

The Effect of Product Innovation on the Performance of Culinary MSMEs in Tenggara

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Abstract

Product innovation is a crucial factor in determining the competitiveness of culinary micro, small, and medium enterprises (MSMEs) in Tenggara, particularly amid increasing market dynamics and intense business competition. This article aims to analyze how product innovation—encompassing menu variation development, improvements in packaging quality, utilization of digital technology, and responsiveness to market trends—affects the performance of culinary MSMEs. Based on a simplified conceptual synthesis of findings from previous studies, innovation is shown to make a direct contribution to increased sales, customer growth, operational efficiency, and business reputation. Culinary MSMEs that consistently implement innovation tend to demonstrate superior business performance compared to those that do not engage in innovation practices. This article emphasizes that innovation is no longer an optional activity but a strategic necessity for culinary MSMEs in Tenggara to survive and grow within an increasingly competitive business environment.

Keywords: Innovation; Product Development; MSME Performance; Culinary Business; Tenggara

1. Introduction

1.1 Background

Culinary micro, small, and medium enterprises (MSMEs) play a strategic role in the local economy of Tenggara, particularly as a dominant subsector within the creative economy and regional tourism activities. The development of public spaces such as Simpang Odah Etam, Car Free Day areas, food courts, and Taman Tanjong has created significant market opportunities for culinary entrepreneurs. These spaces function not only as economic hubs but also as social and cultural centers that attract both local residents and visitors.

However, the rapid growth in the number of culinary MSMEs operating in these locations has intensified market competition. As similar products are offered by multiple vendors, consumers become more selective and sensitive to product differentiation, quality, and novelty. This condition places pressure on MSME actors to continuously adapt in order to maintain consumer interest and ensure business sustainability.

In this context, product innovation emerges as a key strategic factor. Innovation in the culinary sector may take various forms, including the development of new menu variants, improvements

in taste and presentation, attractive and functional packaging, as well as the adoption of digital technologies for promotion and sales. Given the dynamic nature of consumer preferences and rapidly changing market trends, culinary MSMEs that fail to innovate risk losing their competitive position. Therefore, understanding the role of product innovation in enhancing MSME performance becomes highly relevant for local economic development in Tenggara.

1.2 Research Problem

Despite the widely acknowledged importance of innovation as a driver of MSME competitiveness, many culinary business actors in Tenggara have not been able to implement product innovation consistently. Common challenges include limited creativity, inadequate access to market information, and insufficient understanding of changing consumer preferences. As a result, innovation practices among culinary MSMEs tend to be sporadic and unsystematic.

This article focuses on the following research question: To what extent does product innovation influence the performance of culinary MSMEs in Tenggara? By concentrating on a single key variable—product innovation—this study aims to provide a clear and comprehensive conceptual overview of innovation as a determinant of business performance. The findings are expected to contribute both theoretically, by reinforcing innovation-based performance frameworks, and practically, by offering insights for MSME actors and policymakers in designing effective innovation support strategies.

2. Literature Review

2.1 Product Innovation

Product innovation is defined as the ability of business actors to create new products, modify existing offerings, improve packaging quality, and strengthen overall business presentation. From the perspective of Dynamic Capabilities Theory, innovation represents an organizational capability to sense, seize, and respond to environmental changes. This capability enables firms to adapt to shifting market conditions and evolving consumer preferences in a sustainable manner.

In the context of culinary MSMEs, product innovation is commonly implemented through the development of new menu variants, recipe adjustments, improvements in service quality, and the utilization of digital media for marketing and promotion purposes. Culinary products are highly sensitive to trends, taste preferences, and visual appeal, making innovation a critical differentiating factor in competitive markets.

Previous studies consistently indicate that innovation plays a decisive role in determining MSME success. Firms that actively engage in continuous product innovation are more capable of maintaining competitiveness, responding to market dynamics, and sustaining business growth. This relationship is particularly evident in the culinary sector, where low entry barriers and intense competition demand constant renewal and creativity from business actors.

2.2 SME Performance

Business performance is commonly assessed using indicators such as sales growth, customer expansion, consumer satisfaction, cost efficiency, and overall business development. For culinary MSMEs, performance reflects not only financial outcomes but also the ability to attract

and retain customers in a highly competitive environment.

Culinary MSMEs that are able to deliver innovative products tend to have greater opportunities to enhance customer appeal, strengthen customer loyalty, and achieve long-term business growth. Innovative offerings create added value that differentiates products from competitors, thereby increasing consumer interest and repeat purchases.

Empirical evidence from previous research demonstrates a positive correlation between innovation and business performance, particularly among creativity-based MSMEs. Innovation enables small businesses to improve their market positioning, optimize operational processes, and enhance overall organizational performance. Consequently, product innovation is widely recognized as a key driver of sustainable performance improvement in the MSME sector.

3. Research Method

3.1 Descriptive Approach

This study adopts a descriptive research approach by examining empirical findings from previous studies and relating them to the current conditions of culinary MSMEs in Tenggara. The descriptive approach is employed to provide a systematic explanation of the conceptual relationship between product innovation and business performance without conducting direct statistical testing.

Through this approach, the study emphasizes interpretation and synthesis of existing empirical evidence rather than hypothesis testing. This method is considered appropriate for highlighting key patterns and relationships that have been consistently identified in prior research on MSME innovation and performance.

3.2 Conceptual Analysis

The analysis is based on a conceptual framework that positions product innovation as the primary factor influencing MSME performance. The framework summarizes key indicators of product innovation, including menu variety, packaging quality, business presentation, and digitalization practices.

These innovation indicators are conceptually linked to performance indicators such as sales growth, customer acquisition, operational efficiency, and business development. By integrating these dimensions, the conceptual analysis provides a coherent explanation of how innovation contributes to improved business outcomes among culinary MSMEs.

3.3 Data Sources

The data used in this study are derived from a simplified synthesis of previous research involving culinary MSMEs in Tenggara, complemented by relevant literature on innovation and MSME performance. The empirical data originate from research documents that were previously analyzed using a Structural Equation Modeling–Partial Least Squares (SEM-PLS) design.

Rather than reanalyzing the raw data statistically, this article summarizes and interprets the validated empirical findings at a conceptual level. This approach allows the study to focus on extracting key insights regarding the role of product innovation as a determinant of MSME performance.

4. Findings and Discussions

The main findings indicate that product innovation plays a significant role in determining the performance of culinary MSMEs in Tenggara. MSMEs that actively engage in innovation experience higher sales growth, customer expansion, and consumer satisfaction than those that do not implement innovation practices. These findings reinforce the argument that innovation serves as a strategic driver of competitiveness in the culinary sector, characterized by rapid shifts in consumer preferences and intense market competition.

Product innovation enables culinary MSMEs to create added value and differentiate their offerings from competitors. This differentiation strengthens market positioning and enhances product attractiveness, ultimately contributing to improved business performance.

5. Conclusion

This article confirms that product innovation has a strong and significant influence on the performance of culinary MSMEs in Tenggara. Business actors who are able to innovate consistently have greater opportunities to increase sales, expand their customer base, improve operational efficiency, and strengthen their business reputation. These findings highlight innovation as a critical factor in enhancing competitiveness and ensuring business sustainability in a dynamic market environment.

Therefore, product innovation should be understood not merely as a supporting activity but as a core strategic approach in responding to market competition. Culinary MSMEs are encouraged to continuously adapt their products by developing new menu variants, improving packaging and presentation, and utilizing digital technologies. In addition, local governments and MSME support institutions are recommended to provide training programs and mentoring initiatives that strengthen product innovation capabilities, particularly for small-scale culinary businesses.

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