

## CHAPTER I

### INTRODUCTION

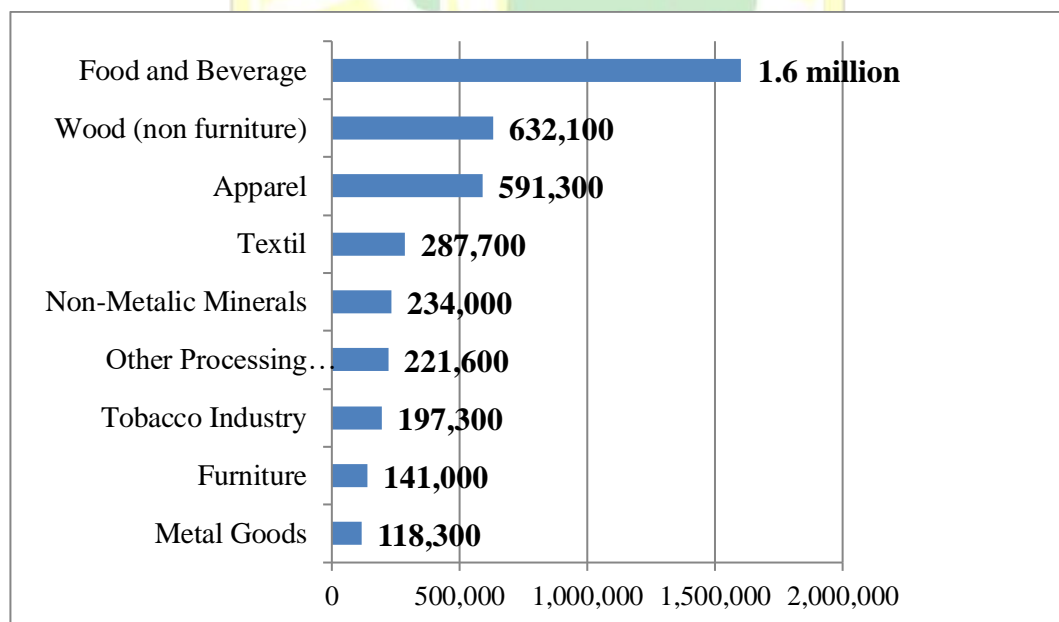
#### 1.1 Background Of Study

SMEs are trading businesses that is managed by individuals or business entities and in accordance with the criteria for small or micro businesses. SMEs currently can be said as one of the driving force of community's economy in Indonesia. The contribution of SMEs sector is one of the factors to make unemployment rates become low and generates a high rate of economic growth in many developed countries (Pandya, 2012 and European Union, 2018). Based on data from Ministry of Cooperatives and Small and Medium Enterprises (KemenkopUKM) in March 2021 quoted by PIP Kementerian Keuangan RI (2022), the number of SMEs reached 64.2 million with a contribution to Gross Domestic Product of 61.07% or Rp. 8,573.89 trillion. SMEs are able to absorb 97% of the total workforce, and can collect up to 60.42% of the total investment in Indonesia.

Globalization phenomenon especially digitalization currently has created some changes and give many impacts on SMEs in developing its business, it has shifted to a newest business model. It influences the business environment become more complex and the businessman have to be more adaptive, innovatiove and flexible in maintaining the existence of their business due to market trend is tend to change quickly, then it is potentially will create an intense

competition between SMEs. In this context, organizations are forced to learn new knowledges to develop innovative products in order to acquire new customer and retain them to win the competition.

This research focuses on food and beverage SMEs in Padang that becomes the object of research, for example is restaurant, cafe, coffeeshop, street food, cake & bakery, homemade food and other similar businesses. The researcher decides to choose food and beverage business as the research object due to there is a positive development of this sector in Indonesia compared than other business sectors. Based on Ahdi (2022), in their article retrieved from katadata.co.id, recorded that per 2020 the highest number of SMEs sector in Indonesia is come from food and beverage SMEs, the data is described on figure below:



**Figure 1. 1 The highest number of SMEs business sectors in Indonesia per 2020**

From the data above, it can be concluded that food and beverage industry sector dominates SMEs business sector in Indonesia with the number of 1.6 million, so it indicates there is a big interest of Indonesia community to start the business in food and beverage industry and it can be indicated that food and beverage become the biggest source of contribution for economy development in Indonesia and one of the potential business sector can be developed by communities and government as one of Indonesia's economy driving force. Moreover according to the data from Statistic Center of Indonesia (BPS), quoted by Rizaty (2021), in their article on [databooks.katadata.co.id](http://databooks.katadata.co.id) website, it is recorded that type of goods or services that are sold the most in e-commerce in 2020 are food, drink and food material with the percentage of 40.86% from the overall of business that become them samples.

From the data above that describes a higher number of food and beverage SMEs in Indonesia compared than other business sectors, it also can be indicated that there is a high interest of Indonesia society to choose food and beverage as their business choice. According to direct observation in the field, practically researcher found that the unique phenomenon in Indonesia and Padang city is the business actor of food and beverage is started from gen Z (17-24 years old) who are univeristy student who has F&B business such as homemade food, cake and bakery, then also dominated by millennial generation (25-40 years old) from general public. Moreover, food and beverage sector has many varian of product that can be offered for example is homemade food, street food, traditional food, even the bigger F&B business such as cafe, coffeeshop or restaurant, whereby this

business will always be there and potentially becomes a sustainable business due to most of the products of food and beverage are primary needs that has a big demand in the market as kind of food or drink products that is offered by SMEs. With a high demand and many development of various food and drinks varieties from time to time in Indonesia and Padang city, it makes the societies tend to choose food and beverage as the favorite business choice due to it has promising business opportunity. Based on Riezeki (2022) in their article retrieved from majoo.id, explained that food and beverage is one of promising business whereby the foods and drinks are the basic human needs, for example in this modern era there is a big interest even has become a habit for any people from all walks of life for having a family time such as dinner at cafe, coffeeshop or restaurant and spend more time to do a meeting or doing any other activities in there, so that it supports food beverage business to grow up as a potential business that has a high demand in the market. Based on Based on Riezeki (2022) in their article retrieved from majoo.id, there are several reasons of why food and beverage becomes one of profitable business:

1. Food and beverage are the basic human needs
2. Food and beverage business is easy to adapt with the trend
3. Food and beverage business grow by following market needs
4. Many types of food and beverage business that can be choices
5. Business actor can adjust the business capital as the types of food and beverage selected

Paying attention to the big role of food and beverage SMEs as one of the potential business sector in Indonesia and Padang city, exactly it is very important to improve the quality of any business aspects than can support its business development, then SMEs are able to create a superior product and services quality whereby it is also strongly correlated to the quality of organizational performance of SMEs that have to be improved, so that SMEs can maintain the existence of its business. According to Abbas et.al (2016), performance is the basic concept for any company to evaluate its business growth and progress. So it means that the performance become an assential aspect especially for food and beverage SMEs due to as the previous data that has been explained, stated that food and beverage SMEs is one of the popular business choice in Indonesia it is proved by its big growth number compared than other business sectors, so that there is an intense competition that have to be faced. Food and beverage SMEs tend to be affected by some changes that is happened in their external business environment (Johnson et al., 2017). Therefore, exactly food and beverage SMEs have to survive more in order to make their business to be sustainable with a high capabilities to compete in the market.

Padang as the downtown of West Sumatera that has many potential resources that can be developed in business aspect, many natural resources has been developed by community in Padang, start from industrial sector, food and beverage and retail businesses. Especially in culinary, Padang also becomes the center of production processs and distribution of spesific local product from every SMEs in West Sumatera such as rendang, keripik balado, dendeng, sagun and

other specific food and snack from West Sumatera, it will be collected and distributed by some retail stores in Padang. Specific culinary sector also becomes the leading sector in Padang, moreover Padang becomes one of the tourism destination center in West Sumatera, it means that it is a potential opportunity for culinary business to engage due to tourism and culinary has a positive relationship that are two sectors will support each other. Tourism sector will encourage many visitors to visit West Sumatera, then it also give advantage to SMEs in selling their product. This opportunity encourages the business actor of SMEs in Padang to provide their product especially in culinary destination, cultural product store, cafe and other food businesses from West Sumatera that can be offered to tourists. Based on the data from West Sumatera Statistics Center (BPS) recorded growth in the number of food and beverage and restarurant in West Sumatera from 2017-2021.

**Table 1. 1 Growth Number of Food and Beverage Industry in West Sumatera**

Kabupaten/Kota	Jumlah Rumah Makan/Restoran Menurut Kabupaten/Kota di Provinsi Sumatera Barat				
	2017	2018	2019	2020	2021
Kab. Kepulauan Mentawai	27	27	27	28	34
Kab. Pesisir Selatan	115	146	146	137	146
Kab. Solok	50	47	67	89	89
Kab. Sijunjung	117	68	119	48	133
Kab. Tanah Datar	158	40	40	41	41
Kab. Padang Pariaman	32	54	58	54	59
Kab. Agam	53	53	113	54	56

<b>Kabupaten/Kota</b>	<b>Jumlah Rumah Makan/Restoran Menurut Kabupaten/Kota di Provinsi Sumatera Barat</b>				
Kab. Lima Puluh Kota	71	40	40	57	42
Kab. Pasaman	47	47	47	47	47
Kab. Solok Selatan	59	32	57	48	64
Kab. Dharmasraya	32	60	60	62	23
Kab. Pasaman Barat	118	80	93	80	86
Kota Padang	267	313	336	318	203
Kota Solok	34	44	44	38	46
Kota Sawahlunto	46	47	57	46	68
Kota Padang Panjang	41	81	81	76	81
Kota Bukittinggi	57	123	63	61	50
Kota Payakumbuh	170	196	81	30	188
Kota Pariaman	89	103	65	65	90
Provinsi Sumatera Barat	1583	1601	1594	1379	1546

Based on the data from Statistics Center of West Sumatera (BPS) above, we get the growth number of food & beverage industry in Padang city from 2017-2021, eventhough there is decreasing number in 2021. However Padang city in every year is recorded as region that has the largest number of food and beverage SMEs in West Sumatera compared than other districts or cities. It means that Padang can be categorized as the center of food and beverage industry in West Sumatera, then exactly there is an intense competition of food and beverage industry there. To respond this condition, every SMEs involved have to be more innovative, execute the business goals effectively to build a sustainable business

that can compete in the market. According to Augustina et al. (2022) in their article retrieved from encyclopedia.pub website, achieving an optimum level of performance is an essential thing for business. Generally, SMEs performance can be measured by some aspects namely efficiency, growth, profit, owner's personal goals and reputation (Becherer et al., 2012) and (Li, Huang and Tsai, 2009).

Refers to the aspects of SMEs performance, if it is correlated to the circumstance of food and beverage SMEs in Padang. According to Ratnawati & Hikmah (2013), in general there are some factors that can influence the performance of food and beverage SMEs:

1. Marketing capability
2. Technology
3. Availability of business capital
4. Information access related to business circumstance
5. Social network
6. Business legality
7. Business plan
8. Entrepreneurial skill
9. Business support

Based on the observation, currently in Padang researcher still often found food and beverage SMEs with any kind of problems, one of them is about marketing strategy. This problem can start from they have not find an effective, creative and innovative ways to market their products well and difficulties to get a



larger scope of market. There are still many food and beverage SMEs only rely on traditional marketing that is currently is not relevant anymore since various digitalization in many business aspects especially in marketing and it also about how SMEs can correlate and match their marketing strategy to current consumer behaviour, product innovation and any changes happened in the market that encourages SMEs to do some adjustment on its marketing strategy. Then as one of business that is closely to entrepreneurial environment, sometimes food and beverage SMEs in Padang does not really prepare their entrepreneurial skill in term of how to identify the business opportunity, creating value for customer and innovativeness in order to create a high quality of product and service quality so that food and beverage SMEs in Padang can improve their competitive advantage in the market compared than competitors. Then along with that food and beverage can improve their company performance in term of sales growth, market share, product and service quality, satisfy the customer then food and beverage SMEs is be able to improve the reputation and their competitive position in the market (Khalid et al., 2021).

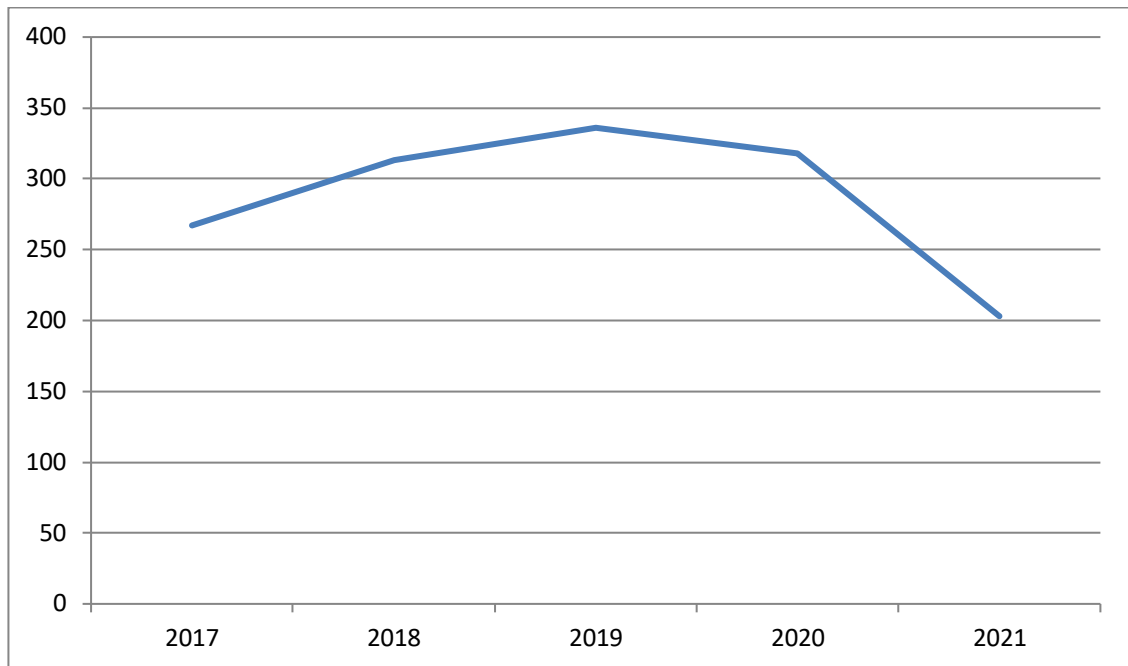
According to Luthfa (2021), in their article retrieved from oyindonesia.com discuss about the usual phenomena of challenges for food and beverage SMEs to improve their company performance, found that there are some crucial problems that is usually happened and potentially will influence the performance of food and beverage SMEs namely:

1. Lack of digital marketing skill, it means that not all of food and beverage SMEs in Padang have applied the digital marketing as one of

marketing tools for their business, some of them still rely on using traditional marketing concept, whereby it is not relevant anymore for current conditions that we are in the digital era whereby almost any company relies to use some digital media for their marketing activities in terms of online promotion, customer engagement, understanding of customer needs through social media and building up the brand awareness by using some digital media that can be used.

2. Lack of knowledge about business development, this problem is related to how the food and beverage can do regular innovation for product and service offered, it has to be personalized and upgraded to the current customer needs and their behaviour in deciding to choose certain brands and buy products. So in this context, the marketing and entrepreneurial skills are crucial aspects that have to be improved by food and beverage especially for F&B SMEs in Padang city due to it will encourage them to build a better business development.

Food and beverage has a good growth in Padang, due to it also becoming a potential business choice for Padang communities and caused by Padang as the downtown of West Sumatera that makes it become a strategic location to establish a business especially for food and beverage sector, it can be described on the data below:



**Figure 1. 2 Growth Number of Food and Beverage Industry in Padang City**

Based on the data from Data Development of Micro and Small Business Empowerment Department of Cooperatives and SMEs In Padang City in 2021, collectively recorded at least there are around 10,000 more of SMEs in various sectors in Padang. SMEs is the starting point of a small or medium business become a bigger business in the future. Becomes a bigger company exactly food and beverage SMEs have to expand their business by several strategic ways to develop it become more creative, innovative and be consistent to provide a high quality of product and service. However to reach it, SMEs have to strengthen some business aspects, especially in marketing activities such as doing product innovation, finding potential business opportunities, manage the risks and create value for customer, increasing of brand awareness, build the customer relationship so that the customer can be satisfied with product and service offered

by food and beverage SMEs in Padang. As the result food and beverage SMEs in padang can improve their company performance and be more competitive in the market.

Marketing is one of the most important and influential aspect for a company business, it can be proven that marketing has played a very important in every company especially for SMEs in delivering product value to customer, branding activities, communication with customers, building relationship with partners, analysis of market needs condition and arrange some promotional activities offered by the company (AMA, 2008), especially for SMEs they are exactly need to build a strong and clear marketing strategy in developing their business. In order to build up the marketing performance, SMEs as one of the players in entrepreneurial sector exactly they also should be equipped with qualified entrepreneurial abilities.

One of the relevant and closely marketing approach that can be used by food and beverage SMEs to develop their capability in term of performance and competitiveness is entrepreneurial marketing. Entrepreneurial marketing concept is closely to SMEs that is tend to apply some aspects of entrepreneurship and marketing to sustain their business. In some previous research, found that the concept of entrepreneurship and marketing give a superiority in building up “value creation”, it connects the components each other in order to provide value for customer (Morris et al, 2012). Many people has marketing and entrepreneurship orientation in theoretical perspective for SMEs in marketing research, economic and business activities.

Entrepreneurial marketing is mutual relationship between marketing and entrepreneurship (Jahanashahi et al, 2011). Entrepreneurial marketing will be an alternative complement for traditional marketing that is still used by the most of food and beverage SMEs in Indonesia especially in Padang then it also will support food and beverage SMEs in Padang to improve their capability in competition. Organizations should generate an innovation in their marketing and entrepreneurship activities that can create competitive advantage (Barsh, Davari et al, 2014; Vesal et al, 2013; Khaksar et al, 2011). Entrepreneurial marketing concept will help SMEs to upgrade their traditional marketing approach that is still adopted into new concept whereby in general it combines the entrepreneurship and marketing concept as its basis approach in term of innovativeness, creating value for customer, maximize the opportunities, leveraging the resources, risk taking management and maximize the customer satisfaction.

Based on the concept of entrepreneurial marketing that combines the entrepreneurship and marketing approach will encourage food and beverage SMEs in Padang to do innovation, manage risk effectively, create the product value, build the strategy to retain customer, explore the potential business opportunities and leveraging the resources efficiently. Moreover, the concept of social media marketing is potentially encourage food and beverage SMEs in Padang to build some interactions with customer through online communication, then will help SMEs to provide the products and services that are relevant to the trends that customer like, it helps SMEs to provide the informative information

that customer need then by applying the social media marketing, it encourages SMEs to personalize their products to the target market in larger market so that the customer can find what they are looking for. Then with these two of marketing approach, it is expected that the application of entrepreneurial marketing and social media marketing can help food and beverage SMEs in Padang to improve their marketing capability so that it encourages them be able to improve their business performance in term of business efficiency, customer and profitability growth and also SMEs has a good reputation in the market compared than its competitor. Then also as the output, SMEs can be more competitive and adaptive in the competition in term of pricing strategy, product quality and innovation that can be done by food and beverage SMEs in order to build a strong business capability.

Currently in digitalization era, social media has become a main online tools in communicating, interacting, lifestyle source and also it becomes a media for people in looking for their needs in order to. Based on the report from DataReportal in 2022, quoted by Jemadu & Prasetyahardu in their article on suara.com website (2022), shows that there are 191.4 million social media users in Indonesia, it's improved 21 million compared than in 2021, it means that there are 68.9% from the total number of population in Indonesia actively using social media. To respond this phenomenon, there are many opportunities for a business especially SMEs in building an innovative and relevant marketing channel in using social media as a tool to reach and acquire new customer that is called as social media marketing. Social media marketing is marketing tools using online

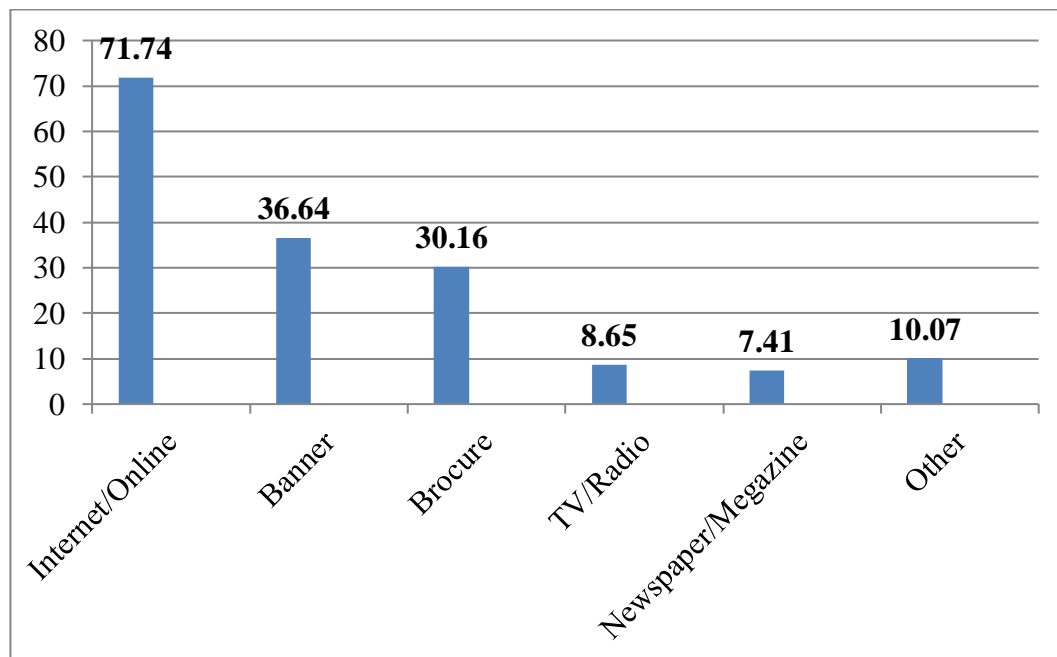
communities, social networks, blog marketing. Currently the popular social media platform used are Instagram, Facebook, Youtube, Whatsapp, Twitter, etc. Almost every business especially SMEs uses social media as the efficient and innovative tool in engaging and communicating with customer, building brand awareness, advertising, market segmentation and transaction process with online feature. Social media marketing may companies a better understanding of customer needs intended to build effective relationship (Cox, 2012). Social media marketing helps SMEs in effectively give a profitable impact in improving engagement and reputation of SMEs, then boost rate of product sales therefore as the result it can support to increase SMEs performance and its competitiveness in the market.

Competitiveness of SMEs have to be improved consistently, because the market can be changed quickly in anytime so that food and beverage SMEs have to devise the strategy that can make their business be more adaptive, competitive and sustainable compared than competitors. According to Departemen Pengembangan UMKM (DPUM), (2016) in their article retrieved from bi.go.id website, stated that there are some aspects have to be addressed to improve the competitiveness of SMEs:

1. Productivity and innovation
2. Ease of business access and legality from the government
3. Business capital acces
4. Market access
5. Infrastructure support
6. Business cycle

Based on the the aspects of competitiveness above especially for productivity, innovation and market access, here entrepreneurial marketing and social media marketing approach is expected will give a positive impact on SMEs in improving the SMEs performance so along with that the competitiveness of SMEs also can be improved due to in entrepreneurial marketing concept, it will combine the entrepreneurship orientation and marketing so that SMEs in effectively be able to take advantage of the business opportunities around their business environment and maximize the available resources in the business and be able to deliver value to customer. Then as the impact of digital disctrupction, nowadays almost any kind of business has been encouraged to use internet and online media as one of their marketing tools in order to support some marketing acitvities such as promotion, customer engagement, increasing brand awareness build the customer relationship, personalize the customer need as the current trend, reaching new customer on social media and on social media food and beverage SMEs also be able to monitor and learn their competitor's innovation and business activities that they do. Based on the data from Indonesia statistics center (BPS) in 2020 quoted by Angelia (2022) in their article on GoodStats.id website, recorded that internet and online media is the most marketing media used by food and beverage industry in Indonesia compared than any other medias. The data is described on the figure below:





**Figure 1.3 The Most Promotion Media Used by Food and Beverage Entrepreneur in Indonesia**

Based on the figure 1.3 above, it can be concluded that the most promotion media used by food and beverage in Indonesia is internet/online media. It means that there is a trend for using online media as one of main marketing tools, as the phenomenon in the current digital era almost every business have used online media such as instagram, whatsapp, facebook and website as one of their marketing media for promotion and sales activities.

To respond some relevant phenomenas related to some aspects of food and beverage SMEs and there is a suitability of entrepreneurial marketing and social media marketing concept to improve SMEs performance and competitiveness and it is relevant to the circumstance of food and beverage in Padang, so the researcher is interested to conduct a research with the title **“The Influence of**

## **Entrepreneurial Marketing and Social Media Marketing on SMEs Performance in Padang with Competitiveness as Mediating Variable”.**

As the previous explanation, kind of current problems that are experienced by food and beverage SMEs in Padang to improve their company performance are there are still lack of effectiveness in applying digital marketing and business development. In this research, entrepreneurial marketing and social media marketing will be analyze the relationship between entrepreneurial marketing and social media marketing on SMEs performance by placing competitiveness as a benchmark between its relationship. The advance explanation of entrepreneurial marketing, social media marketing, SMEs performance and competitiveness will be discussed in the next chapter.

### **1.2 Problem Statement**

1. How entrepreneurial marketing influence competitiveness?
2. How social media marketing infleunce competitiveness?
3. How entrepreneurial marketing influence SMEs performance?
4. How social media marketing influence SMEs performance?
5. How competitiveness influence SMEs performance?
6. How competitiveness mediates the relationship between entrepreneurial marketing on SMEs performance?

7. How competitiveness mediates the relationship between social media marketing on SMEs performance?

### **1.3 Research Purposes**

This research is aimed to:

1. Analyze wheter entrepreneurial marketing influence the competitiveness of food and beverage SMEs in Padang
2. Analyze wheter social media marketing influence the competitiveness of food and beverage SMEs in Padang
3. Analyze wheter entrepreneurial marketing influence the performance of food and beverage SMEs in Padang
4. Analyze wheter social media marketing influence the performance of food and beverage SMEs in Padang
5. Analyze wheter competitiveness influence the performance of food and beverage SMEs in Padang
6. Analyze wheter competitiveness mediates the relationship between entrepreneurial marketing on SMEs performance
7. Analyze wheter competitiveness mediates the relationship between social media marketing on SMEs performance

### **1.4 Contribution of Research**

#### **1. For Research**

The research is purposed to add knowledge and researcher's insight about the marketing aspect that will influence the performance of

SMEs and know wheter entrepreneurial marketing and social media marketing approaches gives a certain impact on performance of SMEs.

## **2. For SMEs and Padang City**

This research will help SMEs in Padang especially for food and beverage SMEs to find the right reference of marketing strategy solution for their business, hoped this research will facilitate SMEs in Padang with some references to make the business be more innovative, maximize every business opportunities, effective risk management and optimization of social media usage for business in order to create a value in expanding their business, so that SMEs in Padang can compete in a larger market by applying entrepreneurial marketing and social media marketing approaches. Then development of SMEs in Padang is getting faster so that it can help to improve the economic quality of Padang's community.

## **3. For Academics**

This research can be used to apply the knowledge in assessing some problems related in the field directly and will be used for reference to improve knowledge especially about entrepreneurial marketing, social media marketing, performance of SMEs and competitiveness.

## **4. For Other Parties**

This research can be used to apply the knowledge in assessing some problems related in the field directly and will be used for reference

to improve knowledge especially about entrepreneurial marketing, social media marketing, performance of SMEs and competitiveness.

This research gives some benefits to SMEs performance development. First one is it will help to improve the marketing role and performance of SMEs by applying the entrepreneurial marketing and social media marketing so that SMEs can use this approaches to optimize the opportunities, for example get more and retain profitable customers, maximize the use of social media as an useful tool in marketing aspect, then SMEs can create an innovative ways to expand their market scope and build up the value creation. Then social media marketing can help SMEs to expand market coverage, engage customer and build a strong brand, so through this approach researcher hopes they will be competitive in the market.

### **1.5 Scope of Discussion**

1. This research will discuss about marketing development of SMEs, how is effective and innovative SMEs in exploring its marketing performance in attracting the customer's attention, in improving the quality of service and marketing activities.
2. Analysis of how the performance of SMEs have an impact on the competitiveness.
3. Analysis of how entrepreneurial marketing and social media marketing influences the SMEs in reaching competitive advantage in the market.

4. Analysis of how competitiveness gives an impact between entrepreneurial marketing social media marketing and competitiveness.

## **1.6 Systematics Writing of Thesis**

### **CHAPTER I: INTRODUCTION**

This chapter explores the research background, research problem, research objectives, contribution of research, scope of discussion and systematic structure of thesis.

### **CHAPTER II: LITERATURE REVIEW**

This chapter explains the description of variable, dimensions and its indicator used by exploring the theories, then develop the hypothesis refers to the result of previous study and describe the conceptual framework that explain relationship of each variables.

### **CHAPTER III: RESEARCH METHODS**

This chapter explains what kind of research methods will be used, population, research sample, data collection method that will be used, operational definitons of variable and data analysis technique used in order to get the result of study.

### **CHAPTER IV: DATA ANALYSIS AND DISCUSSION**

This chapter contains about the characteristic of respondent, descriptive analysis, test of instrumental and the result of research.

## **CHAPTER V: CLOSING**

This chapter explains the conclusion based on the research result, research implication, limitation of research and future research recommendation.

