 2 | 1.79 |
| | | Total | 112 | 100.00 |
| 4 | Position | Manager | 15 | 13.39 |
| | | Owner | 97 | 86.61 |
| | | Total | 112 | 100.00 |

Source: Authors' elaboration.

Table 1 outlines the demographic details of the 112 respondents, providing a general summary of their characteristics, which include gender, age, educational background, and professional roles. The respondent profiles reveal several notable trends. In terms of gender distribution, there were significantly more female participants, with 70 women compared to 42 men. The age of respondents spanned from 20 years old to 65 years old, with the following breakdown: 1) nine respondents were between 20 years old and 30 years old, 2) 38 respondents were aged between 30 years old and 40 years old, 3) 56 respondents fell within the 40 years old to 50 years old age group, 4) seven respondents were between 51 years old and 60 years old, and 5) two respondents were above 60 years old. The educational qualifications of the participants also varied, with the majority — 84 individuals — having completed high school.

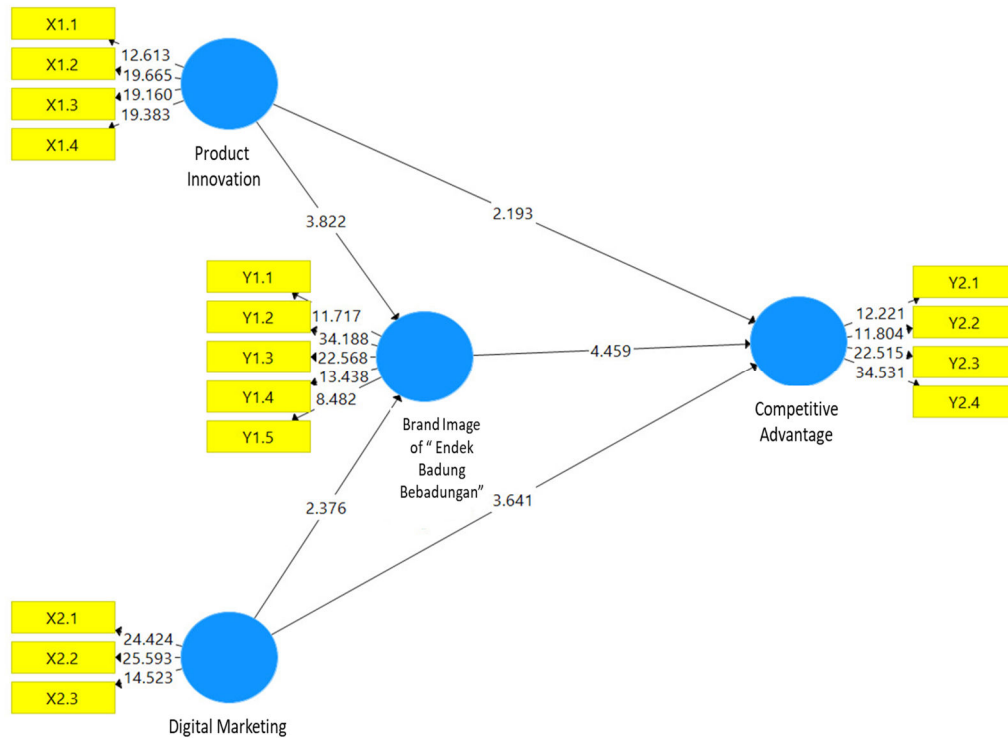
Additionally, 12 respondents held a diploma, 14 had attained a bachelor's degree, and two had

pursued postgraduate education. Regarding their positions within the business, most respondents were either owners or held managerial roles, with 97 identified as owners and 15 serving as managers. This study adopts a two-phase approach to evaluate the research model before testing hypotheses, focusing on validating and ensuring its reliability. Initially, the analysis centers on convergent validity, followed by an examination of discriminant validity. The first phase involves assessing the outer model to confirm that the research indicators are appropriate for measuring the intended variables. For the model to be deemed valid for further research, it must satisfy three essential criteria: 1) indicator loadings should be higher than 0.65, 2) the composite reliability (CR) must be greater than 0.8, and 3) the average variance extracted (AVE) for each construct should surpass 0.5. These benchmarks ensure the robustness and adequacy of the model for subsequent analysis.

Table 2. Correlation between latent variables

| Construct | Product innovation | Digital marketing | Brand image | Competitive advantage |
|-----------------------|--------------------|-------------------|-------------|-----------------------|
| Product innovation | 1.000 | 0.708 | 0.691 | 0.688 |
| Digital marketing | 0.708 | 1.000 | 0.634 | 0.703 |
| Brand image | 0.691 | 0.634 | 1.000 | 0.718 |
| Competitive advantage | 0.688 | 0.703 | 0.718 | 1.000 |

Source: Authors' elaboration.

Figure 2. Structural model (inner model)

Source: Authors' elaboration.

Table 3. Coefficient of determination

| Construct | R-squared |
|-----------------------|-----------|
| Brand image | 0.520 |
| Competitive advantage | 0.634 |

Source: Authors' elaboration.

As shown in Table 3, the *Competitive advantage* variable has the highest R-squared value, at 0.634. This suggests that 63.4% of the variance in *Competitive advantage* is explained by the model's constructs — namely, *Product innovation*, *Digital marketing*, and *Brand image*. On the other hand, the lowest R-squared value, at 0.520, is for the *Brand image* variable, meaning 52.0% of its variance can be

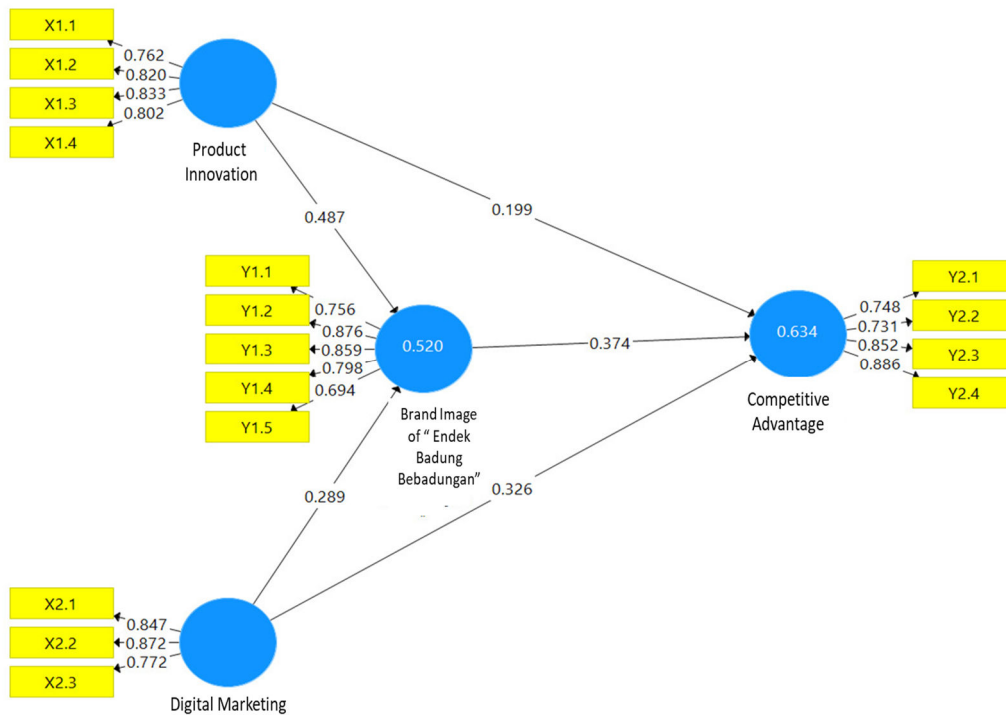
explained by *Product innovation* and *Digital marketing*. The model demonstrates a high level of predictability for *Competitive advantage*, which is helpful in understanding the relationships between the key variables. R-squared values above 50% indicate a generally strong fit, allowing for more confident conclusions about the model's explanatory power. While the values are above 50%, a stronger R-squared for the brand image would improve its explanatory power and provide deeper insights into how it interacts with the other variables. The model may still leave a significant portion of the variance unexplained, which could require consideration of additional factors.

Table 4. Path coefficient

| Hypothesis | Correlation between variables | Path coefficient | t-statistic | p-values | Description |
|------------|--|------------------|-------------|----------|-------------|
| H1 | Product innovation → Brand image | 0.487 | 3.822 | 0.000 | Accepted |
| H2 | Product innovation → Competitive advantage | 0.199 | 2.193 | 0.029 | Accepted |
| H3 | Digital marketing → Brand image | 0.289 | 2.376 | 0.018 | Accepted |
| H4 | Digital marketing → Competitive advantage | 0.326 | 3.641 | 0.000 | Accepted |
| H5 | Brand image → Competitive advantage | 0.374 | 4.459 | 0.000 | Accepted |
| H6 | Product innovation → Brand image → Competitive advantage | 0.182 | 2.831 | 0.001 | Accepted |
| H7 | Digital marketing → Brand image → Competitive advantage | 0.108 | 2.038 | 0.042 | Accepted |

Source: Authors' elaboration.

Figure 3. Structural model



Source: Authors' elaboration.

Hypothesis testing involves analyzing t-statistics and p-values. A hypothesis is accepted when the p-value is at or below 0.05. Table 4 illustrates that the association between *Product innovation* and *Brand image* resulted in a t-statistic of 3.822 and a p-value of 0.000, indicating that *H1* is supported. This implies that increased *Product innovation* leads to an improved *Brand image* for Endek MSMEs in Badung Regency. The impact of *Product innovation* on *Competitive advantage* also shows a t-statistic of 2.193 and a p-value of 0.029, supporting *H2*. This suggests that higher *Product innovation* enhances the *Competitive advantage* of these MSMEs. For *Digital marketing's* effect on *brand image*, the t-statistic for this relationship is 2.376, with a corresponding p-value of 0.018, which supports *H3*. This suggests that *Digital marketing* has a positive impact on *Brand image*. Furthermore, the influence of *Digital marketing* on *Competitive advantage* is reflected in a t-statistic of 3.641 and a p-value of 0.000, validating *H4*. Thus, improved *Digital marketing* strategies contribute to a more significant *Competitive advantage*. The relationship between *Brand image* and *Competitive advantage*. The analysis reveals a t-statistic of 4.459 and a p-value of 0.000, which validates *H5*. This indicates that a stronger *Brand image* contributes to a more significant *Competitive advantage*. Additionally, the mediating role of *Brand image* in the connection between *Product innovation* and *Competitive advantage* is affirmed by a t-statistic of 2.831 and a p-value of 0.001, thereby confirming *H6*. This finding illustrates that *Brand image* mediates the effect of *Product innovation* on *Competitive advantage*. Lastly, the mediating role of *Brand image* in the relationship between *Digital marketing* and *Competitive advantage* is confirmed with a t-statistic of 2.038 and a p-value of 0.042, validating *H7*. This means that *Brand image* mediates the effect of *Digital marketing* on *Competitive advantage*.

5. DISCUSSION

5.1. The impact of product innovation on brand image

The product innovation significantly positively influences the brand image of Endek craft MSMEs in Badung Regency. Specifically, the higher the level of product innovation — evidenced by improvements in raw material, production processes, design, and coloring — the more potent the brand image of the Endek MSMEs in this region. These findings align with previous research, such as Yang and Tan (2017), which highlighted product innovation as a key factor in enhancing a product's brand image. Additionally, similar conclusions were reached by Lari et al. (2022) and Kittur et al. (2023), both of whom reported that product innovation effectively enhances the product's brand image. Furthermore, Nik et al. (2024) also supported these results, demonstrating a positive and significant relationship between product innovation and brand image. Overall, this research not only confirms but also extends the existing literature by emphasizing the critical role of product innovation in strengthening brand image. The study underscores that continuous innovation in various aspects of product development can significantly bolster the market perception and competitive positioning of Endek craft MSMEs in Badung Regency.

5.2. The impact of product innovation on competitive advantage

Product innovation has a positive and statistically significant impact on competitive advantage. Specifically, as product innovation intensifies — reflected in improvements in raw materials, production processes, design, and coloring — so

does the competitive edge of Endek MSMEs in Badung Regency. These findings are consistent with earlier research, such as Wahyono (2020). Further support is provided by studies from Zameer et al. (2022), Tran et al. (2024), and Samsir (2018), all of which confirm that enhanced product innovation positively influences competitive advantage. This research underscores the importance of continuous product innovation as a strategic tool for enhancing competitive advantage. The significant impact of product innovation on competitive advantage highlights the need for Endek MSMEs in Badung Regency to prioritize innovation in their processes and offerings. By doing so, these enterprises can improve their market position, differentiate themselves from competitors, and achieve sustained growth and profitability in a competitive landscape.

5.3. The impact of digital marketing on brand image

Digital marketing significantly impacts the brand image. Specifically, digital marketing — encompassing social media promotions, video advertising, and website marketing — proves effective in enhancing the brand image of Endek craft MSMEs in Badung Regency. These findings align with previous studies, such as Guha et al. (2021), which highlighted the positive influence of digital marketing on brand image improvement. Interviews with key respondents further illustrate these effects. For instance, Mrs. A reported that her primary strategy involves social media marketing, which effectively communicates updates on new Endek designs and unique color options (personal communication, December 2024). Similarly, Mrs. B utilizes a combination of Instagram marketing and video content to reach her audience, showcasing the diverse strategies within digital marketing (personal communication, December 2024). Additionally, this research corroborates findings from Marques et al. (2021), Garner (2022), and Rojíková et al. (2023), all of which confirm that digital marketing positively affects brand image. The study underscores the importance of leveraging various digital marketing channels to strengthen the brand image of Endek craft MSMEs. By adopting a multifaceted digital marketing approach, these businesses can enhance their visibility, engage with their target audience more effectively, and ultimately improve their brand perception in the market.

5.4. The impact of digital marketing on competitive advantage

Digital marketing significantly and positively influences competitive advantage. Specifically, as digital marketing — reflected through strategies such as social media campaigns, video marketing, and website promotion — becomes more robust and extensive, the competitive advantage for Endek craft MSMEs in Badung Regency increases. These findings support previous research, such as Ismail (2023), which emphasized the positive role of digital marketing in enhancing a company's competitive edge. Additionally, Pratono (2024) investigated the influence of digital marketing capabilities on competitive advantage and found similar results, confirming that effective digital marketing strategies significantly contribute to competitive advantage.

The evidence suggests that a well-executed digital marketing strategy is crucial for gaining a competitive edge. For Endek craft MSMEs, investing in and refining digital marketing efforts can lead to improved market positioning, greater brand visibility, and enhanced competitive advantage. This research underscores the importance of leveraging digital marketing tools effectively to boost competitive performance and achieve sustainable growth in a competitive marketplace.

5.5. The impact of brand image on competitive advantage

Brand image positively and significantly affects competitive advantage. Specifically, a stronger brand image — evidenced by factors such as high-quality perception, environmental friendliness, unique design, color durability, and appealing color schemes — enhances the competitive advantage of Endek MSMEs in Badung Regency. Panda et al. (2019) highlighted the crucial role of brand image in boosting competitive advantage. Similarly, Nguyen Van et al. (2023) found that a robust brand image contributes positively to competitive positioning. Additionally, Olawunmi and Clarke (2023) reinforced these conclusions by demonstrating a significant relationship between brand image and competitive advantage. The importance of cultivating a strong brand image. For Endek MSMEs, maintaining a positive and distinctive brand image can lead to a more significant competitive advantage, helping these businesses stand out in a crowded marketplace. By focusing on aspects that enhance brand perception, such as product quality, environmental responsibility, and unique aesthetics, these enterprises can strengthen their competitive position and achieve sustained success.

5.6. The mediating role of brand image in the influence of product innovation on competitive advantage

The brand image serves as a significant mediator in the connection between product innovation and competitive advantage. Nik et al. (2024) emphasized the crucial role of product innovation in enhancing brand image, which in turn boosts competitive advantage. Similarly, Nguyen Van et al. (2023) found that a strong brand image positively impacts competitive advantage, supporting the idea that brand image acts as an important mediator in the relationship between product innovation and competitive performance. Overall, this study highlights the importance of brand image as a mediating factor. Product innovation alone can improve competitive advantage, but its effect is significantly amplified when brand image is strengthened. For businesses, focusing on innovative practices that enhance brand perception can lead to more significant competitive advantages, demonstrating the interconnected nature of these variables in driving business success.

5.7. The mediating role of brand image in the effect of digital marketing on competitive advantage

The brand image effectively mediates the relationship between digital marketing and competitive advantage. This suggests that improved digital marketing

efforts contribute to a stronger brand image, which, in turn, enhances competitive advantage. Effective digital marketing strategies not only boost brand perception but also play a crucial role in strengthening a business's competitive position. These results are consistent with previous studies, such as Olazo (2023), which highlighted the significant role of digital marketing in enhancing brand image and subsequently increasing competitive advantage. Similarly, Panda et al. (2019) found that a robust brand image positively impacts competitive advantage, further supporting the notion that brand image serves as a critical mediator in the digital marketing-competitive advantage relationship. In summary, this research underscores the importance of integrating digital marketing with brand image enhancement strategies to achieve a competitive edge. By improving brand image through effective digital marketing, businesses can leverage this strengthened perception to enhance their market position and achieve tremendous competitive success.

5.8. Research implications

The results of this research generally provide meaning that the RBV is indeed able to explain competitive advantage based on intangible resources, namely product innovation and digital marketing. Apart from that, the RBV needs to be equipped with a brand image variable because, with a brand image, competitive advantage actually increases more significantly.

6. CONCLUSION

This study highlights the critical interplay between product innovation, digital marketing, and brand image in enhancing the competitive advantage of Endek MSMEs in Badung Regency. Several key findings and implications emerge from the analysis. Firstly, product innovation significantly enhances the brand image, reinforcing its importance as a strategic tool for improving market perception. This positive perception, in turn, strengthens the competitive position of Endek MSMEs. The findings suggest that ongoing efforts to

innovate and adapt products to meet customer preferences are vital for maintaining relevance and competitiveness in the craft industry. Secondly, digital marketing has a profound influence on both brand image and competitive advantage. Effective digital marketing strategies not only improve how customers perceive Endek MSMEs but also directly contribute to their ability to compete in increasingly saturated markets. This highlights the need for MSMEs to embrace and optimize digital marketing practices, leveraging social media and e-commerce platforms to amplify their reach and impact. Moreover, brand image emerges as a pivotal mediator, amplifying the effects of product innovation and digital marketing on competitive advantage. A strong brand image translates these efforts into tangible benefits, such as increased customer trust, loyalty, and market differentiation. This underscores the strategic value of investing in brand-building activities alongside innovation and marketing initiatives.

This research primarily investigates brand image as a mediating variable. However, other potential mediators, such as the perceived value experienced by MSME business owners, could also influence the relationship between product innovation, digital marketing, and competitive advantage. Future studies might explore these additional mediators to provide a more comprehensive understanding of how various factors interact to impact competitive advantage.

The research is limited to Endek MSMEs in Badung Regency. Expanding the scope to include other sectors, such as culinary MSMEs (processed food products), could offer broader insights. Investigating different types of MSMEs would allow for comparisons across various industries and provide a more generalized view of how product innovation and digital marketing affect competitive advantage in diverse contexts. Addressing these limitations could lead to more nuanced findings and recommendations, ultimately contributing to a deeper understanding of the dynamics at play in enhancing competitive advantage across different sectors and through various mediating variables.

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