THE INFLUENCE OF MARKETING MIX AND MARKETING ENVIRONMENT TOWARDS CUSTOMERS SATISFACTION TO ENHANCE THE LOCAL SMALL MEDIUM ENTERPRISES COMPETITIVE ADVANTAGE

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Abstract Fruit Chip is one of the most well known Small Medium Enterprise's products in Batu Malang. This is due to the high number of fruit production produced in this city. In selling their products, local Small Medium Enterprise have to face the highly competition from other producers as well who also produced similar products. The increasing number of tourists who came into Batu City also encouraging local Small Medium Enterprises to capture this opportunity by producing food souvenirs such as fruit chip. Therefore, every local Small Medium Enterprises should make continuous improvements in all areas as well as improving the quality of their products especially to maintain and attract the consumers. One of the key areas that need to be developed is marketing by conducting marketing mix-7P's (X2) towards the customer satisfaction (Y) using Structural Equation Modelling (SEM). Based on the regression analysis, we can conclude that there is significant correlation between marketing mix towards customer satisfaction. The most influential variable in marketing mix is employee, promotion, process, and places. While the biggest influence in marketing environment is new entrants and customer variables.

Keywords: Customer Satisfaction, Marketing Mix, Small Medium Enterprises, Structural Equation Modelling.

1. Introduction

Fruit Chip is one of the most well known Small Medium Enterprises (SME's) product in Batu Malang. This is due to the high number of fruit production produced in this city. In selling their products, local SMEs have to face the highly competition from other producers as well who also produced similar products. The increasing number of tourists who came into Batu City also encourage the local SME to capture this opportunity by producing food souvenirs such as fruit chip. Therefore, every local **SMEs** should make continuous improvements in all areas as well as improving the quality of their products especially to maintain and attract the consumers. This is important because sustainable growth and the increase of SME competitiveness will provide the environment for investment and employment [1].

Even though there are no single definite definitions for Small Medium Enterprises, it is very clear that Small and Medium Enterprises has significant contributions towards the economy of a country and even consider as the backbone of the economy [2]. Bank Indonesia as the central Bank in Indonesia has defined SME as all of the businesses that has less than 10 Billion Rupiah's worth in assets and less than 50 billion rupiah's in annual revenue [3].

One of the most important tools in marketing is marketing mix. According to Philip Kotler[4], Marketing Mix is the set of controllable variables that the firm can use to influence the buyer's response. While the marketing mix is a combination of four variables or activities in which are the core of the company's marketing system that is, product, price, promotional activity and distribution system [5]. In order to understand the customer's needs and wants, business owner need to understand every elements of marketing mix to get a satisfy their customers and get a loyal customer [6]. In other words, marketing mix

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consists of Product, Price, Promotion, and Place. But as the time goes by, the marketing mix increased by 3 more variables into 7Ps [7], which consisted of Product, Price, Promotion, Place, Participant, Process, and Physical Evidence. A good marketing strategy is not only considering the internal aspect that controlled by the company, but we also have to analyze the environment that the company are facing. Therefore, it is also needed for us to understand the nature of the environment that we called as is important marketing environment. This because the rapid competition in the marketing environment force the small and medium enterprises to identify newways to satisfy their customers and to offer them constantly value in a way much more efficient than their competitors [8]

This marketing research is conducted by observing these two important factors, which are marketing environment and marketing mix-7P's towards the customers satisfaction. Marketers could push further and could influencing higher levels of Customer satisfaction (CS) by using marketing tools such as marketing mix, after understanding the customer's need [9]. The probability of a satisfied customers that become a regular customer would become very high.Therefore good customer satisfaction would give an huge effect towards the profitability of nearly every business [10]. Moreover, satisfied customers allow companies to save money on attracting new customers by freely sharing their emotions and impressions of a product or service with their relatives, friends and acquaintances.

This research will be cunducted by using Structural Equation Modelling (SEM). SEM is a

comprehensive statistical approach to testing hypotheses about relations among observed and latent variables [11]. SEM also provides a general and convenient framework for statistical analysis [12]. The variable observed in this marketing research is marketing environment and marketing mix-7P's variable towards the customers satisfaction variable.

The purpose of this study is intended to answer the research question that comes with the background as described above. The purpose of this study are to know the factors of marketing mix and marketing environment that are most important in local fruit chip SME in Batu, to analyze customer perceptions regarding marketing mix evaluation and to analyze the influence of marketing mix and marketing environment towards customer satisfaction.

Previous research conducted in various industries suggest that there are significant influence of marketing mix strategies towards customer satisfaction [13]. Hence, business entities must understand the marketing needs to focus attract customers and keep them loyal to the brand [14].

2. Materials and Methods

The data is collected by distributing questionnaires towards customers. The quantitative analysis used in this research is Structural Equation Model (SEM) using AMOS software. These are the exogenous constructs (X) also known as source variable or independent variable and the endogenous constructs (Y) of this research. Table 1 shows construct indicators that generated referring to the marketing mix concept stated by Kotler [15].

Construct		Construct indicators		
Marketing Mix	Product (X21)	Products Varieties		
(X2)		Variety of Product flavor		
		Expiry of the product		
		Attractiveness of the products		
	Price (X22)	Affordability		
		Price discount on the product		
	Promotion (X23)	Wide promotion efforts		
		Familiar Promotion media		
	Place (X24)	Avaiability of products		
		Information of distributors		
		The sales point the product is easy to access		
	Employee (X25)	The understanding of the employeee towards the products.		
	Process (X26)	Hygienic products		

Table 1. Construct Indicators

Construct		Construct indicators
		Easy purchasing process
		Online purchasing is available
		Fast delivery
	Physical Evidence	Sales Outlet is clean and neat
	(X27)	Parking lot in the sales outlet is available
		Sales outlet is spacious
		Good and clean sale window
		Waiting space is available
		Clean indoor air circulation
Marketing	Competitors (X11)	Sales outlet of competitors is available in many places
Environment		Taste of the competitors product is better
(X1)		It is important to set lower price point
	Customers (X12)	Customer want to try different kind of products
		Customer preferences influenced by discounts
	Suppliers (X13)	Often try new products
		A lot of supplier available in Batu – Malang
		Lots of distributors of raw materials of production in
		Malang
	New Entrants	There are many new products and store selling the same
	(X14)	products
		New store and products offer better quality of products
		Lots of products variety
	Substitute	Many food souvenirs from Malang besides fruit chip as a
	Products (X15)	substitute products
Customers	Create Value (Y1)	Create product suitable for customers needs and wants
Satisfaction		Could produce good and delicious food products
(Y)		Could be sent through delivery
	Communicate	Promotion media could deliver a clear information
	Value (Y2)	Promotion is fast and follow the trend
		The Product is consistent with the promotion used
		Sales outlet is nearby
	Delivery Value	Delivery process is fast
	(Y3)	Delivery of product is on time
		Product delivered is accurate
		Variety of Product Delivered

3. Results and Analysis 3.1 Validity and Reliability Test

According to Ghozali[12], validity is used to measure whether the questionnaire is valid or not. Based on the validity test using pearson Product Momen, the result of sig of 3 variables consisting of marketing mix, marketing environment, and customer satisfaction, is less than 0.05. This indicates that all statements is valid. While the construct realibility value of Marketing Mix, marketing environment, and customer satisfaction variables are 0.943, 0.954, and 0.964. This value is greater than 0.7, so it can be concluded that all variables are reliable.

3.2 Normality Data

Normality test in SEM consist of two stages. The first step is univariate normality and the second step is multivariate normality. From normality test, the overall value (multivariate) is 3.316. this number is far beyond critical point between -2.58 up to 2.58. But based on the univariate value, the data is normal distributed based on the c.r skewness value that is between critical point -2.58 until 2.58 (2.58 is z value for 99% confident interval). Therefore, we can conclude that the data is normal distributed.

3.3 Outlier Evaluation

An outlier data is detected if it has a mahalanobis distance value is greater than the value of the table. The value obtained from the chi-square table by looking at the number of variables and the level of significance used in this research. This study used 15 research variables with a significance level of 1%, therefore the table value is 30.578. From multivariate outlier test, it is obtained that all Table 2 RMSEA Goodness Of Fit Test

existing data have been feasible to be analyzed because it is in the range of 8,238 - 25,286 and under the value of 30.578.

3.4 Goodness of Fit

Based on table 2, it can be seen that the value of RMSEA is 0.234. This value is at the marginal fit because the value is between 0.08 - 1.00. This indicates that the model is fit based on the RMSEA test.

Model	RMSEA	LO 90	HI 90	PCLOSE		
Default model	.234	.217	.251	.000		
Independence model	.456	.442	.471	.000		

Based on Table 3, it can be seen that the default CMIN value of the model is 660,260. A good model is the model with CMIN default model value is between CMIN saturated model

and independence model (Santoso, 2012). This indicates that the model is fit based on the CMIN / DF test.

Table 3. CMIN/DF Goodness Of Fit Test					
Model	NPAR	CMIN	DF	Р	CMIN/DF
Default model	32	660.260	88	.000	7.503
Saturated model	120	.000	0		
Independence model	15	2708.646	105	.000	25.797

Based on table 3, It is known that the value of RMR is 0.074. Smaller RMR value indicates better fitting model. This indicates that the model is fit based on the RMR test. In addition, it can be seen that the value of GFI and AGFI is 0.643

and 0.513. A model is said to be fit if the GFI and AGFI values are in the range of 0 - 1 (Ferdinand, 2002), so according to the GFI and AGFI tests, the model is fit.

Tabel 4. RMR, GFI, AGFI Goodness Of Fit Test				
Model	RMR	GFI	AGFI	
Default model	.074	.643	.513	
Saturated model	.000	1.000		
Independence model	.436	.135	.012	

Based on the results of Goodness Of Fit criteria analysis, four criteria (RMSEA, CMIN, GFI, and AGFI) have met the standard. Therefore it can be concluded that the developed model has been good or feasible.

3.5 Structural Equation Modelling 3.5.1 Marketing Environment Variable (X1)

The Marketing Environment Variables (X1) consist of Competitors (X11), Customers (X12), Suppliers (X13), New entrants (X14), and Substitute products (X15). The relationship between the Marketing Environment variable (X1) and its indicators is described in equation

1.

$$\begin{array}{c} X1 = 1,00 \ X11 + 1,14 \ X12 + 0,97 \ X13 + 1,39 \\ X14 + 1.09 \ X15 \end{array} \tag{1}$$

Based on the result of regression coefficient level, all of the value is greater than 0.5. This indicates that all indicator variables have strong relation towards marketing environment. The value of C.R from the relationship of all indicator variables towards the marketing environment is greater than 1.96 and the p-value for all indicators are 0,000 ***. It shows that Competitors, Customers, Suppliers, New entrants, and Substitute product variable has a significant effect on marketing environment variables.



Figure 1. Path Diagram

3.5.2 Marketing Mix Variable (X2)

The Marketing Mix (X2) variable consists of Product (X21), Price (X22), Promotion (X23), Place (X24), Employee (X25), Process (X26), and Physical Condition (X27). The relations between the Marketing Mix variable (X1) and the indicator is described in equation 2.

X2 = 1,00 X21 + 0.99 X22 + 1.05 X23 + 1,00 X24 + 1.09 X25 + 1.03 X26 + 0.95 X27 (2)

Based on the result of regression coefficient level, all of the value is greater than 0.5. This indicates that all indicator variables have strong relation towards marketing mix. The value of C.R from the relationship of all indicator variables towards the marketing environment is greater than 1.96 and the p-value for all indicators are 0,000 ***. It shows that Product, Price, Promotion, Place, Employee, Process, and Physical Condition variable has significant effect on marketing mix variables.

3.5.3 Customers Satisfaction (Y)

The Customer Satisfaction Variable (Y) consists of create value (Y1), Communicate Value (Y2), and Delivery Value (Y3). The relationship between Customer Satisfaction variable (Y) and its indicators is described in equation 3.

 $Y = 0.93 Y1 + 1.02 Y2 + 1.00 Y3 \dots$ (3)

Based on the result of regression coefficient level, all of the value is greater than 0.5. This indicates that all indicator variables have strong relation towards customer satisfaction. The value of C.R from the relationship of all indicator variables towards the marketing environment is greater than 1.96 and the p-value for all indicators are 0,000 ***. It shows that create value, Communicate Value, and Delivery Value variables has a significant effect on marketing mix variables.

3.5.4 Correlation between Marketing Mix and Customer Satisfaction

This is the results of the regression of the marketing mix variable towards customer satisfaction:

Y = 1,07 X1 + 0,00 z1.....(4)

Equation 4 states that customer satisfaction has a strong correlation towards marketing mix. It also shows that the residual value is 0.00. This indicates that the variable of customer satisfaction (Y) is explained by marketing mix variable approaching 100% and equal to 0.00% (very small) explained by other variable not analyzed or not included in this research. Based on the calculation can be seen that the correlation coefficient between the marketing environment and Marketing mix is 1.31.

Based on the result of regression coefficient level, this value is greater than 0.5. This indicates that marketing mix variables have strong relation towards customer satisfaction. The value of C.R from the relationship of all indicator variables towards the marketing environment is greater than 1.96 and the p-value for all indicators are 0,000 ***. It shows that marketing mix variable has a significant effect towards marketing customer satisfaction.

4. Conclusion

Based on the results of the discussion in the previous chapter, it can be concluded as follows:

1. Based on Regression analysis result, it can be seen that there is a very strong relationship between marketing mix variable to customer satisfaction variable in the local SME product especially in Fruit Chips product in Batu – Malang.

2. The biggest influence in marketing environment is new entrants and customer variables. This indicates that the new entrant is one of the biggest threats that must be considered by the local SME companies. While the customer variable indicate that the company should continue to pay attention towards the customer's needs and wants because these variables greatly affect the marketing environment faced by the local SME companies. Understanding the marketing environment is very important because it would affect the marketing mix as the company's marketing strategy. Based on the regression analysis on marketing mix variables, variable that have the highest influence are Employee, Promotion, Process, and place. Employee skills in providing services is very important due to the fact that in the end, the employee is in the front line of a business that will interact directly with customers. In addition, it is also noted that the promotion also gives a very big influence, because the company's product will be known by the customer by using an effective promotional media. Process is one of the most important thing to give a guarantee that the process could produce a high quality product. In addition, the place also gives a significant influence, because the ease of customers in finding the product is also one way to make the product reachable by the customer.

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